

Huazhong Holdings Company Limited 華眾控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock code: 6830



GLOBAL OFFERING

Sole Sponsor



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Capital Limited

Sole Global Coordinator, Bookrunner and Lead Manager



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Securities (Hong Kong) Limited

IMPORTANT

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

Huazhong Holdings Company Limited

華眾控股有限公司

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares : 200,000,000 Shares, comprising
160,000,000 New Shares and 40,000,000
Sale Shares (subject to the
Over-allotment Option)

Number of Public Offer Shares : 20,000,000 New Shares (subject to
reallocation)

Number of Placing Shares : 180,000,000 Shares, comprising
140,000,000 New Shares and 40,000,000
Sale Shares (subject to the
Over-allotment Option and reallocation)

Maximum Offer Price : Not more than HK\$1.5 per Offer Share
(payable in full on application and
subject to refund, plus brokerage of 1%,
SFC transaction levy of 0.003% and
Stock Exchange trading fee of 0.005%)
and expected to be not less than HK\$1.2
per Offer Share

Nominal Value : HK\$0.10 per Share
Stock Code : 6830

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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 thereto the documents specified in the paragraph headed "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 under 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 as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by the Price Determination Agreement between the Lead Manager (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) on or about Friday, 6 January 2012 or such later time as may be agreed between the Lead Manager (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder), but in any event no later than 6:00 p.m. (Hong Kong time) on Monday, 9 January 2012. If, for any reason, the Lead Manager (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) are unable to reach an agreement on the Offer Price by 6:00 p.m. on Monday, 9 January 2012, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK\$1.5 per Offer Share and is currently expected to be not less than HK\$1.2 per Offer Share unless otherwise announced in the manner set out below. Investors applying for Offer Shares must pay the maximum Offer Price of HK\$1.5 per Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%.

The Lead Manager (on behalf of the Underwriters) may, with the consent of our Company (for ourselves and on behalf of the Selling Shareholder), reduce the indicative Offer Price range below that as stated in this prospectus at any time not later than the morning of the last day for lodging applications under the Public Offer. In such a case, notice of the reduction in the indicative Offer Price range will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.cn-huazhong.com as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer.

Prior to making an investment decision, potential investors should consider carefully all the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Pursuant to the force majeure provisions contained in the Public Offer Underwriting Agreement, the Lead Manager (on behalf of the Public Offer Underwriters) has the right in certain circumstances, subject to its sole and absolute opinion, to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be Thursday, 12 January 2012). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.

30 December 2011

EXPECTED TIMETABLE^(note 1)

- Latest time to complete electronic applications through the **HK eIPO White Form** service through the designated website at www.hkeipo.hk (note 2) 11:30 a.m. on Thursday, 5 January 2012
- Application lists for the Public Offer open (note 3) 11:45 a.m. on Thursday, 5 January 2012
- Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving electronic application instructions to HKSCC (note 4) 12:00 noon on Thursday, 5 January 2012
- Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) (note 3) 12:00 noon on Thursday, 5 January 2012
- Application lists close (note 2) 12:00 noon on Thursday, 5 January 2012
- Expected Price Determination Date (note 5) Friday, 6 January 2012
- Announcement of the Offer Price, the level of indication of interest in the Placing, level of applications under the Public Offer and the basis of allocation of the Public Offer Shares under the Public Offer to be published (a) in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and (b) on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.cn-huazhong.com Wednesday, 11 January 2012
- Results of allocations in the Public Offer (with successful applicants' identification document numbers or Hong Kong business registration numbers, where appropriate) to be available through a variety of channels, including the website of the Stock Exchange at www.hkexnews.hk, the website of our Company at www.cn-huazhong.com and the designated website at www.tricor.com.hk/ipo/result as described in "How to apply for the Public Offer Shares — Publication of Results" from Wednesday, 11 January 2012
- Despatch of share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on or before (notes 7 to 12) Wednesday, 11 January 2012

EXPECTED TIMETABLE^(note 1)

Despatch of e-Auto Refund payment instructions/refund
cheques in respect of wholly successful (where applicable)
or wholly or partially unsuccessful applications pursuant
to the Public Offer on or before (notes 6, 8 to 12)Wednesday, 11 January 2012

Dealings in Shares on the Main Board to commence onThursday, 12 January 2012

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”.
- (2) You will not be permitted to submit your application to the **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 designated website prior to 11:30 a.m., the applicant 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, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 5 January 2012, the application lists will not open on that day. Further information is set out in “How to apply for the Public Offer Shares — Effect of bad weather on the opening of the application lists”. If the application lists do not open and close on Thursday, 5 January 2012, the dates mentioned in “Expected timetable” may be affected. An announcement will be made by us in such event.
- (4) Applicants who apply for Public Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for the Public Offer Shares — How to apply by giving electronic application instructions to HKSCC” in this prospectus.
- (5) The Offer Price is expected to be determined by Friday, 6 January 2012, or such later time as may be agreed between the Lead Manager (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder), but in any event no later than 6:00 p.m. (Hong Kong time) on Monday, 9 January 2012. If, for any reason, the Lead Manager (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) are unable to reach an agreement on the Offer Price by 6:00 p.m. on Monday, 9 January 2012, the Global Offering will not become unconditional and will lapse immediately.
- (6) e-Auto Refund payment instruction/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.
- (7) Share certificates for the Public Offer Shares will become valid certificates of title at 8:00 a.m. on Thursday, 12 January 2012 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

EXPECTED TIMETABLE^(note 1)

- (8) Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 Public Offer Shares or more under the Public Offer and have indicated in their applications that they wish to collect any refund cheque(s) and/or Share certificate(s) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 January 2012. Applicants being individuals who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Public Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Share Registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, must be produced at the time of collection.
- (9) Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more under the Public Offer may collect their refund cheque(s), where applicable, in person but may not elect to collect their Share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.
- (10) For applicants who have applied for Public Offer Shares by giving **electronic application instructions** to HKSCC, their refund (if any) will be credited to their designated bank account or the designated bank account of the designated CCASS Participant through which they made their application on Wednesday, 11 January 2012. For applicants who have instructed their designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on their behalf, they can check the amount of refund (if any) payable to them with that designated CCASS Participant. For applicants who have applied as CCASS Investor Participant, they can check the amount of refund (if any) payable to them via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 11 January 2012 or in the activity statement showing the amount of refund money credited to their designated bank account made available to them by HKSCC immediately after the credit of refund money to their bank account. Please refer to the section headed "How to apply for the Public Offer Shares — Despatch/Collection of Share certificates and refund of application money" for details.
- (11) For applicants who have applied through the **HK eIPO White Form** service and paid the application monies from a single bank account, refund monies (where applicable) will be despatched to their application payment bank account in the form of e-Auto Refund payment instructions on Wednesday, 11 January 2012. For applicants who have applied through **HK eIPO White Form** service and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund cheque(s) will be despatched on Wednesday, 11 January 2012 by ordinary post at their own risk. Please refer to the section headed "How to apply for the Public Offer Shares — Despatch/Collection of Share certificates and refund of application money" in this prospectus for details.
- (12) Uncollected Share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant applications. Further details are set out in "How to apply for the Public Offer Shares — Despatch/Collection of share certificates and refund of application money" in this prospectus.

For details of the structure of the Global Offering, including the conditions thereof, please refer to "Structure and conditions of the Global Offering" in the prospectus.

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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 which is different from that contained in this prospectus. Any information or representation not made in this prospectus must not be relied upon by you as having been authorised by our Company, the Selling Shareholder, the Sole Sponsor, the Lead Manager, the Underwriters, any of their respective directors or any other person or party 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 this is a summary, it does not contain all of the information which may be important to you. You should read the whole document before you decide to invest in the Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are summarised in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Shares.

OVERVIEW

Our business model

We are one of the principal suppliers of automobile body parts in China equipped with strong ability in production, product design and development. For the vertical integration of our business operation, we have been producing moulds and tooling for our own manufacturing arms, and are capable to produce tooling for complex or large-size automobile body parts, such as moulds for LPIM[#], bumper and front-end carrier. For further details of our production and product development capabilities, please refer to the sections headed “Business — Competitive strengths — Strong production capabilities and refined manufacturing and tooling techniques” and “Business — Manufacturing facilities and techniques — Machineries and technology used in our production” in this prospectus.

We offer one-stop solution to our customers, from the design and manufacture of moulds and tooling for mass production of specific products to the development and manufacture of new products which meet our customers’ functional requirements and specifications. We supply our products to our customers on project-by-project basis, based on the product development, commercial production and market rollout plans of each product, and our sales are made on the basis of individual production orders or contracts. Please refer to the section headed “Business — Sales and marketing — Our sales model” in this prospectus for further information about our model of sales.

Our business operation and products

Our Group, together with our jointly controlled entities, offer a wide range of automobile body parts, including internal and external structural and decorative parts (such as front/rear bumper, front-end carrier, dashboard, ABCD-pillars, air inlet grille and rocker panel), air conditioning unit casings and liquid tanks through our subsidiaries and jointly controlled entities. We also manufacture fabric used for ABCD-pillar and headliner for automobile through one of our jointly controlled entities, Ningbo Hualite. Ningbo Huazhong Moulding, being one of our principal operating subsidiaries, has been producing moulds and tooling for our manufacturing arm, with the ability to produce moulds and tooling for complex or large-size automobile body parts such as bumper and front-end carrier. We also supply moulds and tooling to third party purchasers, such as automakers and other automobile body parts manufacturers. Two of the moulds we developed, namely, LPIM moulds

[#] acronym of low pressure injection moulding, a plastic injection moulding technique, whereby melted plastic is injected into the mould of an injection moulding machine under low pressure environment

SUMMARY

for internal decorative parts for premium-end vehicles with environmental-friendly and advanced fabric (環保高效針織面料模內包履高端轎車內飾件低壓注塑成型模具) and moulds for long fiberglass front-end carrier with medium-sized metal insert (長玻纖汽車前端框架(含中型金屬嵌件)注塑模具), have been recognised by China Die & Mould Industry Association* (中國模具工業協會) after independent assessment and inspection of the relevant documents, moulds and products to be energy-saving and environmentally-friendly. For the aforesaid two moulds, we have applied for registration of patents which is pending as at the Latest Practicable Date. Apart from automobile-related products, we also manufacture other products such as top cowl cover for engine of motorboat and office chair parts. Please refer to the section headed “Business — Our products” in this prospectus for further information of the types of products offered by us.

Our pricing strategies

In respect of products that are developed by us, we quote prices for development of the products on a project-by-project basis with each customer. Our sales and marketing department is responsible for coordinating with other departments to analyse the prices to be quoted on the basis of a number of factors including technical requirements, estimated production time, packaging style, cost of production materials and production. Under some of the master purchase agreements for purchase of our products, the parties shall set the price of our products by entering into legally binding pricing agreements on a yearly basis, subject to negotiations of the parties during the year. The master purchase agreements, which are legally binding on the parties thereto in accordance with their respective terms except for pricing and quantities as mentioned below, are generally valid for a fixed term of one year with or without automatically renewal after the expiry of the initial fixed term, would normally stipulate, either attached as part of the master purchase agreements or otherwise stipulated in the product development agreements, the estimated annual purchase quantity, product types, price indication and planned production schedule. Though the indicative price and quantity in the master purchase agreements are non-legally binding estimates only for production planning purpose and are subject to confirmation from customers when they actually place their purchase orders, and purchase orders eventually placed by customers may deviate from the indicative price and quantity, the master purchase agreements provide us with reference of market demand for our production and material purchasing planning. We may negotiate with our customers for a price increase in the next pricing agreement in the event of significant rise in our costs, such as our production material costs, labour costs and minimum wage raise in the PRC, and exchange loss due to appreciation in RMB. We believe that the pricing of our products on this basis has generally enabled our products to be sold with a satisfactory profit margin. Please refer to the section headed “Business — Sales and marketing — Pricing and credit control policies” in this prospectus for further details regarding our pricing strategies.

Our sales, revenue and market share

According to the database and statistics of CATARC, we were the third largest manufacturer among independent domestic manufacturers in the PRC and the tenth largest manufacturer among all the major manufacturers of automobile plastic body parts (including domestic manufacturers and sino-foreign joint venture manufacturers) in the PRC in terms of revenue in 2009. In terms of market share in the PRC automobile body parts market, we ranked third among independent domestic manufacturers in the PRC and ranked eleventh with market share of about 1.9% among major

SUMMARY

manufacturers (including domestic manufacturers and sino-foreign joint venture manufacturers) in the PRC in 2009. The market share of each of the major automobile body parts manufacturers is calculated based on their respective total revenue (except that of our Group which excludes our revenue attributable to our sales of non-automobile products) in 2009, divided by the aggregate amount of revenue of all automobile body parts manufacturers in the PRC in 2009. For further details of our ranking and market shares among the major automobile body parts manufacturers in the PRC in 2009, please refer to the section headed “Industry overview — Competitive landscape” in this prospectus.

Set out below is an analysis of our sales and percentage of revenue attributed by each category of our products for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011:

	For the year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	Revenue (RMB'000)	Percentage of total revenue	Revenue (RMB'000)	Percentage of total revenue	Revenue (RMB'000)	Percentage of total revenue	Revenue (RMB'000)	Percentage of total revenue	Revenue (RMB'000)	Percentage of total revenue
	<i>(unaudited)</i>									
Internal and external structural and decorative parts	623,585	82.6%	659,939	79.8%	839,739	83.5%	393,544	83.3%	432,897	75.5%
Moulds and tooling	18,234	2.4%	72,761	8.8%	17,505	1.7%	4,845	1.0%	18,735	3.3%
Air conditioner/heater unit casings/liquid tanks	87,651	11.6%	76,424	9.3%	96,056	9.5%	50,535	10.7%	94,734	16.5%
Non-automobile products	25,544	3.4%	17,092	2.1%	53,608	5.3%	23,789	5.0%	27,172	4.7%
Total	<u>755,014</u>	<u>100%</u>	<u>826,216</u>	<u>100%</u>	<u>1,006,908</u>	<u>100%</u>	<u>472,713</u>	<u>100%</u>	<u>573,538</u>	<u>100%</u>

According to the CATARC Report, sales of automobile in China reached about 18.1 million units in 2010, representing an increase of about 32% from that in 2009. Our long term business relationship with some of the principal multinational automakers and well-established automakers in China, and our strong product development capability enables us to capture the business opportunities in the fast-growing automobile market in China. Our revenue amounted to about RMB755.0 million, RMB826.2 million and RMB1,006.9 million for each of the three years ended 31 December 2010, representing a CAGR of about 15.5%, and about RMB573.5 million for the six months ended 30 June 2011. Our profit and total comprehensive income attributable to owners of the parent amounted to about RMB57.5 million, RMB35.4 million and RMB105.8 million for each of the three years ended 31 December 2010, representing a CAGR of about 35.7%, and about RMB51.0 million for the six months ended 30 June 2011. According to the CATARC Report, the annual production of passenger cars in China was about 4.8 million units in 2010, and is estimated to reach about 5.3 million units in 2012, and 8.7 million units in 2020. Leveraged on the continued growth in the economy of China and the sale of passenger cars in China, and the increasing trend for multinational automakers to establish their manufacturing and purchasing centres in China, our Directors expect that there will be a continual growth in our business in the near future.

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Our customers and sales

As we are independent from any particular automaker, we can develop and manufacture automobile body parts for different international and domestic automobile brands. Our customers include factories of PRC joint ventures established by renowned multinational automakers, such as FAW-Volkswagen Automotive Co. Ltd., Shanghai General Motors Co., Ltd, Shanghai-Volkswagen Automotive Company Limited, Changan Ford Mazda Automobile Corporation Ltd., Beijing Benz Automotive Co. Ltd. and Chinese automakers including Chery Automobile Co., Ltd. We also supply products to manufacturers and suppliers of automobile body parts including Shanghai Delphi Automotive Air-conditioning Systems Co., Ltd. and Guangzhou TS Automotive Interior Systems Co., Ltd. We also supply plastic parts and components for the boat products of Mercury Marine Technology Suzhou Co., Ltd. Among these customers, four of them were not our five largest customers during the Track Record Period which contributed to our revenue less significantly. For the year ended 31 December 2010, our five largest customers, namely FAW-Volkswagen Automotive Co. Ltd., Shanghai General Motors Co., Ltd., Shanghai Delphi Automotive Air-conditioning Systems Co., Ltd., Guangzhou TS Automotive Interior Systems Co., Ltd. and Changan Ford Mazda Automobile Corporation Ltd., contributed to an aggregate amount of revenue of about RMB778.4 million, representing about 77.3% of our revenue. FAW-Volkswagen Automotive Co. Ltd. had been our largest customer during the Track Record Period.

The table below sets forth the percentage of revenue attributed by each category of our customers for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011:

	For the year ended			For six months	
	31 December			ended 30 June	
	2008	2009	2010	2010	2011
	<i>Percentage of total revenue (%)</i>				
Automobile manufacturers	70.2	76.3	75.2	73.5	71.7
Automobile body parts manufacturers	26.4	21.6	19.5	21.5	23.6
Non-automobile related products manufacturers	<u>3.4</u>	<u>2.1</u>	<u>5.3</u>	<u>5.0</u>	<u>4.7</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

SUMMARY

During the Track Record Period, most of our products are sold domestically to factories of PRC joint ventures established by multinational automakers and Chinese automakers. Set out below is a geographical breakdown of our products for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011:

	For the year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Sales in China	729,470	96.6	809,121	97.9	952,046	94.6	450,168	95.2	548,325	95.6
Exports to overseas	<u>25,544</u>	<u>3.4</u>	<u>17,095</u>	<u>2.1</u>	<u>54,862</u>	<u>5.4</u>	<u>22,545</u>	<u>4.8</u>	<u>25,213</u>	<u>4.4</u>
Total	<u>755,014</u>	<u>100</u>	<u>826,216</u>	<u>100</u>	<u>1,006,908</u>	<u>100</u>	<u>472,713</u>	<u>100</u>	<u>573,538</u>	<u>100</u>

Please refer to the section headed “Business — Sales and marketing” in this prospectus for further details regarding our sales and marketing.

We generally grant credit terms of 30 days to 90 days to our customers, depending on their legal statuses, their levels of management, their transaction amounts with us, their profit contributions to us and their credit track records. During the Track Record Period, our debtors’ turnovers days were 101 days in 2008, 97 days in 2009, 100 days in 2010 and 103 days in the six months ended 30 June 2011. In general, upon delivery of our products to customers, the customers perform quality inspection and acknowledge goods receipt and acceptance. Most of the major automakers in the PRC summarise their purchases in a month and issue a monthly summary to their suppliers (including us) in around 30 days of the following month. Based on such summary, we would then issue invoices to customers. According to the applicable accounting standards, the balances of trade receivables were booked when our Group delivered products to customers whereas the credit period was calculated starting from the time when our Group issued invoice to customers. As such, our debtors’ turnovers days is higher than the credit periods. As at 31 October 2011, about 95% of our trade and notes receivables outstanding as at 30 June 2011 was subsequently settled.

Our suppliers and production materials

Our major production materials mainly comprise various types of resin, such as PC/ABS and PP, accessories (such as metal clamps and screws) and fabric. During the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our purchase costs for resin accounted for about 23.5%, 28.8%, 28.7% and 33.7% of our total cost of sales, respectively, while our purchase costs for accessories accounted for about 20.1%, 25.0%, 28.5% and 28.8% of our total cost of sales, respectively, and our purchase costs for fabric accounted for about 7.4%, 6.3%, 6.1% and 4.1% of our total cost of sales, respectively. During the Track Record Period, we had not experienced any difficulty in obtaining any of our key production materials to meet our production requirements.

Save for the fabric which has been sourced from one of our jointly controlled entities, namely, Ningbo Hualete, our production materials mainly come from two sources, directly from our suppliers

SUMMARY

or through the suppliers or agents designated by our customers. During each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, about 91.3%, 97.3%, 97.7% and 96.5%, respectively, of our purchase of production materials were sourced within China, with the remainder, including higher grade plastics and accessories being imported from overseas.

Please refer to the section headed “Business — Suppliers and production materials” in this prospectus for further details regarding our suppliers and production materials.

Our manufacturing facilities

As of the Latest Practicable Date, our Group, together with our jointly controlled entities, had manufacturing facilities in Ningbo, Changchun, Shanghai, Chongqing, Guangzhou and Chengdu with an aggregate site area of about 335,767.7 sq.m. and with an aggregate gross floor area of about 134,951.0 sq.m. As at the Latest Practicable Date, total production capacity of our Group (in respect of injection moulding and excluding Ningbo Hualete) was 1,025,856 machine hours and that of Ningbo Hualete (in respect of production of nonwoven fabric for use in automobile body parts) was 2,589,600 metre. During the Track Record Period, the utilisation rate of capacity of the Group (excluding Ningbo Hualete) was 82.9%, 81.6%, 83.9% and 81.8% respectively, and that of Ningbo Hualete was 32.2%, 52.4%, 74.3% and 62.6% respectively. Our strategy is to establish manufacturing facilities in close proximity to our major customers, particularly multi national automakers in China with a view to serve these automakers and other customers in the region. We also had manufacturing facilities in Ningbo for production of moulds and tooling products for members of our Group. Please refer to the section headed “Business — Manufacturing facilities and techniques — Production facilities network” in this prospectus for further information about our network of production facilities.

COMPETITIVE STRENGTHS

We attribute our success to the following key competitive strengths:

- capability of offering comprehensive, one-stop product development and manufacturing solution to our customers
- strong research and development capabilities and our ability to develop new products with our customers concurrently
- a network of production bases at strategic locations covering most of the key automakers in China
- long business relationship with both multinational automakers and well-established automakers and suppliers for automakers in the PRC and the ability to engage new customers
- strong production capabilities and refined manufacturing and tooling techniques
- experienced management team with in-depth knowledge of the automobile body parts industry

SUMMARY

- stringent quality control

BUSINESS STRATEGIES

We aim to become a leading automobile body parts manufacturer in the PRC in terms of market recognition and share and to maximise shareholder value and at the same time broaden the variety of our products, thereby increasing our competitiveness in the industry as well as the return to our Shareholders. The following sets out our key business objectives which are expected to be implemented to fulfill our aim:

- expanding our existing production facilities and capabilities
- continuing focus on product research and development and product engineering
- strategic investments by way of mergers and acquisitions and joint ventures

EXPANSION PLAN

It is one of our business strategies to expand our production facilities and capabilities with a view to capture business opportunities arising from the expected continual growth in the economy of China and the sale of passenger cars in China, and the cater for the development and rollout plan of our customers' present and future products. We plan to expand our production capacity by building new manufacturing facilities in Yantai, Changchun, Wuhu and Foshan, and expanding and upgrading our existing manufacturing facilities in Ningbo and Chengdu. The following table sets forth the details and purpose of our expansion plans, estimated investments up to 30 June 2011 and sources of funding:

	Details and purpose of expansion plan	Status of expansion as at 30 June 2011	Expected date of commencement of production	Total investment up to 30 June 2011	Expected time of completion of payment	Estimated total investment and sources of funding	Expected maximum production machine hours (Note)		
							As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
1.	To establish new manufacturing facility in Yantai for the order of Shanghai General Motors Co., Ltd. and other customers in the region	Prepayment has been made for the land	2012	RMB14.1 million	2012	RMB60 million, partly by internal resources and partly by net proceeds from the New Issue	—	59,904	59,904
2.	To establish new manufacturing facility in Changchun for Changchun Huateng to replace the existing facility located in Changchun Jingyue Development Zone and to expand the productivity	At the stage of construction	2012	RMB32.7 million	2012	RMB50 million, partly by internal resources and partly by net proceeds from the New Issue	—	142,272	142,272

SUMMARY

	Details and purpose of expansion plan	Status of expansion as at 30 June 2011	Expected date of commencement of production	Total investment up to 30 June 2011	Expected time of completion of payment	Estimated total investment and sources of funding	Expected maximum production machine hours (Note)		
							As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
3.	To establish new manufacturing facility in Wuhu for the order of Chery Automobile Co. Ltd. and other customers in the region	Land to be acquired	2013	RMB1.4 million	2013	RMB30 million, partly by internal resources and partly by net proceeds from the New Issue	—	—	52,416
4.	To establish new manufacturing facility in Foshan for the order of FAW-Volkswagen Automotive Co. Ltd. and other customers in the region	At the stage of planning	2013	Nil	2013	RMB60 million, partly by internal resources and partly by net proceeds from the New Issue	—	—	59,904
5.	To establish new manufacturing facility in Ningbo to expand the productivity of the existing facility located in Jidian Industrial Area, Ningbo	At the stage of construction	2013	RMB11.3 million	2013	RMB50 million, partly by internal resources and partly by net proceeds from the New Issue	—	—	59,904
6.	To purchase new machinery and equipment and expand our productivity of the existing facility located in Longquanyi District, Chengdu for the order of FAW-Volkswagen Automotive Co. Ltd. and other customers in the region	At trial production stage	2012	RMB16.9 million	2012	RMB50 million, partly by internal resources and partly by net proceeds from the New Issue	29,952	67,392	67,392
Total capacity of the above six expansion							<u>29,952</u>	<u>269,568</u>	<u>441,792</u>
Total capacity of our Group							<u>1,025,856</u>	<u>1,175,616</u>	<u>1,347,840</u>

Note: The expected maximum production machine hours are calculated on the basis of the number of plastic injection machineries expected to be acquired for each of the above expansion projects, and on the assumption that such machines operate on a 24-hour a day and 26-day a month.

Please refer to the section headed “Business — Business strategies — Expanding our existing production facilities and capabilities” in this prospectus for further information about our expansion plan.

SUMMARY

RISK FACTORS

Our Directors believe that there are certain risks involved in our Group's business and operations and in connection with the Global Offering. Such risks can be categorised into (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to China; (iv) risks relating to the Global Offering; and (v) risks relating to statements made in this prospectus. These risks are set out in the section headed "Risks factors" in this prospectus.

LEGAL COMPLIANCE

We have breached certain laws and regulations inadvertently during the Track Record Period in different respects, and have taken remedial actions to rectify some of the non-compliance. For details of such non-compliance incidents, remedial actions taken and the possible legal consequences, please refer to the section headed "Business — Legal compliance and legal proceedings" in this prospectus.

During the Track Record Period, certain members of our Group had extended loans to other members of our Group or related parties. All of such loans had been or will be settled before Listing. As advised by our PRC legal advisers, a corporation shall not extend a loan to another corporation and our PRC legal advisers are of the view that the above loan arrangements violated the General Principles of Loans of the PRC (貸款通則) promulgated by the People's Bank of China ("PBOC") on 28 June 1996. Article 73 of the General Principles of Loans of the PRC (貸款通則) further provides that the PBOC may impose a penalty on the lender of one to five times of the income to be generated from such lending, and may declare the loan invalid. Our PRC legal advisers further advised that as all of those loans were either interest-free, or the interests payable thereon had been waived, no income-base penalty could be imposed on the relevant members of our Group in respect of such loans. Based on the above, our PRC legal advisers do not consider that the above non-compliance would materially and adversely affect the business and operation of the relevant members of our Group.

SUMMARY

SUMMARY FINANCIAL INFORMATION

Information about our Group's combined statements of comprehensive income

The following table summarises our audited combined results for the Track Record Period which are extracted from the accountants' report, the text of which is set forth in Appendix I to this prospectus, and also illustrates certain items in our audited combined statement of comprehensive income expressed as a percentage of revenue for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Revenue	755,014	100.0	826,216	100.0	1,006,908	100.0	472,713	100	573,538	100
Cost of sales	(623,006)	(82.5)	(651,324)	(78.8)	(748,663)	(74.4)	(364,085)	(77.0)	(422,473)	(73.7)
Gross profit	132,008	17.5	174,892	21.2	258,245	25.6	108,628	23.0	151,065	26.3
Other income and gains	13,390	1.8	7,382	0.9	9,993	1.0	4,718	1.0	3,072	0.5
Gain on bargain purchase (note)	37,080	4.9	—	—	21,560	2.1	—	—	9,766	1.7
Selling and distribution costs	(70,265)	(9.3)	(67,423)	(8.2)	(75,622)	(7.5)	(36,380)	(7.7)	(41,239)	(7.1)
Administrative expenses	(37,467)	(5.0)	(41,018)	(5.0)	(51,133)	(5.1)	(21,362)	(4.5)	(34,255)	(6.0)
Other expenses	(6,100)	(0.8)	(4,521)	(0.5)	(5,346)	(0.5)	(2,629)	(0.6)	(3,135)	(0.5)
Operating profit	68,646	9.1	69,312	8.4	157,697	15.6	52,975	11.2	85,274	14.9
Share of profits/(losses) of:										
Associates	895	0.1	—	—	(422)	(0.0)	—	—	100	0.0
Jointly controlled entities	3,980	0.5	3,443	0.4	9,054	0.9	4,856	1.0	4,686	0.8
Finance income	9,681	1.3	7,766	0.9	9,585	1.0	4,274	0.9	4,633	0.8
Finance costs	(22,570)	(3.0)	(29,234)	(3.5)	(34,266)	(3.4)	(15,000)	(3.2)	(23,964)	(4.2)
Profit before tax	60,632	8.0	51,287	6.2	141,648	14.1	47,105	9.9	70,729	12.3
Income tax expense	(9,502)	(1.2)	(15,558)	(1.9)	(35,275)	(3.5)	(12,886)	(2.7)	(18,208)	(3.1)
Profit and total comprehensive income for the year/period	51,130	6.8	35,729	4.3	106,373	10.6	34,219	7.2	52,521	9.2
Profit and total comprehensive income for the year/period attributable to:										
Owners of the parent	57,496	7.6	35,371	4.3	105,839	10.5	33,881	7.2	51,012	8.9
Non-controlling interests	(6,366)	(0.8)	358	0.0	534	0.1	338	0.0	1,509	0.3
	51,130	6.8	35,729	4.3	106,373	10.6	34,219	7.2	52,521	9.2

Note: Included in our profit during the year ended 31 December 2008, year ended 31 December 2010 and the six months ended 30 June 2011, there were gains on bargain purchases which amounted to about RMB37.1 million, RMB21.6 million and RMB9.8 million for each of the year/period respectively, which were arisen from our acquisitions of some of our subsidiaries which are non-recurring in nature. Please refer to the accountants' report, the text of which is set forth in Appendix I to this prospectus for further details.

SUMMARY

Information about our Group's combined statements of financial position

The following table summarises our audited combined statements of financial position as at 31 December 2008, 2009 and 2010 and 30 June 2011 which are extracted from the accountants' report, the text of which is set forth in Appendix I to this prospectus:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	282,202	268,399	259,171	266,757
Investment property	4,732	4,483	4,234	4,110
Prepaid land lease payments	48,590	49,003	93,055	105,650
Investments in associates	—	—	7,044	2,908
Investments in jointly controlled entities	14,821	18,264	21,923	22,609
Prepayments for acquiring property, plant and equipment	5,208	1,134	7,315	9,033
Deferred tax assets	<u>2,781</u>	<u>—</u>	<u>10,840</u>	<u>10,084</u>
 Total non-current assets	 <u>358,334</u>	 <u>341,283</u>	 <u>403,582</u>	 <u>421,151</u>
CURRENT ASSETS				
Inventories	124,039	73,371	89,469	116,800
Trade and notes receivables	193,813	246,068	305,386	345,927
Prepayments and other receivables	34,391	18,675	76,729	39,486
Due from the ultimate shareholder	56	1,849	—	1,455
Due from related parties	110,444	284,812	471,692	497,254
Loans and receivables	30,000	30,000	10,000	20,000
Pledged deposits	264,010	200,103	157,602	173,964
Cash and cash equivalents	<u>12,428</u>	<u>98,870</u>	<u>30,080</u>	<u>92,751</u>
 Total current assets	 <u>769,181</u>	 <u>953,748</u>	 <u>1,140,958</u>	 <u>1,287,637</u>
Non-current assets held for sale	<u>—</u>	<u>—</u>	<u>—</u>	<u>47,507</u>
 Total current assets	 <u>769,181</u>	 <u>953,748</u>	 <u>1,140,958</u>	 <u>1,335,144</u>

SUMMARY

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES				
Trade and notes payables	324,222	314,404	409,822	536,871
Other payables, advances from customers and accruals	78,778	52,342	55,458	62,044
Deferred revenue	—	—	—	67,000
Interest-bearing bank borrowings	257,336	513,998	547,000	487,000
Due to the ultimate shareholder	2,041	64,962	21,851	42,876
Due to related parties	307,031	151,766	124,805	169,526
Income tax payable	2,534	3,356	27,214	24,067
	<u>971,942</u>	<u>1,100,828</u>	<u>1,186,150</u>	<u>1,389,384</u>
NET CURRENT LIABILITIES	<u>(202,761)</u>	<u>(147,080)</u>	<u>(45,192)</u>	<u>(54,240)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				
	<u>155,573</u>	<u>194,203</u>	<u>358,390</u>	<u>366,911</u>
NON-CURRENT LIABILITIES				
Deferred revenue	—	—	67,000	—
Deferred tax liabilities	5,159	5,600	11,553	17,393
	<u>5,159</u>	<u>5,600</u>	<u>78,553</u>	<u>17,393</u>
Total non-current liabilities	<u>5,159</u>	<u>5,600</u>	<u>78,553</u>	<u>17,393</u>
Net assets	<u>150,414</u>	<u>188,603</u>	<u>279,837</u>	<u>349,518</u>
EQUITY				
Equity attributable to owners of the parent				
Share capital	56,178	58,602	44,179	40,515
Reserves	92,710	128,081	231,629	282,661
	<u>148,888</u>	<u>186,683</u>	<u>275,808</u>	<u>323,176</u>
Non-controlling interests	<u>1,526</u>	<u>1,920</u>	<u>4,029</u>	<u>26,342</u>
Total equity	<u>150,414</u>	<u>188,603</u>	<u>279,837</u>	<u>349,518</u>

SUMMARY

We recorded net current liabilities of about RMB202.8 million, RMB147.1 million and RMB45.2 million and RMB54.2 million, respectively as at 31 December 2008, 2009 and 2010 and 30 June 2011, and our gearing ratios as at 31 December 2008, 2009 and 2010 and 30 June 2011 were about 86.5%, 84.2%, 80.4% and 78.9%, respectively. As at 31 October 2011, we had net current liabilities of about RMB250.8 million, representing an increase of net current liabilities from about RMB54.2 million as at 30 June 2011. Such increase in net current liabilities was mainly attributable to the declaration of a special dividend in an amount of RMB206 million by Ningbo Huazhong Plastic to its then equity holders in July 2011. Out of such amount, RMB115.36 million was settled by setting off against the amount due from Mr. Zhou and our related parties. The net current liabilities and high gearing ratios were principally attributable to the utilisation of short-term bank borrowings to support our capital expenditure and our operations and (in respect of the net current liabilities of our Group as at 31 October 2011) the declaration of the special dividend.

In view of the net current liabilities and high gearing ratios of our Group during the Track Record Period and as at 31 October 2011, we have the following plans to service our indebtedness and capital commitments and to meet other known and reasonably foreseeable cash requirements:

- (1) as our Group was able to generate operating profits and net cash inflow from its operating activities in the amount of about RMB172.9 million, RMB94.5 million, RMB148.4 million and RMB191.5 million during each of the three years ended 31 December 2010 and the six months ended 30 June 2011, it is expected that operating profits and net cash inflow will be generated from our operations after Listing;
- (2) we have unutilised banking facilities amounted to about RMB74.0 million as at 30 June 2011, obtained new credit facilities from banks of about RMB310 million from certain banks in the PRC, and obtained or renewed about RMB438.6 million interest-bearing bank borrowings subsequent to 30 June 2011. These banking facilities can be utilised according to our Group's requirement of working capital; and
- (3) assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.35 per Share (being the mid-point of the proposed Offer Price range), it is estimated that our Company will receive net proceeds of about HK\$192.6 million from the New Issue.

No material adverse change

Our Directors have confirmed that, save as disclosed above, there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2011 (being the date to which our Group's latest audited combined results were prepared which was set out in the Accountants' Report in Appendix I to this prospectus).

SUMMARY

KEY FINANCIAL RATIOS

Set out below the summary of the key financial ratios of our Group during the Track Record Period:

		As at/for the year ended 31 December		As at/for the six months ended 30 June	
	Notes	2008	2009	2010	2011
Current ratio	1	0.8	0.9	1.0	1.0
Quick ratio	2	0.7	0.8	0.9	0.9
Gearing ratio	3	86.5%	84.2%	80.4%	78.9%

Notes:

1. Current ratio is calculated based on the total current assets divided by total current liabilities at the end of the respective years/period.
2. Quick ratio is calculated based on the difference between the total current assets and inventories divided by total current liabilities at the end of the respective years/period.
3. Gearing ratio is calculated based on the net debt (including interest-bearing loans and borrowings, trade and other payables, amounts due to related parties and ultimate shareholders less cash and cash equivalents) divided by total capital (including equity attributable to owners of the parent) plus net debt at the end of the respective years/period and multiplied by 100%.

For details about the key financial ratios of our Group during the Track Record Period, please refer to the section headed “Financial information — Financial ratios — Key financial ratios” in this prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2011

Forecast combined profit attributable to owners of the parent
for the year ending 31 December 2011^(Note 1)not less than RMB110 million

Unaudited pro forma forecast earnings per Share for the
year ending 31 December 2011^(Notes 2 and 3)not less than HK\$0.167

SUMMARY

Notes:

- (1) The basis and assumptions on which the forecast combined profit attributable to owners of the parent for the year ending 31 December 2011 have been prepared are summarised in Appendix III to this prospectus.
- (2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast combined profit attributable to owners of the parent for the year ending 31 December 2011 and assuming a total of 800 million Shares had been in issue throughout the year ending 31 December 2011 (assuming the Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2011 but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and repurchase mandate).
- (3) The unaudited pro forma forecast earnings per Share is converted into Hong Kong dollars at an exchange rate of RMB0.82 to HK\$1.

OFFER STATISTICS

	Based on an Offer Price of HK\$1.2 per Share	Based on an Offer Price of HK\$1.5 per Share
Market capitalisation of the Shares (<i>note 1</i>)	HK\$960.0 million	HK\$1,200.0 million
Pro forma forecast price/earnings multiple (<i>note 2</i>)	7.2 times	9.0 times
Unaudited pro forma adjusted net tangible asset value per Share (<i>note 3</i>)	HK\$0.71	HK\$0.77

Notes:

- (1) The calculation of the market capitalisation of the Shares is based on 800 million Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue but does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and the repurchase mandate.
- (2) The calculation of forecast price/earnings multiple on a pro forma fully diluted basis is based on the forecast combined profit attributable to owner of the parent for the year ending 31 December 2011 at the respective proposed Offer Price of HK\$1.2 and HK\$1.5 per Share, and on the basis that 800 million Shares had been in issue throughout the year (assuming the Shares in issue at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2011 but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and repurchase mandate).
- (3) The unaudited pro forma adjusted net tangible asset value of our Group per Share has been arrived at after the adjustments referred to in the section headed "Financial Information" in this prospectus and on the basis of 800 million

SUMMARY

Shares in issue at the respective proposed Offer Price of HK\$1.2 and HK\$1.5 per Share immediately following completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and the repurchase mandate.

DIVIDEND POLICY

For each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our Group did not declare any dividends. In July 2011, a special dividend payable to the then equity holders of Ningbo Huazhong Plastic in an aggregate amount of RMB206 million was declared by Ningbo Huazhong Plastic to its then equity holders in proportion to their equity interest in Ningbo Huazhong Plastic, as to 49% by Mr. Zhou, 21% by Mr. Chen Yuncai (陳雲財) (who held the equity interest on trust for Mr. Zhou) and 30% by Macao Hong Un Real Estate Company (澳門鴻源地產置業公司) (which was beneficially owned by Mr. Zhou). The net amount of dividend payable to Mr. Zhou and Mr. Chen Yuncai (after deduction therefrom a 20% PRC withholding tax for individuals) which amounted to about RMB115.36 million, was settled by setting off against the amount due from Mr. Zhou and our related parties. Macao Hong Un Real Estate Company (澳門鴻源地產置業公司) had waived the dividend payable to it and such amount (after deduction therefrom a 10% PRC withholding tax for foreign investors), which amounted to RMB55.62 million, was transferred to the capital reserve of Ningbo Huazhong Plastic. Total PRC withholding tax is estimated to be approximately RMB35.02 million and is expected to be settled within 2012.

The payment and the amount of any future dividends will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of any future dividends will be subject to our discretion.

Dividends may be paid out of our Company's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our Group's operations. There can be no assurance that our Group will be able to declare or distribute any dividend in the amount set out in any of its plans or at all. Our Group's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Group in the future.

We may declare dividends, if any, after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, the memorandum of association of our Company, the Cayman Islands Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. A distribution of dividend for any financial year shall be subject to Shareholders' approval.

THE SHARE OPTION SCHEMES

We have adopted the Pre-IPO Share Option Scheme in which certain eligible participants had been granted options on 23 December 2011 to acquire Shares. The purpose of the Pre-IPO Share Option Scheme is to aid us in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of our Company through the granting of options.

SUMMARY

As at the date of this prospectus, options to subscribe for an aggregate of 18 million Shares (representing about 2.25% of the enlarged issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue, assuming that the Over-allotment Option is not exercised) at an exercise price equals to 80% of the Offer Price, have been conditionally granted to 13 grantees by our Company under the Pre-IPO Share Option Scheme.

We have also conditionally adopted the Share Option Scheme on 15 December 2011. Under the Share Option Scheme, the eligible participants of the scheme, including directors, employees, shareholders, suppliers, customers consultant, business or joint venture partner, franchisee, contractor, agent or representative of our Group, may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on the Listing Date, being 80 million Shares.

Further details of the rules of the Pre-IPO Share Option Scheme and the share options granted thereunder, and the rules of the Share Option Scheme are set out in the paragraphs headed “F. Pre-IPO Share Option Scheme” and “G. Share Option Scheme” in Appendix VI to this prospectus, respectively.

USE OF PROCEEDS FROM THE NEW ISSUE

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.35 per Share (being the mid-point of the proposed Offer Price range), our Directors estimate that the net proceeds to be received by our Company from the New Issue will be about HK\$192.6 million, after deducting the underwriting commissions and other estimated expenses payable by our Company in relation to the Global Offering.

The Directors presently intend to use the net proceeds from the New Issue as follows:

- (i) about 60% of the net proceeds, or about HK\$115.5 million, will be used to fund the expansion of production capacity by building new manufacturing facilities in Yantai, Changchun, Wuhu and Foshan, and expanding and upgrading our existing manufacturing facilities in Ningbo and Chengdu:
 - about 55%, or about HK\$63.5 million, would be applied as the cost of land and construction of our new factory premises;
 - about 45%, or about HK\$52.0 million, would be applied to purchase the machinery, equipment and other fixed assets of the new production facilities;

SUMMARY

The allocation of these proceeds to our production facilities is intended to be as follows:

Factory premises	Amount
Yantai	about 20%, or about HK\$23.1 million, for expenses related to the purchase of land, construction of the relevant factory premises and purchase of machinery, equipment and other fixed assets of the manufacturing facilities to increase production capacity. The factory is expected to commence operations in around 2012;
Changchun	about 8%, or about HK\$9.2 million, for expenses related to the purchase of land, construction of the relevant factory premises and purchases of machinery, equipment and other fixed assets of the manufacturing facilities to increase production capacity. The factory is expected to commence operations in around 2012;
Wuhu	about 13%, or about HK\$15.0 million, for expenses related to the purchase of land, construction of the relevant factory premises and purchases of machinery, equipment and other fixed assets of the manufacturing facilities to increase production capacity. The factory is expected to commence operations in around 2013;
Foshan	about 27%, or about HK\$31.2 million, for expenses related to the purchase of land, construction of the relevant factory premises and purchases of machinery, equipment and other fixed assets of the manufacturing facilities to increase production capacity. The factory is expected to commence operations in around 2013;
Ningbo.....	about 17%, or about HK\$19.6 million, for expenses related to construction of new factory premises on our existing manufacturing facilities, the purchase of machinery, equipment and other fixed assets and upgrade of the manufacturing facilities to increase production capacity. The new factory premises is expected to commence operations in around 2013; and
Chengdu	about 15%, or about HK\$17.4 million, for expenses related to the purchase and upgrade of machinery, equipment and other fixed assets and of the existing manufacturing facilities to increase production capacity. The factory premises is expected to commence operations in 2012.
Total	about 60%, or about HK\$115.5 million

SUMMARY

- (ii) about 20% of the net proceeds, or about HK\$38.5 million, will be used to establish our R&D building and to support our research and development of potential new products, including LED automotive lighting system, and the research and development on production technologies such as high-gloss injection moulding, multi-colour injection moulding and enhancement of functionality and quality of resins. We plan to apply the funds towards acquiring properties, plants and equipments for the purpose of R&D and, if appropriate, third parties patented technology to strengthen our R&D capability;
- (iii) about 10% of the net proceeds, or about HK\$19.3 million, will be used for acquisition of companies to expand our product offerings, strengthen our product development capabilities and expand our market share and income base, but at the present time we do not have any finalised memorandum of understanding, commitments or agreements with respect to any acquisitions in which the proceeds may be used; and
- (iv) about 10% of the net proceeds, or about HK\$19.3 million, will be used for working capital and other general purposes.

In the event that the Over-allotment Option is exercised, the additional net proceeds of the New Issue of about HK\$39.3 million (assuming that the Offer Price is determined at the mid-point of the stated range) will be applied by our Company to the above purpose in the same proportions as set out above.

If the Offer Price is fixed above or below HK\$1.35 per Share (being the mid-point of the estimated price range), the Directors presently intend to adjust the allocation of the net proceeds of the New Issue to the above purposes in the same proportions as set out above.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, our Directors estimate that the net proceeds to us from the New Issue will be about HK\$169.4 million. Under such circumstances, the reduced net proceeds will be allocated in the manner and proportions stated above. As the amount of proceeds to us allocated for our expansion of production capacity, research and development and acquisition of companies will be reduced accordingly, we intend to finance the shortfall by our internal resources and bank borrowings. In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Directors estimate that the net proceeds to us from the New Issue will be about HK\$204.3 million. We intend to use the additional net proceeds in the manner and proportions stated above.

To the extent that the net proceeds of the New Issue are not immediately required for the above purposes, the Directors presently intend that such proceeds will be placed on short-term deposits with licensed banks or financial institutions in Hong Kong or PRC.

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.35 per Offer Share (being the mid-point of the proposed Offer Price range), our Directors estimate that the net proceeds received by the Selling Shareholder from sale of the Sale Shares under the Placing will be about HK\$47.7 million, after deducting the underwriting commissions and other estimated expenses payable by the Selling Shareholder in relation to the Global Offering.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, to be used in relation to the Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on 15 December 2011, and as amended from time to time, a summary of which is set out in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing Huaerte”	北京華爾特汽車配件有限公司 (Beijing Huaerte Automobile Parts Co., Ltd.*), a company established in the PRC with limited liability on 25 February 2008, which was owned as to 20% by Ningbo Huayou Properties and 80% by Ningbo Huazhong Plastic and was liquidated through member’s voluntary liquidation on 30 June 2011
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 639,999,999 Shares to be made upon capitalisation of an amount of HK\$63,999,999.9 standing to the credit of the share premium account of our Company as referred to in the paragraph under “A. Further information about our Group — 4. Written resolutions of our Sole Shareholder passed on 15 December 2011” in Appendix VI to this prospectus
“CATARC”	中國汽車技術研究中心 (China Automotive Technology & Research Center*), a technical administration body in the automobile industry and a technical support organisation to the governmental authorities which was established in 1985 upon the approval of the China National Science and Technology Commission and affiliated to the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, which is an Independent Third Party commissioned by us for preparing the CATARC Report

DEFINITIONS

“CATARC Report”	a commissioned report dated 30 December 2011 and prepared by CATARC, containing analysis on, among other things, the automobile and automobile body parts industry
“Cayman Islands Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“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 or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant(s)”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant(s)”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“Changchun Huateng”	長春市華騰汽車零部件有限公司 (Changchun Huateng Automobile Parts Co., Ltd.*), a company established in the PRC with limited liability on 22 July 1997 and a wholly-owned subsidiary of our Company
“Changchun Huaxiang”	長春華翔汽車塑料件製造有限公司 (Changchun Huaxiang Automobile Plastic Parts Manufacturing Co., Ltd.*), a company established in the PRC with limited liability on 9 June 2000 and a wholly-owned subsidiary of our Company
“Changchun Huayou Properties”	長春華友置業有限公司 (Changchun Huayou Properties Co., Ltd.*), a company established in the PRC with limited liability on 5 February 2010 and is owned as to 80% by Mr. Zhou and 20% by Ningbo Huayou Properties
“Changchun Huaxiang Faurecia”	長春華翔佛吉亞汽車塑料件製造有限公司 (Changchun Huaxiang Faurecia Automotive Plastic Components Co., Ltd.), a company established in the PRC with limited liability on 3 June 2011 and is owned as to 50% by Ningbo Huazhong Plastic and 50% by Faurecia (China) Holding Co. Ltd., and a jointly controlled entity of our Company

DEFINITIONS

“Changchun Xuyang”	長春旭陽工業(集團)股份有限公司 (Changchun Xuyang Industrial Group Co., Ltd.*), a company established in the PRC with limited liability on 20 July 1999 and was owned as to 42.5% by 長春市國有資產監督管理委員會 (Changchun City State-owned Assets Supervision and Administration Commission*), 21.94% by Huayou Properties, 18.75% by Faurecia (China) Holding Co. Ltd., 16.19% by 長春市燈泡電線有限公司 (Changchun Light-bulbs & Cables Co., Ltd.*) and 0.63% by 長春市手工業合作聯社 (Changchun Handicrafts Cooperation Association*) as at the Latest Practicable Date
“Changxing Huaxin”	長興華新汽車橡膠製品有限公司 (Changxing Huaxin Automobile Latex and Plastic Co., Ltd.*), a company established in the PRC with limited liability on 10 May 2011 and is wholly-owned by Shanghai Huaxin
“Chengdu Huazhong”	成都華眾汽車零部件有限公司 (Chengdu Huazhong Automobile Parts Co., Ltd.*), a company established in the PRC with limited liability on 22 October 2009 and a wholly-owned subsidiary of our Company
“Chongqing Huazhong”	重慶市華眾汽車飾件有限公司 (Chongqing Huazhong Automobile Decorative Parts Co., Ltd.*), a company established in the PRC with limited liability on 30 August 2007 and a wholly-owned subsidiary of our Company
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Huazhong Holdings Company Limited 華眾控股有限公司, a company incorporated in the Cayman Islands with limited liability on 3 December 2010 under the laws of the Cayman Islands
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto in the Listing Rules and unless the context required otherwise, refers to Huayou Holdings and Mr. Zhou
“Deed of Indemnity”	a deed of indemnity entered by the Controlling Shareholders in favour of our Group dated 29 December 2011 pursuant to which the Controlling Shareholders have given certain indemnities to us

DEFINITIONS

“Deed of Non-competition”	a deed of non-competition entered into between our Controlling Shareholders in favour of our Company dated 29 December 2011 in respect of certain non-competition undertakings given by the Controlling Shareholders in favour of us
“Director(s)”	director(s) of our Company
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which became effective on 1 January 2008
“GDP”	gross domestic product
“Global Offering”	the Public Offer and the Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context other requires, in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company, some or any of them and the businesses carried on by such subsidiaries
“Guangzhou Chengli”	廣州誠力實業有限公司 (Guangzhou Chengli Industrial Co., Ltd.*), a company established in the PRC with limited liability on 2 August 2004 and is wholly-owned by Ningbo Huayou Properties
“Guangzhou Huazhong”	廣州華眾汽車飾件有限公司 (Guangzhou Huazhong Automobile Decorative Parts Co., Ltd.*), a company established in the PRC with limited liability on 24 September 2004 and a wholly-owned subsidiary of our Company
“Guotai Junan Capital” or “Sole Sponsor”	Guotai Junan Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of SFO, being the sole sponsor to the Global Offering
“Guotai Junan Securities” or “Lead Manager”	Guotai Junan Securities (Hong Kong) Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities for the purpose of SFO, being the sole global coordinator, the sole bookrunner and the sole lead manager of the Global Offering
“HK eIPO White Form”	the application for Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the HK eIPO White Form Service Provider at www.hkeipo.hk

DEFINITIONS

“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
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Share Registrar”	Tricor Investor Services Limited, the Hong Kong share registrar of our Company
“Huaxiang Group”	華翔集團股份有限公司 (Huaxiang Group Co., Ltd.*) (formerly known as 寧波華翔集團股份有限公司 (Ningbo Huaxiang Group Co., Ltd.*)), a company established in the PRC with limited liability and is owned as to 89.758% by Mr. Zhou Cimei (周辭美) (Mr. Zhou’s farther), as to 9.162% by Ms. Lai Cairong (賴彩絨) (Mr. Zhou’s mother), as to 0.3% by Ms. Zhang Songmei (張松梅), as to 0.75% by Mr. Zhou Zhaodi (周照娣) and as to 0.03% by Ms. Lai Suzhen (賴素珍)
“Huayou Holdings” or “Selling Shareholder”	Huayou Holdings Company Limited (華友控股有限公司), a limited liability company incorporated under the laws of the BVI, which will directly hold 75% of the issued share capital of our Company immediately upon completion of the Global Offering (before exercise of the Over-allotment Option), is wholly-owned by Mr. Zhou, and engages in investment holding
“Huayou Investment”	Huayou Investment (Hong Kong) Limited (華友投資(香港)有限公司), a company incorporated on 28 December 2010 under the laws of Hong Kong, a wholly-owned subsidiary of our Company
“Huazhong Investment”	Huazhong Investment Company Limited (華眾投資有限公司), a limited liability company incorporated on 7 December 2010 under the laws of the BVI, a wholly-owned subsidiary of our Company
“IFRS”	International Financial Reporting Standards
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are independent of and not connected with any member of our Group, the directors, the chief executives and the substantial shareholders of our Company and our subsidiaries and their respective associates

DEFINITIONS

“Latest Practicable Date”	23 December 2011, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Listing”	the listing of the Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which trading of the Shares on the Main Board first commences, which is currently expected to be 12 January 2012
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock market operated by the Stock Exchange, which excludes the Growth Enterprise Market of the Stock Exchange and the options market
“Ministry of Commerce”	the PRC Ministry of Commerce (中國商務部)
“Mr. Zhou”	Mr. Zhou Minfeng (周敏峰), one of the Controlling Shareholders, the Chairman of our Board, an executive Director and the chief executive officer of our Company
“New Issue”	the issue of 160 million New Shares under the Global Offering by our Company for subscription at the Offer Price
“New Shares”	the 160 million new Shares initially being offered by our Company for subscription at the Offer Price under the Global Offering and, where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option
“Ningbo Huafeng”	寧波華峰橡塑件有限公司 (Ningbo Huafeng Plastic and Latex Products Co., Ltd.*), a company established in the PRC with limited liability on 17 March 1999 and a wholly-owned subsidiary of our Company
“Ningbo Hualete”	寧波華樂特汽車裝飾布有限公司 (Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd.) (formerly known as Ningbo Salome-Roekona-Zoeppritex-Tex-Line Co., Ltd.), a company established in the PRC with limited liability on 17 March 2004 and is owned as to 50% by Ningbo Huazhong Plastic, 25% by Roekona and 25% by Zoeppritex, and a jointly controlled entity of our Company

DEFINITIONS

“Ningbo Huaxiang Electronics”	寧波華翔電子股份有限公司 (Ningbo Huaxiang Electronic Co., Ltd.*), a joint stock company incorporated in the PRC with limited liability on 26 September 1988, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002048). So far as our Directors are aware of after making reasonable enquiry, Ningbo Huaxiang Electronics is owned as to about 6.31% by Huaxiang Group, about 15.86% by Mr. Zhou Xiaofeng (being the brother of Mr. Zhou), and about 77.83% by other public shareholders as at the Latest Practicable Date
“Ningbo Huayue”	寧波華越汽車飾件有限公司 (Ningbo Huayue Automobile Trimming Co., Ltd.*), a company established in the PRC with limited liability on 7 April 2005 and is wholly-owned by Ms. Lai Danfen (賴丹芬), a cousin of Mr. Zhou
“Ningbo Huayou Properties”	寧波華友置業有限公司 (Ningbo Huayou Properties Co., Ltd.*) (formerly known as 寧波華翔科技有限公司 (Ningbo Huaxiang Science and Technology Co., Ltd.*) and 寧波華越控股有限公司 (Ningbo Huayue Holdings Co., Ltd*)), a company established in the PRC with limited liability and is owned as to 82% by Mr. Zhou and 18% by Huaxiang Group
“Ningbo Huaxiang Technology”	寧波市華翔科技有限公司 (Ningbo Huaxiang Technology Co., Ltd.*), a company established in the PRC with limited liability on 28 May 2010 and is wholly-owned by Mr. Zhou
“Ningbo Huazhong Moulding”	寧波華眾模具製造有限公司 (Ningbo Huazhong Moulding Manufacturing Co., Ltd.*), a company established in the PRC with limited liability on 25 January 2002 and a wholly-owned subsidiary of our Company
“Ningbo Huazhong Plastic”	寧波華眾塑料製品有限公司 (Ningbo Huazhong Plastic Products Co., Ltd.*), a wholly foreign owned enterprise established in the PRC with limited liability on 11 September 1993 and a wholly-owned subsidiary of our Company
“Ningbo Xinxing”	寧波新星汽車塑料件製造有限公司 (Ningbo Xinxing Automobile Plastic Parts Manufacturing Co., Ltd.*), a company established in the PRC with limited liability on 25 December 1984 and a wholly-owned subsidiary of our Company

DEFINITIONS

“Ningbo Zhongxin”	寧波眾信投資有限公司 (Ningbo Zhongxin Investment Co., Ltd.*), a company established in the PRC with limited liability and is owned as to 61.5784% by Mr. Zhou Cimei (周辭美) (Mr. Zhou’s farther), 20% by Ms. Lai Cairong (賴彩絨) (Mr. Zhou’s mother), 3.6823% by Mr. Zuo Xinzong (左新忠), 2.8773% by Mr. Li Shuhua (李樹華), 2.8528% by Ms. Wu Qiuju (吳秋菊), 2.826% by Mr. Zhao Tie (趙鐵), 2.0342% by Mr. Wang Yunzhou (王雲舟), 1.3937% by Ms. Guan Li (關莉), 1.0999% by Mr. Kong Guangming (孔光明), 0.8669% by Mr. Zhu Zongming (朱總明), 0.4335% by Ms. Wang Juan (王娟), 0.128% by Mr. Jin Shaohua (靳少華), 0.1106% by Mr. Zhang Chunsheng (張春生), 0.1048% by Mr. Yin Chengwen (尹成文) and 0.0116% by Ms. Ding Yanhong (丁豔紅)
“Offer Price”	the final price for each Offer Share (excluding the Stock Exchange trading fee, transaction levy imposed by the SFC and brokerage fee payable thereon) at which the Offer Shares are to be offered for subscription or purchase pursuant to the Global Offering, particulars of which are described in the section headed “Structure and conditions of the Global Offering - Price payable on application” in this prospectus
“Offer Shares”	the Public Offer Shares and the Placing Shares
“Over-allotment Option”	the option expected to be granted by our Company to the Lead Manager under the Placing Underwriting Agreement, pursuant to which the Lead Manager may, at any time within a period commencing from the Listing Date and ending on the 30th day after the last date for lodging of applications under the Public Offer, require our Company to allot and issue the Over-allotment Shares at the Offer Price to cover over-allocations in the Placing and/or to satisfy the obligation of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement, subject to the terms of the Placing Underwriting Agreement
“Over-allotment Shares”	up to an aggregate of 30 million New Shares to be issued pursuant to the exercise of the Over-allotment Option, representing 15% of the number of Shares initially available under the Global Offering
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company and the Selling Shareholder for cash at the Offer Price with professional, institutional and individual investors as described in the section headed “Structure and conditions of the Global Offering” in this prospectus

DEFINITIONS

“Placing Shares”	the 140 million New Shares initially offered by our Company for subscription and the 40 million Sale Shares being offered by the Selling Shareholder for purchase under the Placing, subject to Over-allotment Option and re-allocation as described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“Placing Underwriters”	the underwriters expected to enter into the Placing Underwriting Agreement to underwrite the Placing
“Placing Underwriting Agreement”	the conditional placing underwriting agreement relating to the Placing to be entered into between our Company, the Selling Shareholder, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Lead Manager and the Placing Underwriters
“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	the PRC Accounting Standards and Accounting Regulations for Business Enterprises and its supplementary regulations
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by our Company on 15 December 2011, the principal terms of which are summarised in the paragraph headed “F. Pre-IPO Share Option Scheme” in Appendix VI to this prospectus
“Price Determination Agreement”	the agreement to be entered into between our Company (for ourselves and on behalf of the Selling Shareholder) and the Lead Manager (on behalf of the Underwriters) on or before the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Friday, 6 January 2012, or such later date as the Lead Manager (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) may agree but in any event no later than 6:00 p.m. (Hong Kong time) on Monday, 9 January 2012, on which the Offer Price will be fixed for the purposes of the Global Offering
“Public Offer”	the conditional offer of the Public Offer Shares by our Company for subscription by members of the public in Hong Kong for cash at the Offer Price, payable in full on application, on and subject to the terms and conditions stated herein and in the related Application Forms

DEFINITIONS

“Public Offer Shares”	the 20 million New Shares initially offered for subscription under the Public Offer subject to re-allocation as described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“Public Offer Underwriters”	the underwriters listed in the section headed “Underwriting — Public Offer Underwriters” in this prospectus, being the underwriters of the Public Offer
“Public Offer Underwriting Agreement”	the conditional public offer underwriting agreement dated 29 December 2011 relating to the Public Offer and entered into between our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Lead Manager and the Public Offer Underwriters
“R&D”	research and development
“R&D centre”	the research and development centre of our Group
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the section headed “History and corporate structure — Reorganisation” in this prospectus
“Roekona”	Roekona Textilwerk GmbH, a private limited company incorporated under the laws of Federal Republic of Germany, our joint venture partner in respect of our investment in Ningbo Hualete and an Independent Third Party
“SAFE”	the PRC State Administration of Foreign Exchange (中國國家外匯管理局)
“Sale Shares”	the 40 million Shares being offered by the Selling Shareholder for purchase under the Global Offering at the Offer Price
“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

DEFINITIONS

“Shanghai Huaxin”	上海華新汽車橡膠製品有限公司 (Shanghai Huaxin Automobile Latex and Plastic Co., Ltd.*), a company established in the PRC with limited liability on 21 June 1993 and is owned as to 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*), an Independent Third Party, as to 19% by 上海北蔡工業有限公司 (Shanghai Beicai Industrial Co., Ltd.*), an Independent Third Party and as to 51% by Ningbo Huazhong Plastic
“Shanghai Xiangmao”	上海翔茂汽車零部件有限公司 (Shanghai Xiangmao Automobile Parts Co., Ltd.*), a company established in the PRC with limited liability on 30 November 2009 and a wholly-owned subsidiary of our Company
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.10 each in the capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 15 December 2011, the principal terms of which are summarised in the paragraph under “G. Share Option Scheme” in Appendix VI to this prospectus
“Share Option Schemes”	the Pre-IPO Share Option Scheme and the Share Option Scheme
“Shareholder(s)”	holder(s) of Share(s)
“Stock Borrowing Agreement”	the stock borrowing agreement to be entered into between Huayou Holdings and the Lead Manager, pursuant to which the Lead Manager may borrow up to an aggregate of 30 million Shares to cover any over-allocation in the Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Code on Takeovers and Mergers issued by the SFC
“Track Record Period”	the period comprising the three years ended 31 December 2010 and the six months ended 30 June 2011
“Underwriters”	the Placing Underwriters and the Public Offer Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement

DEFINITIONS

“US” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“Wuhu Huazhong	蕪湖華眾汽車零配件有限公司 (Wuhu Huazhong Automotive Parts Co., Ltd.*), a company established in the PRC with limited liability on 1 June 2010 and a wholly-owned subsidiary of our Company
“Yantai Huaxiang”	煙台華翔汽車零部件有限公司 (Yantai Huaxiang Automotive Parts Co., Ltd.*), a company established in the PRC with limited liability on 16 April 2010 and a wholly-owned subsidiary of our Company
“Zoeppritex”	Zoeppritex Verbundstoffe GmbH & Co. KG, a private limited company incorporated under the laws of Federal Republic of Germany, our joint venture partner in respect of our investment in Ningbo Hualete and an Independent Third Party
“Euro” or “EUR”	Euro, the lawful currency of the member states of the European Communities that adopt or have adopted the Euro as their lawful currency under the legislation of the European Community for Economic Monetary Union
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the US
“sq. m.”	square metre(s)
“%”	per cent

Unless otherwise specified, for the purpose of this prospectus and for the purpose of illustration only, Hong Kong dollar amounts have been translated using the following rates:

*US\$1 : HK\$7.8
RMB0.82 : HK\$1*

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

In this prospectus, if there is any inconsistency between Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail. English translation of company names in Chinese or another language which are marked with “” are for identification purpose only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with our Company and our business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

“ABC-pillar” or “ABCD-pillar”	the pillars or columns that support the roof of a sedan. The A-pillar is the column between the front window and the first side window; the B-pillar is the column between the first and second side window; the C-pillar is the column between the second side and rear window. Depending on the length of the vehicle, there may be D-pillar
“ABS”	acronym for acrylonitrile butadiene styrene, a common thermoplastic used to make light and rigid moulded products
“CAGR”	acronym for compound annual growth rate
“CATIA”	acronym for computer aided three-dimensional interactive application, a multi-platform design software
“clamping force”	the force applied to an injection mold by the clamping unit of an injection molding machine
“CNC”	acronym for computerised numerical control, which refers to a means of operating a machine through the use of discrete numerical values fed into a machine so that the machine would follow a predetermined sequence of machining operations at the predetermined speeds necessary to produce a workpiece with the right shape and size
“fabric lamination” or “lamination”	a process of binding one fabric to another one using heat or adhesive bonding
“front-end carrier”	the underlying structure of front-end part module which houses components, such as headlights, for the front-end of an automobile
“front-end carrier with medium-sized metal insert” or “long fiberglass front-end carrier with medium-sized metal insert”	as opposed to traditional steel-made front-end carrier which is heavy, less flexible and difficult to make with many metal parts screwed and welded together, this sort of front-end carrier is a hybrid of both steel and plastic and has the advantage of being lighter and reducing the part count while retaining the strength of steel because plastic can mould complex shapes and integrate various functions into a single part. With the combination of plastic with metal insert, its production demands for more accurate and advanced plastic injection technology than other plastic injection automobile body parts

GLOSSARY OF TECHNICAL TERMS

“front-end module”	the front-end part of an automobile which is an integration of parts including front-end carrier, engine cooling fan system and bumper
“GD&T”	acronym for geometric dimensioning and tolerancing, a symbolic language used on engineering drawings and computer generated three-dimensional solid models for explicitly describing nominal geometry and its allowable variation
“ISO”	International Organisation for Standardisation
“ISO/TS16949”	a standard defines the quality management system requirements for the design and development, production and, when relevant, installation and service of automotive-related products. Many automobile manufactures specifically request their suppliers to comply with the requirements under this standard
“kN” or “kilonewton” or “newton” or “N”	the unit of force, clamping force is usually measured in kilonewton
“LED”	acronym of light-emitting diode, a semiconductor which uses less electricity than traditional lights to produce light
“LPIM”	acronym of low pressure injection moulding, a plastic injection moulding technique, whereby melted plastic is injected into the mould of an injection moulding machine under low pressure environment
“mould”	a steel tool made up of operating mechanisms and parts assembled together and used in a moulding machine to produce a plastic product, whereby the plastic product will have the shape of the mould cavity
“OEM”	acronym for original equipment manufacturing, under which products are manufactured, in whole or in part, in accordance with the designs and specifications of the customer and are marketed under the customer’s brand name
“PC/ABS”	acronym for polycarbonate/acrylonitrile butadiene styrene, a thermoplastic blending polycarbonate and ABS that creates a stronger plastic
“plastic injection moulding” or “injection moulding”	a process for producing plastic products in which melted plastic is injected into the mould of an injection moulding machine where it cools and solidifies into the final part of plastic products

GLOSSARY OF TECHNICAL TERMS

“PP”	acronym for polypropylene, a thermoplastic polymer resin, commonly used for plastic mouldings
“Pro/E”	Creo Elements/Prop, a product formerly known as Pro/ENGINEER, which is a parametric, integrated 3D computer-aided design/computer-aided manufacturing/computer-aided engineering solution which is used by manufacturers for mechanical engineering, design and manufacturing
“resin”	any of numerous clear to translucent yellow or brown, solid or semisolid, viscous substances of plant origin, such as copal, rosin, and amber, used principally in lacquers, varnishes, inks, adhesives and synthetic plastics
“two shot moulding”	a process used to mould two different colours or two different materials together or to mould two dissimilar materials together
“UG”	acronym for unigraphics, also known as NX, is a computer-aided design/computer-aided manufacturing/ computer-aided engineering software package for engineering, design and manufacturing

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that state our intention, belief, expectation or prediction for the future that are, by their nature, subject to significant risks and uncertainties.

These forward-looking statements include, without limitation, statements relating to:

- the industry regulatory environment as well as the industry outlook in general;
- the amount and nature of, and potential for, future development of our business;
- our business strategies;
- our capital expenditure plans;
- our operations and business prospects; and
- our future plans.

The words “believe”, “intend”, “anticipate”, “estimate”, “plan”, “potential”, “will”, “would”, “may”, “should”, “expect”, “seek” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. All statements (other than statements of historical facts included in this prospectus), including statements regarding our strategy, plans and objectives of management for future operations, are forward-looking statements. These forward-looking statements reflect our Company’s current view with respect to future events, but they are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risks factors as disclosed under “Risk Factors” and elsewhere in this prospectus. One or more of these risks or uncertainties may materialise, or the underlying assumptions may prove to be incorrect. Although the Directors believe that our Company’s current views as reflected in those forward-looking statements based on currently available information are reasonable, our Company can give no assurance that those views will prove to be correct, and the investors are cautioned not to place undue reliance on such statements.

Subject to the requirements of the Listing Rules or the applicable laws, our Company undertakes no obligation to publicly update or revise any forward-looking statements contained 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 our Company expects. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks associated with an investment in our Shares. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or on the trading price of the Shares, and could cause you to lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our business rely on automobile industry and automakers and automobile body parts manufacturers as our customers

As we rely on automakers and automobile body parts manufacturers as customers or potential customers of our products, our financial performance largely depends on the continued growth of the automobile industry and the continued growth of outsourcing in the automobile industry. The automobile industry has been characterised by shorter time in new car models launch, continuous technological advancement, evolving industry standards and changing customer needs, all of which indicate a trend of shorter product life cycles.

Sales of our products to a particular automaker or automobile body parts manufacturer are influenced by the sales performance of particular car models to which our products relate. In particular, the relevant automaker's ability to anticipate changes in consumer tastes, preferences and requirements, its capability to design and manufacture cars to meet such consumer tastes, preferences and requirements, its sales and marketing capabilities, its sales and after-sales services, and its competitiveness as compared with other competitors in the market, may affect the sales performance of particular car models to which our products relate. Undesirable sales performance of any particular automaker and/or particular car model to which our products relate may adversely affect, our sales of the relevant products.

Overall market demand for cars may also be affected by factors such as global and regional economic and market conditions, personal disposal income and interest rate levels, fuel price, seasonality of sales of automobiles, government policies and measures on emission control and automobile consumption and purchases. These factors, which are beyond our control, may affect the annual production of automobiles by automakers, increase the manufacturing and distribution cost of automobiles, and/or result in downward pressure on the selling prices of automobiles, which, in each case, may in turn result in downward pressure on the selling prices of our products or otherwise adversely affect our sales and profitability.

We also have no or limited control on, among other factors, the expected market responses and demands of any particular car model (which can be affected by the automaker's ability to respond to the changing customer tastes or preference in a timely manner), the popularity of the car brand, the development process and rollout plans of the car model. There is also no assurance that our customers will proceed with the commercial production of any particular new car model with automobile body

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parts developed by us, or will place purchase orders with us for commercial production thereof. If the sales of any particular products supplied or developed by us cannot achieve the intended result for whatever reason, our sales of such products to our customers may be adversely affected, which may in turn materially and adversely affect our overall financial results.

We depend on a few key customers

During each of the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, sales to our five largest customers (namely FAW-Volkswagen Automotive Co. Ltd., Shanghai General Motors Co. Ltd., Shanghai Delphi Automotive Air-conditioning Systems Co., Ltd., Guangzhou TS Automotive Interior Systems Co. Ltd. and Changan Ford Mazda Automobile Corporation Ltd.), in aggregate, accounted for about 78.2%, 78.7%, 77.3% and 74.5%, respectively, of our total sales. The sales to our largest customer, FAW-Volkswagen Automotive Co. Ltd., during the three years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011 accounted for about 48.1%, 45.7% and 48.9% and 47.2%, respectively, of our total sales.

As of the Latest Practicable Date, three of our five largest customers during the Track Record Period had more than 10 years of business relationship with us, and the remaining two of our five largest customers had more than four years of business relationship with us. However, there is no assurance that our business relationship with these customers will continue in the future. If any of these customers ceases to do business with us, or substantially reduces the volume of its business transactions with us, or delays or cancels any purchase orders for our products, or fails to or otherwise delays in payment for our products for whatever reason, or if we are unable to secure new, substitute customers with comparable sale volume and profit margin, our profitability and financial position can be adversely affected.

As more particularly mentioned in the risk factor headed “Our business rely on automobile industry and automakers and automobile body parts manufacturers as our customers” above, sales of our products to a particular automaker or automobile body parts manufacturer are influenced by the sales performance of that particular car model to which our products relate. Undesirable sales performance of any of our key customers and/or any particular car model to which our products relate may adversely affect our sales of the relevant products.

We supply our products to our customers on project-by-project basis

We supply our products to our customers on project-by-project basis, based on the product development, commercial production and market rollout plans of each product, and our sales are made on the basis of individual production orders or contracts. Commercial production of a product may or may not be proceeded with after its development, and our customers may cancel or defer production orders of such product. Our customers’ production orders may vary significantly from period to period, and it is difficult to forecast future order quantities. There is no assurance that any of our customers will continue to place production orders with us for production of our existing products, or for development and/or production of new products, in the future at a comparable volume, or at a comparable margin, as compared to prior periods, or at all. We may not be able to locate alternative customers to replace purchase orders or sales. There is also no assurance that the volume or margin

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of our customers' production orders will be consistent with our expectations when we plan our expenditures on, for example, the product development and purchases of the requisite machinery for the relevant products. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

We may not be able to expand our product offerings

Our future success depends on our ability to develop and expand our product offerings within our current core products, and our ability to develop new products. Our product development efforts are driven by our customers' changing needs and requirements, which depends heavily on our ability to identify technological and market trends and to develop and expand our product offerings. Development and manufacturing of new products would require us to make substantial capital investment (including expenditures on new R&D and manufacturing equipment and facilities, employment of skilled technicians and engineers for development of new design, technologies and technical knowhow required for new products), innovation, skill and experienced R&D technicians, and accurate anticipation of technological and market trends. There is no assurance that we will be able to identify, develop and manufacture our new product offerings successfully. Any failure to develop products that satisfy our customers' needs, or any delay in responding to changes in customers' demands, could have a material adverse effect on our business and results of operation. If the new products developed by us do not receive the intended acceptance by the market, we may not be able to recoup our cost of R&D, and we may lose our competitiveness in the market. Our business, results of operation and prospects may be adversely affected.

Fluctuations in the market prices for resins and other production materials could adversely affect our profitability

Resin, including PP and PC/ABS, is our principal production material used in the production of our products. During each of the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, our purchase of resin accounted for about 23.5%, 28.8%, 28.7% and 33.7%, respectively, of our total cost of sales during the corresponding periods. Market prices of resins have been historically affected by the cyclical and high volatility of prices for crude oil, being the primary substance of resin.

There is no assurance that we may be able to pass along the increase cost of resin or other production materials to our customers, and we have limited measures to hedge against any market price fluctuations for resins or other production materials to minimise such impact on our cost of sales. Any increase in the market prices for resins or other production materials could significantly increase our cost of sales and may thereby have a material adverse effect on our profitability.

We rely on our key suppliers

Our key suppliers include suppliers of resin as well as accessories and fabric suppliers. For each of the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, purchases from the five largest suppliers of our Group (excluding intra-Group purchases) accounted for about

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21.7%, 30.7%, 30.3% and 32.7% of our Group's total cost of purchase respectively, and purchases from our largest supplier, Ningbo Hualete which is our jointly controlled entity, amounted to about RMB35.2 million, RMB39.2 million, RMB56.5 million and RMB25.5 million and accounted for about 6.2%, 7.9%, 8.7% and 8.4% of our Group's total cost of purchase respectively.

There is no assurance that any of our major suppliers will continue to supply the required production materials to us at our desired quality in a timely manner, or on commercially acceptable terms, or at all. If any of our major suppliers fails to meet our purchase orders on a timely basis or fails to offer us commercially acceptable terms or fails to supply us with production materials of the quality that we require or terminates its business relationship with us, we may be unable to source production materials from comparable alternative suppliers on a timely basis and on commercially acceptable terms or at all, and our business, financial condition and results of operations may be materially and adversely affected.

Our future operating results may depend on the results of our expansion plan and our ability to maintain and improve efficiency and production at the existing manufacturing facilities

We currently expect to increase our production capacity by establishing new production facilities and by carrying out our expansion plans of our existing production facilities as more particularly described in the section headed "Business — Business strategies" in this prospectus. Significant capital investment and human resources will be required to establish a new production facility, which may exceed our original estimation. We may also need to comply with different legal requirements and procedures in the PRC for acquiring the requisite lands for the new production facilities, obtaining the requisite planning and/or construction permits for the factory premises and other buildings in accordance with our future factory plans, obtaining clearance from the relevant government authorities in respect of environmental impact evaluation assessments, acceptance inspection, fire safety, production safety and other aspects of the construction and operation of the new production facilities as may be required by the relevant government authorities. There is also no assurance that we will be able to fulfill and complete all the requisite legal requirements and procedures for our intended establishment of all or any of our new production facilities and/or that for our intended expansion of all or any of our existing production facilities. If we cannot expand our production capacity in a timely manner in response to changing market conditions, we may not be able to meet the demand from our customers, which may lead to a decrease in order volume by our customers or our market share.

Our future operating results may also depend upon our ability to improve the operations of our existing production facilities, and our ability to achieve the same efficiency and quality standard as our existing facilities for our planned new production facilities. If we cannot achieve a similar efficiency and quality standard at our new production facilities, our future operating results may be materially and adversely affected.

Fluctuations in the exchange rates of foreign currencies against RMB may cause losses to us and adversely affect our business and profitability

While our revenue, costs and expenses are principally denominated in RMB, some of our revenue generated, and some of our cost and expenses of production incurred by us, are denominated in US

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dollars and Euros. Therefore, our revenues, cost of sales and operating expenses are exposed to fluctuations among such currencies, and could result in exchange losses. In particular, depreciation of RMB against US dollars and Euros would increase our cost of imported production materials, which in turn would adversely affect our financial condition and results of operations. Appreciation of RMB could increase the cost of production of our customers in the PRC, which will either result in downward pressure of selling prices of our products, or would otherwise affect the sales of automobiles of our customers in the PRC as compared with imported automobiles as a result of decrease in selling price of imported automobiles. Fluctuations in exchange rates may also adversely affect the value of our assets, earnings or any declared dividends. Any unfavourable movement in the exchange rate may lead to an increase in our costs or a decline in sales, which could materially and adversely affect our business, financial condition and results of our operations.

Power outages and/or increasingly unreliable power supply could materially and adversely affect our production, operations and profitability

Most of our production processes are semi-automated or involve the use of machineries, and therefore rely on an adequate and stable supply of electricity. A power surge or outage could disrupt or even result in the halt of our production process and thereby adversely affect our manufacturing yield. In time of power shortage, the local government may limit the electricity supply during which we needed to use our own power generator to ensure continual supply of electricity to maintain our operation there. As our production facilities expand, our production capacity increases and our business grows, our demand for adequate and stable supply of electricity supply will also increase. Therefore, as our Group's business continues to grow, in the event that electricity supplies do not improve correspondingly, our production and operation may be affected. We may need to limit or delay our production if we face any suspension or shortage of electricity supply which would have a material and adverse impact on our Group's profitability.

Our operations, performance and profitability may be adversely affected by the loss of senior management personnel and technical experts

We rely on experienced and talented senior management and highly skilled technical personnel to operate our businesses and to develop our new products. We expect that there will be an increased competition for senior management and skilled technical personnel from other automobile body part manufacturers in the future, driven partly by strong growth in the PRC automobile industry. We cannot assure you that we will be able to recruit suitable candidates or retain our existing senior management and technical personnel. Our operations, performance and profitability may be adversely affected if any of the current executive Directors or any current member of our senior management ceases to serve us for whatever reason and a suitable replacement cannot be located in a timely manner.

Higher labour costs and labour shortage would reduce our operations, margins and profitability

We need significant number of engineers, technicians and skilled workers to support our product development and manufacturing processes. We have about 2,400 employees as of 30 June 2011. For each of the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011, direct labour costs represent about 4.0%, 3.9%, 4.4% and 4.7% of our total cost of sales, respectively. In recent years, average labour costs in China have increased due to higher living standards and the

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PRC government's recent policies to raise the minimum wage for workers. In addition, as the competition for skilled workers is increasingly intensive, we may need to enhance our remuneration packages and welfare to our employees in order to recruit and retain staff. The Labour Contract Law of the PRC (中華人民共和國勞動合同法) (the "**Labour Contract Law**"), which became effective on 1 January 2008 in the PRC, also imposes more stringent requirements on employers in relation to entry into written labour contracts, hiring of temporary employees and dismissal of employees. Pursuant to the Labour Contract Law, the employer is required to make severance payment upon the termination of a labour contract in most cases, including termination of a fixed-term labour contract upon its expiry. In general, 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 while the maximum number of years shall not exceed 12 years for the purposes of calculating the severance payment to which the employee is entitled. A minimum wage requirement has also been incorporated into the Labour Contract Law. In addition, the employer is also required to enter into non-fixed term labour contracts with employees, inter alia, who have worked for them for more than 10 years or whose fixed term labour contracts have been concluded for two consecutive terms since 1 January 2008 unless otherwise provided in the Labour Contract Law. In addition, under the "Regulations on Paid Annual Leave for Employees" (職工帶薪年休假條例) (the "**Regulation**"), which became effective on 1 January 2008, employees who have worked continuously for more than 12 months are entitled to a paid vacation ranging from 5 to 15 days, depending on the employees' length of service. Employees who consent to waive such vacation at the request of employers shall be compensated for an amount equal to three times their normal daily salaries for each vacation day being waived. Further, under the Labour Contract Law, we may not be able to efficiently terminate non-fixed term labour contracts under the Labour Contract Law without cause. These requirements may affect our ability to significantly change or decrease the scale of our workforce cost-effectively or in the manner that we desire.

There is also no assurance that we will be successful in retaining and recruiting suitably qualified workers in sufficient numbers and in time for our existing and future operations at reasonable cost or at all, and any prolonged shortage of labour could materially and adversely affect our operations, relationship with customers, our market reputation and financial results. Any significant increase in labour costs could adversely affect our margins and profitability if we are not otherwise able to raise the price we charge our customers. Any increase in the selling prices of our products may also affect the demand of such products, and we may not be able to pass on the increased cost to customers by increasing the selling prices of our products if the competitive pressure in the market continues to increase. In such circumstances and unless we are able to identify and employ other appropriate means to reduce our cost of production, our profit margin may decrease and our financial results may be adversely affected.

We may be adversely affected by intellectual property rights disputes

For products, moulds and toolings that we developed together with our customers, the relevant drawings and intellectual property rights are properties of our customers. For certain structural parts and moulds that are developed by ourselves for facilitating our manufacturing process, we would seek registration of patents. We are applying for registration of trademarks and patents as set out under the section headed "C. Further information about our business — 2. Our intellectual property rights" in Appendix VI to this prospectus. We rely on trade secrets, industry expertise and our customers'

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sharing of intellectual property with us. We are given the right to use our customers' intellectual property rights for services provided by it pursuant to relevant agreements. However, our use of any third parties' intellectual property rights may expose us to infringement claims. Any of these claims, regardless of its merits, could result in substantial cost and diversion of resources which could materially and adversely affect our business and operating results.

We may face potential product liability claims or suffer losses due to product recall and/or failure to maintain the quality of our products

We may be subject to product liability claims due to defects of products manufactured by us. 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 and up to the Latest Practicable Date, we had not faced any material complaints, product claims or product recall and, so far as we are aware of, we had not contributed to any product recall of our customers during the period. We currently do not have insurance coverage for product liability. If our products prove to be defective and result in losses 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. 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. If we fail to maintain high quality of our products, resulting in product returns or warranty claims, the market demand for any of our products will decline, and our business, financial condition and results of operations may be materially and adversely affected.

We may suffer losses if our insurance policies do not cover actual contingencies

We have insurance coverage for vehicles and property including office, manufacturing facilities and inventories in the PRC. Any uninsured loss or damage to property, litigation or business disruption may result in us incurring substantial cost or diverting our resources, which could have an adverse effect on our results of operations. The damages and losses caused by occurrence of certain incidents, including fire, severe weather, earthquake, war, flooding, power outages may not be adequately covered by our insurance policies or at all. If we incur substantial liabilities that are not covered by our insurance policies, or if our business operations are interrupted for a significant period of time, we could incur costs and losses that could materially and adversely affect our financial condition and results of operations.

More stringent environmental requirements could increase our cost of business

We are subject to various national and local environmental regulations in the areas we operate, including those governing the use, storage, discharge and treatment of waste water, solid waste and noise from our production facilities. In the event that new and more stringent compliance or clean-up standards under these laws or regulations are imposed, or the results of future testing and analyses indicate that any of our production facilities or machineries does not comply with the requisite

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environmental regulations, we may be subject to fines or required to take remedial steps and/or pay increased environmental compliance costs which could adversely and severely affect our operation and profits.

Historical dividends are not indicative of future dividends

For each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our Group did not declare any dividends. In July 2011, a special dividend payable to the then equity holders of Ningbo Huazhong Plastic in the amount of RMB206 million was declared by Ningbo Huazhong Plastic, which was settled by our Group in the manner as set out in the section headed “Financial information — Dividend policy” in this prospectus. We may pay dividends to our Shareholders in the future. However, such payments will depend upon a number of factors, including our results of operations, cash flow, financial condition, future prospects, payments by our subsidiaries and other factors that the Board may consider relevant. There can be no assurance that we will declare or distribute any dividend on the Offer Shares. We cannot guarantee whether and when any dividends will be paid in the future. Our historical dividend distribution record in the past should not be used as an indicator or basis to determine the level of dividends that may be declared or paid by us in the future. Further details on our dividends policy are set out the section headed “Financial information — Dividend policy” in this prospectus.

Our operation and financial conditions can be adversely affected if there is any negative impact to the transportation of our products and raw materials

We depend on a combination of land, sea and air transportation to obtain our raw materials and deliver products to our customers. If we cannot secure land, sea and air transportation necessary for the delivery of raw materials to our production facilities and the delivery of our products to our customers or if we are unable to secure economically-feasible alternative methods to transport our products and raw materials during disruptions of transportation systems which are beyond our control, our results of operations may be adversely affected. Any disruption of raw material supply may interrupt our production and could have a negative effect on the competitiveness of our products and our financial conditions.

We may not be able to obtain adequate financing for our business in the future

Our business is capital intensive. We made combined capital expenditures of about RMB45.8 million, RMB26.7 million, RMB79.2 million and RMB63.6 million for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. As we will continue to expand our existing production facilities and construct new plants and R&D facilities, we expect that our capital expenditures for the year ending 31 December 2011 and 2012 will amount to about RMB100.0 million and RMB130.0 million, respectively.

Apart from the net proceeds from the New Issue after the Listing, we also depend on cash generated from our operations as well as access to external financing to operate and expand our business. Our future funding requirements will depend, to a large extent, on our working capital requirements and the nature of our capital expenditures, our business performance, market conditions

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and other factors which are beyond the control and anticipation of our management. We will also need substantial capital expenditures to maintain and continuously upgrade and expand our production facilities and design and development functions to keep pace with the competitive landscape and changing requirements in our industry.

Our ability to obtain financing through bank borrowings, or debt or equity financing, will depend on our financial condition and results of operations, the performance of our industry, and political and economic conditions in China. The tightening of credit which resulted from the recent economic downturn may increase the interest expenses on our bank borrowings and create difficulties for our Group to renew existing banking facilities and/or obtain additional sources of debt financing, which may affect the amount of banking facilities available to our Group. The lender may withdraw facilities, request for early repayment of outstanding loans or increase in the amount of pledges for secured borrowings. Further, if our Group requires additional debt financing, the lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities.

There is no assurance that adequate funds can be obtained on acceptable terms, or at all. If capital is unavailable, we may be forced to curtail our expansion plans, which could result in an inability to successfully implement our business strategy.

We recorded net current liabilities and had high gearing ratios during the Track Record Period

We recorded net current liabilities of about RMB202.8 million, RMB147.1 million, RMB45.2 million and RMB54.2 million, respectively, as at 31 December 2008, 2009 and 2010 and 30 June 2011, and our gearing ratios as at 31 December 2008, 2009 and 2010 and 30 June 2011 were about 86.5%, 84.2%, 80.4% and 78.9%, respectively. As at 31 October 2011, we had net current liabilities of about RMB250.8 million, representing an increase of net current liabilities from about RMB54.2 million as at 30 June 2011. Such increase in net current liabilities was mainly attributable to the declaration of a special dividend in an amount of RMB206 million by Ningbo Huazhong Plastic to its then equity holders in July 2011. Out of such amount, RMB115.36 million was settled by setting off against the amount due from Mr. Zhou and our related parties. The net current liabilities and high gearing ratios were principally attributable to the utilisation of short-term bank borrowings to support our capital expenditure and our operations and (in respect of the net current liabilities of our Group as at 31 October 2011) the declaration of the special dividend.

As we may continue utilising short-term banking facilities from licensed banks in the PRC to fund our operations and business expansion, if there is any failure to generate current assets to the extent that the aggregate amount of our current assets on any given day exceeds the aggregate current liabilities on the same day, we will continue to record net current liabilities and have high gearing ratios. For further details of our Group in this respect, please refer to the section headed “Financial information” in this prospectus. In the event that we incur net current liabilities, our liquidity may be adversely affected. Our future liquidity depends on our ability to maintain adequate cash inflows from operating activities and adequate external financing. If we are unable to raise necessary funds to meet our current liabilities and our capital commitments, our business operations, financial positions and prospects may be materially and adversely affected.

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Fluctuations in interest rates could adversely affect our results

Most of our bank borrowings in effect as at the Latest Practicable Date bear interest at floating interest rates, and we have not used any interest rate swap to hedge our exposure to interest rate fluctuation risk. For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our interest expense on bank loans and borrowings amounted to about RMB22.6 million, RMB29.2 million, RMB34.3 million and RMB24.0 million, respectively. Any increase in interest rates could cause our finance costs to increase, which could adversely affect our results. For illustration purposes only, if the applicable interest rates had been 1% higher or lower and all other variables had been held constant, our profit before tax for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 would have been decreased or (as the case may be) increased by about RMB1.0 million, RMB3.2 million, RMB3.5 million and RMB1.8 million, respectively.

Our financial performance may be adversely affected as a result of certain non-compliance and irregularities of our Group during the Track Record Period and as of the Latest Practical Date

We have failed to comply with laws and regulations of the PRC during the Track Record Period and subsisting as of the Latest Practicable Date in relation to (a) our failure to obtain relevant construction permits and building ownership certificates for certain of our properties and to complete the relevant construction works completion inspection and acceptance procedures before the use of some of our properties; (b) our failure to file and register the tenancy agreements of certain production facilities and offices of our Group with the relevant authorities within the prescribed time; and (c) the grants of loans by our Group to certain related parties and other members of our Group, in violation of the restrictions against inter-enterprises lending under the General Principles of Loans of the PRC (貸款通則). Please refer to the section headed “Business — Legal compliance and legal proceedings” in this prospectus.

As advised by our PRC legal advisers, in respect of our failure to obtain the relevant construction permits and building ownership certificates for some of our properties and our failure to file and register our tenancy agreements, we may be subject to fine and may need to incur additional costs to rectify these non-compliances or irregularities.

There is no assurance that we will be able to rectify these non-compliances or irregularities without being imposed of any fine or incurring any additional costs and expenses. If we are ordered by the relevant government authorities to suspend our operations at the relevant production plants, and/or we fail to effectively mitigate any material adverse effect arising from such suspension of operations or demolitions of production plants, our business operations, financial positions and profitability may be materially and adversely affected.

Legal defect in certain properties in the PRC could adversely affect our business operations and financial position

We failed to obtain certain construction permits and/or building ownership certificates, and failed to file the relevant construction works completion acceptance in respect of some of our operational facilities in the PRC, details of which are set out in the section headed “Business — Legal compliance and legal proceedings” in this prospectus. These properties include a total of 15

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buildings situated in Ningbo, Shanghai, Chengdu and Changchun, the PRC, comprising, among others, workshops, composite factories, warehouses, offices and other ancillary buildings, with the aggregate gross floor areas of about 23,470.7 sq.m. In addition, the tenancy agreements in respect of our leased property at No. 25 Hangdu Road Hangtuo Town, Pudong New District, Shanghai, The PRC, being the production facilities of Shanghai Xiangmao for production, warehouse and office purposes, were entered into and registered after and subject to the pre-existing, registered charges created over the relevant buildings. The products manufactured by the production facilities of Shanghai Xiangmao contributed nil%, nil%, about 0.5% and 0.5% of our total revenue during the Track Record Period.

As advised by our PRC legal advisers, under the applicable PRC laws, we may be subject to fine as a result of the lack of the construction project planning permits, construction works commencement permits and/or the use of the properties before filing the relevant construction works completion acceptance. Our Directors estimate that the maximum potential penalty in respect of our failure to obtain the relevant construction permits and/or our failure to file the relevant construction works completion acceptance before the use of such facilities will be about RMB2.0 million. The relevant authority may also order demolition of buildings without construction works planning permits if the impact of the non-compliance on the implementation of the planning cannot be rectified by other rectification measures. In addition, as advised by our PRC legal advisers, we may not be able to transfer, lease, mortgage and/or otherwise deal with the land and the buildings erected thereon in relation to the properties without the building ownership certificates. In respect of Shanghai Xiangmao's leased property, our PRC legal advisers advised that the tenancy agreements shall not be enforceable against the chargees of the leased property whose rights under the mortgage have been registered and, in the event that the chargees exercise their rights under the charges and dispose of the leased property, the tenancy agreements may not be binding on the new owner of the leased property and Shanghai Xiangmao may need to reallocate its operations thereat to elsewhere.

If, for the above reasons, we are ordered by the relevant government authority to demolish any of our operational facilities and, in respect of Shanghai Xiangmao's leased property, if our lease over the leased property is forfeited and we are forced to reallocate our operations thereat, we may not be able to reallocate our operations thereat to other suitable alternative premises, and any such reallocation may also result in disruption in our business operations and thereby result in loss of earnings. We may also need to incur additional costs for the reallocation of our operations and/or the demolition of the relevant buildings. There is also no assurance that we will be able to effectively mitigate the possible adverse effects that may be caused by the loss of any such buildings, disruption of our business operations thereat, or by any dispute or claim regarding such buildings.

Each of our Controlling Shareholders has agreed to indemnify us against all claims, demands, cost, expenses, fines, actions and liabilities suffered or incurred by us due to our failure to obtain the necessary permits and building ownership certificates in respect of these properties. Please refer to the section headed "H. Other information — 1. Deed of Indemnity" in Appendix VI to this prospectus for further information about the indemnity.

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Some of our production facilities are or may be subject to relocation due to resumption of land

Due to the change of usage of land from industrial use to commercial use by the government, the land use rights of the land situated at the Commercial/Residential Zone of Wei Xing Road, Changchun Jingyue Development Zone, Changchun City, Jilin Province, PRC (“Wei Xing Facility”) granted to Changchun Huateng were resumed by Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre pursuant to an agreement entered into by Changchun Huateng and Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre dated 10 September 2010 and Changchun Huateng has received RMB67 million as compensation. As a result of the resumption, Changchun Huateng was required to move out from the Wei Xing Facility within three months from the date of the agreement. As supplemented by another agreement dated 13 May 2011, Changchun Huateng was not required to move out until the completion of the relocation of its existing factory. As at the Latest Practicable Date, Changchun Huateng had already moved out from the Wei Xing Facility and we expect the redelivery of the Wei Xing Facility by Changchun Huateng will be completed within the first quarter of 2012. The products manufactured by the Wei Xing Facility contributed about 4.5%, 3.2%, 4.3% and 7.7% of our total revenue during each of the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Our Group has commenced the establishment of a new manufacturing facility in Changchun to replace the Wei Xing Facility and we expect the construction of the new facility to be completed by the end of 2011. In the event that there is any disruption to the relocation, our business operations may be adversely affected.

Our production facilities in Guangzhou are located in a district planned for metro construction. It may be possible that the land on which the production facilities were built would be resumed by the government for the construction of metro. In such event, we will need to relocate our production facilities in Guangzhou and in such circumstances, we would have to incur additional relocation costs and our operations there could be temporarily disrupted. The products manufactured by our production facilities in Guangzhou contributed about 8.2%, 5.7%, 5.4% and 3.5% of our total revenue during each of the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively.

Each of our Controlling Shareholders has agreed to indemnify us against any loss and damage we may suffer for relocation due to requisition of land. Please refer to the section headed “H. Other information — 1. Deed of Indemnity” in Appendix VI to this prospectus for further information about the indemnity.

Prolonged disruptions to the global credit markets may adversely affect our liquidity, results of operations, financial condition and prospects

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. Accordingly, any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one particular market) could affect the cost or availability of funding for entities within any of these markets, including ourselves. Since late 2008, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads, lack of price transparency in credit markets and a reduction in available financing. Although the global financial markets have gradually recovered from the financial crisis in late 2008, there remains some

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uncertainties in the global credit markets, particularly given the recent financial crisis in the United States, Greece and in Portugal. It is difficult to predict the extent to which such uncertainties in the global credit market could affect us. Prolonged disruptions or uncertainties to the global credit markets could limit our ability to raise capital in the future, which could materially and adversely affect our liquidity, results of operations, financial condition and prospects.

Default by our counterparties that we do business with could adversely affect our financial positions and results of operations

We do business and enter into contracts with different counterparties, including our raw material suppliers, our joint venture partners and our customers. In the event any of our counterparties default, we may lose revenue and profits and incur additional operating expenses. During the Track Record Period, we have not experienced any default by counterparties which had any material adverse effect on our operations and financial condition. However, we cannot assure you that all our counterparties will not default against us in the future. There is limited financial or public information on our counterparties and as such, we are exposed to counterparty risks to the extent that our counterparties fail to fulfil their obligations under the contracts.

RISKS RELATING TO OUR INDUSTRY

Volatility in fuel and oil prices may adversely affect demand for automobiles, production cost and profitability

Demand for automobiles, thus demand in automobile body parts, in China and the rest of the world is cyclical in nature and is affected by various factors, including global and regional economic and market conditions, sales and financing incentives, cost of raw materials, parts and components, cost of fuel, environmental concerns and governmental regulations, including tariffs, import regulation and other taxes. Over the years, the cost of production, including raw materials and oil, increases while the selling price of automobile decreases. Fluctuations in demand and cost of production may lead to lower vehicle sales and increased inventory, which may result in further downward price pressure which will inevitably adversely affect our financial condition and results of operations.

Over the years, we have increased our production capacities in anticipation of a continuous increase in demand for automobiles in the PRC. Any slowdown in demand for automobiles in the PRC may lead to an inventory surplus and could result in a significant under-utilisation of our production capacity, which would in turn, result in diminished returns to the substantial resources invested in the expansion of our production capacities. If these events occur, our results of operations and financial condition could be materially and adversely affected.

We may suffer from intense competition in and risks related to the automobile industry in China

Increasing consumer purchasing power in China has resulted in significant growth in the demand for automobiles. Such growth in the automobile market has encouraged, and is likely to continue to encourage, foreign competitors, sino-foreign equity joint ventures established in the PRC and new domestic automobile body parts manufacturers to further expand their production capacity. Our

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current market share and profit margin may be diluted or reduced if there are further price reductions caused by increased competition. If we cannot maintain our competitive edge, including our research and development capabilities and good relationship with our customers, over our competitors, we may lose our market share. The pricing, recognition and loyalty to our products and the financial and technical resources allocated to our products may be materially and adversely affected if domestic or foreign competing automobile products gain a competitive advantage.

As a supplier to some of the major automakers in China, our performance and profitability may be adversely affected if our customers, when faced with operational difficulties and decreasing profit margins, seek to demand more favourable trading terms from us in relation to price and credit period. Our performance and profitability will also be adversely affected if any of our customers faces cash flow problems due to such operational difficulties.

Our industry operates in a global scale which requires international reach of operation. We aim at expanding our sales and business at a global level. There is no guarantee that we can expand our reach at an international level to compete with well-established overseas automobile body parts manufacturers in the future.

Production and profitability of automakers in the PRC may be adversely affected by changes in the regulatory market

Our business is subject to various laws, rules and regulations in the PRC imposed at both the national and regional levels that regulate or affect the PRC automobile body part manufacturing.

Our operations are sensitive to changes in the PRC government's policies relating to all aspects of the automobile industry. The imposition of additional stringent requirements for product design may result in substantial increases in the cost to our automobile body parts and auto parts designs. In addition, our failure to comply with such laws and regulations may result in fines, penalties or lawsuits, which may have a material adverse effect on our financial condition and results of operations. Please refer to the section headed "The laws and regulations relating to the industry" of this prospectus for further details.

The business of our Group may be affected by outbreaks and recurrence of epidemics, natural disasters, acts of war, terrorist acts, political unrest and other events which are beyond our control

Certain countries have experienced epidemics such as the severe acute respiratory syndrome, avian influenza and natural disasters such as fire, floods, droughts, blizzards and earthquakes, which have had an adverse impact on the economies of the affected countries.

Where there is an outbreak or a recurrence of epidemics or natural disaster in any country, acts of war, terrorist acts, political unrest and other events which are beyond our control, this could result in disruption to our business, which could in turn adversely affect our operations and financial results.

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RISKS RELATING TO CHINA

Political and economic policies of the Chinese government could affect our business

All of our business, assets and operations are located in China. A substantial part of our revenue is generated from products produced and sold in the PRC and we expect this situation to continue in the near future. The demand for our products correlates with the pace of economic growth in the PRC. As a result, our results of operations and prospects are and will continue to be largely subject to political, economic and legal developments in the PRC.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, allocation of resources, capital reinvestment, levels of development, growth rate, and control of foreign exchange. Although the PRC has been one of the world's fastest growing economies, as measured by GDP, in recent years, such growth may not be sustainable in the future. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources but some of these measures, such as the introduction of measures to control inflation, deflation, or reduce growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversions and remittances abroad, may lead to changes in market conditions and could materially and adversely affect our business, financial condition and results of operations. We cannot guarantee the government policies which favour our business can sustain in the future.

In the event that the PRC economy experiences significant adverse changes and/or the government policies no longer favour our business, demand for our products and our ability to maintain our operations may suffer which will consequently have a material adverse effect on our financial condition, results of operations and our future profitability.

There are uncertainties regarding interpretation and enforcement of Chinese laws and regulations

Although the PRC government has developed a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, China has not developed a fully integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions.

Furthermore, many laws and regulations in China are promulgated in broad principles and the Central People's Government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the Chinese legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect investors. There can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon our business, operations or profitability.

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It may be difficult to effect service of process upon us, the Directors who reside in China or to enforce against us and/or our Directors in China any judgments obtained from non-Chinese courts

All of our Directors reside within China and our major operating subsidiaries are all established in China. Consequently, all of the assets and substantially all of the assets of the aforesaid persons are located within China. Therefore, it may be difficult for investors to effect service of process upon those members of our Group established in China or those Directors residing in China or to enforce against them in China any judgments obtained from non-Chinese courts.

The legal framework that applies to us is substantially different from the Companies Ordinance or corporate law in the Cayman Islands and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework that applies to us are also relatively undeveloped and untested.

Although we will be subject to the Listing Rules and the Takeovers Code upon Listing, the holders of the Offer Shares will not be able to bring actions on the basis of any violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. The Takeovers Code does not have the force of law and only provides standards of acceptable commercial conduct for takeover and merger transactions and share repurchases in Hong Kong.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed an 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. Under this arrangement, where any designated People's Court of China or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of jurisdiction agreement in writing by the parties, any party concerned may apply to the relevant People's Court of China or Hong Kong court for recognition and enforcement of the judgment. This arrangement came into effect on 1 August 2008. However, even if the arrangement has been implemented, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Accordingly, we are unable to predict the outcome of any such action. China is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with foreign countries such as the United States, the United Kingdom and Japan, and therefore enforcement in the PRC of judgments of a court in these jurisdictions may be difficult or impossible.

Currency exchange restrictions may limit our ability to receive and use our revenues effectively

Our revenues and expenses are mainly denominated and settled in RMB. During each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, about 96.6%, 97.9%, 94.6% and 95.6% of our turnover was denominated in RMB, respectively. RMB is not yet a freely convertible currency in the international currency market. We may need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, including payment of dividends declared, if any.

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Under the PRC's existing foreign exchange regulations, we are able to pay dividends in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements and payment of necessary withholding taxes. However, the PRC government could take further measures in the future to restrict access to foreign currencies for current account transactions.

Our foreign exchange transactions under capital accounts continue to be subject to significant foreign exchange controls and the approval of, or registration with, PRC governmental authorities. In particular, loans from foreign lenders must be registered with SAFE, and capital contributions from joint venture partners financing our joint venture companies must be approved by certain government authorities, including the Ministry of Commerce or its local counterparts. These limitations could affect our ability to obtain foreign exchange through debt or equity financing.

Payment of dividends is subject to restrictions under PRC law

Under PRC law, dividends may only be paid out of distributable profits. Distributable profits is defined as our net profits as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient, if any, distributable profits to enable us to make dividend distributions to our shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. However, any distributable profits not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries and jointly controlled entities may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice-versa. Accordingly, we may not receive sufficient distributions from our subsidiaries and jointly controlled entities which could have a negative impact on our cash flow and ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

Foreign individual holders of the Offer Shares may become subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of the Offer Shares

Foreign individuals who are not PRC residents are currently exempted from PRC individual income tax on dividends paid to them by us and gains realised by such individuals upon the sale or other disposition of the Offer Shares. If the PRC government withdraws the exemption in the future, such foreign individuals may be required to pay PRC individual income tax or we may be required to withhold such tax from dividend payments, subject to applicable tax treaties between the PRC and the jurisdictions in which the foreign individuals reside that reduce or provide an exemption for the relevant tax obligations.

For foreign enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises, under the EIT Law, which became effective from 1 January 2008, dividends paid by us and the gains realised by such foreign enterprises upon the sale or other disposition of the Offer Shares

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are ordinarily subject to PRC enterprise income tax at a rate of 20%. Pursuant to the implementation rules to the EIT Law, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the relevant foreign enterprise's residence.

The PRC tax laws, rules and regulations may also change from time to time. In the event that the tax rates stipulated in the new tax law and the related implementation rules are amended, the value of your investment in the Offer Shares may be affected.

Adverse changes in foreign relations between the PRC and the jurisdictions where our joint venture partners are incorporated could have a material adverse effect on our results of operations

Our business may be affected by the foreign relations between the PRC and the jurisdictions in which the joint venture partners of our jointly controlled entities are incorporated. Customers' demand for our products can be affected by their sentiment towards jurisdictions in which the joint venture partners of our jointly controlled entities are incorporated. If there are adverse changes in foreign relations between the PRC and the jurisdictions where the joint venture partners of our jointly controlled entities are incorporated, our financial condition and results of operations can be adversely affected.

Effect of the PRC regulations relating to the establishment of offshore special purpose companies by the PRC residents

On 21 October 2005, the SAFE issued a public circular which became effective on 1 November 2005. The circular requires the PRC residents to register with a local SAFE branch before establishing or controlling any company, referred to in the circular as an "offshore special purpose vehicle", outside of the PRC for the purpose of capital financing and to register again after completing an investment in or acquisition of any operating subsidiaries in the PRC (i.e. round-trip investment). Also, any change of shareholding or any other material capital alternation (such as any equity financing outside the PRC, increase or decrease of capital, any transfer of shares, merger, division, equity investment or creation of any security interest for the others) in such offshore special purpose vehicle shall be filed within 30 days starting from the date of shareholding transfer or capital alteration. Mr. Zhou, one of our Controlling Shareholders, falls within the definition of the PRC residents and is thus required to comply with the relevant requirement in all material respects in connection with our Group's investments and financing activities. As at the Latest Practicable Date, Mr. Zhou has registered with a local SAFE branch as required under the SAFE circular. However, Mr. Zhou or any future beneficial owners of our Group who fall within the definition of the PRC residents are required to file a modification to the foreign exchange registration for overseas investment in the event of any material capital changes, including, without limitation, (i) a subsequent equity financing for our Group outside of the PRC; (ii) a capital change in our Group; and (iii) any share transfer or share swap involving our Group in accordance with the aforementioned circular. Payment of dividends, profits and other payments to our Company will not be permitted unless the aforesaid

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modification has been filed. If such beneficial owners or future beneficial owners fail to comply with the relevant requirements, such failure may subject such beneficial owners to fines and legal sanctions and may also result in restrictions on Ningbo Huazhong Plastics in distributing profits and dividends to its holding company, Huayou Holdings.

We may be treated as a resident enterprise for PRC tax purposes under the EIT Law and we may therefore be subject to PRC income tax on our global income.

Under the EIT Law and its implementation rules, enterprises established under the laws of foreign countries or regions whose “de facto management bodies” are located within the PRC territory are considered resident enterprises and will generally be subject to the uniform enterprise income tax at the rate of 25.0% on its global income, which excludes dividends received directly from another PRC resident enterprise. “De facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued the Notice on Determination of Tax Resident Enterprises of Chinese-controlled Offshore Incorporated Enterprises in accordance with Their De Facto Management Bodies, or Circular 82, that set forth certain specific criteria for determining whether the “de facto management bodies” are located in the PRC for an offshore incorporated enterprise controlled by PRC enterprises. However, the relevant PRC laws and regulations remain unclear as to how the PRC tax authorities will treat an overseas enterprise, with all of its management team members residing in the PRC, invested or controlled by another overseas enterprise as in our case. If we are treated as a resident enterprise for PRC tax purposes, we would be subject to PRC enterprise income tax at the rate of 25.0% on our global income, which could adversely affected our net income and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Shares

Prior to the Global Offering, there was no public market for the Shares. The initial offer price range to the public for the Shares was the result of negotiations between our Company (for ourselves and on behalf of the Selling Shareholder) and the Lead Manager, and the Offer Price may differ significantly from the market price for the Shares following the Global Offering. Our Company has applied to the Stock Exchange for permission to list and deal in the Shares. However, a listing on the Stock Exchange does not guarantee that an active trading market for the Shares will develop following the Global Offering or in the future.

The liquidity and market prices of the Shares following the Global Offering may be volatile

The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for automobiles could cause the market price of the Shares to change substantially. We cannot guarantee that these developments, which may result in large and sudden changes in the volume and price at which the Shares will trade, will not occur in the future.

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In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in China and shares of other automobile body parts manufacturers have experienced substantial price volatility in the past. It is possible that the Shares will also be subject to changes in price that may not be directly related to or otherwise in connection with our financial or business performance.

Future sales of our Offer Shares or other securities relating to our Offer Shares could impact the prevailing market price of the Offer Shares and our ability to raise capital in the future, and may result in dilution of your shareholdings

The market price of the Offer Shares could decline as a result of future sales of substantial amounts of the Shares or other securities relating to the Shares in the public market or the issuance of new Shares or other securities relating to the Shares, or the perception that such sales or issuances may occur. Moreover, future sales, or perceived sales, of substantial amounts of the Shares or other securities relating to the Shares could adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. Shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings.

Gain on the sales of our Shares and dividends on our Shares may be subject to PRC income taxes

Under the previous PRC tax laws and regulations, dividends paid by us to our overseas investors were not subject to PRC withholding tax or income tax. If we are deemed to be a PRC “resident enterprise” under the “de facto management body” test of the EIT Law and its implementation rules, dividends on our Shares may be regarded as income from “sources within China,” and therefore, become subject to a 10% withholding tax. However, it is unclear whether the dividends we pay would be treated as income derived from sources within China and be subject to the PRC tax. If we are required under the EIT Law and its implementation rules to withhold PRC income tax on any dividends we pay to our foreign shareholders, the value of your investment in our Shares may be materially and adversely affected.

Shareholders will incur immediate and substantial dilution and may experience further dilution if we issue additional Offer Shares in the future

In order to expand our business, we may consider offering and issuing additional Shares or equity-linked securities in the future. The Shareholders may experience further dilution in the net tangible book value per Share which they hold if we issue additional Shares or equity-linked securities in the future. We currently do not have any definitive plan for any offering of additional Shares or equity-linked securities, particularly in relation to the timing or size of such offering, and such offering may or may not happen.

We have adopted the Pre-IPO Share Option Scheme under which options to subscribe in aggregate for 18 million Shares at 80% of the final Offer Price were outstanding as of the date of this prospectus, representing about 2.2% of the issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue and as enlarged by issue of Shares pursuant to the exercise of all options granted under the Pre-IPO Share Option Scheme assuming that all such options are exercised in full, but without taking into account any Shares which may fall to

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be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme. Details of the Pre-IPO Share Option Scheme and the options granted thereunder are set out in the section headed “F. Pre-IPO Share Option Scheme” in Appendix VI to this prospectus. We have also adopted the Share Option Scheme, under which options may be granted after the listing of the Shares on the Stock Exchange.

Issuance of Shares pursuant to the exercise of the options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme will result in an increase in the number of Shares in issue after the issuance and thereby will cause dilution to the percentage of ownership of the existing Shareholders, the earnings per Share and net asset value per Share. Under the IFRS, the fair value of services received as determined by reference to the fair value of share options granted to employees of our Group is recognised as an employee costs with a corresponding increase in equity. The fair value is measured at grant date. Based on valuation by an independent professional valuer, the fair value of the options granted under the Pre-IPO Share Option Scheme as of 23 December 2011, being the date of grant of these options, was about RMB10.3 million. Where the employees have to meet vesting conditions before becoming unconditionally entitled to these options, the total estimated fair value of the options is spread over the vesting period. We estimate additional employee costs in connection with these options to be not more than RMB200,000 in 2011.

Subject to the accounting practices then prevailing and applicable to us at the time of grants, any future grants of share options to our employees under the Share Option Scheme or may also be recognised as our staff costs, and may thereby have adverse effect on our profitability in the financial years during the applicable vesting period of these share options.

Our Controlling Shareholder(s) have substantial control over our Company and their interests may not be aligned with the interests of our other Shareholders

Immediately following the Global Offering, our Controlling Shareholders will collectively beneficially own approximately 75% of our Shares, or approximately 72.3% if the Over-allotment Option is exercised in full. As a result, by virtue of their controlling ownership of our share capital, our Controlling Shareholders will be able to exert significant influence over our business and otherwise on matters of significance to us and other Shareholders by voting at the general meetings of Shareholders, such as election of Directors, selection of senior management, amount and timing of dividend payments and other distributions, acquisition of or merger with another entity, overall strategic and investment decisions, issuance of securities and adjustment to our capital structure, and amendments to our Articles.

The interests of our Controlling Shareholders may differ from the interests of our other Shareholders and they are free to exercise their votes according to their interests. Our Controlling Shareholders will have the power to prevent or cause a change in control of our Company. Without the consent of our Controlling Shareholders, we may be prevented from entering into transactions that could be beneficial to us and our other Shareholders.

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RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

The industry data and forecasts in this prospectus obtained from various government publications have not been independently verified

This prospectus includes industry data and forecasts that we obtained from various government publications. We cannot assure you of the accuracy or completeness of information obtained from such government publications. We have not independently verified any of the data from such sources, nor have we ascertained the underlying economic assumptions relied upon in those such sources. While we are not aware of any misstatements regarding our industry data presented in this prospectus, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed elsewhere in the section headed “Risk factors” in this prospectus.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since our principal business operations and production facilities are located in the PRC, members of our senior management are and will therefore be expected to continue to be based in China. At present, Mr. Lam King Hang, our company secretary and chief financial officer, is ordinarily resident in Hong Kong but none of our executive Directors are ordinarily resident in Hong Kong or based in Hong Kong. We have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) our Company has appointed Mr. Zhou Minfeng and Mr. Lam King Hang as the authorised representatives of our Company pursuant to Rule 3.05 of the Listing Rules, who will act as the principal channel of communication of our Company with the Stock Exchange. As Mr. Lam King Hang is ordinarily resident of Hong Kong with a Hong Kong address, he can make himself available to meet with the relevant members of the Stock Exchange in Hong Kong when required;
- (b) Mr. Zhou Minfeng and Mr. Lam King Hang, the authorised representatives of our Company, have means for contacting all of our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters;
- (c) each of our Directors, being non-resident of Hong Kong, possesses or will apply for valid travel document to travel to Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time when required;
- (d) our Company has appointed Guotai Junan Capital as the compliance adviser of our Company pursuant to Rule 3A.19 of the Listing Rules, who will act as an additional channel of communication with the Stock Exchange from the Listing Date to the date when our Company distributes our annual reports to our Shareholders for the first full financial year immediately after Listing; and
- (e) each of our Directors and the authorised representatives of our Company has provided his or her mobile phone number, office phone number, e-mail address and fax number for the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the SFO, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to our Group. The 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 facts the omission of which would make any statement in this prospectus misleading.

The Global Offering is made solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Selling Shareholder, the Sole Sponsor, the Lead Manager, the Underwriters, any of their respective directors or affiliates of any of them or any other persons or parties involved in the Global Offering.

UNDERWRITING

This prospectus is published in connection with the Public Offer, which forms part of the Global Offering, which is sponsored by the Sole Sponsor and managed by the Lead Manager. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Public Offer Underwriting Agreement, including the Lead Manager (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) agreeing to the Offer Price. Information relating to the underwriting arrangements is set out in the section headed "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 the Lead Manager (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) on or around Friday, 6 January 2012, or such later date as may be agreed between the Lead Manager (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder), but in any event not later than 6:00 p.m. (Hong Kong time) on Monday, 9 January 2012.

If the Lead Manager (on behalf of the Underwriters) and us (for ourselves and on behalf of the Selling Shareholder) are unable to reach an agreement on the Offer Price on or before the Price Determination Date, the Global Offering will not become unconditional and will lapse.

PROCEDURES FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The application procedures for the Public Offer Shares are set out in the section headed "How to apply for the Public Offer Shares" in this prospectus and on the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SELLING RESTRICTIONS

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

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. 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 sales 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 therefrom. In particular, the Offer Shares have not been and will not be publicly offered or sold, directly or indirectly, in the PRC or the United States.

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, Shares to be issued pursuant to the Global Offering, and any Shares to be issued upon the exercise of the Over-allotment Option, and Shares, up to 10% of the Shares in issue as at the Listing Date, to be issued pursuant to the exercise of any options which have been or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, on the Main Board.

Save as disclosed herein, no part of the Shares or loan capital of our Company is listed or dealt in on the Main Board or on any other stock exchange and at present, no such listing or permission to deal is being or is proposed to be sought on the Main Board or any other stock exchange in the near future.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares to be issued pursuant to the Global Offering will be registered on our Company's register of members in Hong Kong to be maintained by Tricor Investor Services Limited. The principal register of members will be maintained in the Cayman Islands. Only Shares registered on the register of members of our Company in Hong Kong may be traded on the Stock Exchange.

Dealings in Shares registered on the register of members in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is 0.2% of the consideration or, if higher, the market value of the Shares being sold or transferred.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares, you should consult an expert.

We, the Selling Shareholder, the Directors, the Sole Sponsor, the Lead Manager, the Underwriters, any of their respective directors, agents or advisers or any other persons or parties involved in the Global Offering do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, purchase, holding, disposing of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval for listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance 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 Listing Date 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 days. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

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 Shares to be admitted into CCASS.

OVER-ALLOTMENT AND STABILISATION

Details of the arrangements relating to stabilisation and Over-allotment Option are set out in the section headed “Structure and conditions of the Global Offering” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and conditions of the Global Offering” in this prospectus.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in United States dollars and RMB have been translated, for illustration purposes only, into Hong Kong dollars in this prospectus at the following rates:

US\$1 : HK\$7.8
RMB0.82 : HK\$1

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No representation is made that any amounts in US\$, RMB or HK\$ can be or could have been at the relevant dates converted at the above rates or any other rates, or at all.

LANGUAGE

The English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Certain amounts and percentage figures included in this prospectus are subject to rounding adjustments. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Main Board are expected to commence at 9:00 a.m. on Thursday, 12 January 2012. Shares will be traded in board lots of 2,000 each.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Zhou Minfeng (周敏峰)	No.82 Zhenan Road Xizhou Town Xiangshan County Zhejiang Province China	Chinese
Chang Jingzhou (常景洲)	Room 205 Expert Building No. 11 Jingang Road Xizhou Town Xiangshan County Zhejiang Province China	Chinese
<i>Non-executive Directors</i>		
Lai Cairong (賴彩絨)	No.82 Zhenan Road Xizhou Town Xiangshan County Zhejiang Province China	Chinese
Wang Yuming (王玉明)	Room 15, Unit 2 Dongfeng Avenue 90th Building Green Garden District Changchun City China	Chinese
<i>Independent non-executive Directors</i>		
Su Xijia (蘇錫嘉)	No. 1199 House 1, Laifang Road Songjiang District Shanghai China	Canadian
Yu Shuli (於樹立)	No. A10, 3219 Lane Jinqiao Road Pudong District Shanghai China	Chinese
Tian Yushi (田雨時)	Room 1, 1st Floor Building No. 449 Block No. 23 First District China FAW Group Corporation Power Branch Company Jilin Province China	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Sole Global Coordinator, Bookrunner and Lead Manager	Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Public Offer Underwriters	Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong Ample Orient Capital Limited Unit A, 14/F., Two Chinachem Plaza 135 Des Voeux Road Central Hong Kong Ever-Long Securities Company Limited 18th Floor, Dah Sing Life Building 99-105 Des Voeux Road Central Hong Kong South China Securities Limited 26/F., Tower 1, Lippo Centre 89 Queensway Admiralty Hong Kong
Legal advisers to our Company	<i>As to Hong Kong law:</i> Orrick, Herrington & Sutcliffe 43rd Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>As to PRC law:</i> Jingtian & Gongcheng Suite 1202-1204 K. Wah Centre Xu Hui District Shanghai China</p>
	<p><i>As to Cayman Islands law:</i> Conyers Dill & Pearman Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands</p>
Legal advisers to the Sole Sponsor	<p><i>As to Hong Kong law:</i> Chiu & Partners 40th Floor, Jardine House 1 Connaught Place Central Hong Kong</p>
	<p><i>As to PRC law:</i> Zhong Lun Law Firm 36-37/F SK Tower 6A Jianguomenwai Avenue Beijing 100022 PRC</p>
Auditors and reporting accountants	<p>Ernst & Young 22nd Floor CITIC Tower 1 Tim Mei Avenue Central Hong Kong</p>
Property valuer	<p>Cushman & Wakefield Valuation Advisory Services (HK) Limited 9th Floor, St George's Building 2 Ice House Street Central Hong Kong</p>
Receiving banker	<p>Bank of China (Hong Kong) Limited</p>

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarter in the PRC	No. 104 Zhenan Road Xizhou Town Xiangshan County Zhejiang Province China
Principal place of business in Hong Kong	43rd Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Authorised representatives	Zhou Minfeng No. 82 Zhenan Road Xizhou Town Xiangshan County Zhejiang Province China Lam King Hang Unit 7, 17th Floor Block 45 Heng Fa Chuen 100 Shing Tai Road Chai Wan Hong Kong
Company secretary	Lam King Hang (<i>HKICPA, FCCA</i>)
Audit committee	Su Xijia (<i>Chairman</i>) Yu Shuli Tian Yushi
Remuneration committee	Yu Shuli (<i>Chairman</i>) Zhou Minfeng Tian Yushi
Nomination committee	Zhou Minfeng (<i>Chairman</i>) Yu Shuli Tian Yushi

CORPORATE INFORMATION

Compliance adviser	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Website address	www.cn-huazhong.com [#]
Principal share registrar and transfer office in the Cayman Islands	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong share registrar and transfer office	Tricor Investor Services Limited 26/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal bankers	Bank of China 258 Tianan Road Dancheng Town Xiangshan County Zhejiang Province China Agricultural Bank of China 218 Jingnan Main Street Xiangshan County Zhejiang Province China

[#] The content of the website does not form part of the prospectus.

INDUSTRY OVERVIEW

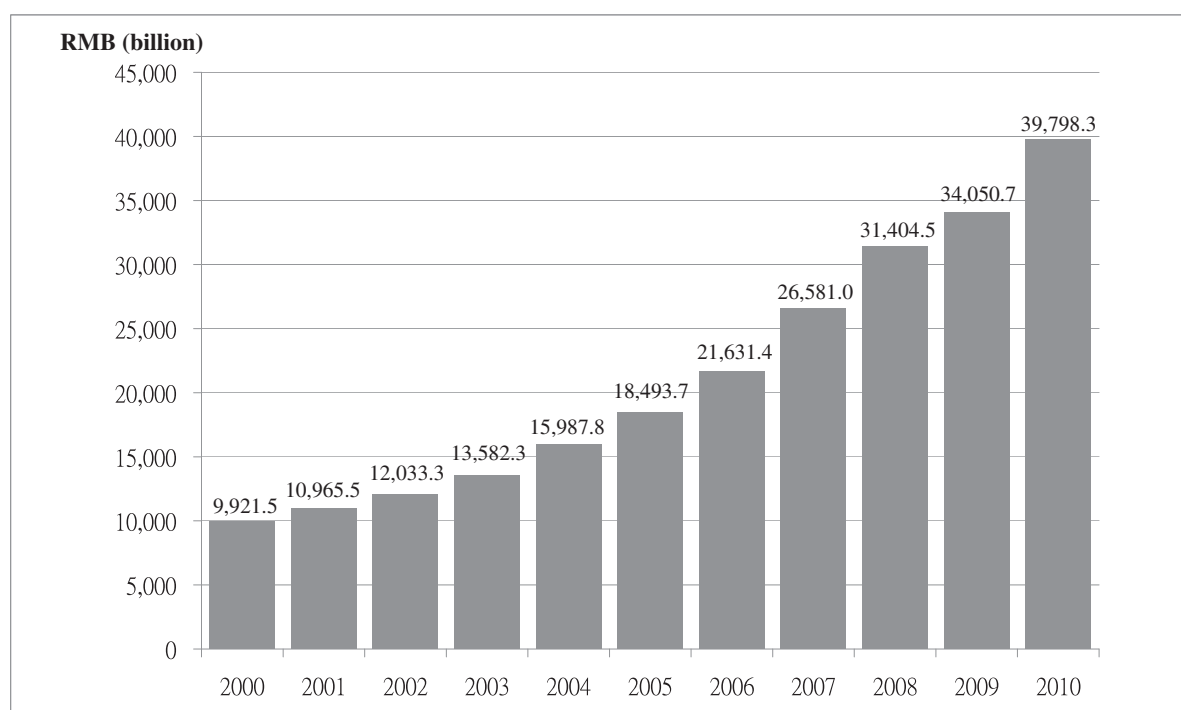
The information and statistics set out in this section have been extracted from the CATARC Report and other publicly available sources. Our Directors believe that the sources of statistical and graphical information contained in this section are appropriate sources for such information. Reasonable care has been exercised by us in extracting and reproducing such information. Our Directors have no reason to believe that such facts, statistics and data presented in this section are false or misleading or that any fact has been omitted that would render such facts, statistics and data false or misleading. No independent verification has been carried out on such information and statistics by us, the Selling Shareholder, the Sole Sponsor, the Lead Manager, the Underwriters, their respective affiliates, directors and advisers or any other parties involved in the Global Offering, and none of them makes any representation as to the accuracy or completeness of such information.

EXPANSION OF THE PRC ECONOMY

Growth of the PRC domestic market

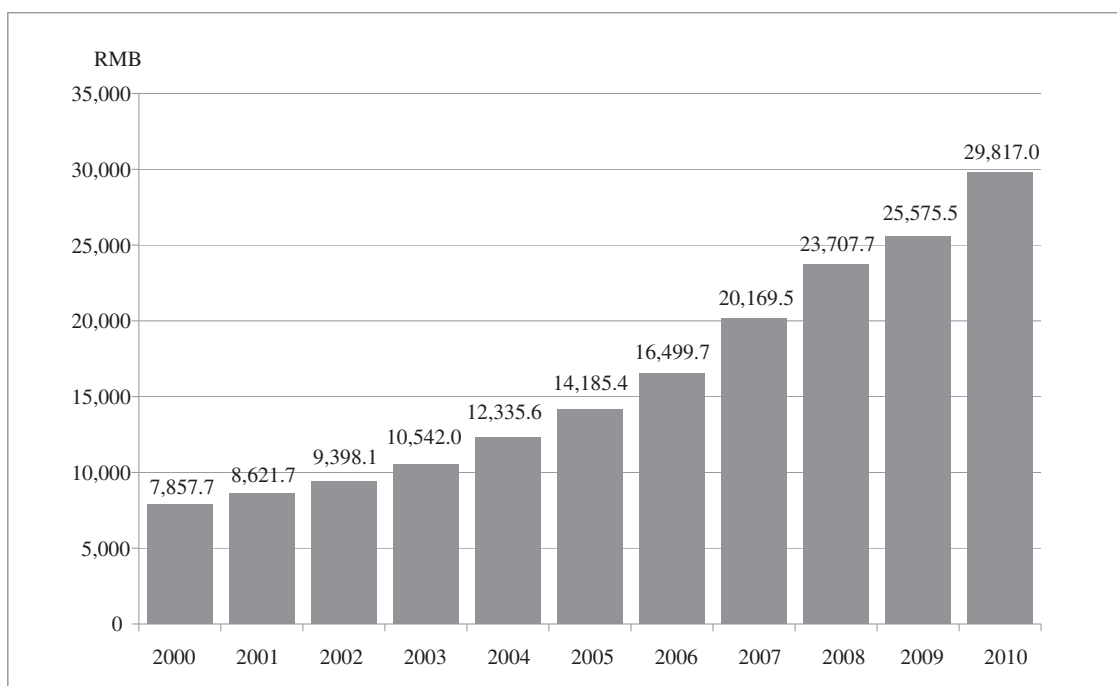
The PRC economy has experienced some structural changes over the past few years with a shift of focus from mainly light industry to both light and heavy industries. There is also a transformation from labour intensive industries to capital and technology intensive industries. From 2000 to 2010, PRC's nominal GDP grew from about RMB9.9 trillion in 2000 to about RMB39.8 trillion in 2010, representing a CAGR of about 14.9%. The PRC's GDP per capita also grew from about RMB7,858 in 2000 to about RMB29,817 in 2010, representing a CAGR of about 14.3%. The continuous growth of economy is largely contributed by the rapid expansion of investment in construction of infrastructure such as highway, expressway and railway with an annual growth rate of about 23.8% from 2000 to 2010. The charts below set out the historical nominal GDP and the GDP per capita in the PRC from 2000 to 2010, respectively.

Nominal GDP of the PRC, 2000-2010



INDUSTRY OVERVIEW

GDP per capita of the PRC, 2000-2010



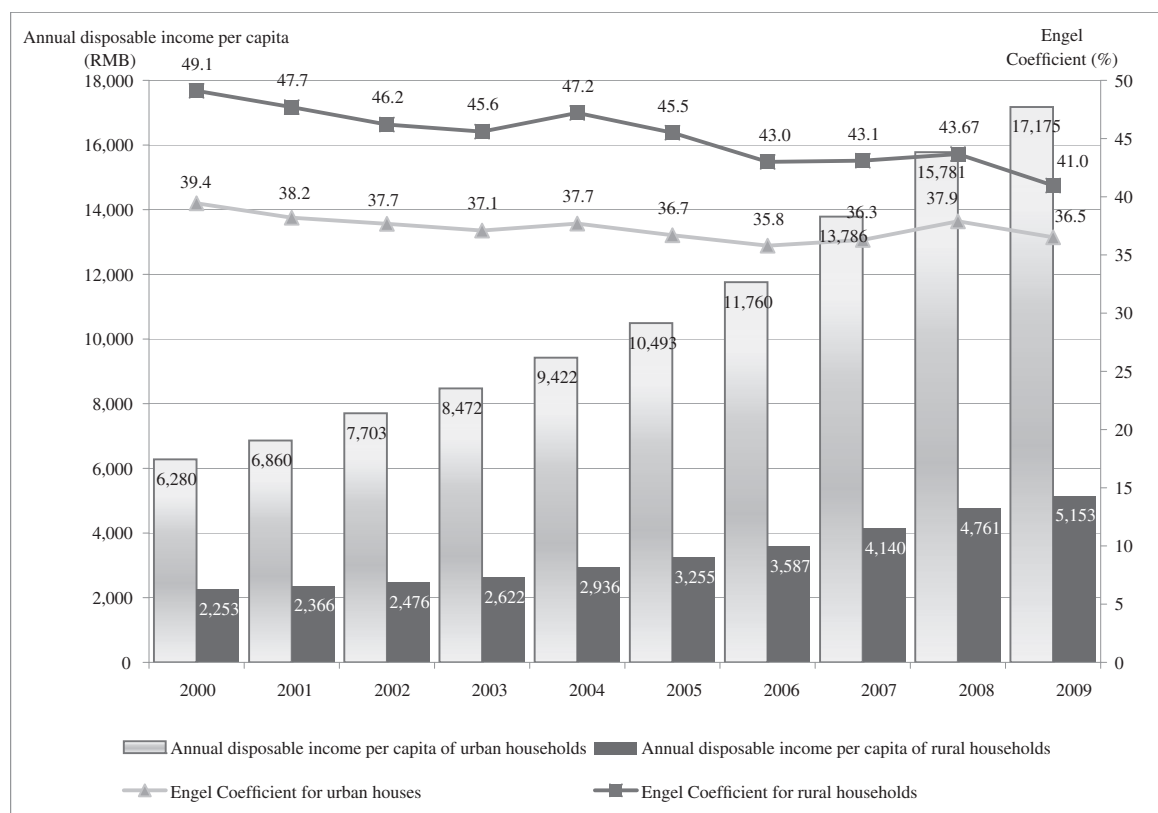
Source: National Bureau of Statistics of China

Increasing disposable income and consumption

The boom of China's economy has led to a corresponding improvement in disposable income in both urban and rural area. Between 2000 and 2009, the CAGR of rural resident per capita annual disposable income and urban resident per capita annual disposable income was about 9.6% and 11.8% respectively. As a result of the increase of per capita income, there was a significant increase in consumption. Between 2000 and 2009, the per capita consumption of rural population and urban population increased from RMB2,652 to RMB6,334 and from RMB4,998 to RMB12,265, respectively, representing CAGR of about 10.2% and 10.5% respectively. As a result, consumption of luxurious consumable items such as automobile has been driven up. The chart below sets out the historical annual disposable income per capita of urban residents and rural residents in the PRC and the related Engel Coefficient (being the percentage of food expenditure to the total expenditure, the lower percentage of which reflects a higher standard of living) from 2000 to 2009.

INDUSTRY OVERVIEW

Annual disposable income per capita of urban residents and rural households and the related Engel Coefficient, 2000-2009



Source: National Bureau of Statistics of China

Expansion of road and highway network

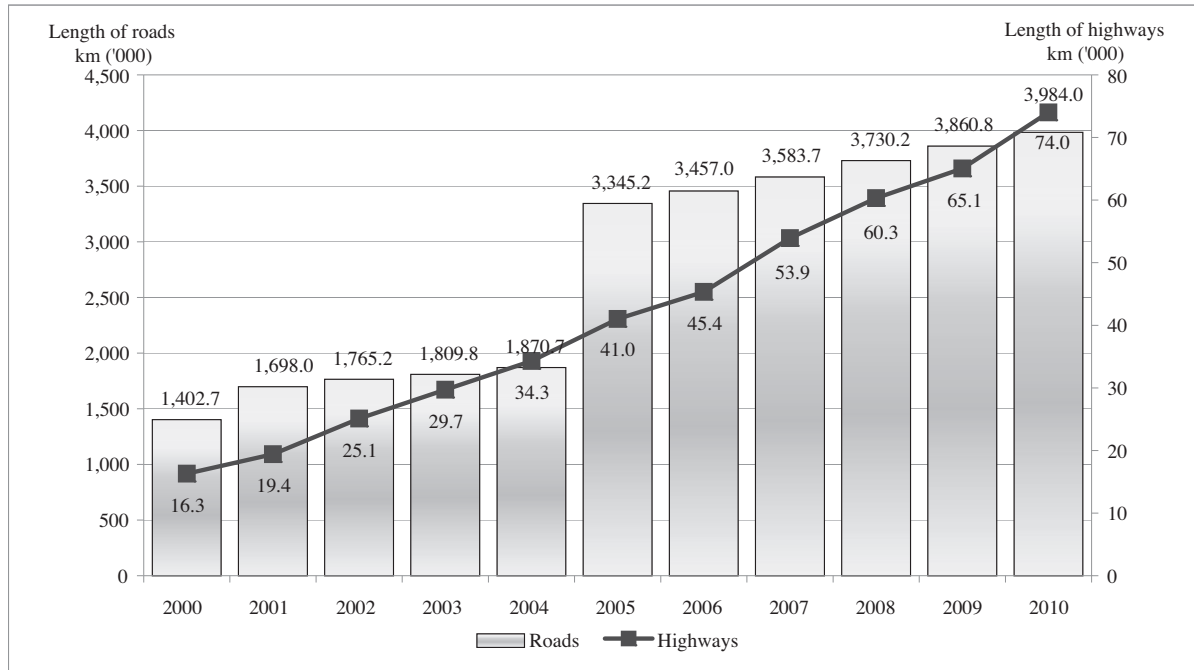
Road and highway network in China has been expanding rapidly because of the implementation of a series of plans and measures by the PRC government since 1988 with a focus on improving roads in rural areas. As at the end of 2010, China's road density was of about 41.8 kilometres per hundred square kilometre and aggregate length of roads reached about 4.0 million kilometres, of which about 3.5 million kilometres were roads in rural areas. The aggregate length of highways in the PRC also reached about 74,000 kilometres in 2010. As at the end of 2010, China ranked second in the world in the aggregate length of roads and highways.

According to the Twelfth Five-year Development Guideline for Transportation (交通運輸“十二五”發展規劃) of the PRC government, the PRC government will continue to enhance the constructions of roads and complete the establishment of nationwide road and highway network, with the target to increase the aggregate length of roads and highways in the PRC to about 4.5 million kilometres and about 100,800 kilometres, respectively, during 2011 to 2015, with the aggregate length of roads in rural areas reaching 3.9 million kilometres during the period. The PRC government's focus in developing roads and highway network, particularly in rural areas, facilitates the use of automobiles and is a key driver for the development of the automobile market in the PRC.

INDUSTRY OVERVIEW

The chart below sets out the length of roads and highways in the PRC from 2000 to 2010.

Length of roads and highways in the PRC, 2000-2010



Source: PRC statistics Yearbook and Statistic of the Development of Road and Water Transport Industry

GLOBAL AUTOMOBILE MARKET

Productivity of major automobile-manufacturing countries

In the 21st century, automobile-manufacturing industry has been developing stably. Major automobile-manufacturing countries include the United States, European countries and Japan. With the economic growth in different parts of the world, there are emerging markets for automobile industries in some countries such as China, Brazil, Russia and India. Starting from 2000, the productivity of the United States' automobile industry, with about 40% of the production for export, has been declining, while the annual output of Japan's automobile industry had remained stable at around 10 million automobiles per year with about 50% of the production for export during the same period until 2009, when the yearly production of automobiles in Japan and United States dropped significantly by more than 30% due to the global financial crisis. Nevertheless, with the rapid growth of the automobile industry in the PRC driven by the economic growth in the PRC, the annual production of automobiles in the PRC grew from about 2.1 million in 2000 to about 18.3 million in 2010, representing a CAGR of about 24.2%. China has become the largest automatable manufacturing

INDUSTRY OVERVIEW

country in the world since 2009, manufacturing about 22.3% and 23.5% of the global output of automobiles in 2009 and 2010, respectively. The following table sums up the productivity of major automobile-manufacturing countries and the global output from 2000 to 2010:

Automobile productions in major automobile-manufacturing countries and the global output, 2000-2010

Year	Japan	United States	Germany	France	Korea	Brazil	China	Global
2000	10,144,847	12,802,857	5,526,615	3,348,361	3,114,998	1,691,240	2,068,186	58,374,162
2001	9,777,191	11,449,473	5,691,677	3,628,418	2,946,329	1,817,116	2,341,528	56,304,925
2002	10,257,315	12,304,317	5,469,309	3,701,870	3,147,584	1,791,530	3,253,655	58,994,318
2003	10,286,018	12,116,061	5,506,629	3,620,066	3,177,870	1,827,038	4,443,491	60,663,225
2004	10,511,518	11,988,297	5,569,954	3,665,990	3,469,464	2,210,062	5,070,452	64,496,220
2005	10,799,659	11,977,457	5,757,710	3,549,008	3,695,350	2,528,300	5,707,688	66,482,439
2006	11,484,233	11,263,986	5,819,614	3,169,219	3,935,910	2,611,034	7,279,726	69,222,975
2007	11,596,327	10,780,729	6,213,460	3,015,854	4,086,308	2,970,818	8,882,456	73,266,061
2008	11,563,629	8,705,239	6,040,582	2,568,978	3,806,682	3,220,475	9,345,101	70,520,493
2009	7,934,516	5,708,852	5,209,857	2,047,658	3,512,926	3,182,617	13,790,994	61,714,689
2010	9,625,940	7,761,443	5,905,985	2,227,742	4,271,941	3,648,358	18,264,667	77,609,901

Source: CATARC Report

Trend of development

Stable development of long-established market with great potential for emerging markets

Between 2004 and 2010, sale of first hand automobiles of the BRIC countries, namely Brazil, Russia, India and China, increased from about 9.4 million in 2004 to about 26.9 million 2010, accounting for about 17.5% and 34.6% of the global sales in 2004 and 2010, respectively, and representing a CAGR of about 19.2% during the period. On the contrary, the traditional automobile markets, such as the United States, Germany, Japan and France, appeared to reach saturation point during the same period, with the aggregate sales of first hand automobiles decreased from about 29.2 million in 2004 to about 25.5 million in 2010, representing a decrease of global market share from about 54.6% in 2004 to about 32.9% and falling behind the aggregate sales of the BRICs. This trend of development is accompanied by multi national automakers' emphasis on emerging markets. The rapid economic growth together with currently low level of car ownership in the emerging markets depict a great potential for future development. CATARC estimates that global automobile production will exceed 100 million in 2020, the growth dynamics of which will be mainly driven by the rapid growth of the automobile industries in the emerging markets.

INDUSTRY OVERVIEW

Structural change of global automobile industry bringing opportunities for developing countries

Currently, global automobile industry is experiencing structural change. While the traditional automakers in developed countries keep their research and development centres in their home countries, they are shifting their manufacturing process to developing countries which have abundant local resources with lower cost of production. This trend of relocation shall bring many opportunities to China which has developed well-established automobile-manufacturing techniques and hardware over the past 30 years.

Development of energy-saving and alternative energy vehicles

With the concern of global warming, environmental protection, vehicle emission control and increasingly unreliable supply of oil, governments of different parts of the world are keen on developing energy-saving and alternative energy vehicles. This preference corresponds with the strategic development of the multi national automakers to produce and develop more energy-saving and alternative energy vehicles.

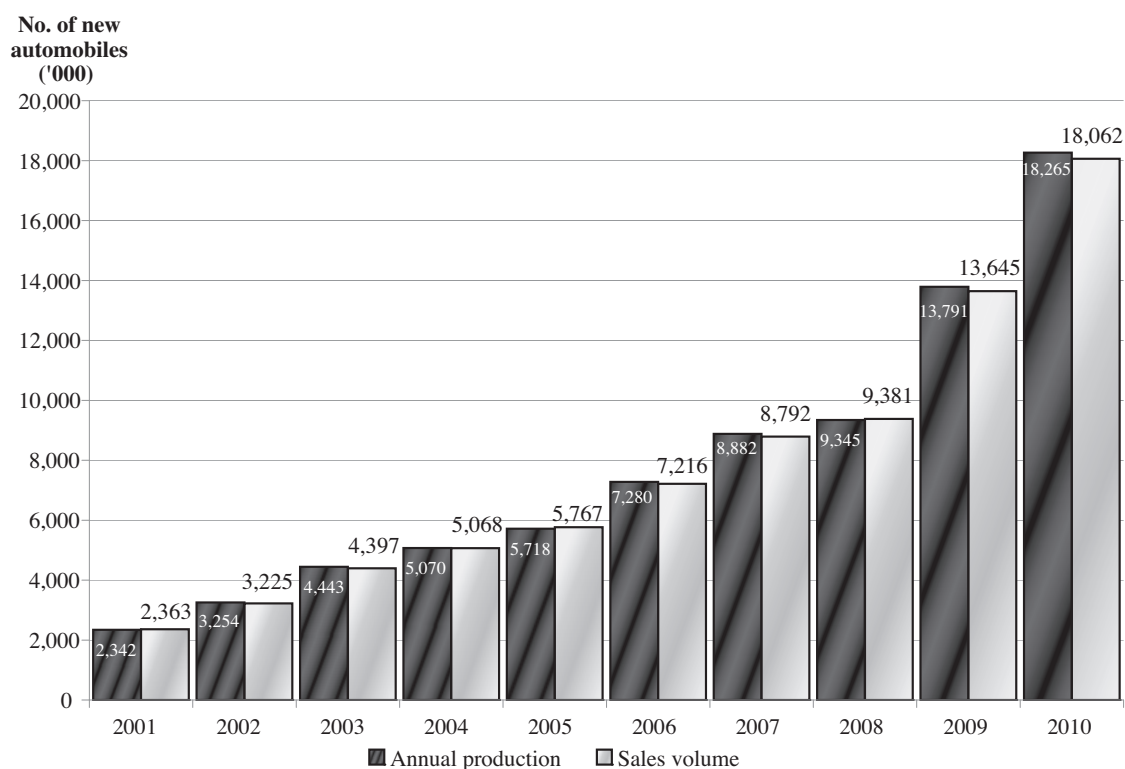
PRC AUTOMOBILE MARKET

Productivity and sales

Between 1978 and 2010, the annual production of automobile industry in China increased from about 150,000 in 1978 to about 18.3 million in 2010. In the 21st century, China's automobile market experiences a more rapid growth. Between 2000 and 2010, the annual production of automobiles in China increased at a CAGR of about 24.2%. The increasing productivity drives the amount of sales at the same time. In 2009, China surpassed Japan and the United States thus becoming the world leader in the amount of sales of automobile. In 2010, China's sales of automobile reached about 18.1 million, which broke the historical record of the United States. The chart below sets out the historical growth of the annual production and sales of automobiles in the PRC during the period from 2001 to 2010.

INDUSTRY OVERVIEW

Annual production and sales volume of new automobiles in the PRC, 2001-2010



Source: CATARC Report

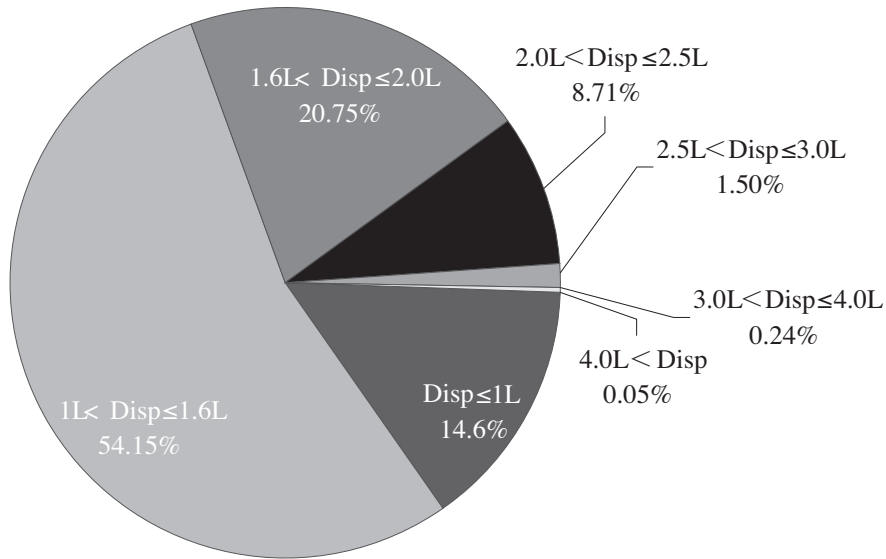
Market structure

According to the CATARC Report, the PRC automobile market is geographically segmented with six major areas, namely (1) northeast region represented by Changchun; (2) Changjiang delta region represented by Shanghai; (3) central region represented by Wuhan; (4) Jingjin region represented by Beijing and Tianjin; (5) Zhujiang delta region represented by Guangdong; and (6) southwest region represented by Chongqing. The enterprises and local governments are seeking to improve the geographical segmentation by locating their factories and establishment more effectively so as to lower the production and logistics cost.

Growth of income stimulates consumption of passenger vehicles. In 2009, China's sale of passenger vehicles reached 10 million, representing a growth of more than about 52.9% from that in 2008, and the sales of passenger vehicles nearly reached 14 million in 2010, representing a further growth of more than about 33.2% from that in 2009. In terms of displacement, most of the passenger vehicles in China are of small and/or medium displacement. In 2010, while the usage of medium and/or large displacement passenger vehicles increased, passenger vehicles with small and/or medium displacement decreased slightly and accounted for about 54.2% of the passenger vehicle usage in China. The growth of medium and/or large displacement passenger vehicles demonstrates the increasing consumption of automobile in China.

INDUSTRY OVERVIEW

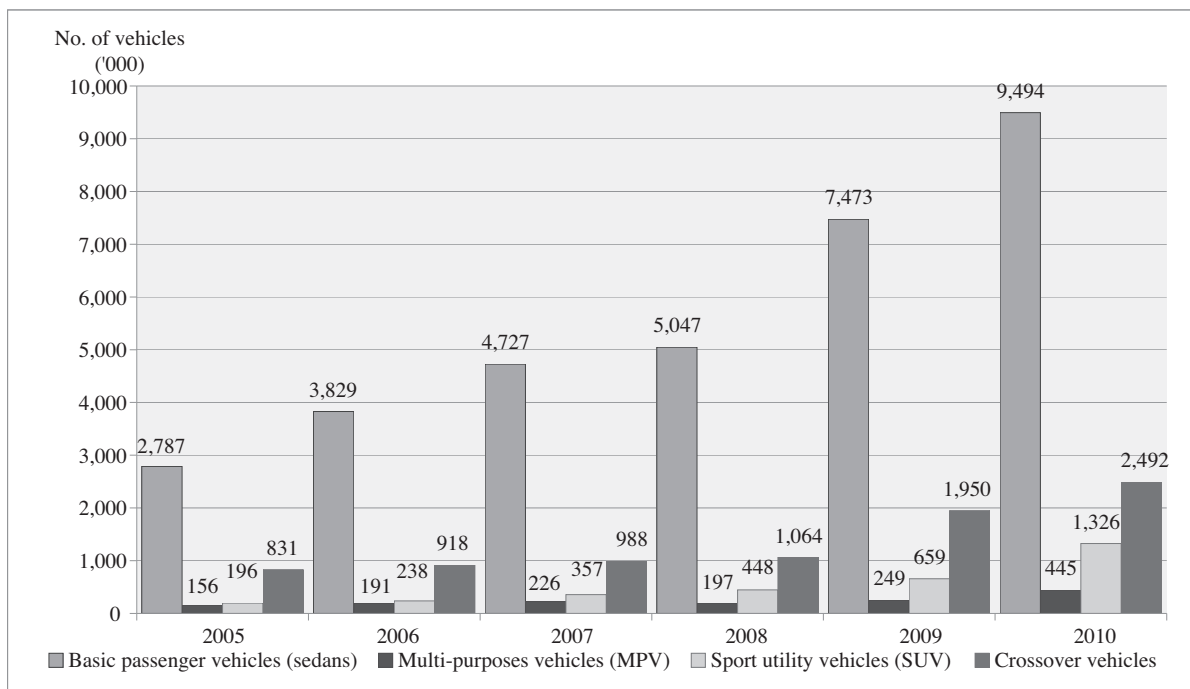
Market structure of passenger vehicles usage in terms of displacement (disp.) in 2010



Source: CATARC Report

In terms of size, most of the passenger vehicles in China are basic passenger vehicles (that is, sedans) which accounted for about 69% of the passenger vehicle usage.

Market structure of passenger vehicles in terms of size, 2005-2010

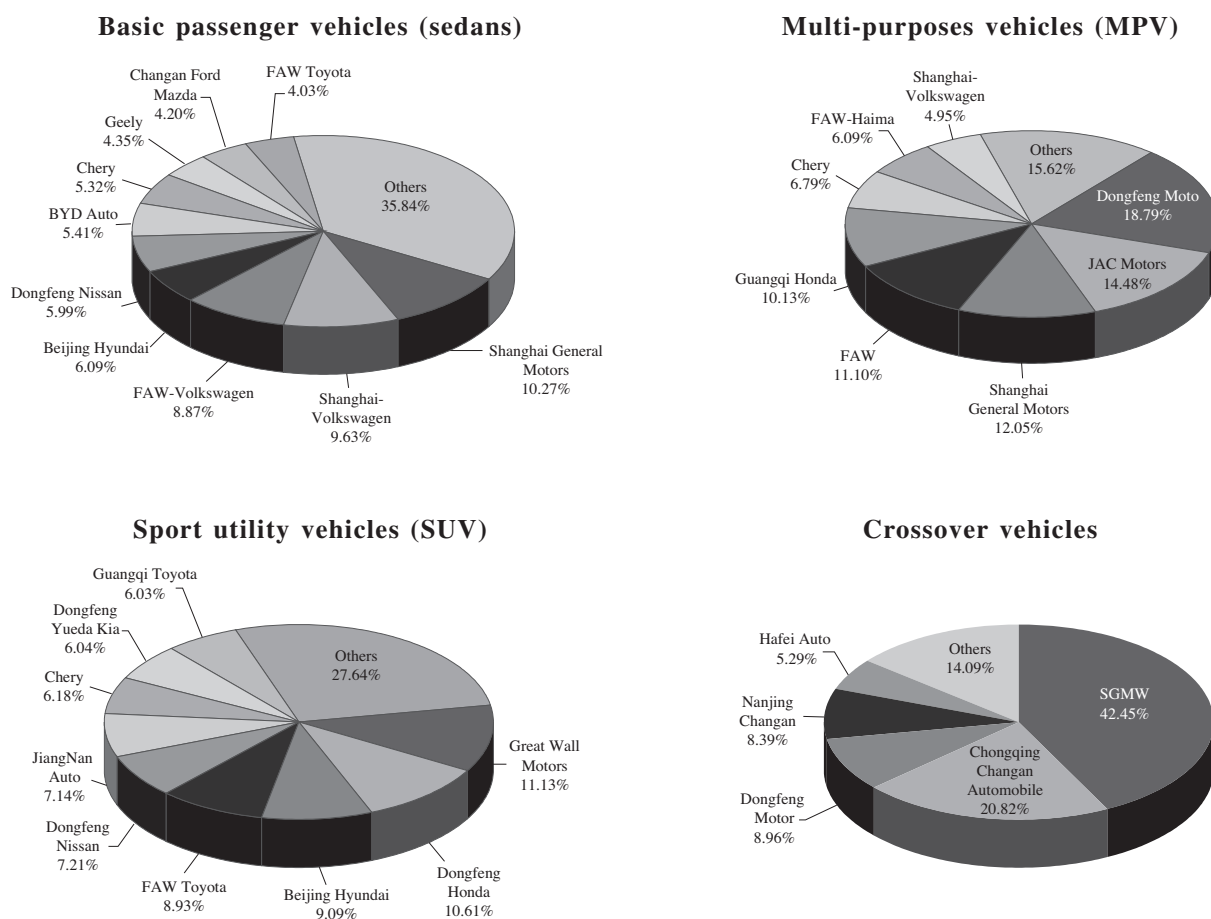


Source: CATARC Report

INDUSTRY OVERVIEW

In terms of brands, most of the passenger vehicles in China are under the brands of the joint ventures established by multinational automakers in the PRC. Vehicles of local brands are mainly in the mid- to low-end markets, but the market share of local brands is growing gradually.

Market structure of passenger vehicles in terms of brand in 2010



Source: CATARC Report

Sales growth

Recently, sales of automobile in China have experienced a surge as a result of the continuous growth of China's macro-economy, improvement of living standard and the stimulation policies of the PRC government. Between 2009 and 2010, sales of new automobile increased from about 13.6 million to 18.1 million, representing a growth of about 33.1%. The passenger vehicle is a major force for the growth which accounted for about 76.2% of the total sales in 2010.

Market development and drivers

High market potential of the PRC automobile market

According to the CATARC Report, China will continue its industrialisation and urbanisation before 2020. The national economy will continue to grow, resulting in demand for automobiles in the

INDUSTRY OVERVIEW

PRC. It is expected that as a result of the growth of income, the market demands for automobile, especially for private vehicles, are expected to continue to increase. According to the CATARC Report, the automobile penetration rate of China increased from about 1.3% in 2000 to about 4.7% in 2008, representing a CAGR of about 17.4%, and the automobile penetration rate of China increased to about 5.8% in 2010. Nevertheless, the automobile penetration rate of China was still at a low level as compared with the world's average in 2009 of about 14.4%, and that in other developed countries such as Japan (57.8%), the United States (81.7%), Germany (54.4%) and France (60.1%), as the growth momentum of the China automobile market is expected to shift from the first-tier cities in the PRC to the second- or third-tier cities and to the rural areas, where the population there is higher and the automobile penetration rate there is relatively lower. In addition, according to the CATARC Report, given the PRC government policies to encourage usages of automobiles in rural areas and the tax preferential treatments in respect of purchases of small displacement vehicles in the PRC, CATARC expects that there will be a surge of ownership of private passenger vehicles and small displacement vehicles in China.

On the above basis, CATARC considers that the PRC automobile market has a significant growth potential. According to the CATARC Report, CATARC estimates that the annual production of automobiles will grow from about 18.3 million in 2010 to about 19.6 million in 2011, and will further increase to about 27.8 million in 2015 and about 34.9 million in 2020.

Restructuring and expansion of productivity

In order to become the principal automobile country in the world, CATARC considers that the automakers in the PRC will undergo mergers and restructuring to expedite their expansion, to improve their research and development capabilities and technological advancement, to develop their own products and to establish and implement their own brand strategies. CATARC expects that competitions in the automobile industry will become more immense and automakers will compete on product development capabilities, technologies, quality of products, service points and popularities.

In light of the potential of China's market, most of the automakers are implementing expansion plans to establish more factories and to increase their production capacities. According to the CATARC Report, the aggregate annual production capacity of the 20 major automobile enterprises in the PRC and the 10 major automobile manufacturing enterprises was about 14.0 million as of 31 December 2009, and it is expected that their planned production capacity can reach about 31.2 million by the end of 2015. Automobile manufacturing enterprises also speed up their pace in setting up strategic geographical location of manufacturing facilities and production lines for the purpose of achieving local production and sales.

Export of automobiles and automobile body parts

Automobile body parts have been the principal products of the PRC automobile-related export market. Export of automobile body parts accounts for about 70% of the export of automobile-related products in China. Automobile body parts are mainly exported to developed countries with a focus on overseas OEM market and after-sale market. For manufacture of automobile body parts for export, there is a gradual trend of shifting from labour and resources intensive products to products with higher technological level and added-value. On the contrary, the automobiles manufactured for export

INDUSTRY OVERVIEW

are mainly exported to emerging economies such as Africa, Middle East, Southeast Asia and the Commonwealth of Independent States. CATARC considers that China will become the principal purchasing centre for automobile body parts for multinational automobile enterprises and the export of automobile body parts from the PRC will continue to grow. CATARC also considers that, with the continued enhancement in the product quality of PRC-made automobiles products and the diversification of export distribution channels, the export of automobiles to developing countries will continue to grow, and will become the new growth contributor for automobile manufacturing enterprises with their own brands of automobiles.

Growth of leading automobile products manufacturers and penetration of foreign enterprises in automobile products manufacturing

Leading automobile body parts manufacturers, with their capability of product development, have competitive edge in both the local and overseas market. Along with the shift of global automobile manufacturing process to developing countries and great potential of automobile industry in China, many foreign automobile body parts manufacturers accelerate their growth in China by establishing more factories so as to take advantage of China's low labour costs and the need of foreign automakers. The competition brought by foreign automobile body parts manufacturers can enhance the technology level of local automobile body parts manufacturers.

Investment in development of energy-saving and alternative energy vehicles

According to the CATARC Report, the technological development of electrical automobiles and alternative energy vehicles in the PRC is principally in line with the global development, and there have been significant breakthroughs in respect of the development of the critical automobile body parts and components for constructions of electric automobiles in the PRC in recent years. With major automakers continue to put their efforts in the development of alternative energy vehicles, it is expected that such trend will booster the investments in the development of alternative energy vehicles and the related automobile body parts and components.

PRC AUTOMOBILE BODY PARTS INDUSTRY

Market structure

Geographical distribution

China's automobile body parts industry mainly locates in region of Changjiang delta. Zhejiang province is the major manufacture and export zone of China's automobile body parts with an output value of about RMB193.2 billion in 2010. Automobile body parts manufacturers of Zhejiang province mainly locate in Ningbo, Taizhou, Wenzhou and Hangzhou. The second largest automobile body parts industry of China locates in Jiangsu province with an output value of about RMB191.8 billion in 2010.

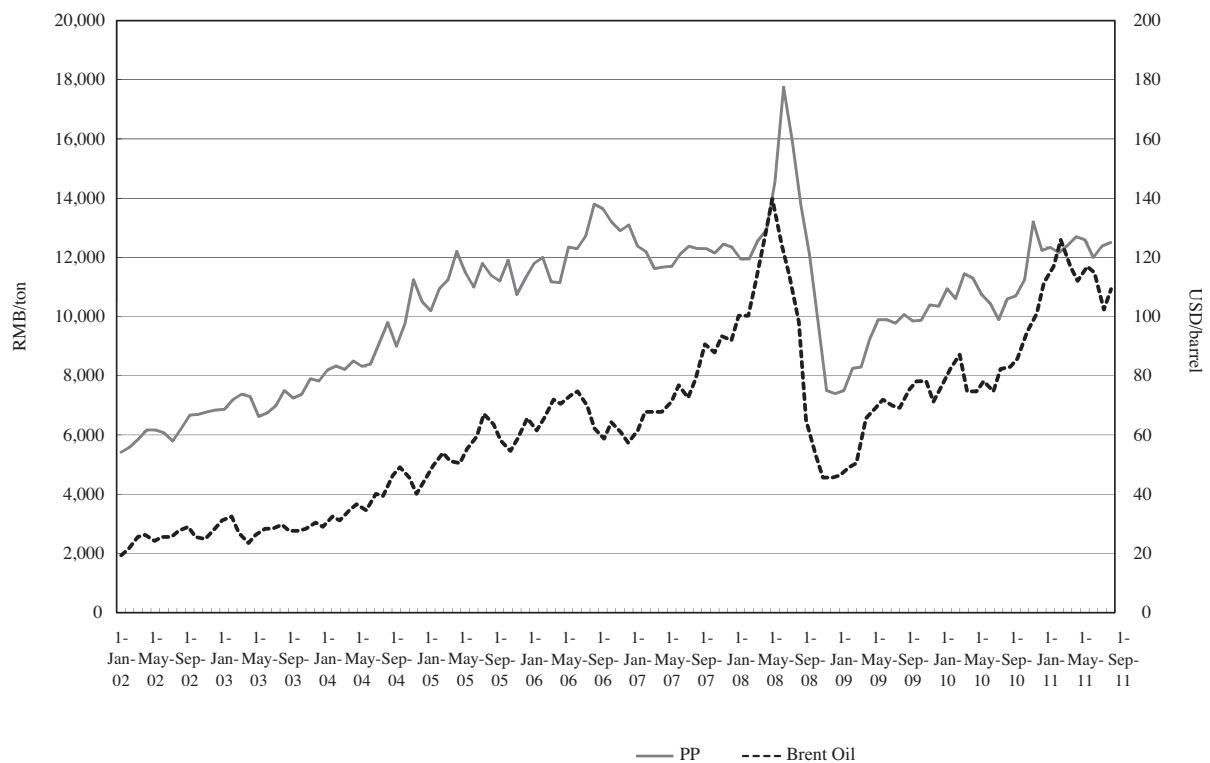
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Use of plastic

While plastic accounts for about 7% to 10% of the weight of automobiles manufactured in China, it accounts for about 10% to 14% of weight of automobile manufactured in the European countries. Therefore use of plastic in China's automobile industry is still at the beginning stage. Because of the rapid growth of productivity and sales of automobile in China in recent years, China's use of plastic in automobiles has been experiencing an average annual growth rate of more than 20% since 1990. In 2010, China's demand for plastic for manufacturing of automobile industry is of about 1.2 million tonnes.

Resin, including PP and PC/ABS, our principal production material used in the production of our products, is subject to fluctuating price as a result of the cyclicity and high volatility of prices of crude oil, being the primary substance of resin. Unlike PP, which is a more commonly used resin for plastic mouldings, PC/ABS is a unique type of ABS and does not have any publicly available price information. For purpose of illustration only, the chart below sets out the price per ton of PP (F401) in the PRC from January 2002 to May 2011. We use numerous kinds of PP with various specifications and chemical contents. F401 is an example of PP the price fluctuation of which tends to be similar to that of the PP used by us. The price of PP(F401) is set out below for reference purpose given that price of PP, regardless of specification, is generally subject to, amongst others, world price of crude oil and commodity market sentiment in the PRC from January 2002 to May 2011:

Price per ton of PP in the PRC, 2002 to 2011 and price per barrel of Brent oil, 2002 to 2011



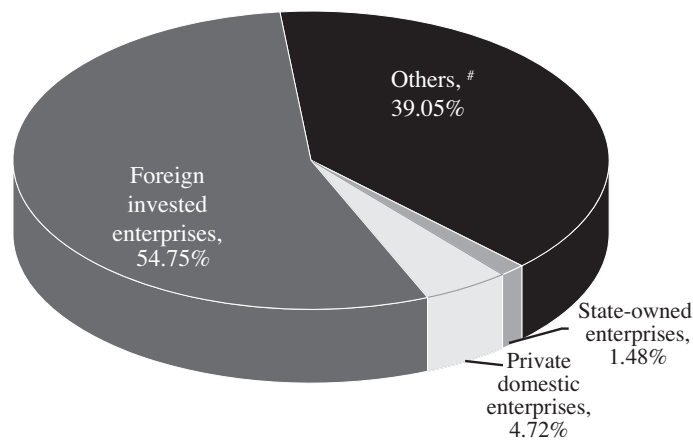
Source: CEIC Data Company Ltd for price of PP and Bloomberg for Brent oil

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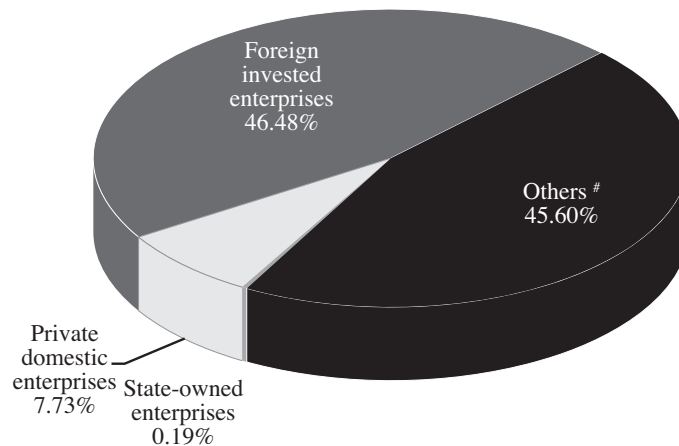
Market share of foreign invested enterprises manufacturers, state-owned enterprises manufacturers and private domestic enterprises manufacturers

According to CATARC, between 2007 and 2009, the aggregate market share attributable to manufacturers which were PRC foreign invested enterprises decreased from about 54.8% in 2007 to about 46.5% in 2009. Although their market share is decreasing, they still had the largest market share in China. The aggregate market share of manufacturers which are state-owned enterprises in the PRC also decreased from about 1.5% in 2007 to about 0.19% in 2009. On the contrary, the aggregate market share attributable to manufacturers which are private domestic enterprises increased steadily from less than 5% in 2007 to more than 7% in 2009.

Market share of different types of manufacturers in 2007



Market share of different types of manufacturers in 2009



#: The category of "Others" refers to the joint ventures established by (1) foreign invested enterprises and private domestic enterprises; (2) state-owned enterprises and foreign invested enterprises; (3) state-owned enterprises and private domestic enterprises; and (4) state-owned enterprises, private domestic enterprises and foreign invested enterprises.

Source: CATARC Report

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Market development and drivers

Continuing growth in the PRC automobile market

For the reasons as mentioned in the paragraph headed “PRC Automobile Industry — market development and drivers” above, CATARC considers that the PRC automobile market will continue to grow, with the annual production of automobiles to grow from about 18.3 million in 2010 to about 19.6 million in 2011, and will further increase to about 27.8 million in 2015 and about 34.9 million in 2020. The expected steadily growth in the sales of automobiles in the PRC offers wide rooms for development for plastic automobile body parts.

Increasing number of automobile body parts manufacturers

In 2009, there were about 10,000 automobile body parts manufacturers in China. Between 2009 and 2010, output value of China’s automobile body parts increased from about RMB1.2 trillion to about RMB1.7 trillion, representing a growth rate of about 41.7% which is faster than the growth rate of automobile manufacturing. Some of the automobile body parts manufacturers, who have capability of product development and systematic product supply systems, can enter the procurement system of the overseas market and increase their quantity of export.

Expansion of application of plastic in automobiles

Application of plastic in automobiles in China is still at a primary stage compared with the more developed countries. Plastic is a light, corrosive-resistant and relatively elastic material. Use of plastic in lieu of steel in automobile manufacturing can decrease the weight of automobiles which in turn reduce gas emission and consumption of petroleum. It is also easier to form the desired complicated parts and components with higher level of precision by using plastic instead of metal. Plastic products, with their elasticity, can act as energy-absorber and buffer during collision and also as shock and noise absorber, and plastic therefore can offer better protection and comfort to the passengers. Plastic can also be used with other different materials or chemicals so as to alter the mechanical strength, colours and other characteristics of the plastic products, and therefore can be used for producing different parts and components in automobile. With the focus of energy-saving and environmental protection in the automobile industry, the improvement of technology and standard, it is expected that use of plastic in automobiles in China will increase. This will provide much room of development for plastic automobile body parts.

Development of application of plastic can better satisfy the lightweight design for automobiles

According to the CATARC Report, lowering of the weight of automobiles has been the effective measures to reduce gas emission and consumption of petroleum. Automakers have placed more emphasis on the technological development for lightweight design of automobiles in recent years in order to enhance the energy-saving features of the automobiles and to comply with the environmental protection legislations. With the advantages of plastic over steel for reducing the weight of automobiles, CATARC expects a growing trend for plastic to replace steel as the materials for automobile body parts. It provides strong actual and potential demands for fast development of plastic automobile body parts.

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Strong development potential for after-sales maintenance services and export markets

As plastic automobile body parts are less durable, it is expected that the demand of after-sale services market for plastic automobile body parts will continue to grow sustainably and rapidly. With the competitive edge of China in terms of low labour costs, automobile body parts have been the principal automobile products for export in the PRC, and China has become the principal automobile body parts procurement centre for developed countries. This provides a promising prospect for export market of automobile body parts in China.

On the above basis, CATARC considers that the PRC plastic automobile body part market is expected to grow significantly. According to the CATARC Report, CATARC estimates that the aggregate sales income of the PRC plastic automobile body part market (including the sales of plastic automobile body parts on OEM basis, after-sales services and export) will increase from about RMB38.6 billion in 2010 to about RMB74.4 billion in 2015, representing a CAGR of about 14.0%.

COMPETITIVE LANDSCAPE

The PRC market of automobile body parts mainly comprises sino-foreign joint ventures invested by major overseas automakers which are of comparatively larger scale and domestic manufacturers which are independent from and not as sino-foreign joint venture with any automakers and which are of comparatively smaller scale. Most of the sino-foreign joint ventures automobile body parts manufacturers mainly supply products to their corresponding automakers established by their foreign investors in China while domestic manufacturers mainly manufacture products for different automakers. We believe that the manufacturers compete on a number of factors, including product quality, pricing, reputation, product design and development skills, manufacturing techniques, research and development production capacity, delivery and relationship with customers. Our Directors believe that there are some entry barriers for new entrants to the industry as the provision of automobile body parts to automaker is a business with exclusivity. Manufacturers can only supply automobile body parts upon passing the automakers' qualification test and thus becoming their approved suppliers. For more detailed discussion and analysis of the competition environment, please refer to the section headed "Business — Competition" in this prospectus.

Our Group, with our well-established technique of LPIM since 2002, competes with large scale manufacturers. According to the independent assessment and knowledge of the industry of 中國汽車工業協會汽車相關工業分會 (Related Industry Branch of China Association of Automobile Manufacturers), our Group is one of the leading manufacturers of automobile body parts using LPIM technique in China. Based on the independent assessment and inspection of the relevant documents, moulds and products by China Die & Mould Industry Association* (中國模具工業協會), two of the moulds we developed, namely, LPIM moulds for internal decorative parts for premium-end vehicles with environmental-friendly and advanced fabric (環保高效針織面料模內包履高端轎車內飾件低壓注塑成型模具) and moulds for long fiberglass front-end carrier with medium-sized metal insert (長玻纖汽車前端框架(含中型金屬嵌件)注塑模具) are energy-saving and environmentally-friendly.

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According to the CATARC Report, among the independent domestic manufacturers of automobile plastic body parts in the PRC, in 2009, the largest domestic manufacturer in terms of revenue in China was Jiangnan Mould & Plastic Technology Co., Ltd., with sales of about RMB1.67 billion. Among the independent domestic manufacturers of automobile plastic body parts in the PRC, we were the third largest by revenue with revenue of about RMB826.2 million in 2009 based on the database of CATARC which information was derived by CATARC from its statistic. The rest of the leading domestic independent manufacturers each had revenues less than RMB600 million in 2009. The following table sets out the market share figures in the PRC automobile body parts market of our Group and those of other manufacturers (including domestic manufacturers and sino-foreign joint venture manufacturers) in the PRC in 2009:

Market share of major automobile body parts manufacturers in the PRC in 2009

	Market share^
Yanfeng Weishitong Automobile Decorative Parts System Co., Ltd. ^(*) (延鋒偉世通汽車飾件系統有限公司)	13.14%
Guangzhou Yingtai Automobile Decorative Parts Co., Ltd. ^(*) (廣州櫻泰汽車飾件有限公司)	7.29%
Yanfeng Weishitong Jinqiao Automobile Decorative Parts System Co., Ltd. ^(*) (延鋒偉世通金橋汽車飾件系統有限公司)	4.32%
Jiangnan Mould & Plastic Technology Co., Ltd. ^(#) (江南模塑科技股份有限公司)	4.05%
Aixin (Tianjing) Automobile Body Parts Co., Ltd. ^(*) (愛信(天津)車身零部件有限公司)	3.83%
Yanfeng Biou Automobile External Decorative System Co., Ltd. ^(*) (延鋒彼歐汽車外飾系統有限公司)	2.85%
Changshu City Automobile Decorative Parts Co., Ltd. ^(#) (常熟市汽車飾件有限公司)	2.39%
Shanghai Boduo Automobile Parts Co., Ltd. ^(*) (上海博澤汽車部件有限公司)	2.32%
Tianjin Huafeng Automobile Decoration Co., Ltd. ^(*) (天津華豐汽車裝飾有限公司)	2.2%
Shenyang Jinhei Jiangsen Auto-controlled Automobile Internal Decorative Parts Co., Ltd. ^(*) (瀋陽金杯江森自控汽車內飾件有限公司)	1.93%
Our Group ^(#)	1.90%
Jilin Xinlide Parts Co., Ltd. ^(#) (吉林新立德部件有限公司)	1.67%
Yangzhou Shenzhou Automobile Internal Decorative Parts Co., Ltd. ^(#) (揚州神舟汽車內飾件有限公司)	1.39%
Guangzhou Guangxin Automobile Parts Co., Ltd. ^(*) (廣州廣愛興汽車零部件有限公司)	1.31%
Jiangyin Xietong Automobile Accessories Co., Ltd. ^(#) (江陰協統汽車附件有限公司)	1.20%
Shanghai Ganxiang Automobile Mirror (Group) Co., Ltd. ^(#) (上海干巷汽車鏡(集團)有限公司)	1.20%

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	Market share [^]
Zhejiang Yuanchi Holdings Group Co., Ltd. ^(#) (浙江遠翹控股集團有限公司)	1.19%
Shandong Xuri Automobile Decorative Parts Group ^(#) (山東旭日汽車飾件集團)	1.09%
Chengdu Aerospace Moulded Co., Ltd. ^(#) (成都航天模塑股份有限公司)	1.06%
Shanghai Daimei Automobile Internal Decorative Parts Co., Ltd. ^(#) (上海岱美汽車內飾件股份有限公司)	1.04%
Shandong Zhichu Private Science Park Co., Ltd. ^(#) (山東只楚民營科技園股份有限公司)	0.84%
Changchun Page Automobile Plastics Technology Co., Ltd. ^(*) (長春派格汽車塑料技術有限公司)	0.82%
Yanfeng Weishitong (Beijing) Automobile Decorative Parts System Co., Ltd. ^(*) (延鋒偉世通(北京)汽車飾件系統有限公司)	0.81%

[^] the market share of each of the major automobile body parts manufacturers is calculated based on their respective total revenue (except that of our Group which excludes our revenue attributable to our sales of non-automobile products) in 2009, divided by the aggregate amount of revenue of all automobile body parts manufacturers in the PRC in 2009.

* sino-foreign joint venture manufacturer

domestic manufacturer

Source: CATARC Report

COMMISSIONED REPORT FROM CATARC

We commissioned CATARC, an Independent Third Party, to conduct a detailed analysis of China's automobile and automobile body parts industries. CATARC is a technical administration body in the automobile industry and a technical support organisation to the governmental authorities which was established in 1985 upon the approval of the China National Science and Technology Commission and affiliated to the State-owned Assets Supervision and Administration Commission of the State Council. According to CATARC, it assists the government in setting up automobile standard and technical regulation formulating, product certification testing, quality system certification, industry planning and policy research, information service and common technology research.

The CATARC Report includes information on (i) overview of the automobile industry of the world and the PRC; (ii) analysis on the development of the PRC automobile industry; (iii) analysis of the current and future development of the automobile body parts industry; and (iv) analysis of the competitiveness of our Group. In compiling the CATARC Report, CATARC conducted researches in the form of interviews and data analysis of yearbooks, newspaper, magazines, government websites, industry seminars, trade shows, suppliers' new product briefings and house database etc. Interviewees included dozens of industry experts and marketing and technical staff from leading industry participants. In relation to forecasts and projections on automobile industry as contained in the CATARC Report, multi-linear regression method and Delphi method were used concurrently. The forecasts and projections in the CATARC Report were made on the assumptions that the PRC economy will remain a steady growth across the forecast period, with an increase of about 8% each year during 2011 to 2015 and about 6% each year during 2015 to 2020.

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We have extracted certain information from the CATARC Report so as to provide our potential investors with a more comprehensive presentation of the industries in which we operate. We paid a fee of RMB200,000 to CATARC for the CATARC Report. Except for the CATARC Report, we did not commission any other customised research report in connection with the Listing or this prospectus. We believe the CATARC Report is reliable taking into account the background and extensive experience of CATARC in the automobile industry.

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The primary production and operation entities of our Group are all located in the PRC (collectively, the “Operating Entities”). All business operations of these entities, principally engaged in the assembly supply of automobile body parts in China, with the manufacture of automobile internal and external structural and decorative parts as its business focus, are subject to all industry policies, relevant laws, regulations, rules and extensive government regulatory policies in the PRC, which are presently valid and effective. With respect to its current business operations, our Group is mainly subject to the following laws, regulations and rules:

Policies relating to foreign investment in the manufacture industry of automotive internal and external structural and decorative products

Guidance on the industry with foreign investment in the PRC can be found in the *Foreign Investment Industrial Guidance Catalogue* (《外商投資產業指導目錄》) (“Catalogue”) (as amended in 2007) which was jointly issued by the National Development and Reform Commission (國家發展和改革委員會) (“NDRC”) and the Ministry of Commerce (商務部) (“MOFCOM”) on 31 October 2007. The industries are generally classified into four types for foreign investment purposes: (i) industries that are encouraged by the PRC government for foreign investment, (ii) industries that are subject to certain restrictions for foreign investment, and (iii) industries that are prohibited from foreign investment. Those industries that do not fall within one of the above three categories shall be categorised as permitted industries.

The business operations of design and manufacturing of fixture and seizure for automobile and motorcycle, design and manufacture of precision cavity mold (precision 0.05 mm and above), design and manufacture of non-metallic product mold, which the Operating Entities are engaged in, is listed as a business of encouraged industry category for foreign investment under the Catalogue. The other business operations that the operating entities are involved in do not fall within any restricted or prohibited industry category for foreign investment under the Catalogue, and hence shall be deemed as being within permitted industry for foreign investment.

General Policy in relation to Automotive Industry

The PRC government administers its regulation of the automotive components industry primarily through:

- the NDRC;
- the State Administration on Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局); and
- the Ministry of Environmental Protection (環境保護部).

Each of the above government agencies has a different mandate to regulate the PRC automotive components industry. The NDRC is in charge of making the overall policy and mid-term to long-term

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

development plan of the automotive components in China; the State Administration on Quality Supervision, Inspection and Quarantine focuses on product quality control; and the Ministry of Environmental Protection regulates environmental protection affairs relating to the investment in and construction of automotive manufacturing facilities and the manufacturing processes.

In 1994, the PRC government issued the *Industrial Policy for the Automotive Industry* (汽車工業產業政策) as an overall policy guideline for the automotive industry (including the automotive components industry) in China. Although the Industrial Policy for the Automotive Industry did not constitute a “law” or “regulation” in its formal sense, it constituted the cornerstone of the overall regulatory regime of the PRC automotive industry. In 2004, the PRC government issued the *Automotive Industry Development Policy* (汽車產業發展政策) to replace the Industrial Policy for the Automotive Industry.

The *Automotive Industry Development Policy* (汽車產業發展政策) sets forth some guidelines regarding the automotive components industry, including:

- to make a special development plan for automotive components, to guide and support production of automotive components through classification of products, to guide public funds to invest into the production of automotive components, and to impel enterprises with comparative advantages in producing automotive components to form the ability of specialization, mass production and the modularization of the supply of products;
- to give priority to automotive components enterprises which are able to supply parts and components to several independent enterprises that produce whole cars, and which is integrated into the international system of procurement of automotive components, in aspects of technology introduction, technological transformation, financing and mergers and reorganization;
- to encourage automakers to further specialize in production and gradually change their internal parts manufacturing units into independent and specialized parts and components manufacturing enterprises;
- to encourage automakers to procure parts and components from third parties via electronic commerce or net procurement, on a step-by-step basis;
- to support automobile body parts manufacturers in establishing product research institutions to form innovative and self-development capabilities. Investment amount in the construction of research facilities of self-developed products shall be tax-deductible as long as such investment complies with the relevant tax provisions on promotion of enterprise technological progress; to support large automobile body parts manufacturers to develop parts and components assembly with proprietary intellectual property and at an advanced level; and
- to subject the investment projects of automobile body parts to the filing procedures with the investment administration departments of the provincial governments.

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In March 2009, the General Office of PRC State Council issued the *Restructuring and Rejuvenation Program of the Automotive Industry* (汽車產業調整和振興規劃) (the “**Program**”), as amended on 15 August 2009, as an action plan for omnibus response measures of the automotive industry from 2009 to 2011. The Program specifies certain objectives, policies and measures in relation to the automotive components industry as follows:

- to boost the restructuring of the automotive industry. The key automotive parts and components manufacturers are encouraged to expand their scale through merger, acquisition and reorganization, and to increase their market share in the domestic and overseas markets;
- to realize the technological independence of key parts in engine, transmission, steering system, braking system, drive train system, suspension system and vehicle bus control system; to encourage the development of key parts that can improve the performance of whole cars;
- to implement automobile products export strategies; the construction of national export bases for automobiles and automotive components shall be accelerated;
- to improve the automobile enterprise reorganization policies and to encourage automobile production enterprises to jointly develop and manufacture new automobile products and key parts and assemblies; and
- to make more investments in technological progress and innovation and to develop key parts and assemblies which fill the domestic vacancies, build the platforms for the research, development and testing of common technologies of automobiles and spare parts.

Recent PRC governmental policies relating to the automobile industry

Our PRC legal advisers advised that set out below are the recent governmental policies relating to the automobile industry and based on the reasons set out below, our Directors confirmed that those policies do not have any material actual/potential operational and financial impact on our Group:

- (i) The *Interim Regulations of the PRC on Vehicle and Vessel Tax* (《中華人民共和國車船稅暫行條例》) (the “**Interim Regulations**”), which was promulgated by the State Council on 29 December 2006 with effect from 1 January 2007, provides that the owner or custodian of vehicles or vessels is subject to the vehicle and vessel tax. The *Detailed Rules for Implementation of Tentative Regulations of the People’s Republic of China on Vehicle and Vessel Tax* (《中華人民共和國車船稅暫行條例實施細則》), which was promulgated by the Ministry of Finance and the State Administration of Taxation on 1 February 2007 with effect from the same date, further divides the vehicle and vessel tax into 4 sub-tax items based on the size of passenger cars: (i) RMB480 to RMB660 for large passenger cars (carrying 20 passengers or more), (ii) RMB420 to RMB660 for medium passenger cars (carrying 9 to 20 passengers), (iii) RMB360 to RMB660 for small passenger carrying vehicles (carrying 9 passengers or less); and (iv) RMB60 to RMB480 for mini passenger carrying vehicles (with engine capacity of 1.0 liter or below). On 25 February 2011, the

THE LAWS AND REGULATIONS RELATING TO THE INDUSTRY

PRC Travel Tax Law (《中華人民共和國車船稅法》) was promulgated by Standing Committee of The National People's Congress, which shall come into effect on 1 January 2012. The PRC Travel Tax Law amended the tax rates chart annexed to the Interim Regulations. For vehicles, it divides the vehicle and vessel tax into 7 brackets based on the engine capacity of passenger cars. In particular, tax on passenger cars with engine capacity (i) of 1.0 liter and below is RMB60 to RMB360, (ii) of 1.0 liter to 1.6 liter is RMB300 to RMB540, (iii) of 1.6 liter to 2.0 liter is RMB360 to RMB660, (iv) of 2.0 liter to 2.5 liter is RMB660 to RMB1,200, (v) of 2.5 liter to 3.0 liter is RMB1,200 to RMB2,400, (vi) of 3.0 liter to 4.0 liter is RMB2,400 to RMB3,600, and (vii) of 4.0 liter and above is RMB3,600 to RMB5,400. The PRC Travel Tax Law further provides that vehicle and vessel tax may be reduced or exempted for vehicles and vessels that contribute to energy conservation or use new energies. Our Directors confirm that the Interim Regulations and new tax rates do not have any material actual and/or potential operational and financial impact on our Group because our business focuses on passenger vehicles with engine capacity between 1.5 liter to 2.0 liter and with smaller passenger carrying capacity and the applicable tax rate is not heavy. As such, the applicable new tax rates are not significantly higher than the original tax rate. In addition, our Directors are of the view that with the increasing consumption of passenger vehicles in the PRC, the overall price of passenger vehicles will be lowered and the automobile sellers would provide more discounts so as to offset the increase of tax.

- (ii) Under the *Interim Provisions Regulating the Number of Passenger Cars in Beijing* (《北京市小客車數量調控暫行規定》) which was promulgated by People's Government of Beijing Municipality on 23 December 2010, Beijing take measures to adjust and control the quantity of cars, in consideration of factors of demanding status of cars, carrying capacity of the roads, transport and environment and others. Where the authorities, public institutions in the form of enterprise, social groups and other organizations and individuals are in need of obtaining the allocation index of cars of Beijing, they shall go through the registration for drawing numbers with the index adjustment and control administrative divisions. Our Directors confirm that the provisions, which are implemented in Beijing only, do not have any material actual and/or potential operational and financial impact on our Group because our business covers the entire PRC and some of the overseas countries.
- (iii) The *Exposure Draft of the Development Plan for the Energy Conservation and New Energy Automotive* (《節能與新能源汽車產業規劃》(徵求意見稿)), which was drafted by the Ministry of Industry and Information Technology and will be submitted to the State Council for approval, provides a specific focus on hybrid and pure-electric vehicles, technology development in power battery. It further plans to improve the independent development system in production of key components for energy conservation and new energy automotive vehicles, and to invest in core technologies to build a strong and competitive new-energy vehicle industry chain. Our Directors confirm that the draft does not have any material actual and/or potential operational and financial impact on our Group because the draft which mainly affect the automotive drive technology has very remote (if not none) impact on automobile body parts industry.

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Laws, rules and regulations in relation to product quality

The *Product Quality Law of the PRC* (《中華人民共和國產品質量法》), promulgated on 22 February 1993 and subsequently amended on 8 July 2000, is the principal law governing the supervision and administration of product quality, and is applicable to the production and sale of any products in the PRC. According to the *Product Quality Law of the PRC*, manufacturers shall be liable for the quality of products that they produce and sellers shall take reasonable actions to ensure the quality of the products they sell. The seller is responsible for the repair, exchange or refund of the products if the product displays the following defects:

- the product sold does not have the attribute or function it ought to have, and there was no advance explanation or statement made to that effect;
- the product sold does not comply with the adopted standards indicated on the product or its package; or
- the product sold does not meet the quality standard of similar products as indicated by means of product instruction or sample.

The manufacturer is to compensate the user of the defective product for harm caused by the defective product to any person or property other than the defective product itself, unless the manufacturer is able to provide evidence that:

- it did not put the product into circulation;
- the defect did not exist at the time the product was put into circulation, or it came into being afterwards; or
- the state of scientific or technological knowledge when the product was circulated was not such as to allow the defect to be discovered.

The seller is to compensate the user of the defective product for harm caused by the defective product to any person or property other than the defective product itself if such defect is caused by the seller. A person who is harmed or whose property is damaged by the defective product may claim such loss against the manufacturer or the seller.

The *Law of Protection of the Rights and Interests of Consumers* (《消費者權益保護法》), which was promulgated on October 31, 1993, and became effective on January 1, 1994, provides further protection to the legal rights and interests of consumers in connection with their purchase or use of goods and services.

In accordance with the *Tort Law of the PRC* (《中華人民共和國侵權責任法》) promulgated on 26 December 2009 and became effective on 1 July 2010, in the event that any manufacturer knowingly produces defective products that cause death or serious health injury, punitive damages may be claimed by the injured party.

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The *National Standard of the PRC — Combustion Character of Automotive Interior Materials* (《中華人民共和國國家標準—汽車內飾材料的燃燒特性》) (GB8410-2006) was jointly promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) and the National Standardization Administration Committee of the PRC (中國國家標準化管理委員會) and has been effective since 1 July 2006. This standard states the combustion character of automotive interior materials shall satisfy the compulsory technical requirement: the combustion speed shall not exceed 100 mm/min, and states the relevant test modes accordingly.

The *Circular on Further Enhancing the Automobile Sales and Quality Control of Automotive Components Manufacturing* (《關於進一步加強汽車銷售行為以及汽車配件質量監管工作的通知》), which jointly promulgated by the State Administration for Industry and Commerce, the Ministry of Transport and the General Administration of Quality Supervision, Inspection and Quarantine on 26 July 2010, stipulates that local branches of the supervision departments shall strengthen product quality supervision of automotive components manufacturers and the traceability system relating to manufacture, distribution, usage shall be established to enhance the supervision.

Laws and regulations in relation to labour matters

The *PRC Labor Contract Law* (《中華人民共和國勞動合同法》), which took effect from 1 January 2008, stipulates certain requirements in respect of human resource management including, among other things, signing labor contracts with employees, dissolving labor contracts, paying remuneration and compensation as well as employee social insurance.

In addition, the *PRC Labor Contract Law* requires employers to provide remuneration packages which are not lower than the respective local minimum standards. The *PRC Employment Promotion Law* (《中華人民共和國就業促進法》), which took effect from 1 January 2008, stipulates that employees shall have equal opportunities to employment without discrimination in terms of ethnicity, race, gender, religious belief, communicable disease and rural residence, and may not be discriminated against in hiring or in their employment terms. Enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

According to the *Regulation on Work-Related Injury Insurance* (《工傷保險條例》), which took effect from 1 January 2004 and was last amended on 20 December 2010, employers should pay occupational injury insurance fees for their employees.

Under the *Interim Measures Concerning the Maternity Insurance of Enterprises Employees* (《企業職工生育保險試行辦法》) effective from 1 January 1995, employers should pay maternity insurance fees for their employees.

Under the *Interim Regulations Concerning the Levy of Social Insurance Fees* (《社會保險費徵繳暫行條例》) implemented on 22 January 1999 and the *Interim Measures Concerning the Administration of the Registration of Social Insurance* (《社會保險登記管理暫行辦法》) adopted since

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19 March 1999 and the *PRC Social Insurance Law* (《中華人民共和國社會保險法》), which came into effect on 1 July 2011, employers in the PRC are required to register social insurance with the local social insurance authorities, and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees.

According to the *Regulation Concerning the Administration of Housing Provident Fund* (《住房公積金管理條例》) implemented since 3 April 1999 and amended on 24 March 2002, employers in the PRC shall register with the housing provident fund management centre. Employers will then need to open housing provident fund accounts with entrusted banks for their employees and contribute to the fund at a rate of not less than 5% of the employee's average monthly salary in the preceding year.

Laws and regulations in relation to production safety

The *PRC Production Safety Law* (《中華人民共和國安全生產法》), which took effect from 1 November 2002, is the principal law governing the supervision and administration of production safety in the PRC. The law provides that production entities must meet the relevant legal requirements such as providing training and handbooks on production safety to its staff and provision of safe working conditions as set out in the relevant laws, rules and regulations. Any production entities that cannot provide the required safe working conditions may not be engaged in production activities.

Violation of the *PRC Production Safety Law* may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

Laws and regulations in relation to dividend distribution

The principal regulations governing distribution of dividends by wholly foreign-owned enterprises include:

- the *Company Law* (《中華人民共和國公司法》), which was first promulgated on 29 December 1993 and last amended on 27 October 2005;
- the *Wholly Foreign-Owned Enterprise Law* (《中華人民共和國外資企業法》), which was first promulgated on 12 April 1986 and last amended on 31 October 2000; and
- the *Wholly Foreign-Owned Enterprise Law Implementation Rules* (《中華人民共和國外資企業法實施細則》), which was first promulgated on 28 October 1990 and last amended on 12 April 2001.

Under the current regulatory regime in China, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with the PRC accounting standards and regulations. After making up for any deficit in prior years pursuant to the PRC laws, a wholly foreign-owned enterprise in China is required to set aside at least 10% of its after-tax profit calculated in accordance with the PRC accounting standards and regulations each year as its general reserves until the cumulative amount of such reserves reaches 50% of its registered

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capital. These reserves are not distributable as cash dividends. The board of directors of a wholly foreign-owned enterprise has the discretion to allocate a portion of its after-tax profits to its staff welfare and bonus funds, which is likewise not distributable to its equity owners except in the event of liquidation of the enterprise with foreign investment.

Laws and regulations in relation to taxation

Enterprise Income Tax

The key taxes applicable to the companies in the PRC are enterprises income tax and value added tax.

The *EIT Law of the PRC* (《中華人民共和國企業所得稅法》) and *Implementation Rules for the EIT Law of the PRC* (《中華人民共和國企業所得稅法實施條例》), both of which became effective on 1 January 2008, impose a uniform enterprise income tax rate of 25% on enterprises, both domestic and with foreign investment. A resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the territory of the PRC. If an organisation or establishment is set up by a non-resident enterprise in the PRC, it is subject to enterprise income tax for the income derived from such organisation or establishment in the PRC and the income derived from outside the PRC but with actual connection with such organisation or establishment in the PRC. For a non-resident enterprise which has not set up an organisation or establishment in the PRC, or has set up an organisation or establishment but the income derived has no actual connection with such organisation or establishment, its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax shall be levied at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in the PRC but its earning income is not connected with the abovementioned permanent establishment will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

On 26 December 2007, the State Council promulgated the *Notice of the State Council on Transitional Preferential Policy For Implementing Enterprise Income Tax* (《國務院關於實施企業所得稅過渡優惠政策的通知》), whereby enterprises enjoying preferential tax rates under the relevant tax laws and administrative regulations and the enterprises income preferential tax policy as stipulated by competent documents with administrative regulation force are subject to the following measures for transition:

- (1) Since 1 January 2008, enterprises enjoying the existing low tax rate preferential policy will gradually transit to the statutory tax rate within five years from the implementation of the EIT Law. Among them, for enterprises enjoying enterprise income tax of 15%, the tax rate of 18%, 20%, 22%, 24% and 25% will take effect in 2008, 2009, 2010, 2011 and 2012, respectively; for enterprises enjoying enterprises income tax of 24%, the tax rate of 25% takes effect from 2008 onwards.
- (2) Since 1 January 2008, enterprises enjoying fixed-term preferential tax treatment under relevant enterprises income tax, such as the “2 years tax exemption and 3 years 50% tax

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reduction” and the “5 years tax exemption and 5 years 50% tax reduction” will continue to enjoy the preferential tax treatment until expiry of the relevant fixed term according to relevant tax law, administrative regulations and preferential measures stipulated in the relevant document after the promulgation of the EIT Law. For enterprises not yet enjoyed preferential tax treatment, as profits have not yet been realised, the relevant term for enjoying preferential tax treatment shall be calculated commencing from 2008.

The enterprises entitled to benefit from the transitional preferential policies referred to above shall be enterprises established prior to 16 March 2007 that are registered with an administrative authority such as the administration of industry and commerce. For details, the projects eligible to benefit from transitional preferential policies and the scope of such policies are defined in the annex attached to the abovementioned notice.

Withholding Tax

Under the EIT Law and its implementation rules, PRC income tax at the rate of 10% is applicable to dividends payable to investor that are “non-resident enterprise” (which do not have an establishment or place of business in China, or have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business) to the extent such dividends are sourced within China. Similarly, any gain realised on the transfer of Shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China.

However, for FIEs from countries or regions that have signed bilateral tax agreements with China, the withholding rate may be reduced to as low as 5% depending on the terms of the applicable tax treaty.

According to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《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 from 8 December 2006 and issued by the State Administration of Taxation (國家稅務總局) (“SAT”), the withholding tax rate for dividends paid by a PRC enterprise to a Hong Kong enterprise is 5% if the Hong Kong enterprise owns at least 25% of the PRC enterprise; otherwise, the dividend withholding tax rate is 10%.

Further, pursuant 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》) (國稅發[2009]124號), which became effective on 1 October 2009, the preferential tax rate under the Relevant Tax Treaties does not automatically apply. Approvals from or filing at the competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under the Relevant Taxation Treaties.

In addition, in accordance with the *Notice of the State Administration of Taxation on How to Understand and Determine the “Beneficial Owners” in the Relevant Taxation Treaties* (《關於如何理解 and 認定稅收協定中“受益所有人”的通知》) (國稅函[2009]601號) issued by the State Administration

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of Taxation on 27 October 2009, the PRC tax authorities must evaluate whether an applicant (income recipient) can be qualified as a “beneficial owner” under the relevant taxation treaties on a case-by-case basis, and, in conducting such evaluation, the taxation authorities must examine the substance rather than the form of the relevant case.

The *Notice of the SAT on Issues Relating to the Administration of the Dividend Provision in Tax Treaties* (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (國稅函[2009]81號) promulgated on 20 February 2009 by the SAT, states that the corporate recipient of dividends distributed by the PRC enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends.

However, the EIT Law also stipulates that if (i) an enterprise distributing dividends is domiciled in China or (ii) capital gains are realized from the transfer of equity interests in enterprises in China, then such dividends or capital gains are treated as PRC-sourced income. If our Company is deemed as a PRC resident enterprise for tax purpose by PRC tax authorities, then (i) any dividends we pay to our non-resident overseas Shareholders and (ii) any capital gains realized by our non-resident Shareholders from transfer of our Shares may be regarded as PRC-sourced income and be subject to a PRC withholding tax rate of 10%.

Business Tax

Pursuant to the *Interim Regulations on Business Tax of PRC* (《中華人民共和國營業稅暫行條例》) amended by the State Council on 5 November 2008 and with effect from 1 January 2009 and its *Detailed Implementation Rules on the Interim Regulations on Business Tax of PRC* (《中華人民共和國營業稅暫行條例實施細則》), which were issued by the Ministry of Finance and State Administration of Taxation on 15 December 2008 and which became effective on 1 January 2009, the business tax rate on provision of taxable service, transfer of intangible asset, and sale of immovable properties ranges from 3% to 20%.

Urban Maintenance and Construction Tax and Education Surcharge

According to the *Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals* (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), which was promulgated on 18 October 2010 with effect from 1 December 2010, the *Tentative Regulations of the PRC on Urban Maintenance and Construction Tax* (《中華人民共和國城市維護建設稅暫行條例》) promulgated in 1985 and the *Tentative Provisions on the Collection of Education Surcharge* (《徵收教育費附加的暫行規定》) promulgated in 1986 by the State Council shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to the *Tentative Regulations of the PRC on Urban Maintenance and Construction Tax* (《中華人民共和國城市維護建設稅暫行條例》), which was promulgated on 8 February 1985 with effect from 1 January 1985, and the *Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax* (《國家稅務總局關於城市維護建設稅徵收問題的通知》), which was promulgated on 12 March 1994 and with effect from then on, any unit or individual liable to consumption tax, value-added tax and business tax shall also be

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required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with the *Tentative Provisions on the Collection of Education Surcharge* (《徵收教育費附加的暫行規定》), which was last revised on 20 August 2005, all institutions and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay education surcharge. The education surcharge rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each institution or individual, and the education surcharge shall be paid simultaneously with value-added tax, business tax and consumption tax, excluding the institutions who pay rural educational undertaking surcharge pursuant to the *Circular of the State Council on Raising Funds for Rural Schools* (《國務院關於籌措農村學校辦學經費的通知》) (國發[1984]174號文).

Value-Added Tax

Pursuant to the *Interim Regulations on Value-Added Tax of PRC* (《中華人民共和國增值稅暫行條例》), which was last amended by the State Council on 5 November 2008 with effect from 1 January 2009 and its *Detailed Implementation Rules on the Interim Regulations on Value-Added Tax of PRC* (《中華人民共和國增值稅暫行條例實施細則》) issued by the Ministry of Finance and State Administration of Taxation on 15 December 2008 and which became effective on 1 January 2009, all enterprises and individuals engaged in the sales or importation of goods, and provision of processing, repairing and replacement services, within the territory of the PRC shall pay value-added tax at the following rates:

- (1) For taxpayers selling or importing goods other than those specified in items (2) and (3) of below, the tax rate shall be 17%;
- (2) For taxpayers selling or importing the following goods, the tax rate shall be 13%:
 - (a) grains, edible vegetable oils;
 - (b) tap water, heating gas, cooling gas, hot water, coal gas, liquefied petroleum gas, natural gas, methane gas, coal/charcoal products for household use;
 - (c) books, newspapers, magazines;
 - (d) feeds, chemical fertilisers, agricultural chemicals, agricultural machinery and plastic film for farming; and
 - (e) other goods as specified by the State Council.
- (3) For taxpayers exporting goods, the tax rate shall be 0%, unless otherwise specified by the State Council.

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- (4) The rate of VAT levied on small-scale taxpayers shall be 3%.

Stamp Tax

Pursuant to the *Interim Regulations on Stamp Tax of PRC* (《中華人民共和國印花稅暫行條例》), which was enacted by the State Council on 6 August 1988 with effect from 1 October 1988 and its *Detailed Implementation Rules on the Interim Regulations on Stamp Tax of PRC* (《中華人民共和國印花稅暫行條例實施細則》) issued by the Ministry of Finance and State Administration of Taxation on 29 September 1988, all institutions and individuals establishing or accepting deeds or other instruments stated in the followings within the territory of the People's Republic of China shall pay stamp tax in accordance with the provisions of the relevant Regulations:

- (1) contracts or other deeds and instruments in the nature of contracts of purchases and sales, processing, construction projects, lease of property, cargo transportation, storage and warehousing, loans, property insurance and technology contracts;
- (2) deeds of transfers of proprietary rights;
- (3) business account books;
- (4) certificates of rights and licenses; and
- (5) other documents specified as taxable by the Ministry of Finance.

Consumption Tax on Vehicles

Pursuant to the Notice on Adjusting and Perfecting Consumption Tax Policies (關於調整和完善消費稅政策的通知) jointly promulgated by the PRC Ministry of Finance and the State Administration of Taxation on 20 March 2006, effective on 1 April 2006, an automobile consumption tax for passenger vehicles was adopted on 1 April 2006. And pursuant to the “Notice on Adjusting the Policy of Consumption Tax on Passenger Vehicles” (關於調整乘用車消費稅政策的通知) promulgated by the PRC Ministry of Finance and the State Administration of Taxation with effect on 1 September 2008, the automobile consumption tax rate for passenger vehicles with emission on or below one liter was reduced from 3% to 1%, whereas the automobile consumption tax rate applicable for those with emission three liters to four liters was increased from 15% to 25% and the automobile consumption tax rate applicable for those with emission above four liters was increased from 20% to 40%.

Purchase Tax on Vehicles

Pursuant to the PRC Tentative Regulations on Vehicle Purchase Tax (車輛購置稅暫行條例) promulgated by the State Council on 22 October 2000, effective on 1 January 2001, the PRC government adopted an automobile purchase tax at the rate of 10%.

To stimulate growth in the domestic automobile industry, according to the *Restructuring and Rejuvenation Program of the Automotive Industry* (汽車產業調整和振興規劃), the automobile purchase tax rate applicable to passenger vehicles with emission on or below 1.6 liters is reduced to 5% for vehicles purchased during the period from 20 January 2009 to 31 December 2009.

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However, pursuant to the Notice on Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 Liters (關於減徵1.6升及以下排量乘用車車輛購置稅的通知), promulgated by the PRC Ministry of Finance and the State Administration of Taxation on 22 December 2009, the automobile purchase tax rate increased from 5.0% to 7.5% for such vehicles purchased during the period from 1 January 2010 to 31 December 2010.

Starting from 1 January 2011, pursuant to the Notice on the Discontinuation of the Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 Liters (關於1.6升及以下排量乘用車車輛購置稅減徵政策到期停止執行的通知), this reduced automobile purchase tax rate was discontinued and the automobile purchase tax rate applicable to such small displacement vehicles has been resumed to 10%.

Laws and regulations in relation to environmental protection

The Group is subject to environmental protection laws, rules and regulations in the PRC.

According to the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) which took effect on 26 December 1989, the State Environmental Protection Authority is authorised to formulate national environmental quality and discharge standards and monitor the environmental system at the national level.

According to the law mentioned in above paragraph, enterprises that cause environmental pollution and other public nuisances shall adopt effective measures to avoid and control the pollution and any damage caused to the environment, such as waste gas, waste water, waste residues, dust and noises generated during manufacturing or other activities. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities. Enterprises and institutions discharging pollutants shall report to and register with the relevant authorities in accordance with the provisions of the environmental protection authority under the State Council (國務院). Enterprises which are involved in manufacture, storage, transportation, sale and use of toxic chemicals and materials containing radioactive substances shall comply with the relevant regulations to prevent environmental pollution.

Pursuant to the *Law on Environmental Impact Evaluations of the PRC* (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and effective on 1 September 2003, manufacturers shall prepare environmental impact evaluation reports setting forth the impact the proposed construction project may have on the environment and the measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant project.

According to the *Law of the PRC on Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》), effective on 1 November 1984 and latest amended on 28 February 2008, new construction projects, expansion projects, reconstruction projects, and other above-water facilities that

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directly or indirectly discharge water pollutants must conduct an environmental impact appraisal. Water pollution prevention facilities must be designed, built and put into operation together with the main part of the project. Construction can begin only after the environmental protection authority has examined and approved the water pollution prevention facilities.

The PRC adopts license system for pollutant discharge. Enterprises and institutions that discharge industrial waste water or medical treatment sewage directly or indirectly into a water body, as well as other enterprises and institutions that can discharge waste water or sewage only after obtaining license for pollutant discharge shall obtain license for pollutant discharge (排污許可證); an operator of the facilities for central treatment of urban and town sewage shall also obtain license for pollutant discharge (排污許可證). No enterprise or institution is permitted to discharge any waste water or sewage mentioned in the preceding paragraph without a license for pollutant discharge or in violation of the provisions of a license for pollutant discharge.

Other major environmental regulations applicable to the Group include the *Law of the PRC on the Prevention and Control of Environmental Noise Pollution* (《中華人民共和國環境噪聲污染防治法》), the *Law of the PRC on the Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》), the *Implementation Rules of the Law of the PRC on the Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法實施細則》), the *Law of the PRC on the Prevention and Control of Air Pollution* (《中華人民共和國大氣污染防治法》), the *Law of the PRC on the Prevention and Control of Solid Waste Pollution* (《中華人民共和國固體廢物污染環境防治法》) and the *PRC Regulations Regarding Administration of Construction Project Environmental Protection* (《建設項目環境保護管理條例》).

Violation of the abovementioned laws, rules or regulations may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

Laws and regulations in relation to foreign exchange

The PRC regulates foreign currency exchanges primarily through the following rules and regulations:

- The *Foreign Currency Administration Rules*, as amended (《外匯管理條例》), which was first promulgated on 29 January 1996 and last amended on 1 August 2008; and
- The *Administrative Rules of the Settlement, Sale and Payment of Foreign Exchange* (《結匯、售匯及付匯管理規定》), which took effect from 1 July 1996.

Changes in foreign exchange and foreign investment regulations in the PRC may affect the Group's ability to invest in the PRC and the ability of the Group's PRC subsidiary to pay dividends and service debts in foreign currencies. Renminbi is not presently a freely convertible currency. Under the current PRC regulations, conversion of Renminbi is permitted in China for routine current-account foreign exchange transactions, including trade and service related foreign exchange transactions,

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payment of dividends and service of foreign debts. Conversion of Renminbi for most capital-account items, such as direct investments, investments in the PRC securities markets and repatriation of investments, however, is still subject to the approval of the State Administration of Foreign Exchange of the PRC (國家外匯管理局) (“SAFE”).

Pursuant to the above-mentioned administrative rules, enterprises with foreign investment may buy, sell and/or remit foreign currencies for current-account transactions at banks in China with authority to conduct foreign exchange business by complying with certain procedural requirements, such as presentation of valid commercial documents. For most capital-account transactions, approval from the SAFE is a pre-condition. Capital investments by foreign-invested enterprises outside China are also subject to limitations and requirements in China, such as prior approvals from the PRC Ministry of Commerce, the SAFE and the NDRC.

Pursuant to the *Notice of the SAFE on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Companies* (《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》) (“Notice No. 75”) promulgated on 21 October 2005 by the SAFE and implemented since 1 November 2005, domestic residents engaged in stock right financing and roundtrip investment via overseas special purpose companies shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Where a special purpose company experiences a “major capital modification event” such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guaranty to another party, etc., and is not involved in any roundtrip investment, the domestic resident shall, within 30 days of the major event, apply to the foreign exchange office for going through the procedures of modification or archival filing of the foreign exchange registration of the overseas investments. Since May 2007, SAFE issued a series of guidance to its local branches with respect to the operational process for SAFE registration, including without limitation the Notice of SAFE on Printing and Distributing the Implementing Rules for the Administration of Foreign Exchange in Fund-Raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Circular No. 19, which will come into effect as of July 1, 2011. The guidance standardized more specific and stringent supervision on the registration required by the SAFE notice. For example, the guidance imposes obligations on onshore subsidiaries of an offshore entity to make true and accurate statements to the local SAFE authorities in case there is any shareholder or beneficial owner of the offshore entity who is a PRC citizen or resident. Untrue statements by the onshore subsidiaries will lead to potential liability for the subsidiaries, and in some instances, for their legal representatives and other liable individuals.

Mr. Zhou, being the beneficial shareholder of our Group and a domestic resident of the PRC, has completed his foreign exchange registration of overseas investments at the local SAFE branch, in accordance with Notice No. 75, by obtaining the SAFE registration on 1 July 2011.

PRC M&A Provisions

On 8 August 2006, the MOFCOM, the State-owned Assets Supervision and Administration Commission (國有資產監督管理委員會), the State Administration of Taxation (國家稅務總局), the

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State Administration of Industry and Commerce (國家工商管理總局), the China Securities Regulatory Commission (中國證券監督管理委員會) and the SAFE (國家外匯局), jointly adopted the *Regulations on the 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 “M&A Provisions”) which came into effect on 8 September 2006 and was amended on 22 June 2009. These regulations apply to, among other matters, a foreign investor’s purchase of equity interests in a domestic PRC enterprise or subscription of a domestic company’s capital increase, resulting in the conversion of the domestic PRC company into a newly established foreign invested enterprise (the “FIE”), or a foreign investor’s establishment of an FIE and purchase through such FIE, of the assets of a domestic PRC enterprise and operation of such assets, or a foreign investor’s purchase of the assets of a domestic PRC enterprise and use of such assets to invest in and establish an FIE to operate such assets. The M&A Provisions provide that application shall be made to the MOFCOM for examination and approval of the acquisition of any company inside the PRC affiliated to a domestic PRC company, enterprise or natural person, which is made in the name of a foreign company lawfully established or controlled by such domestic PRC company, enterprise or natural person.

However, Ningbo Huazhong Plastic was established before the commencement of the M&A Provisions, which has no retrospective effect. Accordingly, the M&A Provisions do not apply to the Group and that the Listing does not require approval from the regulatory authorities of the PRC.

Circular on Security Review of Acquisition

The Circular on the Establishment of a System for Security Review of Acquisition of Domestic Enterprises by Foreign Investors (關於建立外國投資者併購境內企業安全審查制度的通知) (the “**Circular**”) was issued by the general office of the State Council on 3 February 2011, which stipulates that acquisition of enterprises related to national security for industries such as important agricultural products, energy resources, infrastructural facilities, transportation services, technologies and manufacturing of major equipment, whereby their de facto control may be held by the foreign investors, shall be subject to the safety review by MOFCOM. Further, on 4 March 2011, the MOFCOM issued the Tentative Provisions of the Ministry of Commerce on Issues Relating to the Implementation of the Security Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度有關事項的暫行規定) and later superseded by the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) (the “**Rules**”) issued by the MOFCOM on 25 August 2011 (and effective from 1 September 2011). The Rules have introduced an additional provision regarding the review of the substantive content of acquisition transactions. When foreign investors seek to acquire domestic enterprises, whether such transactions are subject to a security review would depend on the substantive content and actual impacts of the transactions. Foreign investors are prohibited from circumventing the security review by any means, including but not limited to nominal holdings, holdings on trust, multi-level investments, leases, loans, protocol control (such as obtaining control through contracts) and offshore transactions.

The Circular, among other things, provides that merger and acquisition transactions by foreign investors of domestic enterprises in sensitive sectors or industries may be subject to security review and, as a result may be blocked due to their impact on the national defense security, national economic

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stability, basic social life order, or capacity of indigenous research and development of key technologies. However, the impact of the Circular and the Rules with respect to our future merger and acquisition transactions of PRC domestic enterprises remains unclear as such rule does not include a detailed list of sensitive sectors or industries.

Having reviewed the relevant rules and regulations and based on our latest knowledge, understanding and the legal opinion provided by the PRC Legal Advisers, our Directors believe that our business does not fall within an industry that relates to national security, and therefore, we are not subject to safety review by the MOFCOM. Although our industry is generally deemed as non-sensitive, the relevant PRC regulatory authorities may have a different view or interpretation in this regard when implementing the Circular and the Rules.

PRC Trademark Law

Under the *Trademark Law of the PRC* (《中華人民共和國商標法》), which was last amended on 27 October 2001, any of the following acts shall be deemed to be an infringement of the exclusive right to use a registered trademark:

- (1) using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorisation of the owner of the registered trademark;
- (2) selling goods that violate the exclusive right to use a registered trademark;
- (3) counterfeiting, or making without authorisation, representations of another party's registered trademark, or selling such representations;
- (4) altering another party's registered trademark without authorization and selling goods bearing such an altered trademark; or
- (5) otherwise causing prejudice to another party's exclusive right to use its registered trademark.

In the event where any of the above mentioned acts infringe the right to the exclusive use of a registered trademark, the infringer would be imposed a fine and/or ordered to stop the infringement acts immediately, and/or to give the infringed party compensation.

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OUR BUSINESS DEVELOPMENT

Introduction

We were founded in September 1993 through the establishment of Ningbo Huazhong Plastic in Ningbo, the PRC which, at that time, was principally engaged in the design, manufacture and sales of moulds and tooling for automobile body parts and air conditioning unit casings for automobiles.

With a view to increasing our product portfolio, we started the development and manufacturing of ABC-pillars and rocker panels in 1996 and have successfully become an approved supplier of FAW-Volkswagen Automotive Co. Ltd. in the same year.

Subsequently, we became an approved supplier of Chery Automobile Co. Ltd., and Shanghai Delphi Automotive Air-conditioning Systems Co. Ltd. in 1999 Shanghai General Motors Co., Ltd., in 2000 respectively.

In 2000, we started developing LPIM technique which allows fabric to adhere on the plastic backing without glue or other chemical substance. In the same year, we successfully developed moulds and toolings for use in LPIM. We started commercial production of products using LPIM technique in 2003 and were then one of the few manufacturers which possessed the know-how of this technique in the PRC.

To cope with our expansion and our strategy of being in close proximity to key automakers in the PRC, we commenced construction of our production facility in Changchun, the PRC with a site area of about 40,000 sq.m. in 2002.

In 2003, Ningbo Huazhong Moulding was recognised by Ningbo Mould Industry Association* (寧波市模具行業協會) as one of the top ten precision moulding manufacturers in Ningbo (寧波市模具行業十強企業).

In order to provide better service to our customers located in the Southern part of China, we set up a production facility in Guangzhou in 2004 with a site area of about 5,245.9 sq.m.

In March 2004, Ningbo Hualete was established with two German textile manufacturers, namely, Roekona and ZoeppriteX, to engage in the production of nonwoven fabric products for use in automobile body parts, which supplied to our Group for further process for the production of ABCD-pillars and headliners and also sold to other automotive parts manufacturers.

In 2005, we became an approved supplier of Beijing Benz Automotive Co. Ltd. (formerly known as Beijing Benz-Daimler Chrysler Automotive Co. Ltd.).

We further expanded our product portfolio by developing and manufacturing front-end carrier and bumper for FAW-Volkswagen Automotive Co. Ltd. in 2006.

In the same year, we became an approved supplier of Changan Ford Mazda Automobile Corporation Ltd..

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We further extended our footprint in the western part of China through the establishment of a production facility in Chongqing in 2007 with total gross floor area of about 3,900 sq.m., and a production facility in Chengdu in 2010 with a site area of about 34,444.9 sq.m..

In 2011, we have established Changchun Huaxiang Faurecia with Faurecia (China) Holding Co. Ltd., a member of a group of companies which is one of the largest automotive suppliers in the world, for the development and manufacture of bumpers and other external decorative automobile body parts.

As at the Latest Practicable Date, apart from our new production site in Changchun with a site area of about 83,188 sq.m. which is currently under construction, we (together with our jointly controlled entities) have 11 production facilities which were located in Ningbo, Changchun, Shanghai, Chongqing, Guangzhou and Chengdu with total site area of about 335,767.7 sq.m..

Our business milestone

The following table sets forth the business development milestones of our Group since our establishment:

Year	Milestone
1993	<ul style="list-style-type: none">Established Ningbo Huazhong Plastic
1996	<ul style="list-style-type: none">Became an approved supplier of FAW-Volkswagen Automotive Co. Ltd.
1999	<ul style="list-style-type: none">Became an approved supplier of Chery Automobile Co. Ltd.Became an approved supplier of Shanghai Delphi Automotive Air-conditioning Systems Co., Ltd.
2000	<ul style="list-style-type: none">Became an approved supplier of Shanghai General Motors Co., Ltd.Developed moulding for use in LPIM
2002	<ul style="list-style-type: none">Commenced construction of production facilities in Changchun with site area of about 40,000 sq.m.
2003	<ul style="list-style-type: none">Commenced commercialised production using LPIM techniqueReceived recognition from Ningbo Mould Industry Association* (寧波市模具行業協會) that Ningbo Huazhong Moulding was one of the top ten precision moulding manufacturers in Ningbo in 2003
2004	<ul style="list-style-type: none">Accredited as Excellent Localisation Supplier of the Year (優秀國產化供應商) by FAW-Volkswagen Automotive Co. Ltd.Established Ningbo Hualete with two German textile manufactures, Roekona and Zoeppritex for production of nonwoven textile productsEstablished a production facility in Guangzhou with total site area of about 5,245.9 sq.m.

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Year	Milestone
2005	<ul style="list-style-type: none">Accredited with the Certificate of Innovative and High-end Technology Enterprise (高新技術企業認定證書)Became an approved supplier of Beijing Benz Automotive Co. Ltd.
2006	<ul style="list-style-type: none">Became an approved supplier of Changan Ford Mazda Automobile Corporation Ltd.
2007	<ul style="list-style-type: none">Established a production facility in Chongqing with total gross floor area of about 3,900 sq.m.
2009	<ul style="list-style-type: none">Obtained ISO/TS 16949:2009 Certification
2010	<ul style="list-style-type: none">Established a production facility in Chengdu with a site area of about 34,444.9 sq.m.
2011	<ul style="list-style-type: none">Established Changchun Huaxiang Faurecia with Faurecia (China) Holding Co. Ltd. for the development and manufacture of bumpers and other external decorative automobile body parts

OUR HISTORY AND DEVELOPMENT

The history of our Group can be traced to the establishment of Ningbo Huazhong Plastic on 11 September 1993. At the time of its establishment, Ningbo Huazhong Plastic had an initial registered capital of US\$350,000 held by its founding shareholders, Macao Hong Un Real Estate Company (澳門鴻源地產置業公司) and Xiangshan Huazhong Industrial Plastic Parts Factory* (象山華眾工程塑料廠). Since its establishment, Ningbo Huazhong Plastic focused primarily on the business of manufacturing and selling internal and external structural and decorative automobile body parts.

Companies comprising our Group

Our Group comprises our Company, Huazhong Investment, Huayou Investment and the following subsidiaries in the PRC:

Ningbo Huazhong Plastic

Ningbo Huazhong Plastic is an operating subsidiary of our Company in Ningbo which principally engages in the manufacturing and selling of internal and external structural and decorative automobile body parts. Ningbo Huazhong Plastic was established as a sino-foreign equity joint venture company on 11 September 1993 with an initial registered capital of US\$350,000 which was held as to 70% by 象山華眾工程塑料廠 (Xiangshan Huazhong Industrial Plastic Parts Factory*) and 30% by Macao Hong Un Real Estate Company (澳門鴻源地產置業公司) (“Macao Hong Un”). Macao Hong Un was a sole proprietorship operated under the name of Mr. Song Hong Nin in Macau, which was beneficially owned by Mr. Zhou.

On 1 April 1998, the registered capital of Ningbo Huazhong Plastic was increased from US\$350,000 to US\$850,000, with the increased portion fully-paid by each of the then shareholders proportional to their respective equity interest in Ningbo Huazhong Plastic.

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On 5 November 1999, the registered capital of Ningbo Huazhong Plastic was further increased from US\$850,000 to US\$2.8 million, with the increased portion fully-paid by the then shareholders proportional to their respective equity interest in Ningbo Huazhong Plastic. Subsequent to such increase in the registered capital of Ningbo Huazhong Plastic, on 14 July 2000, 象山華眾工程塑料廠 (Xiangshan Huazhong Industrial Plastic Parts Factory*) transferred its entire equity interest in Ningbo Huazhong Plastic to Huaxiang Group for a consideration of US\$1.96 million, which was determined with reference to the then registered capital of Ningbo Huazhong Plastic. Upon completion of this equity transfer, Ningbo Huazhong Plastic was held as to 70% by Huaxiang Group and 30% by Macao Hong Un, which was beneficially held by Mr. Zhou.

On 22 September 2000, Huaxiang Group transferred its 51% equity interest in Ningbo Huazhong Plastic to Ningbo Huaxiang Electronics for a consideration of RMB12 million, which was determined with reference to the then registered capital of Ningbo Huazhong Plastic. The said transfer was terminated by mutual agreement between the parties on 26 April 2001. The said termination was due to the parties have not completed the transfer and that Macao Hong Un, as a shareholder of Ningbo Huazhong Plastic, was willing to continue to work with Huaxiang Group in developing Ningbo Huazhong Plastic. Ningbo Huazhong Plastic remained to be owned as to 70% by Huaxiang Group and 30% by Macao Hong Un, which was beneficially held by Mr. Zhou.

On 8 July 2002, Huaxiang Group transferred its entire equity interest in Ningbo Huazhong Plastic to Ms. Lai Danfen (賴丹芬), a cousin of Mr. Zhou, for a consideration of RMB17 million, which was determined with reference to the then registered capital of Ningbo Huazhong Plastic. The said transfer was a transfer of assets among Mr. Zhou Cimei (周辭美), father of Mr. Zhou, and his niece, Ms. Lai Danfen (賴丹芬) as part of the family arrangement. Upon completion of this equity transfer, Ningbo Huazhong Plastic was held as to 70% by Ms. Lai Danfen (賴丹芬) and 30% by Macao Hong Un, which was beneficially held by Mr. Zhou.

On 24 December 2003, Ms. Lai Danfen (賴丹芬) transferred her 52.5% equity interest in Ningbo Huazhong Plastic to Ningbo Huayou Properties for a consideration of US\$1.47 million and her remaining 17.5% equity interest in Ningbo Huazhong Plastic to Ningbo Huazhong Moulding for a consideration of US\$490,000. At the time of these equity transfers, Ningbo Huayou Properties was controlled by Mr. Zhou, Ningbo Huazhong Moulding was controlled by Mr. Zhou and Huaxiang Group was controlled by Mr. Zhou Cimei (周辭美). Ms. Lai Danfen (賴丹芬) agreed to transfer her equity interest in Ningbo Huazhong Plastic to Ningbo Huayou Properties and Ningbo Huazhong Moulding based on the then registered capital of Ningbo Huazhong Plastic after negotiations with Mr. Zhou, her cousin, and Mr. Zhou Cimei (周辭美), her uncle, as part of the family arrangement. Upon completion of these equity transfers, Ningbo Huazhong Plastic was held as to 52.5% by Ningbo Huayou Properties, 17.5% by Ningbo Huazhong Moulding and 30% by Macao Hong Un, which was beneficially held by Mr. Zhou. On the same day, the registered capital of Ningbo Huazhong Plastic was further increased from US\$2.8 million to US\$5 million, with the increased portion fully-paid by the then shareholders proportional to their respective equity interest in Ningbo Huazhong Plastic.

In or around June 2004, 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) indicated its interest in acquiring the equity interest of Ningbo Huazhong Plastic. After negotiations, Ningbo Huayou Properties and Ningbo Huazhong Moulding agreed to sell their respective 52.5% and 17.5% equity interest in Ningbo Huazhong Plastic to 象山縣西周鎮資產經

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營公司 (Xiangshan Xizhou Town Asset Management Company*), but in order to minimise the time that Mr. Zhou Cimei (周辭美) and Mr. Zhou would need to spend in negotiating with 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) and to allow them to focus the time on managing their respective business, the parties at the time decided that a trusted individual, Ms. Lai Danfen (賴丹芬), would first acquire the equity interest in Ningbo Huazhong Plastic from each of Ningbo Huayou Properties and Ningbo Huazhong Moulding for a consideration based on the then registered capital of Ningbo Huazhong Plastic before transferring the aggregate of 70% equity interest in Ningbo Huazhong Plastic to 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*). On 2 July 2004, each of Ningbo Huayou Properties and Ningbo Huazhong Moulding transferred their respective 52.5% and 17.5% equity interests in Ningbo Huazhong Plastic to Ms. Lai Danfen (賴丹芬) for a consideration of US\$2,625,000 and US\$875,000, respectively. Upon completion of these equity transfers, Ningbo Huazhong Plastic was held as to 70% by Ms. Lai Danfen (賴丹芬) and 30% by Macao Hong Un, which was beneficially held by Mr. Zhou.

In accordance with the earlier understanding between the parties that Ms. Lai Danfen (賴丹芬) was only to hold the equity interest in Ningbo Huazhong Plastic for a short period, on 15 July 2004, Ms. Lai Danfen (賴丹芬) transferred her entire equity interest in Ningbo Huazhong Plastic to 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) for a consideration of RMB37,556,000 (equivalent to approximately US\$4,524,000 at the time), which was determined with reference to the audited net asset value of Ningbo Huazhong Plastic as at 31 March 2004, which was RMB53,651,109. At the time of this equity transfer, the registered capital of Ningbo Huazhong Plastic was US\$5 million. Upon completion of this equity transfer, Ningbo Huazhong Plastic was held as to 70% by 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*), an Independent Third Party, and 30% by Macao Hong Un, which was beneficially held by Mr. Zhou. To the best knowledge of our Directors, at the time when 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) was a shareholder of Ningbo Huazhong Plastic, it was controlled by 西周鎮政府 (Xizhou Town Government*).

On 17 May 2006, 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) transferred its 49% and 21% equity interest in Ningbo Huazhong Plastic to Huaxiang Group and Mr. Chen Yuncai (陳雲財), a cousin of Mr. Zhou, for a consideration of RMB85,053,400 and RMB36,451,500, respectively. The consideration for each of these equity transfers was determined with reference to the appraised net asset value of Ningbo Huazhong Plastic as at 30 September 2005, which was RMB173,578,400. As at 30 September 2005, the net asset value of Ningbo Huazhong Plastic has increased to RMB151,760,900 (on an unaudited basis), representing an increase of RMB98,109,791 from the audited net asset value of RMB53,651,109 as at 31 March 2004, which was mainly due to a profit (unaudited) recorded during the period of RMB58,609,973 and a reverse of dividends payable recorded as at 31 March 2004 of RMB80 million which were partially offset by a declaration and payment of dividends to the then shareholders of Ningbo Huazhong Plastic during the period of RMB8,621,458 and prior year adjustments made by the new valuers who prepared the valuation report as at 30 September 2005 to decrease the accumulated profit prior to 1 January 2005 of RMB31,878,724. Huaxiang Group and Mr. Zhou believed the future prospect of Ningbo Huazhong Plastic to be very prosperous and were eager to acquire the 70% equity interest in Ningbo Huazhong Plastic from 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*). As a result, as part of the commercial negotiated terms with 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*), Ningbo Huayou Properties (a company controlled by

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Mr. Zhou at the time), Ningbo Huazhong Moulding (a company controlled by Mr. Zhou Cimei (周辭美), who was one of the substantial shareholders of Huaxiang Group, at the time) and Macao Hong Un (a company controlled by Mr. Zhou at the time) would have to forfeit the dividends declared in Ningbo Huazhong Plastic, which would increase the valuation of Ningbo Huazhong Plastic and provide a return on investment to 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*). Such arrangement was decided after negotiations with 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*). Hence, RMB80 million of dividends declared in Ningbo Huazhong Plastic was reversed in order to facilitate the acquisition of 70% equity interest in Ningbo Huazhong Plastic by Huaxiang Group and Mr. Chen Yuncai (陳雲財) (in trust for Mr. Zhou). During the period from 15 July 2004 to 17 May 2006 when 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) was a shareholder of Ningbo Huazhong Plastic, 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) was a passive investor and had not participated actively in the day-to-day management of Ningbo Huazhong Plastic. 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) has appointed directors in the board of directors of Ningbo Huazhong Plastic to safeguard its interest during the period. These directors, who represented the interest of 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*), carried out the function of overall strategic planning and supervision of Ningbo Huazhong Plastic and followed the instructions of 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) in discharging such function. On the other hand, the day-to-day management function of Ningbo Huazhong Plastic was entrusted to the senior management of Ningbo Huazhong Plastic, principally Mr. Zhou, who was the general manager of Ningbo Huazhong Plastic during the relevant time. Upon completion of these equity transfers, Ningbo Huazhong Plastic was held as to 49% by Huaxiang Group, 21% by Mr. Chen Yuncai (陳雲財) in trust for Mr. Zhou and 30% by Macao Hong Un. Mr. Chen Yuncai (陳雲財) held the 21% equity interest in Ningbo Huazhong Plastic in trust for Mr. Zhou pursuant to a trust agreement entered into between Mr. Chen Yuncai (陳雲財) and Mr. Zhou dated 24 April 2006. At the time of such equity transfers, Mr. Chen Yuncai (陳雲財) had a good relationship with the management of 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) and was able to negotiate more favourable terms with them and Mr. Zhou therefore nominated Mr. Chen Yuncai (陳雲財) to negotiate the acquisition of and to hold the 21% equity interest in Ningbo Huazhong Plastic on his behalf. Our PRC legal advisers are of the view that such trust arrangement does not violate any relevant PRC laws and regulations and is valid and binding among Mr. Chen Yuncai (陳雲財) and Mr. Zhou. Hence, Ningbo Huazhong Plastic was beneficially held as to 49% by Huaxiang Group and 51% by Mr. Zhou.

On 12 September 2006, Huaxiang Group transferred its entire equity interest in Ningbo Huazhong Plastic to Ningbo Huaxiang Electronics for a consideration of RMB33,985,800, which was determined with reference to the audited net asset value of Ningbo Huazhong Plastic as at 31 March 2006, which was RMB69,358,800. The net asset value of Ningbo Huazhong Plastic decreased from RMB151,760,900 (on an unaudited basis) as at 30 September 2005 to RMB69,358,800 (on an audited basis) as at 31 March 2006, representing a decrease of RMB82,402,100, mainly due to the declaration and payment of dividends to the shareholders of Ningbo Huazhong Plastic of RMB110,945,300 during the period. Huaxiang Group transferred its interest in Ningbo Huazhong Plastic as part of the corporate

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reorganisation of Ningbo Huaxiang Electronics for the purpose of its listing on the Shenzhen Stock Exchange. Upon completion of this equity transfer, Ningbo Huazhong Plastic was held as to 49% by Ningbo Huaxiang Electronics, 21% by Mr. Chen Yuncai (陳雲財) and 30% by Macao Hong Un, and therefore Mr. Zhou beneficially held 51% in Ningbo Huazhong Plastic.

On 20 July 2007, Ningbo Huaxiang Electronics transferred its entire equity interest in Ningbo Huazhong Plastic to Mr. Zhou at a consideration of RMB37,715,800, which was determined with reference to the appraised net asset value of Ningbo Huazhong Plastic as at 31 December 2006. Upon completion of this equity transfer, Ningbo Huazhong Plastic was held as to 49% by Mr. Zhou, 21% by Mr. Chen Yuncai (陳雲財) in trust for Mr. Zhou and 30% by Macao Hong Un, and therefore Mr. Zhou beneficially wholly-owned Ningbo Huazhong Plastic.

As part of the Reorganisation, on 29 July 2011, each of Mr. Zhou, Mr. Chen Yuncai (陳雲財) and Macao Hong Un transferred their respective 49%, 21% and 30% equity interest in Ningbo Huazhong Plastic to Huayou Investment at a consideration of RMB19.6 million, RMB8.4 million and RMB12 million, respectively. The equity interest transferred from Mr. Chen Yuncai (陳雲財) was free from charges and encumbrances. The consideration for each of these equity transfers was determined with reference to the then registered capital of Ningbo Huazhong Plastic. Upon completion of these equity transfers, Ningbo Huazhong Plastic became a wholly foreign owned enterprise and was wholly-owned by Huayou Investment and an indirectly wholly-owned subsidiary of our Company. Further, the trust arrangement between Mr. Chen Yuncai (陳雲財) and Mr. Zhou with respect to the 21% equity interest in Ningbo Huazhong Plastic was also terminated upon completion of the transfer of the said equity interest to Huayou Investment.

Chengdu Huazhong

Chengdu Huazhong is an operating subsidiary of our Company in Chengdu which principally engages in the manufacturing and selling of internal and external structural and decorative automobile body parts. Chengdu Huazhong was established on 22 October 2009 with an initial registered capital of RMB20 million and was held as to 51% by Ningbo Huazhong Plastic and 49% by Mr. Zhou, respectively.

As part of the Reorganisation, on 28 December 2010, Mr. Zhou transferred his 49% equity interest in Chengdu Huazhong to Ningbo Huazhong Plastic for a consideration of RMB1,960,000, which was determined with reference to the contributed capital of Chengdu Huazhong. Upon completion of this equity transfer, Chengdu Huazhong was wholly-owned by Ningbo Huazhong Plastic and an indirectly wholly-owned subsidiary of our Company.

Guangzhou Huazhong

Guangzhou Huazhong is an operating subsidiary of our Company in Guangzhou which principally engages in the manufacturing and selling of internal and external structural and decorative automobile body parts. Guangzhou Huazhong was established on 24 September 2004 with an initial registered capital of RMB3 million and was held as to 50% by Ningbo Huayou Properties and 50% by Ningbo Huazhong Moulding.

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As part of the Reorganisation, on 28 October 2010, each of Ningbo Huayou Properties and Ningbo Huazhong Moulding transferred their respective equity interest in Guangzhou Huazhong to Ningbo Huazhong Plastic for a consideration of RMB1.5 million each, which was determined with reference to the registered capital of Guangzhou Huazhong. Upon completion of these equity transfers, Guangzhou Huazhong was wholly-owned by Ningbo Huazhong Plastic and an indirectly wholly-owned subsidiary of our Company.

Ningbo Huazhong Moulding

Ningbo Huazhong Moulding is an operating subsidiary of our Company in Ningbo which principally engages in the manufacturing and selling of automobile moulds and toolings. Ningbo Huazhong Moulding was established on 25 January 2002 with an initial registered capital of RMB10 million and was held as to 49% by Huaxiang Group and 51% by Mr. Zhou.

On 11 March 2005, Mr. Zhou transferred his entire equity interest in Ningbo Huazhong Moulding to Ningbo Zhongxin for a consideration of RMB5.1 million, which was determined with reference to the then registered capital of Ningbo Huazhong Moulding. Upon completion of this equity transfer, Ningbo Huazhong Moulding was held as to 49% by Huaxiang Group and 51% by Ningbo Zhongxin.

As part of the Reorganisation, on 29 October 2010, Huaxiang Group and Ningbo Zhongxin transferred their respective 49% and 51% equity interests in Ningbo Huazhong Moulding to Ningbo Huazhong Plastic for a consideration of RMB4.9 million and RMB5.1 million, respectively. The consideration for each of these equity transfers was determined with reference to the registered capital of Ningbo Huazhong Moulding. Upon completion of these equity transfers, Ningbo Huazhong Moulding became wholly-owned by Ningbo Huazhong Plastic and an indirectly wholly-owned subsidiary of the Company.

Changchun Huateng

Changchun Huateng is an operating subsidiary of our Company in Changchun which principally engages in the manufacturing and selling of internal and external structural and decorative automobile body parts. Changchun Huateng was established on 22 July 1997 with an initial registered capital of RMB1 million and was held as to 40% by 長春市華興機械加工廠 (Changchun City Huaxing Machinery Processing Factory*) and 60% by Huaxiang Group.

On 13 July 2001, 長春市華興機械加工廠 (Changchun City Huaxing Machinery Processing Factory*) transferred its entire equity interest in Changchun Huateng to 一汽傑克賽爾汽車空調有限公司工會委員會 (Labour Union Committee of FAW Zexel Automobile Air Conditioner Co., Ltd.*) for a consideration of RMB400,000, which was determined with reference to the then registered capital of Changchun Huateng. Upon completion of this equity transfer, Changchun Huateng was held as to 60% by Huaxiang Group and 40% by 一汽傑克賽爾汽車空調有限公司工會委員會 (Labour Union Committee of FAW Zexel Automobile Air Conditioner Co., Ltd.*).

On 27 September 2003, 一汽傑克賽爾汽車空調有限公司工會委員會 (Labour Union Committee of FAW Zexel Automobile Air Conditioner Co., Ltd.*) transferred its entire equity interest in Changchun Huateng to Mr. Zhou for a consideration of RMB400,000, which was determined with reference to the registered capital of Changchun Huateng. Upon completion of this equity transfer, Changchun Huateng was held as to 60% by Huaxiang Group and 40% by Mr. Zhou.

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On 26 December 2008, each of Huaxiang Group and Mr. Zhou transferred their respective 60% and 20% interests in Changchun Huateng to Ningbo Huazhong Plastic for a consideration of RMB600,000 and RMB200,000, respectively. Huaxiang Group transferred its interest in Changchun Huateng to Ningbo Huazhong Plastic as Changchun Huateng had transactions with Ningbo Huazhong Plastic and Ningbo Huazhong Plastic was then partially held by Ningbo Huaxiang Electronics and such transfer would eliminate any potential connected transactions under the relevant rules and regulations of the Shenzhen Stock Exchange. The consideration for each of these equity transfers was determined with reference to the registered capital of Changchun Huateng. Upon completion of these equity transfers, Changchun Huateng was held as to 80% by Ningbo Huazhong Plastic and 20% by Mr. Zhou.

As part of the Reorganisation, on 4 November 2010, Mr. Zhou transferred his entire equity interest in Changchun Huateng to Ningbo Huazhong Plastic at a consideration of RMB200,000, which was determined with reference to the registered capital of Changchun Huateng. Upon completion of this equity transfer, Changchun Huateng became wholly-owned by Ningbo Huazhong Plastic and an indirectly wholly-owned subsidiary of our Company.

Changchun Huaxiang

Changchun Huaxiang is an operating subsidiary of our Company in Changchun which was principally engaged in the manufacturing and selling of internal and external structural and decorative automobile body parts before transferring its production and manufacturing equipment and machinery, inventory and intangible assets to Changchun Huaxiang Faurecia pursuant to an asset purchase agreement dated 1 June 2011. Upon completion of the transfer, Changchun Huaxiang is principally engaged in leasing of properties. Changchun Huaxiang was established on 9 June 2000 with an initial registered capital of RMB15,000,000 and was held as to 60% by Mr. Zhou and 40% by Ningbo Huazhong Plastic.

On 8 March 2005, Mr. Zhou transferred his 50% and 10% equity interests in Changchun Huaxiang to Ningbo Huazhong Plastic and Ningbo Zhongxin for a consideration of RMB7,500,000 and RMB1,500,000, respectively. At the time, Ningbo Huazhong Plastic was controlled by an Independent Third Party, 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*), and after negotiations with Ningbo Huazhong Plastic, Mr. Zhou agreed to transfer his 50% equity interest in Changchun Huaxiang to Ningbo Huazhong Plastic, whose management at that time believed that the performance of Changchun Huaxiang would be improved. At the same time, Mr. Zhou transferred his 10% equity interest in Changchun Huaxiang to Ningbo Zhongxin as a transfer of assets among his family after negotiations with Mr. Zhou Cimei (周辭美), his father and who controlled Ningbo Zhongxin. The consideration for each of these equity transfers was determined with reference to the registered capital of Changchun Huaxiang. Upon completion of these equity transfers, Changchun Huaxiang was held as to 90% by Ningbo Huazhong Plastic and 10% by Ningbo Zhongxin.

On 30 September 2005, each of Ningbo Zhongxin and Ningbo Huazhong Plastic transferred their respective 10% and 23.3333% interests in Changchun Huaxiang to Ms. Lai Cairong (賴彩絨), the mother of Mr. Zhou, for a consideration of RMB1.5 million and RMB3.5 million, respectively. On the same day, Ningbo Huazhong Plastic transferred its 66.6667% interests in Changchun Huaxiang to Ningbo Huayou Properties for a consideration of RMB10 million. At the time, Ningbo Huazhong

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Plastic was controlled by an Independent Third Party, 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*). As Changchun Huaxiang was under-performing, 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) was considering to sell the interest that Ningbo Huazhong Plastic held in Changchun Huaxiang. After negotiations with Mr. Zhou and Ms. Lai Cairong (賴彩絨), as Changchun Huaxiang was established by Mr. Zhou, Ningbo Huayou Properties and Ms. Lai Cairong (賴彩絨) agreed to acquire the interest in Changchun Huaxiang held by Ningbo Huazhong Plastic. The consideration for each of these equity transfers was determined with reference to the registered capital of Changchun Huaxiang. Upon completion of these equity transfers, Changchun Huaxiang was held as to 66.6667% by Ningbo Huayou Properties and 33.3333% by Ms. Lai Cairong (賴彩絨).

On 26 December 2008, each of Ningbo Huayou Properties and Ms. Lai Cairong (賴彩絨) transferred their respective 66.6667% and 13.3333% interests in Changchun Huaxiang to Ningbo Huazhong Plastic for a consideration of RMB10 million and RMB2 million, respectively. On the same day, Ms. Lai Cairong (賴彩絨) transferred her 20% interests in Changchun Huaxiang to Mr. Zhou at a consideration of RMB3 million. At the time, Ningbo Huazhong Plastic was controlled by Mr. Zhou. In order to consolidate the related businesses of Mr. Zhou, Ningbo Huayou Properties and Ms. Lai Cairong (賴彩絨) agreed to transfer their equity interest in Changchun Huaxiang to Ningbo Huazhong Plastic. The consideration for each of these equity transfers was determined with reference to the registered capital of Changchun Huaxiang. Upon completion of these equity transfers, Changchun Huaxiang was held as to 80% by Ningbo Huazhong Plastic and 20% by Mr. Zhou.

As part of the Reorganisation, on 20 September 2010, each of Ningbo Huazhong Plastic and Mr. Zhou transferred their respective 80% and 20% interests in Changchun Huaxiang to Changchun Huateng for a consideration of RMB12 million and RMB3 million, respectively. The consideration for each of these equity transfers was determined with reference to the registered capital of Changchun Huaxiang. Upon completion of these equity transfers, Changchun Huaxiang became wholly-owned by Changchun Huateng.

Ningbo Xinxing

Ningbo Xinxing is an operating subsidiary of our Company in Ningbo which principally engages in the manufacturing and selling of automobile body parts, including internal and external decorative parts, and air conditioning unit casings. The history of Ningbo Xinxing can be traced back to 1984 when 寧波新星工程塑料製品廠 (Ningbo Xinxing Project Plastic Products Factory*), a collectively-owned enterprise, was established by 鄞縣石碶鎮鎮政府 (Yinxian Shiqi Town Government*). Ningbo Xinxing was established on 25 December 1984. On 28 April 1997, Ningbo Xinxing underwent corporate restructuring whereby Ningbo Xinxing became an equity cooperative enterprise with an initial registered capital of RMB3.4 million and was held as to 70% by Huaxiang Group and 30% by 石碶鎮資產經營公司 (Shigan Town Asset Management Company*).

On 11 September 2001, Ningbo Xinxing underwent further corporate restructuring whereby Ningbo Xinxing became a limited liability company and the contribution of the registered capital was changed to 90% by Huaxiang Group and 10% by 鄞縣石碶鎮資產經營公司 (Yinxian Shigan Town Asset Management Company*).

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On 7 August 2006, 鄞縣石矸鎮資產經營公司 (Yinxian Shigan Town Asset Management Company*) transferred its entire equity interest in Ningbo Xinxing to Ningbo Huayou Properties for a consideration of RMB340,000, which was determined with reference to the registered capital of Ningbo Xinxing. Upon completion of this equity transfer, Ningbo Xinxing was held as to 10% by Ningbo Huayou Properties and 90% by Huaxiang Group.

On 15 October 2008, Huaxiang Group transferred its entire equity interest in Ningbo Xinxing to Ningbo Huazhong Plastic for a consideration of RMB3.06 million, which was determined with reference to the registered capital of Ningbo Xinxing. Upon completion of this equity transfer, Ningbo Xinxing was held as to 10% by Ningbo Huayou Properties and 90% by Ningbo Huazhong Plastic.

As part of the Reorganisation, on 5 November 2010, Ningbo Huayou Properties transferred its entire equity interest in Ningbo Xinxing to Ningbo Huazhong Plastic for a consideration of RMB340,000, which was determined with reference to the registered capital of Ningbo Xinxing. Upon completion of this equity transfer, Ningbo Xinxing became wholly-owned by Ningbo Huazhong Plastic and an indirectly wholly-owned subsidiary of our Company.

Chongqing Huazhong

Chongqing Huazhong is an operating subsidiary of our Company in Chongqing which principally engages in the manufacturing and selling of internal and external structural and decorative automobile body parts. Chongqing Huazhong was established on 30 August 2007 with an initial registered capital of RMB5 million and was held as to 51% by Mr. Zhou and 49% by Ningbo Huayou Properties.

As part of the Reorganisation, on 4 November 2010, each of Mr. Zhou and Ningbo Huayou Properties transferred their respective equity interest in Chongqing Huazhong to Ningbo Huazhong Plastic for a consideration of RMB2.55 million and RMB2.45 million, respectively. The consideration for each of these equity transfers was determined with reference to the registered capital of Chongqing Huazhong. Upon completion of these equity transfers, Chongqing Huazhong became wholly-owned by Ningbo Huazhong Plastic and an indirectly wholly-owned subsidiary of our Company.

Shanghai Huaxin

Shanghai Huaxin is an operating subsidiary of our Company in Shanghai and principally engages in the manufacturing and selling of automobile body parts, including internal and external decorative parts, air conditioning unit casings and battery casings. The history of Shanghai Huaxin can be traced to 1993 when 上海華新汽車橡塑製品公司 (Shanghai Huaxin Plastic and Latex Products Company*), a collectively-owned enterprise established on 21 June 1993 with an initial registered capital of RMB2.8 million which was held as to 50% by 寧波郵電器材廠 (Ningbo Postal and Telecommunication Appliance Factory*), 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*), an Independent Third Party, and 20% by 上海市北蔡實業公司 (Shanghai Beicai Industrial Company*), an Independent Third Party. 上海市北蔡實業公司 (Shanghai Beicai Industrial Company*) changed its name to 上海北蔡實業總公司 (Shanghai Beicai Industrial Head Company*) on 12 August 1994. Shanghai Huaxin underwent corporate restructuring and became a limited liability company on 4 June 2001. During such corporate restructuring, the name of the shareholder of 寧波郵電器材廠 (Ningbo Postal and Telecommunication Appliance Factory*) was changed to Huaxiang Group and the

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registered capital of Shanghai Huaxin was increased from RMB2.8 million to RMB7.6 million with the increased portion fully paid by its then shareholders. After the completion of the corporate restructuring, Shanghai Huaxin was owned as to 51% by Huaxiang Group, 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*) and 19% by 上海北蔡實業總公司 (Shanghai Beicai Industrial Head Company*).

On 1 August 2001, Huaxiang Group transferred its entire equity interest in Shanghai Huaxin to Ningbo Huaxiang Electronics for a consideration of RMB7,313,209.08 which was determined with reference to the appraised net asset value of Shanghai Huaxin as at 31 March 2001. The said transfer was due to a transfer of assets among Mr. Zhou Cimei (周辭美), father of Mr. Zhou, and Mr. Zhou Xiaofeng (周曉峰), brother of Mr. Zhou. Upon completion of this equity transfer, Shanghai Huaxin was held as to 51% by Ningbo Huaxiang Electronics, 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*) and 19% by 上海北蔡實業總公司 (Shanghai Beicai Industrial Head Company*).

On 9 November 2001, 上海北蔡實業總公司 (Shanghai Beicai Industrial Head Company*) transferred its entire equity interest in Shanghai Huaxin to 上海市北蔡工業公司 (Shanghai Beicai Industrial Company*) for a consideration of RMB2,724,528.87, which was determined with reference to the appraised net asset value of Shanghai Huaxin as at 31 March 2001. Upon completion of this equity transfer, Shanghai Huaxin was held as to 51% by Ningbo Huaxiang Electronics, 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*) and 19% by 上海市北蔡工業公司 (Shanghai Beicai Industrial Company*). 上海市北蔡工業公司 (Shanghai Beicai Industrial Company*) changed its name to 上海北蔡工業有限公司 (Shanghai Beicai Industrial Co., Ltd.*) on 29 November 2001.

On 28 March 2006, the registered capital of Shanghai Huaxin was increased from RMB7.6 million to RMB20 million, with the increased portion fully-paid by each of the then shareholders proportional to their respective equity interest in Shanghai Huaxin.

As part of the Reorganisation, two transfers took place in 2011. On 7 January 2011, Ningbo Huaxiang Electronics transferred its entire equity interest in Shanghai Huaxin to Huaxiang Group for a consideration of RMB16,209,100, which was determined with reference to the net book value of Shanghai Huaxin as at 31 December 2009. Ningbo Huaxiang Electronics disposed of its equity interest in Shanghai Huaxin to increase the core competitiveness of Ningbo Huaxiang Electronics as the products produced by Shanghai Huaxin was not consistent with the long term development plan of Ningbo Huaxiang Electronics. Upon completion of this equity transfer, Shanghai Huaxin was held as to 51% by Huaxiang Group, 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*) and 19% by 上海北蔡工業有限公司 (Shanghai Beicai Industrial Co., Ltd.*).

On 23 March 2011, Huaxiang Group transferred its entire equity interest in Shanghai Huaxin to Ningbo Huazhong Plastic for a consideration of RMB16.5 million, which was determined with reference to the net asset value of Shanghai Huaxin as at 31 December 2009 less dividends declared in 2010. As the business of Shanghai Huaxin was similar to those of the Group, after negotiation with Huaxiang Group, a company controlled by the father of Mr. Zhou, Mr. Zhou Cimei (周辭美), Ningbo Huazhong Plastic acquired the interest in Shanghai Huaxin from Huaxiang Group as part of the

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Reorganisation. Upon completion of this equity transfer, Shanghai Huaxin was held as to 51% by Ningbo Huazhong Plastic, 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*) and 19% by 上海北蔡工業有限公司 (Shanghai Beicai Industrial Co., Ltd.*), and became an indirect subsidiary of our Company.

Changxing Huaxin

Changxing Huaxin is an operating subsidiary of our Company in Changxing which principally engages in the production of plastic casings for automotive storage battery.

Changxing Huaxin was established on 10 May 2011 and wholly-owned by Shanghai Huaxin. Changxing Huaxin became an indirect subsidiary of our Company.

Ningbo Huafeng

Ningbo Huafeng is an operating subsidiary of our Company in Ningbo which principally engages in the manufacturing and selling of internal and external decorative automobile body parts. Ningbo Huafeng was established on 17 March 1999 with an initial registered capital of RMB1,500,000 and was held as to 75% by Huaxiang Group and 25% by 象山縣西周鎮文畝村 (Xiangshan County Xizhou Town Wenao Village*).

On 8 August 2000, each of Huaxiang Group and 象山縣西周鎮文畝村 (Xiangshan County Xizhou Town Wenao Village*) transferred their respective 31% and 20% equity interests in Ningbo Huafeng to 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) for a consideration of RMB465,000 and RMB300,000, respectively. The consideration for each of these equity transfers was determined with reference to the then registered capital of Ningbo Huafeng. Upon completion of these equity transfers, Ningbo Huafeng was held as to 44% by Huaxiang Group, 51% by 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) and 5% by 象山縣西周鎮文畝村 (Xiangshan County Xizhou Town Wenao Village*).

On 21 March 2003, Huaxiang Group transferred its entire equity interest in Ningbo Huafeng to Ningbo Huazhong Plastic for a consideration of RMB660,000, which was determined with reference to the registered capital of Ningbo Huafeng. Ningbo Huazhong Plastic acquired the interest in Ningbo Huafeng as its business was similar to that of Ningbo Huazhong Plastic. Upon completion of this equity transfer, Ningbo Huafeng was held as to 44% by Ningbo Huazhong Plastic, 51% by 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) and 5% by 象山縣西周鎮文畝村 (Xiangshan County Xizhou Town Wenao Village*).

On 19 September 2005, Ningbo Huazhong Plastic transferred its entire equity interest in Ningbo Huafeng to Mr. Zhou for a consideration of RMB660,000, which was determined with reference to the registered capital of Ningbo Huafeng. At the time, Ningbo Huazhong Plastic was controlled by an Independent Third Party, 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) and 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) was considering to sell the interest that Ningbo Huazhong Plastic held in Ningbo Huafeng which, to the best knowledge of our Directors, was a commercial decision made by 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*). After negotiations with Mr. Zhou, as

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Ningbo Huafeng was established by Mr. Zhou, Mr. Zhou agreed to acquire the interest in Ningbo Huafeng held by Ningbo Huazhong Plastic. Upon completion of this equity transfer, Ningbo Huafeng was held as to 44% by Mr. Zhou, 51% by 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*) and 5% by 象山縣西周鎮文輿村 (Xiangshan County Xizhou Town Wenao Village*).

On 6 March 2008, each of 象山縣西周鎮資產經營公司 (Xiangshan Xizhou Town Asset Management Company*), 象山縣西周鎮文輿村 (Xiangshan County Xizhou Town Wenao Village*) and Mr. Zhou transferred their respective 51%, 5% and 34% equity interests in Ningbo Huafeng to Ningbo Huazhong Plastic for a consideration of RMB765,000, RMB75,000 and RMB510,000, respectively. The consideration for each of these equity transfers was determined with reference to the then registered capital of Ningbo Huafeng. Upon completion of these equity transfers, Ningbo Huafeng was held as to 10% by Mr. Zhou and 90% by Ningbo Huazhong Plastic.

As part of the Reorganisation, on 22 December 2010, Mr. Zhou transferred his entire equity interest in Ningbo Huafeng to Ningbo Huazhong Plastic at a consideration of RMB150,000, which was determined with reference to the registered capital of Ningbo Huafeng. Upon completion of this equity transfer, Ningbo Huafeng became wholly-owned by Ningbo Huazhong Plastic.

Wuhu Huazhong

Wuhu Huazhong is an operating subsidiary of our Company in Wuhu which principally engages in the manufacturing and selling of internal and external structural and decorative automobile body parts. Wuhu Huazhong was established on 1 June 2010 with an initial registered capital of RMB10 million and held as to 80% by Mr. Zhou and 20% by Ningbo Huazhong Plastic.

As part of the Reorganisation, on 15 June 2011, Mr. Zhou transferred his entire equity interest in Wuhu Huazhong to Ningbo Huazhong Plastic for a consideration of RMB8 million, which was determined with reference to the then registered capital of Wuhu Huazhong. Upon completion of this equity transfer, Wuhu Huazhong became a wholly-owned subsidiary of Ningbo Huazhong Plastic.

Yantai Huaxiang

Yantai Huaxiang is an operating subsidiary of our Company in Yantai which principally engages in the manufacturing and selling of internal and external structural and decorative automobile body parts. Yantai Huaxiang was established on 16 April 2010 with an initial registered capital of RMB10 million and held as to 80% by Mr. Zhou and 20% by Ningbo Huazhong Plastic.

As part of the Reorganisation, on 1 June 2011, Mr. Zhou transferred his entire equity interest in Yantai Huaxiang to Ningbo Huazhong Plastic for a consideration of RMB8 million, which was determined with reference to the then registered capital of Yantai Huaxiang. Upon completion of this equity transfer, Yantai Huaxiang became a wholly-owned subsidiary of Ningbo Huazhong Plastic.

Shanghai Xiangmao

Shanghai Xiangmao is an operating subsidiary of our Company in Shanghai which principally engages in the manufacturing and selling of internal and external structural and decorative automobile body parts. Shanghai Xiangmao was established on 30 November 2009 with a registered capital of RMB500,000, which was held as to 60% by Mr. Zhou and 40% by Ningbo Huayou Properties.

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As part of the Reorganisation, on 23 April 2011, Mr. Zhou and Ningbo Huayou Properties transferred their respective 60% and 40% equity interests in Shanghai Xiangmao to Ningbo Huazhong Plastic for a consideration of RMB300,000 and RMB200,000, respectively. The consideration for each of these equity transfers was determined with reference to the then registered capital of Shanghai Xiangmao. Upon completion of these equity transfers, Shanghai Xiangmao became a wholly-owned subsidiary of Ningbo Huazhong Plastic.

Jointly controlled entities of our Group

The following are the jointly controlled entities of our Group:

Changchun Huaxiang Faurecia

Changchun Huaxiang Faurecia is our jointly controlled entity in Changchun which principally engages in the manufacturing, assembly and selling of external structural and decorative automobile body parts including bumpers. Changchun Huaxiang Faurecia was established on 3 June 2011 with a registered capital of RMB120 million, which was held as to 50% by Faurecia (China) Holding Co. Ltd. (佛吉亞(中國)投資有限公司) and 50% by Ningbo Huazhong Plastic. Faurecia (China) Holding Co. Ltd. is an Independent Third Party.

Under the joint venture agreement dated 20 March 2011 entered into between Faurecia (China) Holding Co. Ltd. and Ningbo Huazhong Plastic, the board of directors of Changchun Huaxiang Faurecia shall comprise of six directors. Faurecia (China) Holding Co. Ltd. shall be entitled to appoint three directors (including the vice-chairman) and Ningbo Huazhong Plastic shall be entitled to appoint three directors (including the chairman). The general manager (who shall be nominated by Faurecia (China) Holding Co. Ltd.), with the assistance of the deputy general manager (who shall be nominated by Ningbo Huazhong Plastic) shall be responsible for the day-to-day operation and management of Changchun Huaxiang Faurecia. The general manager and the deputy general manager are subject to appointment by the board of directors of Changchun Huaxiang Faurecia.

Pursuant to the said joint venture agreement, Changchun Huaxiang Faurecia will manufacture, assemble and sell painted bumpers, rockers and other exterior parts, and provide after sales services and technical consultation exclusively to First Automobile Works (長春一氣) and FAW-Volkswagen (長春一氣大眾) and their affiliates located in Changchun, Jilin Province, China and which Ningbo Huazhong Plastic has provided an undertaking not to compete with Changchun Huaxiang Faurecia under the joint venture agreement. Ningbo Huazhong Plastic has been granted a waiver relating to the non-compete undertaking under the joint venture agreement on 15 December 2011 by Faurecia (China) Holding Co. Ltd. where our Company, its subsidiaries and affiliates are permitted to manufacture, assemble and sell (i) all existing models of rockers (also known as rocker panels); (ii) all existing models of front end carriers; and (iii) all future models of rockers and front end carriers provided prior written consent has been obtained from Faurecia (China) Holding Co. Ltd., to First Automobile Works (長春一氣) and FAW-Volkswagen (長春一氣大眾) and their affiliates located in Changchun, Jilin Province, China. Our Company, its subsidiaries and affiliates are not restricted in any way from manufacturing products for other customers.

HISTORY AND CORPORATE STRUCTURE

On 1 June 2011 and 23 December 2011, Changchun Huaxiang entered into an asset purchase agreement and a confirmation letter, respectively, with Changchun Huaxiang Faurecia in relation to the transfer of production and manufacturing equipment and machinery, inventory and intangible assets from Changchun Huaxiang to Changchun Huaxiang Faurecia. The consideration for the transfer of such assets (excluding inventory, which were transferred on cost basis) together with the relevant technology improvement, amounted to a total of RMB108.9 million. After such transfer, Changchun Huaxiang no longer owns any production asset and the production asset previously owned by Changchun Huaxiang is now owned by Changchun Huaxiang Faurecia.

Ningbo Hualete

Ningbo Hualete is our jointly controlled entity in Ningbo which principally engages in the manufacturing and selling of fabric used for ABCD-pillar and headliner for automobiles. Ningbo Hualete was established as a sino-foreign equity joint venture company on 17 March 2004 with an initial registered capital of EUR1.5 million and held as to 50% by Ningbo Huayou Properties, 25% by Roekona and 25% by Zoeppritex. Roekona and Zoeppritex are textile manufacturers in Germany and are Independent Third Parties. Pursuant to the joint venture agreement entered into between Ningbo Huayou Properties, Roekona and Zoeppritex dated 18 January 2004, the products manufactured by Ningbo Hualete shall be sold in the PRC and other Asian countries. Unless there is any prior agreement between the joint venture parties and Ningbo Hualete, Ningbo Hualete shall obtain the prior consent of Roekona and Zoeppritex before selling its products outside the Asian market. As at the Latest Practicable Date, Ningbo Hualete has not sold any products to markets outside Asia, nor to Roekona and Zoeppritex.

Under the joint venture agreement dated 18 January 2004 entered into between Ningbo Huayou Properties, Roekona and Zoeppritex, the board of directors of Ningbo Hualete shall comprise of eight directors (including one chairman and two vice-chairmen). Ningbo Huayou Properties shall be entitled to appoint four directors (including the chairman), Roekona shall be entitled to appoint two directors (including one of the vice-chairmen) and Zoeppritex shall be entitled to appoint two directors (including one of the vice-chairmen). The general manager (who shall be nominated by Roekona and Zoeppritex) and the deputy general manager (who shall be nominated by Ningbo Huayou Properties) shall be responsible for the day-to-day operation and management of Ningbo Hualete. The general manager and the deputy general manager are subject to appointment by the board of directors of Ningbo Hualete.

As part of the Reorganisation, on 24 December 2010, Ningbo Huayou Properties transferred its entire equity interest in Ningbo Hualete to Ningbo Huazhong Plastic at a consideration of RMB13,513,746.02, which was determined with reference to the net asset value of Ningbo Hualete as set out in its audited accounts for the year ended 31 December 2009. Upon completion of this equity transfer, Ningbo Hualete was held as to 50% by Ningbo Huazhong Plastic, 25% by Roekona and 25% by Zoeppritex.

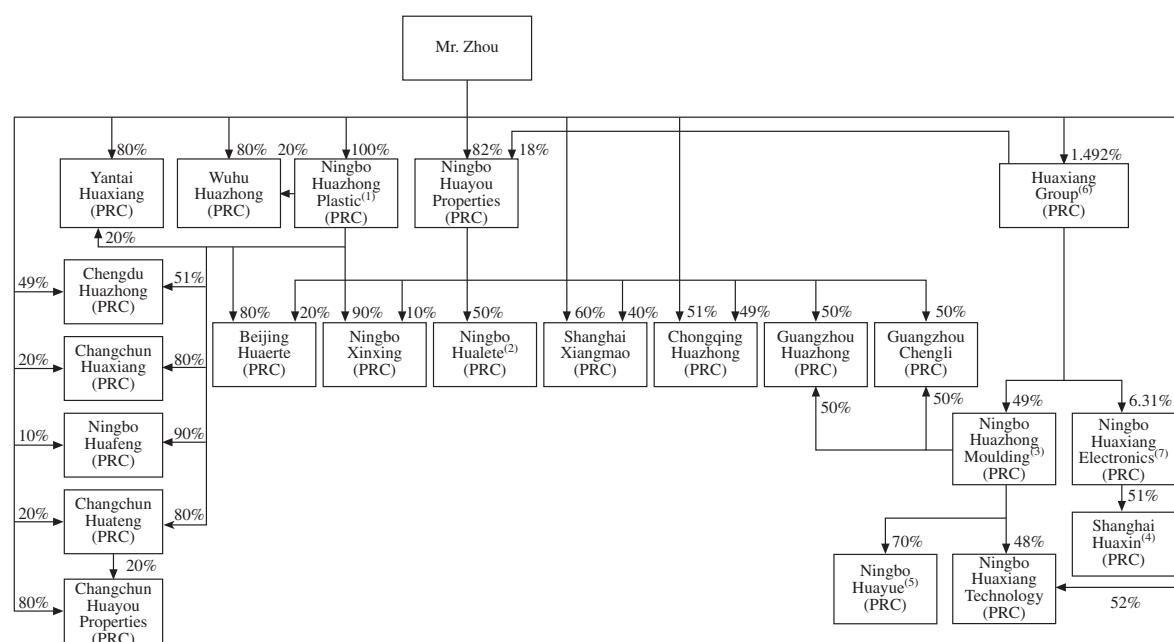
HISTORY AND CORPORATE STRUCTURE

REORGANISATION

In order to rationalise our organisational structure, our Group underwent the Reorganisation prior to the Listing. Our Company became the holding company of our Group as a result of the Reorganisation. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” in Appendix VI to this prospectus.

Group structure prior to the Reorganisation

The chart below is the corporate structure of our Group and our jointly controlled entities immediately prior to the Reorganisation:



Notes:

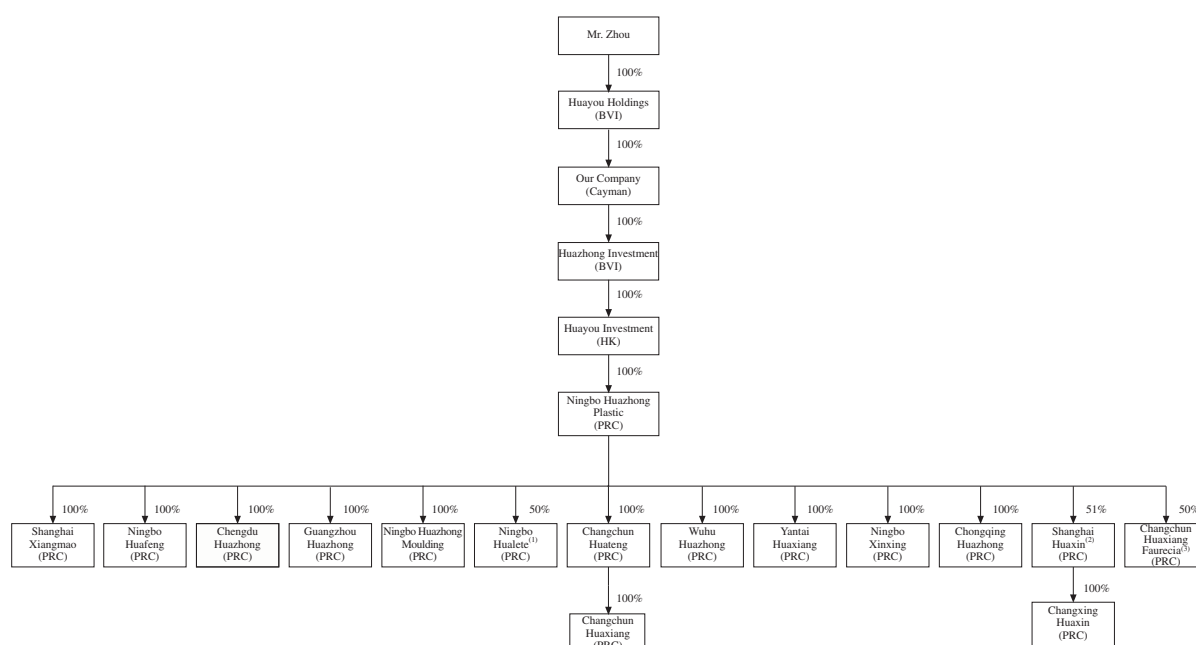
- (1) Mr. Chen Yuncai (陳雲財) and Macao Hong Un Real Estate Company (澳門鴻源地產置業公司) held 21% and 30% equity interest, respectively, in Ningbo Huazhong Plastic, each of which was beneficially owned by Mr. Zhou.
- (2) The remaining 50% equity interest in Ningbo Hualete was held as to 25% by Roekona and Zoeppritex, respectively, which were Independent Third Parties.
- (3) The remaining 51% equity interest in Ningbo Huazhong Moulding was held by Ningbo Zhongxin, which was owned as to 61.5784% by Mr. Zhou Cimei (周辭美), Mr. Zhou's father, 20% by Ms. Lai Cairong (賴彩絨), Mr. Zhou's mother and 18.4215% by 13 individuals, who were Independent Third Parties.
- (4) The remaining 49% equity interest in Shanghai Huaxin was held as to 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*) and 19% by 上海北蔡工業有限公司 (Shanghai Beicai Industrial Co., Ltd.*), which were Independent Third Parties. Further, Shanghai Huaxin is interested in 45% equity interest of Shanghai Baodegu Plastic Science and Technology Co., Ltd* (上海寶得固塑料科技有限公司), a company established in the PRC with limited liability on 14 June 1995 which principally engages in manufacturing and selling of automobile plastic parts, including air conditioning unit casings and battery casings, and plastic materials for daily use.
- (5) Macao Hong Un held the remaining 30% equity interest in Ningbo Huayue.

HISTORY AND CORPORATE STRUCTURE

- (6) The remaining 98.508% equity interest in Huaxiang Group was held as to 89.758% by Mr. Zhou Cimei (周辭美), Mr. Zhou's father, 7.67% by Ms. Lai Cairong (賴彩絨), Mr. Zhou's mother, 1.492% by Mr. Zhou, 0.3% by Ms. Zhang Songmei (張松梅), Mr. Zhou's sister in law, 0.75% by Ms. Zhou Zhaodi (周照娣), Mr. Zhou's aunt and 0.03% by Ms. Lai Suzhen (賴素珍), an Independent Third Party. Mr. Zhou transferred his entire equity interest in Huaxiang Group to Ms. Lai Cairong (賴彩絨) on 20 July 2011. After this share transfer, Mr. Zhou no longer held any equity interest in Huaxiang Group.
- (7) The remaining 93.69% equity interest in Ningbo Huaxiang Electronics was held as to 15.86% by Mr. Zhou Xiaofeng (周曉峰), Mr. Zhou's brother and approximately 77.83% by other public shareholders.

Group structure after the Reorganisation but immediately before completion of the Global Offering

The corporate structure of our Group and our jointly controlled entities after the Reorganisation but immediately before completion of the Global Offering is set out below:



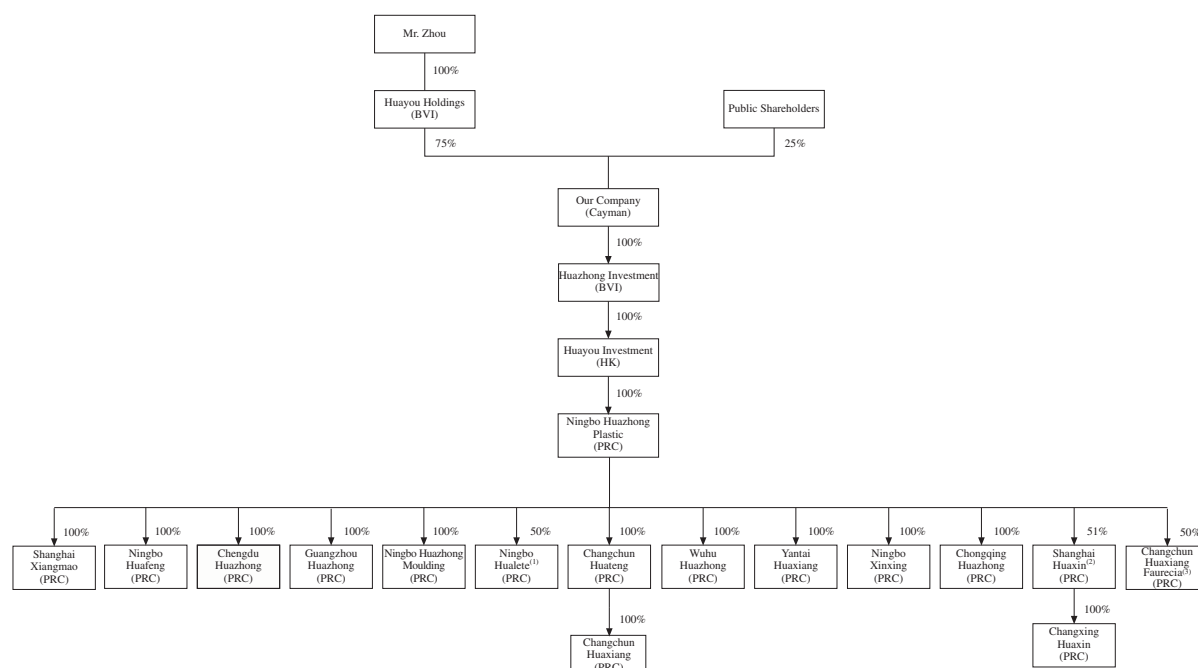
Notes:

- (1) The remaining 50% equity interest in Ningbo Hualete is owned as to 25% by Roekona and Zoeppritex, respectively, which are Independent Third Parties.
- (2) The remaining 49% equity interest in Shanghai Huaxin is owned as to 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*) and 19% by 上海北蔡工業有限公司 (Shanghai Beicai Industrial Co., Ltd.*), which are Independent Third Parties. Further, Shanghai Huaxin is interested in 45% equity interest of Shanghai Baodegu Plastic Science and Technology Co., Ltd* (上海寶得固塑料科技有限公司), a company established in the PRC with limited liability on 14 June 1995 which principally engages in manufacturing and selling of automobile plastic parts, including air conditioning unit casings and battery casings, and plastic materials for daily use.
- (3) The remaining 50% equity interest in Changchun Huaxiang Faurecia is owned by Faurecia (China) Holding Co. Ltd. (佛吉亞(中國)投資有限公司), an Independent Third Party.

HISTORY AND CORPORATE STRUCTURE

Group structure upon the Listing

The corporate structure of our Group upon completion of the Global Offering (assuming none of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme are exercised) is set out below:



Notes:

- (1) The remaining 50% equity interest in Ningbo Hualete is owned as to 25% by Roekona and ZoeppriteX, respectively, which are Independent Third Parties.
- (2) The remaining 49% equity interest in Shanghai Huaxin is owned as to 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*) and 19% by 上海北蔡工業有限公司 (Shanghai Beicai Industrial Co., Ltd.*) which are Independent Third Parties. Further, Shanghai Huaxin is interested in 45% equity interest of Shanghai Baodegu Plastic Science and Technology Co., Ltd* (上海寶得固塑料科技有限公司), a company established in the PRC with limited liability on 14 June 1995 which principally engages in manufacturing and selling of automobile plastic parts, including air conditioning unit casings and battery casings, and plastic materials for daily use.
- (3) The remaining 50% equity interest in Changchun Huaxiang Faurecia is owned by Faurecia (China) Holding Co. Ltd. (佛吉亞(中國)投資有限公司), an Independent Third Party.

HISTORY AND CORPORATE STRUCTURE

SAFE REGISTRATION

The SAFE issued a public notice in October 2005, or the SAFE Circular No. 75, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the SAFE Circular No. 75 as special purpose vehicles (“SPVs”). PRC residents who are shareholders of SPVs established before 1 November 2005 were required to register with the local SAFE branch before 31 March 2006. Further, PRC residents are required to file amendments to their registrations with the local SAFE branch if their SPVs undergo a material event involving changes in capital, such as changes in share capital, mergers and acquisitions, share transfers or exchanges, spin-off transactions or long-term equity or debt investments. The SAFE subsequently issued relevant guidance to its local branches for the implementation of the SAFE Circular No. 75. This guidance standardises more specific and stringent supervision on the registration requirement relating to the SAFE Circular No. 75 and further requests PRC residents holding any equity interest or options in SPVs, directly or indirectly, controlling or nominal, to make an overseas investment foreign exchange registration with the SAFE.

Our PRC legal adviser has advised that Mr. Zhou, being the beneficial shareholder of our Group immediately prior to the completion of the Global Offering, and is a domestic resident of the PRC, has completed his foreign exchange registration of overseas investments through Huayou Holdings at the Ningbo Branch of SAFE by obtaining the SAFE registration on 1 July 2011.

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

On 8 August 2006, six PRC Governmental and regulatory agencies, including the Ministry of Commerce and the CSRC, promulgated the Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”) which became effective on 8 September 2006 and was revised on 22 June 2009. Pursuant to the M&A Rules, where a domestic enterprise or individual person intends to take over its or his or her related domestic company in the name of an offshore company which it or he or she lawfully established or controls, the takeover shall be subject to the examination and approval of the Ministry of Commerce of the PRC. The M&A Rules further provides that an offshore special purpose vehicle formed for overseas listing purposes and controlled directly or indirectly by PRC enterprises or individuals should obtain the approval of the CSRC prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

HISTORY AND CORPORATE STRUCTURE

Our PRC legal adviser has advised that the acquisition by Huayou Investment of equities of Ningbo Huazhong Plastic from Mr. Zhou, Chen Yuncai (陳雲財) and Macao Hong Un does not fall within the scope of the above regulated activities under the M&A Rules, and the M&A Rules are non-applicable to the Reorganisation and the Listing, as Ningbo Huazhong Plastic has been established as a foreign invested limited liability company upon approval of competent commerce authorities and has obtained all necessary permits, licenses and completed registration and filings, before 8 September 2006, the date from which the M&A Rules became effective. Our PRC legal adviser has further advised that Huayou Investment's acquisition of 100% equity interest of Ningbo Huazhong Plastic has obtained all the necessary approval from the government for the reasons that (1) the M&A Rules do not have retrospective effect, therefore, any transfer of shares in a sino-foreign equity joint venture, which was incorporated before the implementation of the M&A Rules, by its shareholder to the foreign investor (i.e. Huayou Investment) should be regulated by the relevant rules in relation to the transfer of shares in a foreign invested limited liability company, rather than the M&A Rules; and (2) all the necessary approvals from the relevant authorities in relation to the transfer of the equity interest of Ningbo Huazhong Plastic from Mr. Zhou to Huayou Investment have been obtained on 29 July 2011.

Furthermore, our PRC legal advisers has confirmed that we have complied with all applicable PRC rules and regulations and have obtained all relevant approvals from PRC Government authorities for the Reorganisation and the Listing.

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OVERVIEW

We are one of the principal suppliers of automobile body parts in China. According to the CATARC Report, among the domestic manufacturers in the PRC which are independent from and not as sino-foreign joint ventures of any automakers, we were the third largest manufacturer of automobile plastic body parts by revenue in 2009 based on the database and statistic of CATARC.

We offer one-stop solution to our customers, from the design and manufacture of moulds and tooling for mass production of specific products to the development and manufacture of new products which meet our customers' functional requirements and specifications.

We are equipped with strong ability in production, product design and development. Our production quality and capability are recognised by the accreditation of the ISO/TS16949 certification which signifies that the quality of our manufacturing process is up to the internationally recognised quality management system requirements for the design, development and production of automotive-related products. For the vertical integration of our business operation, we have been producing moulds and tooling for our own manufacturing arms, and are capable to produce tooling for complex or large-size automobile body parts, such as moulds for LPIM, bumper and front-end carrier. Two of the moulds we developed, namely, LPIM moulds for internal decorative parts for premium-end vehicles with environmental-friendly and advanced fabric (環保高效針織面料模內包履高端轎車內飾件低壓注塑成型模具) and moulds for long fiberglass front-end carrier with medium-sized metal insert (長玻纖汽車前端框架(含中型金屬嵌件)注塑模具), have been recognised by China Die & Mould Industry Association* (中國模具工業協會) after independent assessment and inspection of the relevant documents, moulds and products to be energy-saving and environmentally-friendly. For the aforesaid two moulds, we have applied for registration of patents which is pending as at the Latest Practicable Date. For further details of our production and product development capabilities, please refer to the paragraphs headed "Competitive strengths — Strong production capabilities and refined manufacturing and tooling techniques" and "Manufacturing facilities and techniques — Machineries and technology used in our production" in this section.

Our Group, together with our jointly controlled entities, offer a wide range of automobile body parts, including internal and external structural and decorative parts (such as front/rear bumper, front-end carrier, dashboard, ABCD-pillars, air inlet grille and rocker panel), air conditioning unit casings and liquid tanks through our subsidiaries and jointly controlled entities. We also manufacture fabric used for ABCD-pillar and headliner for automobile through one of our jointly controlled entities, Ningbo Hualete. Ningbo Huazhong Moulding, being one of our principal operating subsidiaries, has been producing moulds and tooling for our manufacturing arm, with the ability to produce moulds and tooling for complex or large-size automobile body parts such as bumper and front-end carrier. We also supply moulds and tooling to third party purchasers, such as automakers and other automobile body parts manufacturers. Apart from automobile-related products, we also manufacture other products such as top cowl cover for engine of motorboat and office chair parts.

As we are independent from any particular automaker, we can develop and manufacture automobile body parts for different international and domestic automobile brands. Our customers include factories of PRC joint ventures established by renowned multinational automakers, such as FAW-Volkswagen Automotive Co. Ltd., Shanghai General Motors Co., Ltd., Shanghai-Volkswagen

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Automotive Company Limited, Changan Ford Mazda Automobile Corporation Ltd., Beijing Benz Automotive Co. Ltd. and Chinese automakers including Chery Automobile Co., Ltd.. We also supply products to manufacturers and suppliers of automobile body parts including Shanghai Delphi Automotive Air-conditioning Systems Co., Ltd. and Guangzhou TS Automotive Interior Systems Co., Ltd.. We also supply plastic parts and components for the boat products of Mercury Marine Technology Suzhou Co., Ltd..

Headquartered in Ningbo, we have strategically established 11 factories operating in different regions to cover major automakers in China. As at the Latest Practicable Date, our Group, together with our jointly controlled entities, had manufacturing facilities in Ningbo, Changchun, Shanghai, Chongqing, Guangzhou and Chengdu with an aggregate site area of about 335,767.7 sq.m. and an aggregate gross floor area of about 134,951.0 sq. m., housed with workforce of about 2,400 employees as at 30 June 2011.

According to the CATARC Report, sales of automobile in China reached about 18.1 million units in 2010, representing an increase of about 32% from that in 2009. Our long term business relationship with some of the principal multinational automakers and well-established automakers in China, and our strong product development capability enables us to capture the business opportunities in the fast-growing automobile market in China. Our revenue amounted to about RMB755.0 million, RMB826.2 million and RMB1,006.9 million for each of the three years ended 31 December 2010, representing a CAGR of about 15.5%, and about RMB573.5 million for the six months ended 30 June 2011. Our profit and total comprehensive income attributable to owners of the parent amounted to about RMB57.5 million, RMB35.4 million and RMB105.8 million for each of the three years ended 31 December 2010, representing a CAGR of about 35.7%, and about RMB51.0 million for the six months ended 30 June 2011. According to the CATARC Report, the annual production of passenger cars in China was about 4.8 million units in 2010, and is estimated to reach about 5.3 million units in 2012, and 8.7 million units in 2020. Leveraged on the continued growth in the economy of China and the sale of passenger cars in China, and the increasing trend for multinational automakers to establish their manufacturing and purchasing centres in China, our Directors expect that there will be a continual growth in our business in the near future.

COMPETITIVE STRENGTHS

We attribute our success to the following key competitive strengths:

Capability of offering comprehensive, one-stop product development and manufacturing solution to our customers

We have vertically integrated our operations and are equipped with product development, mould and tooling and production capabilities which enable us to offer a one-stop total solution to our customers through our various operating companies. We offer to our customers design and manufacture of moulds and tooling for mass production of specific products, the development of new products based on our customers' functional requirements and specifications, product manufacturing,

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post processing and machining, surface finishing treatment, assembly and packaging to final delivery of quality products to our customers. With this vertical integration, it enhances our production efficiency of our products, shortens the rollout time for new products and enables stringent cost and quality control throughout the process. It also enhances our business relationship with our customers. To maintain our competitive advantage and to strengthen the relationship with our customers, we take a proactive approach in providing value-added services to our customers by working closely with them to provide advice or initiating new ideas on product design or manufacturing techniques that result in more efficient and cost effective manufacturing solutions.

Strong research and development capabilities and our ability to develop new products with our customers concurrently

As a supplier, we concurrently develop our new moulds and tooling and products with our customers with the cost of design and development generally borne by our customers under the relevant product development contracts. With our strong product development capability, we are able to offer product development solution by turning our customers' functional requirements and the specifications of the related automobile body parts into three-dimensional product designs and developing and manufacturing the required moulds and the final products for mass production. Our concurrent product development and tooling capability also enables us to cultivate a close relationship with, and develop a deeper understanding of the requirements of our key customers. We believe this capability can strengthen our relationship and cooperation with automakers.

We have a R&D centre to improve the quality and expand the range of our products. We had more than 100 staff members responsible for our research, development and design as at 30 June 2011, who are working at our R&D centre and our various production facilities. Please refer to the paragraph headed "Research and development" in this section for further details of our research and development capabilities.

A network of production bases at strategic locations covering most of the key automakers in China

We have strategically established 11 factories operating in different regions to cover major automakers in China. When our headquarters in Ningbo receive any orders or enquiries from customers, after our centralised product development in Ningbo, we can arrange the most proximate subsidiary with suitable production facilities to manufacture and deliver the products to our customers. The proximity to customers enables us to provide timely service to customers, reinforces our relationships with these customers and reduces our transportation cost, and thereby further strengthens our competitiveness. To further expand our business and coverage, we plan to establish new production facilities or expand our existing production facilities in different locations in the PRC such as Yantai, Changchun, Wuhu, Foshan, Ningbo and Chengdu. Please refer to the paragraph headed "Business strategies — Expanding our existing production facilities and capabilities" in this section for further details of our expansion plan.

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Long business relationship with both multinational automakers and well-established automakers and suppliers for automakers in the PRC and the ability to engage new customers

We have a stable business relationship with some multinational automakers and well-established automakers and suppliers for automakers in the PRC, including FAW-Volkswagen Automotive Co. Ltd., Shanghai General Motors Co., Ltd., Shanghai-Volkswagen Automotive Company Limited, Changan Ford Mazda Automobile Corporation Ltd., Beijing Benz Automotive Co. Ltd., Chery Automobile Co., Ltd., Shanghai Delphi Automotive Air-conditioning Systems Co. Ltd. and Guangzhou TS Automotive Interior Systems Co., Ltd..

With our product development and production capabilities and our refined manufacturing and tooling techniques, we are able to maintain our relationship with our customers and cater for our customers' needs with flexibility, competitive pricing and reliable quality standard. The table below sets forth the approximate length of business relationship with our five largest customers as at the Latest Practicable Date:

Name of customers	Approximate length of business relationship (years)
FAW-Volkswagen Automotive Co. Ltd.	12
Shanghai General Motors Co., Ltd.	11
Shanghai Delphi Automotive Air-conditioning Systems Co. Ltd.	17
Guangzhou TS Automotive Interior Systems Co., Ltd.	8
Changan Ford Mazda Automobile Corporation Ltd.	4

During each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, sales to our five largest customers accounted for about 78.2%, 78.7%, 77.3% and 74.5% of our total revenue, respectively.

Apart from having a solid customer base with long term business relationship, we are also able to develop business relationship with selected new customers such as Shanghai-Volkswagen Automotive Company Limited which became our customer in 2009 in pursuit of our growth strategy focusing on multinational automakers with profitability and international sales network.

Strong production capabilities and refined manufacturing and tooling techniques

We have over 18 years of experience in the manufacture of automobile body parts and moulds and tooling, with our own product development capabilities. In particular, we have about 10 years of experience in developing moulds for LPIM and using LPIM technique for production of ABCD-pillar that are widely used in automobiles. Unlike the use of high pressure required for conventional plastic injection moulding, the use of LPIM avoids damage to surface of the products by the melted plastic during the injection process. For details of the injection moulding techniques used by our Group,

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please refer to the paragraph headed “Manufacturing facilities and techniques — Machineries and technology used in our production” in this section. According to the independent assessment and knowledge of the industry of the Related Industry Branch of China Association of Automobile Manufacturers (中國汽車工業協會汽車相關工業分會), we are one of the leading manufacturers of automobile body parts using LPIM technique in China. Based on the independent assessment and inspection of the relevant documents, moulds and products by China Die & Mould Industry Association* (中國模具工業協會), two of the moulds we developed, namely, LPIM moulds for internal decorative parts for premium-end vehicles with environmental-friendly and advanced fabric (環保高效針織面料模內包履高端轎車內飾件低壓注塑成型模具) and moulds for long fiberglass front-end carrier with medium-sized metal insert (長玻纖汽車前端框架(含中型金屬嵌件)注塑模具) are energy-saving and environmentally-friendly. We have made application for registration of patent for these two moulds which is pending as at the Latest Practicable Date. Please refer to items (xii) and (xiii) in the sections headed “Statutory and general information — 2. Our intellectual property rights — Patents”. Our Directors consider that our LPIM technique is one of our key competitive edges over our competitors in China.

We have strong tooling capability through our R&D centre which offers in-house design and production of moulds and tooling for our manufacturing arm, with the ability to design and produce tooling for complex or large-size automobile body parts such as bumper and front-end carrier. We are committed to enhancing our manufacturing standards and capability. As at 30 June 2011, our Group (together with our jointly controlled entities) had manufacturing facilities in Ningbo, Changchun, Shanghai, Chongqing, Guangzhou and Chengdu with an aggregate site area of about 335,767.7 sq.m. and an aggregate gross floor area of about 134,951.0 sq.m. and housed with workforce of about 2,400 employees. We have also invested extensively on advanced production and tooling facilities and machineries, including some advanced machineries in the industry either imported from overseas or acquired locally, to enhance our production efficiency and technical standards, flexibility to product design, and consistency of product quality. Please refer to the paragraph headed “Manufacturing facilities and techniques” in this section for further details of our production facilities.

We believe our commitment to invest in machineries and improving our manufacturing techniques enables us to stay competitive in the industry and maintain long term relationship with our customers.

Experienced management team with in-depth knowledge of the automobile body parts industry

Our key management team comprises Mr. Zhou, Mr. Chang Jingzhou, Mr. Zhou Ruqing, Mr. Fang Yousheng, Mr. Le Jun, Mr. Huang Wenhao, Mr. Lam King Hang and Mr. Cui Jihong. Most of our executive Directors and senior management have more than eight years of technical and management experience in the automobile body parts industry, engineering, finance and accounting fields with high education level. Under the leadership of Mr. Zhou, who has a long history of experience in the automobile body parts industry, we have developed ourselves from a small-scale manufacturer with a registered capital of US\$0.35 million in 1993 into one of the leading assembly suppliers of different automobile body parts for international automaker groups. Our Directors believe that this well-balanced mix of expertise will bring us success both on the domestic and international levels. Further information about our Directors and senior management is set out in the section headed “Directors and senior management” in this prospectus.

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Stringent quality control

We impose quality control procedures on the selection and testing (through sample testing) of raw materials, semi-finished products and the end products throughout the production process to ensure the quality of our products. We have a separate quality control department, which is responsible for carrying out inspections and sample checking on the raw materials and products. Inspections and tests are conducted using certain quality control equipment and machines which test different characteristics of sample raw materials and products to ensure that our products are of quality, from sourcing to production and finishing. Our sales department also conducts surveys on customers' feedback on our products, the results of which will be analysed and used to formulate measures of improvement. The accreditation of the ISO/TS16949 certification to us signifies that the quality of our manufacturing process is compliant with the automobile industry standard which is well accepted by multinational automakers. Please refer to the paragraph headed "Quality Control" in this section for details of our quality control measures.

BUSINESS STRATEGIES

We aim to become a leading automobile body parts manufacturer in the PRC in terms of market recognition and share and to maximise shareholder value and at the same time broaden the variety of our products, thereby increasing our competitiveness in the industry as well as the return to our Shareholders. The following sets out our key business objectives which are expected to be implemented to fulfill our aim:

Expanding our existing production facilities and capabilities

In order to capture business opportunities arising from the expected continual growth in the economy of China and the sale of passenger cars in China, and to cater for the development, commercial production and rollout plan of our customers' present products under the current product development and/or production agreements and their future products, we need to increase our production capability and at the same time fine-tune and improve our existing production facilities. We plan to expand our production capacity by building new manufacturing facilities in Yantai, Changchun, Wuhu and Foshan, and expanding and upgrading our existing manufacturing facilities in Ningbo and Chengdu, which are in line with our practice of constructing our manufacturing facilities in close proximity to major automakers in China, with a view to establish closer relationships with these automakers, to serve these automakers and other customers in the region and to increase our market share. As at 30 June 2011, the construction work at our Changchun facilities and the expansion and upgrading work of our existing manufacturing facilities in Ningbo and Chengdu had already commenced and it is expected that our Changchun facilities will commence commercial production in 2012.

The cost for the land requisition, construction cost of buildings and investment in production machineries and equipment are currently expected to be financed partly by the net proceeds to be received by us from the New Issue. Please refer to the section headed "Future plans and use of proceeds from the New Issue" in this prospectus for further details.

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The following table sets forth, among others, the details and purpose of our expansion plans, estimated investments up to 30 June 2011 and sources of funding:

Details and purpose of expansion plan	Status of expansion as at 30 June 2011	Expected date of commencement of production	Total investment up to 30 June 2011	Expected time of completion of payment	Estimated total investment and sources of funding	Expected maximum production hours (Note)		
						As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
1. To establish new manufacturing facility in Yantai for the order of Shanghai General Motors Co., Ltd. and other customers in the region (the "Yantai Facility")	Prepayment has been made for the land	2012	RMB14.1 million	2012	RMB60 million, partly by internal resources and partly by net proceeds from the New Issue	—	59,904	59,904
2. To establish new manufacturing facility in Changchun for Changchun Huateng to replace the existing facility located in Changchun Jingyue Development Zone and to expand the productivity (the "Changchun Facility")	At the stage of construction	2012	RMB32.7 million	2012	RMB50 million, partly by internal resources and partly by net proceeds from the New Issue	—	142,272	142,272
3. To establish new manufacturing facility in Wuhu for the order of Chery Automobile Co. Ltd. and other customers in the region (the "Wuhu Facility")	Land to be acquired	2013	RMB1.4 million	2013	RMB30 million, partly by internal resources and partly by net proceeds from the New Issue	—	—	52,416
4. To establish new manufacturing facility in Foshan for the order of FAW-Volkswagen Automotive Co. Ltd. and other customers in the region (the "Foshan Facility")	At the stage of planning	2013	Nil	2013	RMB60 million, partly by internal resources and partly by net proceeds from the New Issue	—	—	59,904

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Details and purpose of expansion plan	Status of expansion as at 30 June 2011	Expected date of commencement of production	Total investment up to 30 June 2011	Expected time of completion of payment	Estimated total investment and sources of funding	Expected maximum production hours (Note)		
						As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
5. To establish new manufacturing facility in Ningbo to expand the productivity of the existing facility located in Jidian Industrial Area, Ningbo (the "Jidian Facility")	At the stage of construction	2013	RMB11.3 million	2013	RMB50 million, partly by internal resources and partly by net proceeds from the New Issue	—	—	59,904
6. To purchase new machinery and equipment and expand our productivity of the existing facility located in Longquanyi District, Chengdu for the order of FAW-Volkswagen Automotive Co. Ltd. and other customers in the region (the "Damian Facility")	At trial production stage	2012	RMB16.9 million	2012	RMB50 million, partly by internal resources and partly by net proceeds from the New Issue	29,952	67,392	67,392

Note: The expected maximum production hours are calculated on the basis of the number of plastic injection machineries expected to be acquired in each of the above expansion projects, and on the assumption that such machineries operate on a 24-hour a day and 26-day a month basis.

Continuing focus on product research and development and product engineering

In order to maintain our competitive advantage in the market, we believe that it is essential for us to continue our focus on product research and development and product engineering. We intend to increase our investment in product research and development to bolster our product research and development capabilities by the establishment of our R&D building in Ningbo. We intend to focus on research and development of potential new products such as LED automotive lighting system and the research and development on product engineering technologies such as (i) high-gloss injection moulding, a technology which gives high gloss finish to the plastic part; (ii) multi-color injection moulding, a technology which allows the use of different colours or materials on a plastic part; and (iii) enhancement of functionality and quality of resins.

Improvement to our product engineering will include enhancing our moulds and tooling production capabilities and quality. Our continuing focus in product development widens our product range, enhances our production efficiency of our products, shortens the rollout time for new products and enables stringent cost and quality control throughout the production process, and enables us to

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secure our continuous and exclusive orders from our customers for production of the products. Our Directors also believe that improvement in our moulds and tooling design and development capabilities and the quality of moulds and tooling produced by us can also enhance our external sale of moulds and tooling.

The cost for the establishment of our R&D building and our planned research and development projects are currently expected to be financed by the net proceeds to be received by us from the New Issue. Please refer to the section headed “Future plans and use of proceeds from the New Issue” in this prospectus for further details.

Strategic investments by way of mergers and acquisitions and joint ventures

We plan to strengthen our moulds and tooling development capability and enhance the quality of our moulds and tooling by acquiring interests in precision mould manufacturers in China or overseas. As at the Latest Practicable Date, our Group had not identified any specific targets for the acquisition of precision mould manufacturers. We will selectively pursue strategic acquisitions for targets that may result in synergetic benefits in our Group, such as targets with extensive experience in the said business or in the automobile body parts industry, or with established research and development capabilities or have access to new product lines or production technologies, techniques and knowhow that may help us in diversifying our product offering and/or improving our production efficiency or quality of our products, or with established clienteles. Overseas acquisitions can also help us in establishing our sale platform overseas and thereby enhance our market presence in the international automotive market.

Given our experience in setting up two joint ventures, namely, Ningbo Hualete and Changchun Huaxiang Faurecia with an international automobile body parts supplier and textile manufacturers which produce, among others, fabric for automobile and/or automobile body parts, respectively, we also plan to strengthen our strategic collaborations with international automobile body parts suppliers and manufacturers through establishment of joint venture companies. Our Directors believe that by establishing joint ventures with international suppliers of automakers, we can enhance our Group’s own product production and development capabilities, and thereby improve our competitiveness in the market. Our Group will continue to identify other cooperation opportunities with international suppliers of similar calibre.

We plan to use part of the net proceeds to be received by us from the New Issue for strategic investments. Please refer to the section headed “Future plans and use of proceeds from the New Issue” in this prospectus for further details.

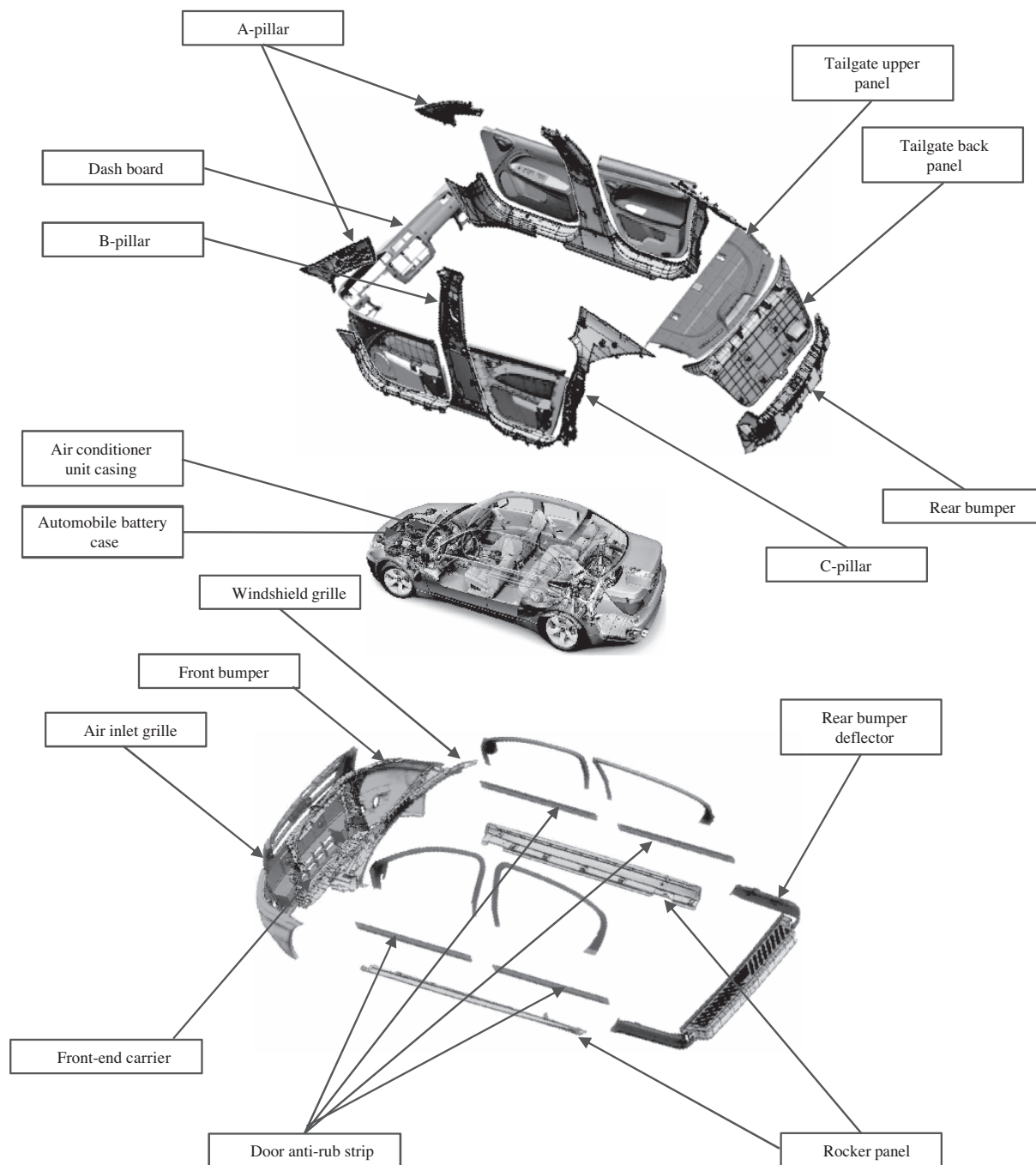
OUR PRODUCTS

We are principally engaged in the assembly supply of automobile body parts in China, with the manufacture of automobile internal and external structural and decorative parts as our business focus. We also manufacture air conditioner/heater unit casings used in automobile. In particular, we have more than 10 years of experience in the mould development and application of LPIM, a more advanced, cost- and production-efficient and environmental-friendly technique for production of automobile internal decorative parts with fabric surface (such as ABCD-pillars and headliners) which are widely used as body parts for automobiles. According to the Related Industry Branch of China Association of Automobile Manufacturers (中國汽車工業協會汽車相關工業分會), based on its independent assessment and knowledge of the industry, we are one of the leading manufacturers of

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automobile body parts using LPIM technique in China. Our range of products is further widened by our jointly controlled entity, Ningbo Hualete, which is principally engaged in the manufacture of fabric used for ABCD-pillars and headliners for automobile. Ningbo Hualete supplies fabric to us for manufacturing our automobile body parts products, and also supplies its fabric to other automobile body parts manufacturers.

The following diagram shows some of the automobile body parts products of our Group and our jointly controlled entities and their relative positions on the body of an automobile:



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Ningbo Huazhong Moulding, being one of our principal subsidiaries, is principally engaged in the design and manufacture of moulds and tooling for manufacturing automobile body parts. Ningbo Huazhong Moulding has been producing moulds and tooling for our manufacturing arm, with the ability to produce moulds and tooling for complex or large-size automobile body parts such as bumper and front-end carrier. We also supply moulds and tooling to third party purchasers, such as automakers and other automobile body parts manufacturers.

Apart from automobile-related products, we also manufacture other products such as top cowl cover for engine of motorboat and office chair parts.

The table below summarises the types of products offered by our Group and our jointly controlled entities during the Track Record Period:

Internal and external structural and decorative parts	Moulds and tooling	Air conditioner/heater unit casings/ liquid tanks	Non-automobile products
Front/rear bumper Dash board ABCD-pillars Front-end carrier Air inlet grille Windshield grille Rocker panel Tailgate upper/back panel Door anti-rub strip Automobile battery case Rear bumper deflector Fabric	Moulds Inspection tooling	Air conditioner/heater unit casings Liquid tanks	Top cowl cover for engine of motorboat Office chair parts

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During the Track Record Period, our internal and external structural and decorative parts, moulds and tooling, air conditioner/heater unit casings/liquid tanks and non-automobile products represent about 82.6%, 2.4%, 11.6% and 3.4% of our total revenue for the year ended 31 December 2008, about 79.8%, 8.8%, 9.3% and 2.1% of our total revenue for the year ended 31 December 2009, about 83.5%, 1.7%, 9.5% and 5.3% of our total revenue for the year ended 31 December 2010 and about 75.5%, 3.3%, 16.5% and 4.7% of our total sales for the six months ended 30 June 2011, respectively. The table below sets forth the revenue and percentage of revenue attributed by each category of our products for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011:

	For the year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	Revenue (RMB '000)	Percentage of total revenue	Revenue (RMB '000)	Percentage of total revenue	Revenue (RMB '000)	Percentage of total revenue	Revenue (RMB '000)	Percentage of total revenue	Revenue (RMB '000)	Percentage of total revenue
Internal and external structural and decorative parts	623,585	82.6%	659,939	79.8%	839,739	83.5%	393,544	83.3%	432,897	75.5%
Moulds and tooling	18,234	2.4%	72,761	8.8%	17,505	1.7%	4,845	1.0%	18,735	3.3%
Air conditioner/heater unit casings/liquid tanks	87,651	11.6%	76,424	9.3%	96,056	9.5%	50,535	10.7%	94,734	16.5%
Non-automobile products	25,544	3.4%	17,092	2.1%	53,608	5.3%	23,789	5.0%	27,172	4.7%
Total	755,014	100%	826,216	100%	1,006,908	100%	472,713	100%	573,538	100%

SALES AND MARKETING

Our customer base

Our customer base can be categorised into three categories:

- (1) automobile manufacturers which include factories of joint ventures established by multinational automakers in the PRC and Chinese automakers, such as FAW-Volkswagen Automotive Co. Ltd., Shanghai General Motors Co., Ltd., Shanghai-Volkswagen Automotive Company Limited, Changan Ford Mazda Automobile Corporation Ltd., Beijing Benz Automotive Co. Ltd. and Chery Automobile Co., Ltd.;
- (2) automobile body parts manufacturers, such as Shanghai Delphi Automotive Air-conditioning Systems Co., Ltd. and Guangzhou TS Automotive Interior Systems Co., Ltd.; and
- (3) non-automobile related products manufacturers, such as Mercury Marine Technology Suzhou Co., Ltd. and a renowned workplace furniture manufacturer in the United States.

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The table below sets forth the percentage of revenue attributed by each category of our customers for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011:

	For the year ended			For six months	
	31 December			ended 30 June	
	2008	2009	2010	2010	2011
	<i>Percentage of total revenue (%)</i>				
Automobile manufacturers	70.2	76.3	75.2	73.5	71.7
Automobile body parts manufacturers	26.4	21.6	19.5	21.5	23.6
Non-automobile related products manufacturers	<u>3.4</u>	<u>2.1</u>	<u>5.3</u>	<u>5.0</u>	<u>4.7</u>
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

During the Track Record Period, all of our five largest customers remained unchanged and they are all sino-foreign joint-venture manufacturers. Three of them were automobile manufacturers while the remaining two were automobile body parts manufacturers.

While most of our moulds and tooling manufactured by Ningbo Huazhong Moulding are supplied to other members of our Group to meet the moulds and tooling needs of our Group's manufacturing arm, we also supply moulds and tooling to third party purchasers such as automakers and other automobile body parts manufacturers.

During the three years ended 31 December 2010 and the six months ended 30 June 2011, sales to our five largest customers, in aggregate, accounted for about 78.2%, 78.7%, 77.3% and 74.5%, respectively, of our total revenue. The sales to our single largest customer during the three years ended 31 December 2010 and the six months ended 30 June 2011 accounted for about 48.1%, 45.7%, 48.9% and 47.2%, respectively, of our total revenue. As at the Latest Practicable Date, three of our five largest customers during the Track Record Period had more than 10 years of business relationship with us, and the remaining two of our five largest customers had more than four years of business relationship with us. None of our Directors, their respective associates or, to the knowledge of our Directors, any Shareholders who will own more than 5% of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue, has any interest in any of our five largest customers for each of the three years ended 31 December 2010 and the six months ended 30 June 2011.

In order to reduce our reliance on our major customers, we have been developing new products to increase our product portfolio and expanding our customer base. Please refer to the paragraph headed "Research and development" in this section of this prospectus for further details of our research and development effort. In addition, we will also endeavour to promote and improve our sales to our other existing customers so as to reduce our relative reliance on major customers. We principally expand our customer base through four approaches: (1) identifying potential customers based on the news and information available in the market, and approaching them proactively and

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directly; (2) referral by existing customers; (3) advertising ourselves through our website; and (4) joining exhibitions and other sales and marketing events of the automobile and automobile body parts industries to enhance our publicity and communication with potential clients and other automakers thereat. We have been proactively looking for new customers through the above means, with well-established automakers and automobile body parts manufacturers in the PRC (including those joint ventures established by multinational automakers in the PRC) with large quantity of production and good profitability as our principal target group of customers.

Geographical breakdown of our Group's products

During the Track Record Period, most of our products are sold domestically to factories of joint ventures established by multinational automakers in the PRC and Chinese automakers. Domestic sales accounted for more than 94% of our Group's total sales during the Track Record Period. We also exported our non-automobile products and some of our liquid tanks and ABCD-pillars to overseas countries including the US, Argentina, Japan and Brazil. Our sales in China and our exports during the three years ended 31 December 2010 and the six months ended 30 June 2011 are set out in the table below:

	For the year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Sales in China	729,470	96.6	809,121	97.9	952,046	94.6	450,168	95.2	548,325	95.6
Exports to overseas	25,544	3.4	17,095	2.1	54,862	5.4	22,545	4.8	25,213	4.4
Total	<u>755,014</u>	<u>100</u>	<u>826,216</u>	<u>100</u>	<u>1,006,908</u>	<u>100</u>	<u>472,713</u>	<u>100</u>	<u>573,538</u>	<u>100</u>

Our overseas sales decreased by about 32.9% from RMB25.5 million in 2008 to RMB17.1 million in 2009. Such decrease was mainly attributable to the decrease of sales of boat products to Mercury Marine Technology Suzhou Co., Ltd. which accounted for about 85.6% and 80.2% of our total overseas sales for 2008 and 2009, respectively, which was principally attributable to the global economic downturn in late 2008 and decrease of sales order during the transitional period for the change of boat models in 2009.

Our sales model

We supply our products to our customers on project-by-project basis, based on the product development, commercial production and market rollout plans of each product, and our sales are made on the basis of individual production orders or contracts.

Our Group's sales and product development functions are centralised at our headquarters in Ningbo through our principal operating subsidiary, Ningbo Huazhong Plastic, whereby we receive

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orders or enquiries from customers, conduct our feasibility study, conclude production or product development contracts with customers, and implement production development and trial production, before we arrange the most proximate subsidiary with suitable production facilities for commercial production and delivery of our products to our customers and the provision of after-sale services.

Our model for sales includes the following stages: (1) securing contracts; (2) pre-production project implementation; and (3) delivery and after-sale services. In general, depending on factors such as complexity of products and requirements of customers, the whole process from product design, manufacturing to delivery of final products takes about 1.5 year. At the beginning of the process when we start product development, we first sign product development agreement which normally includes terms such as product development targets, indicative pricing of products and expected quantity over the life expectancy of the relevant car models. Our internal and external automobile decorative parts products generally have a product life span of around five years which, our Directors believe to be in line with those of similar products in market. After the development stage, we would enter into pricing agreement with our customers to stipulate the selling price of our products. While such pricing agreement is legally binding, it normally contains a term to the effect that if market conditions are changed, the parties may negotiate for price adjustment. For recurring products or existing products, we generally enter into master purchase agreement with our customers for a fixed term of one year, with or without automatic renewal after the expiry of the initial fixed term. Such master purchase agreement stipulates purchase plan of the customers with indicative price and quantity, and facilitates our production planning and material purchasing planning. In general, customers will notify us of their own monthly production schedule up to eight months in advance and/or place confirmed purchase order not later than one month before the expected delivery date. Unless there are material changes in market situation, final selling price of products and sales quantity are generally in line with those stipulated in the master purchase agreement without material deviation. The process and the estimated time required for each stage of the process are summarised as follows:

Stage 1 - securing contracts

We generally obtain production and/or product development contracts mainly through the following ways: (i) as approved suppliers invited by automakers for concurrent product development; (ii) directly awarded production and/or product development contracts; and (iii) tender for contracts.

Automakers normally plan a new car model two to three years ahead of mass production. Once we have obtained information from our customers of the proposed new products and the required product specifications and other requirements (such as expected product rollout time, logistics arrangements, quality, expected pricing, production volume and designated suppliers), we will form a cross-departmental task force, which usually comprises our R&D centre, sales and marketing department, finance department, production department and procurement department and will perform the following tasks:

- *Commercial and technical feasibility study* — our sales and marketing department and our R&D centre will conduct detailed analysis on quality and technical requirements and feasibility, market prospect, pricing and profitability, development timetable and product lifespan of the proposed new products. An evaluation of the feasibility, budget of production cost and development cost will be undertaken.

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- *Preliminary proposal* — if we consider the product development and/or production project to be commercially and technically feasible, our R&D centre will prepare a preliminary proposal on the standard operating procedures, preliminary list of choice of raw materials, production process, mould, facilities and tooling involved, packaging and quality control measures.
- *Pricing* — our procurement department will, based on the preliminary proposal as aforesaid, obtain quotations from suppliers for determining the production cost for the proposed products, and the finance department will fix the quotation for the project by taking into account a number of factors, including the expected size of order and production costs.
- *Proposal* — once the quotation and the preliminary proposal have been approved by our senior management, we will then submit them to our customers for consideration.

Stage 2 — Pre-production project implementation

(i) *Negotiation and agreement*

Upon the acceptance of our price quotation by our customers, we will generally enter into a legally binding product development agreement which will normally include terms such as product development targets, indicative pricing of products and expected quantity for each year of production.

(ii) *Product development*

After an agreement is signed, we will commence the development of products, including laying out a quality control plan, formulating the detailed standard operating procedures for the production of the products, making drawings for products, producing product prototype, finalising the procurement plans for raw materials, finalising the tooling and facilities requirements, factory setup, preparing the list of suppliers, preparation of moulds and tooling for production and/or inspection tools, workforce distribution and training, and finalising the product packaging and logistics plans. Please refer to the paragraph headed “Product development” in this section for further information in respect of our product development procedures.

(iii) *Product certification by customers and product design engineers*

The entire production process, factory setup, quality control plan and product sample are subject to strict and regular inspections and modifications by our product design engineers and customers before the products and standard operating procedures can be certified by our customers for mass productions. Representatives from our customers will pay various visits to our relevant production facilities to assess the production line setting, testing and quality control procedures, management and monitoring system.

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Stage 3 - Delivery and after-sales services

(i) *Commercial production and production delivery*

After the product development stage, we would enter into pricing agreement with our customers to stipulate the selling price. While such pricing agreement is legally binding, it generally contains a term to the effect that if market conditions are changed, the parties may amend the price subject to negotiation. Some of the pricing agreements are valid for a fixed term of one year while some of the agreements are automatically renewable after the initial fixed term until a new agreement is signed between the parties for price adjustment. For recurring products or existing products, we would generally enter into a master purchase agreement with our customers for production of the products. The master purchase agreements, which are legally binding on the parties thereto in accordance with their respective terms except for pricing and quantities as mentioned below, are usually for a fixed term of one year with or without automatic renewal after the expiry of the initial fixed term and would normally stipulate the estimated annual purchase quantity, product types, price indication and planned production schedule. Though the indicative price and quantity in the master purchase agreements are estimates only for production planning purpose and are non-legally binding which are subject to confirmation from customers when they actually place their purchase orders. In general, customers will notify us of their own monthly production schedule up to eight months in advance and/or place confirmed purchase order not later than one month before expected delivery date. Purchase orders eventually placed by customers may deviate from the indicative price and quantity, the master purchase agreements provide us with reference to market demand for our production and material purchasing planning. Unless there are material changes in market situation, final selling price of products and sales quantity seldom deviate from that stipulated in the master purchase agreement materially. Upon signing of the master purchase agreement, we will start the commercial production of the products in accordance with the terms of the master purchase agreements and/or purchase orders from our customers from time to time. Please refer to the paragraph headed “Manufacturing processes” in this section for further details.

After commencement of the mass production stage, the production will generally take place at our manufacturing facilities in Ningbo in the first few months during which we generally will keep track of the production process, and make adjustments and improvement thereto if needed during the period. We will then continue the production at our manufacturing facilities in Ningbo or relocate the manufacturing processes to the most proximate subsidiary with suitable production facilities for commercial production and delivery of the products to our customers and the provision of after-sale services.

(ii) *After-sale services*

In accordance with the requests of our customers, we will send out staff to the production facilities of our customers for after-sale services, such as fixing and returning of products.

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Pricing and credit control policies

In respect of products that are developed by us, we quote prices for development of the products on a project-by-project basis with each customer. Upon the request of a price quote from our customers, our sales and marketing department will coordinate with other departments to analyse the prices to be quoted on the basis of a number of factors including technical requirements, estimated production time, packaging style, cost of production materials and production. The determined prices have to be approved by the general manager before quoting to customers.

Under some of the master purchase agreements for purchase of our products, the parties shall set the price of our products by entering into legally binding pricing agreements on a yearly basis, subject to negotiations of the parties during the year. The master purchase agreements, which are legally binding on the parties thereto in accordance with their respective terms except for pricing and quantities as mentioned below, are generally valid for a fixed term of one year with or without automatic renewal after the expiry of the initial fixed term, would normally stipulate, either attached as part of the master purchase agreements or otherwise stipulated in the product development agreements, the estimated annual purchase quantity, product types, price indication and planned production schedule. Though the indicative price and quantity in the master purchase agreements are non-legally binding estimates only for production planning purpose and are subject to confirmation from customers when they actually place their purchase orders, and purchase orders eventually placed by customers may deviate from the indicative price and quantity, the master purchase agreements provide us with reference of market demand for our production and material purchasing planning. We may negotiate with our customers for a price increase in the next pricing agreement in the event of significant rise in our costs, such as our production material costs, labour costs and minimum wage rise in the PRC, and exchange loss due to appreciation in RMB.

We believe that the pricing of our products on this basis has generally enabled our products to be sold with a satisfactory profit margin.

During the Track Record Period, most of our sales were settled in RMB, which accounted for about 96.6%, 97.9%, 94.6% and 95.6% of our total revenue during each of the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. All of our export sales are settled in Euro and/or US dollars during the Track Record Period, which accounted for about 3.4%, 2.1%, 5.4% and 4.4% of our total revenue during each of the three years ended 31 December 2010 and the six months ended 30 June 2011, respectively. Our customers normally settle the account receivables through cash and sometimes negotiable instrument.

We adopt a credit control policy under which the amounts of credit limit are appraised according to our negotiation with our customers and our assessment of the creditworthiness of our customers is based on various factors, such as their legal statuses, their levels of management, their transaction amounts with us, their profit contributions to us and their credit track records. The credit terms offered to our customers generally range from one to three months.

Our staff in the sales and marketing department are responsible for overseeing information relating to the creditworthiness of our customers. We review the credit information of our customers from time to time and make corresponding adjustments to our sales and marketing tactics and strategies so as to effectively control the operating risk.

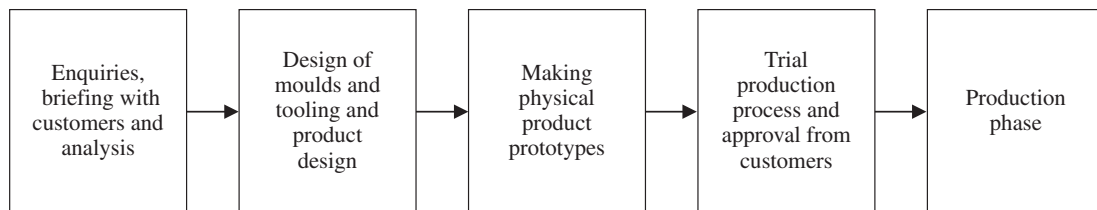
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During the Track Record Period, our average turnover days for trade and notes receivables were 101, 97, 100 and 103 days, respectively and we made about RMB1.7 million, RMB1.4 million, RMB0.4 million and RMB1.5 million provision for bad and doubtful debts, respectively.

PRODUCT DEVELOPMENT

Equipped with product development, tooling and production capabilities, we can offer a one-stop total solution to our customers by our various subsidiaries, from the design and manufacture of moulds and tooling for mass production of specific products, the development of new products out of our customers' functional requirements and specifications, product manufacturing, post-processing and machining, surface finishing treatment, assembly and packaging to final delivery of quality products to our customers. In particular, we are able to offer product development solution by turning our customers' functional requirements and the specifications of the related body parts into three-dimensional product designs, developing and manufacturing the required moulds and tooling and the final products for mass production.

The chart below sets forth a prototypical design and development cycle for a new model of our products.



Development of new products is mostly driven by the concurrent product development requirements of our customers. We are capable of (i) re-engineering a product by using the data and specifications of the required product provided by our customers; (ii) re-engineering a product by scanning a prototype or sample of the product provided by our customers and obtaining the GD&T thereof; and (iii) designing a new product by reference to the functional requirements thereof as required by our customers and the specifications of the related body parts as provided by our customers. We closely communicate with our customers at the designing stage so as to satisfy the needs of our customers. The design of our products will be revised accordingly as per our customers' instructions. Most of our new products are developed through this concurrent design approach.

At the product development stage, we will create our working moulds and make physical prototypes of the products for our customers' review. Based on our customers' feedback, we can refine our design for our customers' approval before mass production.

Apart from working with our customers for the feasibility of the design of new product, we also design, manufacture, install and test the new production process, tooling and production plant needed for production of new products, and train our staff to be familiarised with the production process and tools. A product development plan will also be produced to ensure that the product conforms with the design and standard of our customers and to maintain consistent product quality. The procedures of failure modes and effect analysis will be used to analyse the potential failure of production.

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The time required to complete the whole development process for our new products generally varies according to the complexity of the product. Usually the product design stage, including design of the mould, takes about 30 days while the mould and tools making stage takes about one to four months, depending on customer's needs and the complexity of products.

Our customers generally bear all the cost relating to product design and development which may be included as part of the purchase price of our products.

For products, moulds and toolings that we developed together with our customers, the relevant drawings and intellectual property rights are properties of our customers. For certain structural parts and moulds that are developed by ourselves for facilitating our manufacturing process, we would seek registration of patents. As disclosed under the section headed "C. Further information about our business — 2. Our intellectual property rights" in Appendix VI to this prospectus, we applied for registration of patents which were pending as at the Latest Practicable Date.

In order to protect the intellectual property rights and confidential information which are properties of our customers, we have adopted and implemented the following measures:

- we enter into confidentiality agreements (either separately or as part of the product development agreements) with our customers;
- all visitors (including our customers) will be accompanied by our staff when visiting our production facilities and they will not have any access to areas which contain confidential information of other customers;
- during the process of product development, our customers may visit the relevant parts of our manufacturing facilities to ensure confidentiality measures are in place;
- we enter into confidentiality agreements (either separately or as part of the employment contracts) with our employees to ensure that they will maintain the confidentiality of the intellectual property rights of our customers;
- we instruct our department heads and our staff to keep cautious about securing commercial information confidentiality;
- we have security guards and locks in place to safeguard relevant places such as computer room and data room; and
- confidential documents are restricted to specified authorised personnel only.

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MANUFACTURING PROCESSES

To achieve economies of scale, we centralise those procedures which are common for production of different products. In addition, we are able to adjust and coordinate our production lines for production of a wide range of products according to our production plan. This enables us to offer a variety of products for the same car model as well as to manufacture similar types of products for different brands.

The product development agreements entered into between us and our customers for production of our products generally include a forecast of the expected production volume of each product during the lifespan thereof. At the beginning of each year, our customers will also provide us with the annual production forecast for the year for our reference. Customers will generally notify us of their own monthly production schedule up to eight months in advance. Our production department will analyse production schedule of each product from each customer in terms of the production process involved, materials, quality requirements as well as timing. We have several types of production schedules: (i) monthly procurement plan; (ii) monthly production plan; (iii) weekly production plan; (iv) weekly raw materials procurement plan; and (v) daily production plan. Our team will then coordinate the production schedule for each of the production process with a view to optimising the overall efficiency. This includes placing orders for raw materials and production components, coordinating with other production bases and arranging production flow. Actual production will commence upon receipt of customers' orders. Products are delivered by us to the customers' factory by means of land and sea and if required, by air. Some customers arrange for pick up of the products from our premises. Some of our automaker customers have established online platform which enables us to keep track of the order status as well as making necessary adjustments.

We occasionally sub-contract minor parts of the production process to third party sub-contractors for production process that we do not engage and/or for the purpose of enhancing our production efficiency. The only process that involves sub-contracting is that we sub-contract the sales orders with cherry-wood components to 寧波瑪克特汽車飾件有限公司 (Ningbo Makete Automobile Decorative Parts Co., Ltd.*), a subsidiary of Ningbo Huaxiang Electronics which is principally engaged in, among others, production of cherry-wood-made automobile decorative parts which we currently do not engage in. During the three years ended 31 December 2010 and the six months ended 30 June 2011, our cost for the sub-contracted orders amounted to nil, about RMB4.3 million, about RMB11.0 million and about RMB3.4 million, respectively, which accounted for nil, about 0.7%, about 1.5% and about 0.8% of our total cost of production, respectively. During the three years ended 31 December 2010 and the six months ended 30 June 2011, the revenue generated from sales of products with sub-contracting arrangement amounted to nil, about RMB4.5 million, about RMB11.4 million and about RMB3.6 million, which accounted for nil, about 0.5%, about 1.1% and about 0.6% of our total revenue, respectively. We select our sub-contractors on the basis of price, quality of products and service, technology standard, production capability, environmental condition and delivery time. Our quality control department will also assess our sub-contractors on a monthly basis according to the product return rate and the feedback from our production line.

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Besides, we sometimes engage third party suppliers to manufacture and supply minor auxiliary parts to us for our assembling into our products. Material part of such purchases from third party suppliers are either approved or specified by our customers. The procurement process is in general similar to the procurement of direct purchases. During the Track Record Period, our cost of direct purchases of auxiliary parts from third parties accounted for about 7.2%, 6.8%, 8.3% and 7.0% of our cost of sales. To ensure that these minor parts can conform with the quality and raw materials as specified by our customers and to lower the purchase cost of raw materials, we would purchase and sell the required raw materials to the third party suppliers to produce the minor parts. Save for the aforesaid purchases of certain accessories and minor auxiliary parts from third parties as approved or specified by our customers, the rest of the purchases of raw materials are mainly from suppliers selected by us and our customers do not designate specific suppliers for most of the raw materials purchases.

MANUFACTURING FACILITIES AND TECHNIQUES

Production facilities network

As of the Latest Practicable Date, our Group (together with our jointly controlled entities) had manufacturing facilities in Ningbo, Changchun, Shanghai, Chongqing, Guangzhou and Chengdu with an aggregate site area of about 335,767.7 sq.m. and with an aggregate gross floor area of about 134,951.0 sq.m.. Our strategy is to establish manufacturing facilities in close proximity to our major customers, particularly multi national automakers in China with a view to serve these automakers and other customers in the region. We also had manufacturing facilities in Ningbo for production of moulds and tooling products for members of our Group. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any incidents of power shortage which had material impact on our Group.

In order to capture business opportunities arising from the expected continual growth in the economy of China and the sale of passenger cars in China, and to cater for the development and rollout plan of our customers' present and future products, we intend to increase our production capability and at the same time upgrade our existing production facilities. We plan to expand our production capacity by building new manufacturing facilities in Yantai, Changchun, Wuhu and Foshan, and expanding and upgrading our existing manufacturing facilities in Ningbo and Chengdu, which are in line with our practice of constructing our manufacturing facilities in close proximity to major automakers in China, with a view to establishing closer relationships with these automakers, to serve these automakers and other customers in the region and to increase our market share in the PRC. As at 30 June 2011, the construction work of our Changchun facilities and the expansion and upgrading work of our existing manufacturing facilities in Ningbo and Chengdu had already commenced.

As at 30 June 2011, we have employed about 2,400 employees at our facilities. Further details about our employees are set out in the paragraph headed "Employees" below.

We fail to obtain certain construction permits and/or building ownership certificates, and fail to file the relevant construction works completion acceptance for certain of our production facilities. Please refer to the section headed "Business — Legal compliance and legal proceedings" in this prospectus for further information.

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Due to the change of usage of land from industrial use to commercial use by the government, the land use rights of the land situated at the Commercial/Residential Zone of Wei Xing Road, Changchun Jingyue Development Zone, Changchun City, Jilin Province, PRC (“Wei Xing Facility”) granted to Changchun Huateng were resumed by Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre pursuant to an agreement entered into by Changchun Huateng and Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre dated 10 September 2010. Pursuant to the agreement, Changchun Huateng shall receive RMB67 million as compensation, of which RMB20 million shall be paid within two months after signing of the agreement and RMB47 million shall be paid within three months after signing of the agreement for the transfer of land use rights of the Wei Xing Facility between Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre and a third party purchaser. Our Directors confirm that Changchun Huateng had received the entire sum of the compensation as at the Latest Practicable Date and it has been applied as working capital of our Group. As a result of the resumption, Changchun Huateng was required to move out from the Wei Xing Facility within three months from the date of the agreement. As supplemented by another agreement dated 13 May 2011, Changchun Huateng was not required to move out until the completion of the relocation of its existing factory. As at the Latest Practicable Date, Changchun Huateng had already moved out from the Wei Xing Facility and we expect the redelivery of the Wei Xing Facility by Changchun Huateng will be completed within the first quarter of 2012. The products manufactured by the Wei Xing Facility contributed about 4.5%, 3.2%, 4.3% and 7.7% of our total revenue during the Track Record Period. To minimise the impact on our Group as a result of the land resumption of the Wei Xing Facility, our Group has commenced the establishment of a new manufacturing facility in Changchun to replace the Wei Xing Facility and we expect the construction of the new facility to be completed by the end of 2011. We estimate that the total cost of relocation will be about RMB350,000 and will be funded by the compensation received by the government as a result of the resumption and the total cost of construction of the new manufacturing facility will be about RMB50 million which will be funded partly by internal resources and partly by the net proceeds from the New Issue. For further details, please refer to the paragraph headed “Business strategies — Expanding our existing production facilities and capabilities” in this section.

Our production facilities in Guangzhou were leased from a company controlled by Mr. Zhou. The products manufactured by our production facilities in Guangzhou contributed about 8.2%, 5.7%, 5.4% and 3.5% of our total revenue during the Track Record Period. Pursuant to a confirmation letter issued by the local government in January 2010, metro construction will be taken place in Zengcheng City where the premises was located. As such, all application for issue of building ownership certificates have been halted due to the metro construction. As a result, the landlord of our production facilities in Guangzhou was not able to obtain the building ownership certificate for the premises. As advised by our PRC legal advisers, notwithstanding the lack of building ownership certificate, the tenancy agreement is legal, valid and enforceable under the PRC laws pursuant to the confirmation letter issued by the Zengcheng State-owned Land Resources and Real Estate Administration Bureau dated 1 August 2011. Furthermore, because of metro construction, it may be possible that the land on which the production facilities were built would be resumed by the government. In such event, we will need to look for alternative land supply nearby to relocate our production facilities in Guangzhou. There is however no specific timing for relocation of the said production facilities as the relocation depends on whether and when the government will resume the land. Our Directors are of the view that there is abundant supply of similar premises in nearby area, and therefore the Directors do not foresee any

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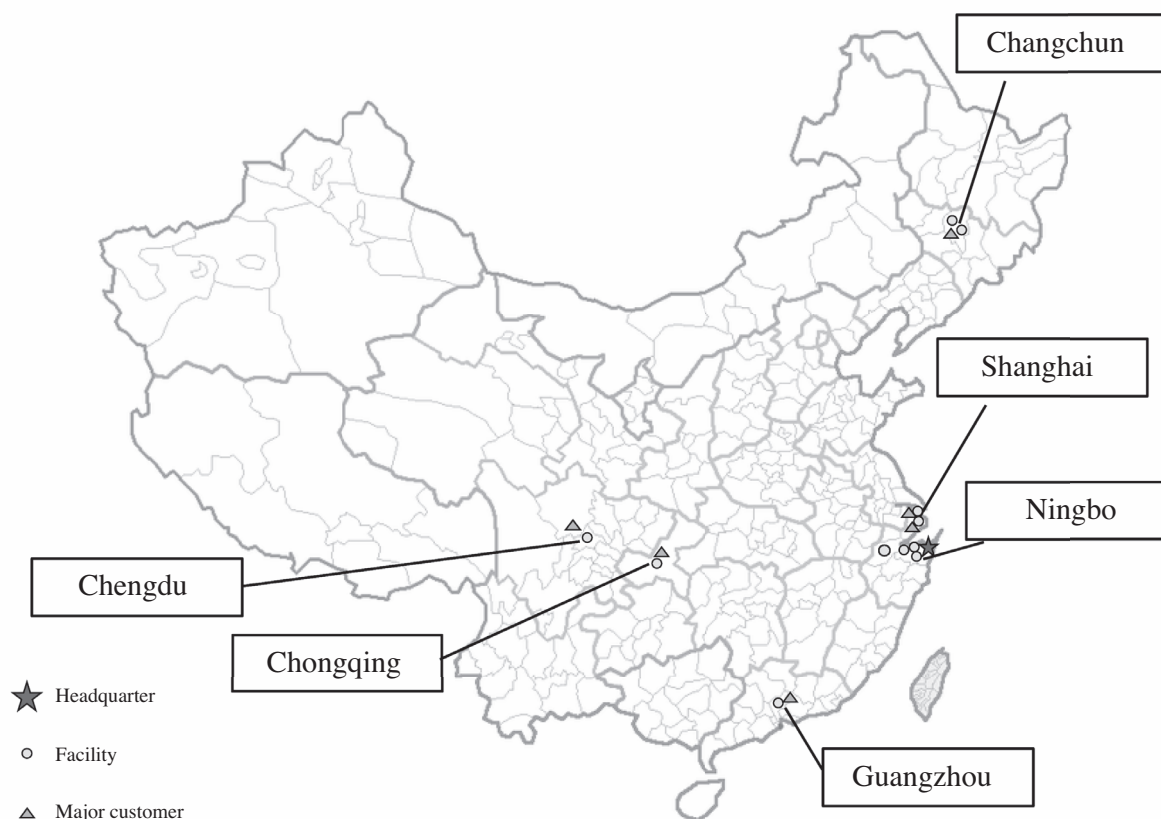
difficulties to relocate the production facilities; and there will be no material disruption to the business of our Group in the event of such relocation. Our Directors estimate that the total cost of relocation will be about RMB350,000 and is expected to be compensated by the government as a result of the resumption.

The tenancy agreements in respect of our leased property at No. 25 Hangdu Road Hangtou Town, Pudong New District, Shanghai, The PRC, being the production facilities of Shanghai Xiangmao for production, warehouse and office purposes, were entered into and registered after and subject to the pre-existing, registered charges created over the relevant buildings. The products manufactured by the production facilities of Shanghai Xiangmao contributed nil, nil, about 0.5% and 0.5% of our total revenue during the Track Record Period. Our PRC legal advisers advised that the tenancy agreements shall not be enforceable against the chargees and transferors of the leased property and, in the event that the chargees exercise their rights under the charges and dispose of the leased property, the tenancy agreements may not be binding on the new owner of the leased property and Shanghai Xiangmao may need to reallocate its operations thereat to elsewhere. As such, we may need to look for alternative land supply nearby to relocate the said production facilities. Having said that, there is no specific timing for relocation of the said production facilities as the right of the chargee to enforce the charges only arises in the event that there is default by the landlord and the charges have been enforced as a result. Even then, the new owner of the leased property may or may not require Shanghai Xiangmao to move out. In the event the relocation is materialised, our Directors are of the view that there is abundant supply of similar premises in nearby area, and therefore the Directors do not foresee any difficulties to relocate the production facilities; and there will be no material disruption to the business of our Group in the event of such relocation. Our Directors estimate that the total cost of relocation will not be more than RMB100,000 and will be funded by our internal resources.

Our Controlling Shareholders will provide an indemnity in favour of our Group against any loss and damage we may suffer for relocation due to requisition of land in respect of our production facilities in Guangzhou or the exercise of right by the chargees under the charges in respect of our production facilities leased by Shanghai Xiangmao. For details of the indemnity, please refer to the paragraph headed “H. Other information — 1. Deed of Indemnity” in Appendix VI to this prospectus.

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The map below shows the various locations of our manufacturing facilities (including that of our jointly controlled entities) and the automakers we serve from each such location in the PRC.



The following table sets forth, among others, the details of our manufacturing facilities as at 30 June 2011:

Location	Approximate total site area (sq. m.)	Approximate total gross floor area (sq. m.)	Number of buildings	Production process	Number of employees as at 30 June 2011
1. Nos. 102 & 104 Zhenan Road Xizhou Town Xiangshan County Ningbo City Zhejiang Province The PRC (the “Zhenan Facility”)	16,441.74	24,537.36	10	LPIM, plastic mould injection, welding and spraying (Note 1)	637 (Note 1)

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Location	Approximate total site area (sq. m.)	Approximate total gross floor area (sq. m.)	Number of buildings	Production process	Number of employees as at 30 June 2011
2. Jidian Industrial Area Xizhou Town Xiangshan County Ningbo City Zhejiang Province The PRC (the "Jidian Facility")	166,831.80	37,588.94	8	LPIM, plastic mould injection, fabric lamination, fabric production, welding and spraying (Note 2)	641 (Note 2)
3. No. 69 Dahetou Road Haishu District Ningbo City Zhejiang Province The PRC (the "Haishu Facility")	5,887.30	6,723.47	11	Plastic mould injection	64
4. No. 1766 Hunan Road Pudong New District Shanghai The PRC (the "Hunan Facility")	9,021.00	7,892.44	6	Plastic mould injection	217
5. Damian Town Longquanyi District Chengdu City Sichuan Province The PRC (the "Damian Facility")	34,444.93	8,364	4	N/A (Note 3)	46
6. No. 5001 Dong Nanhu Main Road Changchun Economic and Technical Development Zone Changchun City Jilin Province The PRC (the "Dong Nanhu Facility")	39,980	25,353.42	8	Plastic mould injection and spraying (Note 4)	387 (Note 4)

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Location	Approximate total site area (sq. m.)	Approximate total gross floor area (sq. m.)	Number of buildings	Production process	Number of employees as at 30 June 2011
7. The Commercial/ Residential Zone of Wei Xing Road (Lot No.05009-2) Changchun Jingyue Development Zone Changchun City Jilin Province The PRC (the “Wei Xing Facility”)	54,995	10,546.62	6	Plastic mould injection (Note 5)	233 (Note 5)
8. Fenghuang West Road Yonghe Fenghuang Development Area Xintang Town Zengcheng Guangzhou City Guangdong Province The PRC (the “Guangzhou Facility”)	5,245.90	3,590.13	10	Plastic mould injection and spraying	70
9. West Zone of Yubei Molding Industrial Area Yubei District Chongqing The PRC (the “Chongqing Facility”)	N/A	3,900	2	Plastic mould injection	84
10. No. 25 Hangdu Road Hangtou Town Pudong New District Shanghai The PRC (the “Pudong Facility”)	2,920	4,654.62	2	Plastic mould injection	30

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Location	Approximate total site area (sq. m.)	Approximate total gross floor area (sq. m.)	Number of buildings	Production process	Number of employees as at 30 June 2011
11. Huicheling Village Heping Town Changxing County Huzhou City Zhejiang Province The PRC (the "Huzhou Facility")	N/A	1,800	2	N/A (Note 3)	13

Notes:

1. The land use rights of the Zhenan Facility were granted to Ningbo Huazhong Plastic. Pursuant to a tenancy agreement, portion of the Zhenan Facility was leased to Ningbo Huafeng. Therefore, the information mentioned in the table above refers to the production process and/or aggregate number of employees of Ningbo Huazhong Plastic and Ningbo Huafeng in the Zhenan Facility as at 30 June 2011.
2. The land use rights of Jidian Facility were granted to Ningbo Huazhong Plastic. Pursuant to two lease agreements, portions of the Jidian Facility were leased to Ningbo Hualete and Ningbo Huazhong Moulding, respectively. Therefore, the information mentioned in the table above refers to production process and/or aggregate number of employees of Ningbo Huazhong Plastic, Ningbo Hualete and Ningbo Huazhong Moulding in the Jidian Facility as at 30 June 2011. Please refer to Appendix IV to this prospectus for further details.
3. The Damian Facility and the Huzhou Facility have not commenced commercial production yet as at the Latest Practicable Date.
4. The land use rights of Dong Nanhu Facility were granted to Changchun Huaxiang. Pursuant to a tenancy agreement, portion of Dong Nanhu Facility was leased to Changchun Huaxiang Faurecia. Since Changchun Huaxiang Faurecia was newly incorporated and operation has not yet been commenced as at 30 June 2011, the information mentioned in the table above only refers to the production process and/or number of employees of Changchun Huaxiang in the Dong Nanhu Facility as at 30 June 2011.
5. Due to the change of usage of land from industrial use to commercial use by the government, the land use rights of the Wei Xing Facility granted to Changchun Huateng were resumed by Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre pursuant to an agreement entered into by Changchun Huateng and Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre dated 10 September 2010. Pursuant to the agreement, Changchun Huateng shall receive RMB67 million as compensation, of which RMB20 million shall be paid within two months after signing of the agreement and RMB47 million shall be paid within three months after signing of the agreement for the transfer of land use rights of the Wei Xing Facility between Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre and a third party purchaser. Changchun Huateng had received the entire sum of the compensation as at the Latest Practicable Date. As a result of the resumption, Changchun Huateng was required to move out from the Wei Xing Facility within three months from the date of the agreement. As supplemented by another agreement dated 13 May 2011, Changchun Huateng was not required to move out until the completion of the relocation of its existing factory. As at the Latest Practicable Date, Changchun Huateng had already moved out from the Wei Xing Facility and had ceased its operation there since then. Please refer to Appendix IV to this

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prospectus for further details. To minimise the impact on our Group as a result of the land resumption of the Wei Xing Facility, our Group has commenced the establishment of a new manufacturing facility in Changchun to replace the Wei Xing Facility and we expect that completion of the construction of the new facility and the requisite completion inspection and acceptance procedures will be completed, and the commercial production of Changchun Huateng thereat will commence, within the first quarter of 2012. For further details, please refer to the paragraph headed “Business strategies — Expanding our existing production facilities and capabilities” in this section.

Machineries and technology used in our production

We use some advanced technology and machineries in manufacture of our products:

(i) *LPIM*

We started the development of moulds for LPIM and application of LPIM in making automobile internal decorative parts in 2000 and 2002, respectively. According to the independent assessment and knowledge of the industry of the Related Industry Branch of China Association of Automobile Manufacturers (中國汽車工業協會汽車相關工業分會), we are one of the leading manufacturers of automobile body parts using LPIM technique in China.

As at 30 June 2011, we had eight LPIM machines, seven of which were imported from overseas, with clamping force ranging from about 280 kN to 6,000 kN. Products that are produced by LPIM include ABCD-pillars, which are widely used for automobile. Unlike the use of high pressure required for conventional plastic injection moulding, the use of low pressure avoids damages to the components (such as the fabric surface used for ABCD-pillars and headliners) by melted plastic during the injection process. Through the process, the fabric can be strongly adhered to the plastic backing of the product without using any glue or other chemical substances and therefore is environmental friendly. Our Directors consider that our LPIM technique is one of our key competitive edges over our competitors in China.

(ii) *Injection moulding*

As at 30 June 2011, we had more than 100 injection moulding machines with clamping force ranging from about 800 kN to 28,000 kN. Products that are produced by injection moulding include ABCD-pillars, front-end carrier, bumper, air conditioner/heater unit casings and rocker panel.

(iii) *Two-shot moulding*

As at 30 June 2011, we had four two-shot moulding machines with clamping force of about 3,600 kN. Products that are produced by two-shot moulding machines include air inlet grille and trunk trim.

(iv) *Spray painting*

As at 30 June 2011, we had 16 robots for spraying bright colour on products. Products that involve spray painting include front/rear bumper and top cowl cover for engine of motorboat.

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(v) *Fabric lamination and production*

As at 30 June 2011, our jointly controlled entity, Ningbo Hualete, had one laminating line machine and one flame laminating machine. Products that involve fabric lamination include the fabric used for ABCD-pillars and headliners. We are capable of producing fabric, such as non-woven fabric, of more than 200,000 metres a month by using the fabric lamination process.

(vi) *Tooling machineries*

We have been producing moulds and tooling for our manufacturing arms, with the ability to produce tooling for complex and large-size automobile body parts, such as bumper and front-end carrier. We use various machineries for our production, including:

- different kinds of electrical discharge machines — computerised machines which use electrical discharges to produce the desired shape of a mould;
- different kinds of wire cut electrical discharge machines — computerised machines which use a thin single-strand metal wire to produce the desired shape of a mould; and
- different kinds of CNC process centers — computerised machines which use knives to produce the desired shape of a mould, in particular, five axis CNC process centre, in contrast with traditional three axis CNC process centre, is able to move the tools in five axes more flexibly to produce complex and/or three-dimensional mould.

Usage of production capacity

Due to diversity of our products and the fact that our production lines can be modified to meet the production needs of our different products, our Directors consider that an estimate of the production capacity of our Group in terms of units of products are not meaningful. On the basis that each of our machines for injection moulding (being the most critical process for production of most of our products (other than moulds and tooling) can operate on a 24-hour a day (on the basis that our workers work on eight hours per shift and three shifts per day) and 26-day a month basis (which our Directors consider to be optimal operating hours for each machine after deducting public holidays and stoppage time for regular maintenance), the average utilisation rates of our operation (excluding that of our jointly controlled entities) for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 is about 82.9%, 81.6%, 83.9% and 81.8%, respectively.

In respect of the production facilities of Ningbo Hualete, the utilisation rate is calculated on the basis of the number of laminating machines of Ningbo Hualete and that they can operate on a 8-hour a day and 26-day a month. The table below sets out the utilisation rate and production capacity (in terms of machine hour, which is a unit representing the operation of one machine for one hour, for

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our injection moulding capacity and in terms of meter for the fabric lamination and production capacity of Ningbo Hualete) of our subsidiaries and jointly controlled entities:

	Location of production facility	Utilisation rates				Annual production capacity			
		For the year ended 31 December			For the six months ended 30 June	As at 30 June	As at 31 December	As at 31 December	As at 31 December
		2008	2009	2010	2011	2011	2011	2012	2013
					<i>(Estimate)</i>				
					<i>Machine hour</i>				
Injection moulding:									
Subsidiaries									
Ningbo Huazhong	Zhenan Facility								
	Jidian Facility	82.4%	82.2%	85.5%	85.5%	516,672	516,672	516,672	576,576
Ningbo Huafeng	Zhenan Facility	82.0%	72.6%	86.7%	86.6%	67,392	67,392	67,392	67,392
Ningbo Xinxing	Haishu Facility	74.4%	92.8%	95.3%	95.7%	37,440	37,440	37,440	37,440
Chongqing Huazhong <i>(Note 1)</i>	Chongqing Facility	95.0%	96.6%	97.6%	87.1%	37,440	37,440	37,440	37,440
Changchun Huateng <i>(Note 2)</i>	Wei Xing Facility	N/A	75.0%	75.0%	91.2%	119,808	119,808	—	—
	Changchun Facility	N/A	N/A	N/A	N/A	—	—	142,272	142,272
						<i>(Note 11)</i>	<i>(Note 11)</i>		
Guangzhou Huazhong <i>(Note 3)</i>	Guangzhou Facility	N/A	N/A	39.6%	35.4%	37,440	37,440	37,440	37,440
Shanghai Xiangmao <i>(Note 4)</i>	Pudong Facility	N/A	N/A	71.6%	56.4%	22,464	22,464	22,464	22,464
Changchun Huaxiang <i>(Note 5)</i>	Dong Nanhu Facility	N/A	95.8%	71.2%	64.5%	29,952	—	—	—
							<i>(Note 12)</i>	<i>(Note 12)</i>	<i>(Note 12)</i>
Chengdu Huazhong <i>(Note 6)</i>	Damian Facility	N/A	N/A	N/A	24.5%	29,952	29,952	67,392	67,392
Shanghai Huaxin	Hunan Facility	N/A	N/A	N/A	76.7%	157,248	157,248	157,248	157,248
Yantai Huaxiang	Yantai Facility	N/A	N/A	N/A	N/A	—	—	59,904	59,904
						<i>(Note 13)</i>	<i>(Note 13)</i>		
Wuhu Huazhong	Wuhu Facility	N/A	N/A	N/A	N/A	—	—	—	52,416
						<i>(Note 14)</i>	<i>(Note 14)</i>	<i>(Note 14)</i>	
A new subsidiary to be established	Foshan Facility	N/A	N/A	N/A	N/A	—	—	—	59,904
						<i>(Note 15)</i>	<i>(Note 15)</i>	<i>(Note 15)</i>	
Changxing Huaxin	Huzhou Facility	N/A	N/A	N/A	N/A	—	—	29,952	29,952
						<i>(Note 16)</i>	<i>(Note 16)</i>		
Group <i>(Note 7)</i>		82.9%	81.6%	83.9%	81.8%	<u>1,055,808</u>	<u>1,025,856</u>	<u>1,175,616</u>	<u>1,347,840</u>
Jointly controlled entity									
Changchun Huaxiang Faurecia <i>(Note 8)</i>	Dong Nanhu Facility	NA	NA	NA	NA	<u>NA</u>	<u>29,952</u>	<u>29,952</u>	<u>29,952</u>
Fabric lamination and production:									
Jointly controlled entity									
Ningbo Hualete <i>(Note 9)</i>	Jidian Facility	32.2%	52.4%	74.3%	62.6%	<u>2,589,600</u>	<u>2,589,600</u>	<u>2,589,600</u>	<u>2,589,600</u>
						<i>Metre</i>	<i>Metre</i>	<i>Metre</i>	<i>Metre</i>

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Notes:

1. The decrease of utilisation rate of the Chongqing Facility from about 97.6% for the year ended 31 December 2010 to about 87.1% for the six months ended 30 June 2011 was caused by the combined effect that the demand for automobile body parts for existing car models decreased while automobile body parts for new car models were still at their trial production stage and mass commercial production thereof had not yet commenced during the period.
2. The increase of utilisation rate of the Wei Xing Facility from about 75.0% for the year ended 31 December 2010 to about 91.2% for the six months ended 30 June 2011 was because of the increase of sales of Changchun Huateng during the period.
3. The utilisation rate of the Guangzhou Facility was relatively low because we currently have fewer customers in Guangdong region. Despite the relatively low utilisation rate, we consider that it is economically justifiable to seek further expansion by establishing new manufacturing facility in Foshan to cater for the expected increase in demand for our products in Guangdong region arising from the expected establishment of a new production facility by our major customer in the area in 2013.
4. The decrease of utilisation rate of the Pudong Facility from about 71.6% for the year ended 31 December 2010 to about 56.4% for the six months ended 30 June 2011 was caused by the combined effect that the demand for automobile body parts for existing car models decreased while automobile body parts for new car models were still at their trial production stage and mass commercial production thereof had not yet commenced during the period.
5. The decrease of utilisation rate of the Dong Nanhu Facility during the period was caused by the combined effect that the demand for automobile body parts for existing car models decreased while automobile body parts for new car models were still at their trial production stage and mass commercial production thereof had not yet commenced during the period.
6. The low utilisation rate of the Damian Facility for the six months ended 30 June 2011 was caused by the fact that it has just commenced its trial operation in May 2011 and is still in the process of installation and testing. We expect that the Damian Facility will commence its full operation in 2012.
7. Utilisation rate of our Group is calculated based on weighted average of machine hour of the subsidiaries.
8. On 1 June 2011, Changchun Huaxiang entered into an asset purchase agreement with Changchun Huaxiang Faurecia in relation to the transfer of production and manufacturing equipments, inventory and intangible assets from Changchun Huaxiang to Changchun Huaxiang Faurecia. After such transfer, the production facility at the Dong Nanhu Facility has become the production facility for Changchun Huaxiang Faurecia. Please refer to the section headed “History and corporate structure — Jointly controlled entities held by our Company — Changchun Huaxiang Faurecia” in this prospectus for further details of Changchun Huaxiang Faurecia and the asset purchase agreement.
9. The utilisation rate of the production facility of Ningbo Hualete was relatively low which was in line with our internal production requirements and the demands for fabric from our other customers, and the production efficiency of the production facility of Ningbo Hualete.
10. The construction of the production facility at Changchun Facility is expected to be completed by the end of 2011 and our existing production facility of Changchun Huateng at the Wei Xing Facility will be relocated to the Changchun Facility thereafter.
11. The production facility at the Changchun Facility was still under construction as at 30 June 2011 and it is expected that the Changchun Facility will not have any production capability until it commences its production in 2012.

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12. The production facility at the Dong Nanhu Facility will be transferred to Changchun Huaxiang Faurecia. Please refer to note 8 above for further details.
13. Most prepayment had been made for the acquisition of the land for the Yantai Facility as at 30 June 2011 and it is expected that the Yantai Facility will not have any production capability until it commences its production in 2012.
14. We had not yet acquired the land for the Wuhu Facility as at 30 June 2011 and it is expected that the Wuhu Facility will not have any production capability until it commences its production in 2013.
15. The establishment of the Foshan Facility was still at its planning stage as at 30 June 2011 and it is expected that the Foshan Facility will not have any production capability until it commences its production in 2013.
16. We have leased the premises for the Huzhou Facility in May 2011 and it is expected that the Huzhou Facility will not have any production capability until it commences its production in 2012.

SUPPLIERS AND PRODUCTION MATERIALS

Production materials

Our major production materials comprise mainly various types of resin, such as PC/ABS and PP, accessories (such as metal clamps and screws) and fabric. During each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our purchase costs for resin accounted for about 23.5%, 28.8%, 28.7% and 33.7% of our total cost of sales, respectively, while our purchase costs for accessories accounted for about 20.1%, 25.0%, 28.5% and 28.8% of our total cost of sales, respectively, and our purchase costs for fabric accounted for about 7.4%, 6.3%, 6.1% and 4.1% of our total cost of sales, respectively.

During the Track Record Period, most of the fabric used in our production was sourced from our jointly controlled entity, Ningbo Hualete. For other production materials such as resins and accessories, they are of universal standard which are not unique nor solely dependent on any particular supplier. The selection of production materials is determined by their price, quality and function. They are approved by our customers before they are used in production. During the Track Record Period, we had not experienced any difficulty in obtaining any of our key production materials to meet our production requirements.

Save for our fabric which has been sourced from Ningbo Hualete, our raw materials mainly come from two sources, directly from our suppliers or through the suppliers or agents designated by our customers. Most of our suppliers of production materials are from China, with certain production materials, including higher grade plastics, and accessories being sourced from overseas. We sign contracts with our suppliers annually.

We have adopted the following measures to minimise the cost of our production materials:

- to benefit from economies of scale, we adopted a centralised purchasing policy for our subsidiaries so as to enhance bargaining power over suppliers; and

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- in response to the increasing cost of production materials, we would (i) negotiate with our customers to increase our selling price and transfer our increased costs to our customers; (ii) look for and use cheaper alternative production materials subject to customers' approval; and (iii) sign year-long contracts with suppliers to avoid price fluctuations within the same year.

Suppliers

During each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, about 91.3%, 97.3%, 97.7% and 96.5%, respectively, of our purchase of production materials were sourced from within China, with the remainder being imported from overseas.

As part of our commitment to customers, it is important for us to ensure the quality of our production materials. We select our suppliers on the basis of quality, know-how, price, services and delivery time. Normally we will choose our supplier from two to three potential suppliers for one particular kind of raw material based on the above criteria. Some customers would provide a list of designated suppliers for certain contracts awarded to us and any deviation from such specification must be expressly approved by the relevant customers. In other cases, we would implement our own selection criteria by reference to our production material requirements. We will conduct an annual audit on our suppliers and will increase suppliers according to the ever changing market conditions. Our annual audit includes sampling of production materials, paying site visits and/or ensuring that our suppliers have complied with the quality management standards as prescribed for ISO/TS16949.

We have had business relationships with our major suppliers ranging from four to eight years. Credit terms offered by our major suppliers to us range from 30 to 90 days. During each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, purchases from our five largest suppliers (excluding intra-Group purchases) accounted for about 21.7%, 30.7%, 30.3% and 32.7% of our total cost of purchase, respectively, and purchases from the largest supplier of our Group, Ningbo Hualete, which is our jointly controlled entity, accounted for about 6.2%, 7.9%, 8.7% and 8.4% of our total cost of purchase during the corresponding year, respectively. Except for the Controlling Shareholders' indirect interest in Ningbo Hualete by virtue of their interests in our Group, none of our Directors, their respective associates or, to the knowledge of our Directors, any Shareholders who will own more than 5% of the Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue, has any interest in any of our five largest suppliers during the three years ended 31 December 2010.

QUALITY CONTROL AND ASSURANCE

We focus on the quality of our products and perform various quality control, inspection and testing procedures throughout our product development and production processes to monitor and attempt to identify defects and irregularities at early stages of production development and production. As at 30 June 2011, we had 99 staff in our quality control department which conducts testing and checking regularly. We also perform quality control procedures for production materials procured from third party suppliers. In addition to these quality control procedures, customers generally inspect and monitor the production process through their on-site quality inspection. They will also conduct product quality inspection by way of sample checks. We closely communicate with our customers to

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ensure that customers' feedback and requirement are closely followed. For certain key production stages, we obtain customers' approval before moving to next stage. For certain key products or new products, we have trial production according to customers' requirements before commencing large scale production.

As a recognition of our Group's commitment to quality control, most of our principal operating subsidiaries have obtained the certification of ISO/TS16949, which is a manufacturing process certification standard specifically designed for the automobile industry and is well accepted by multinational automakers as an internationally recognised and standardised requirement.

To enable us to obtain accurate and reliable measurement and testing results of our production materials, moulds and tools, work-in-progress and the final products, we have extensively invested in testing and measuring equipment. This includes:

- Distortion test machine for testing the impact toughness of resin
- High-low temperature testing machine for testing the thermal tolerance of resin under high and low temperature
- Melt flow indexer for measuring the speed of flow of resin in liquid state
- Salt spray tank for testing the corrosion resistance of accessories
- Image measuring instrument for measuring the size of accessories
- Horizontal flame chamber for testing the burn rate and burn resistance of resin
- Tensile testing machine for testing the tensile strength of resin
- Ageing test for testing the thermal tolerance of resin under high temperature
- Ultraviolet-visible spectrophotometer for measuring the formaldehyde emission of resin
- Gas chromatograph with a headspace sampler for analysing the carbon content of resin

We do not maintain product liability insurance. Our Directors consider that it is not an industry norm to maintain product liability insurance because there is no such requirement under current PRC laws and product liability insurance is not commonly available from insurance companies in the PRC. During the Track Record Period and up to the Latest Practicable Date, we had not faced any material complaints, product claims or product recall, and, so far as we are aware of, we had not contributed to any product recall of our customers during the period. During the Track Record Period and as of the Latest Practicable Date, we had not received any major complaints about the quality of our products from customers or as to our non-compliance with the requirements imposed by them in connection with social, health and safety issues that would materially and adversely affect our business or relationship with such customers, and there were no past incidents related to our product quality and/or product liability claims which had material impact on our Group. We have maintained

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a relatively low product return rate, with an average product return rate of about 0.11%, 0.06%, 0.03% and 0.06% for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, which our Directors consider as a significant contributing factor to maintaining our long-established relationship with our customers.

INVENTORY CONTROL

To meet the requirement of our customers, we carefully plan our production schedule to ensure sufficient inventories for our customers' needs and, at the same time, maintain levels of inventory at a manageable level, by taking into account the daily need of products of our customers and the requisite delivery time. We work closely with our customers to ensure a timely delivery of products. We keep a close track of information including our monthly sales proposal, production progress, delivery of inventory, size of orders placed by our customers, historical trend of demand for products and inventory level and adjust our production progress to meet order requirements.

Depending on the type of production materials, the daily need of products of our customers, the then production progress of the products and the time required for procurement of the requisite production materials, we normally stock up our inventory every month for production materials sourced within China and every two to three months for production materials imported from overseas. Our senior management reviews inventories every month and where appropriate, inventories are stated at the lower of cost and net realisable value. We recorded provision for inventories amounted to RMB4.5 million for the year ended 31 December 2008, reversal of inventories written-down amounted to RMB0.9 million for the year ended 31 December 2009, provision for inventories amounted to RMB0.6 million for the year ended 31 December 2010 and provision for inventories amounted to RMB2.4 million for the six months ended 30 June 2011. The average inventory turnover days of our Group for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 was about 59 days, 55 days, 40 days and 44 days, respectively.

Warranty period

In accordance with the terms of our master purchase agreements or product development agreements entered with our customers, we provide a warranty period to our customers which varies among customers and car-models on a case-by-case basis. In general, the duration of our warranty period that we provide ranges from 50,000 kilometres to 100,000 kilometres of mileage of the relevant vehicle or one year to four years, starting from the registration date of the vehicle by the first end-customer, the date of settlement for installation of changed parts or the date when our product is delivered to our customer (as the relevant contract terms specify). As stipulated in some contracts, during the warranty period, in case defects were found in the parts produced by our Group and losses were incurred to our customers as a result of such defects, our customers shall be entitled to claim for such losses from us. In addition, where losses were incurred to other property and personnel (such as third party end-customers) as a result of such defects, our customers shall be entitled to claim for the reimbursement when the customer pays the losses to any third party. We shall bear all expenses of the customers' product recall resulting from the quality problems of our products. During the Track Record Period, we did not experience any substantial replacements of our products. Our Directors are of the view that this was contributed by the fact that we have stringent quality control procedures and our customers are usually involved in different stages of production development, including product

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design, sample testing, trial production and inspection before commencement of mass production. When we have finished production, our customers would also check the products before acceptance. As the major products of our Group are decorative parts which are not mechanically complicated, defects (if any) of the finished goods can mostly be identified in the process of goods inspection and customers' acceptance process. As such, our risk of potential claims due to product defects are carefully controlled and mitigated and our Directors consider that the financial impact in relation to the warranty period was insignificant.

RESEARCH AND DEVELOPMENT

R&D centre

We realise the importance of the research and development of new production technologies to our continuous growth, and are dedicated to improve the quality and expand the range of our products through our R&D department. As at 30 June 2011, our R&D centre in Ningbo had about 68 technicians, carried out research and development activities mainly at Ningbo Huazhong Plastic and Ningbo Huazhong Moulding. Our R&D centre is headed by a technician with a post- doctorate degree and over 15 years of experience in automotive technical design and project management. Our other technicians working in our R&D department consist of 14 university graduates, and also other technicians who are college graduates and technical school graduates. The softwares we use in our R&D centre include UG, Pro/E and CATIA. Apart from the staff working at our R&D centre in Ningbo, we also had around 45 technicians as at 30 June 2011 stationed at our various production facilities to carry out research and development activities.

Our R&D department keeps abreast of the latest developments in market demand and in the plausibility of new products by conducting market research.

The main objectives of our R&D department are to (i) introduce new products in order to increase market share; (ii) improve the quality of the existing products in accordance with the needs of our customers with new or improved production methods and capital goods; and (iii) reduce production costs and increase production efficiency with new or improved production technology. We have put in place a set of operational and management guidelines for achieving the above objectives. In formulating and approving development plans, the R&D department will take into account feedback from customers on our products forwarded from the staff of our sales department.

Our research and development capabilities include:

- Static finite element analysis
- 3-dimension digital-analog moulding analysis
- Advanced mouldflow analysis and rapid prototype
- Instantaneous dynamic mode analysis
- Multi-physics analysis

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- Large nonlinear analysis
- Blast analysis
- Two-colour injection moulding analysis
- Deformation analysis for two-colour injection molding
- Lamination moulding analysis
- Deformation analysis for lamination moulding

Research and development effort

Throughout the Track Record Period, rather than developing brand-new category of products, we devoted our research and development effort on the concurrent development of our existing category of automobile body parts to cater for the design and/or functional requirements of the new car models of our customers based on their needs, including automobile body parts for luxury automobile such as ABCD-pillars, fabric used for ABCD-pillars, bumper sprayed by robots and front-end carriers.

We sometimes engage third parties to develop new products for the purpose of enhancing the speed of our development of new products.

Since our research and development team is also responsible for product design and development and that our research efforts on product design and development are applied towards the production of our products, our product design and development cost during the Track Record Period had been included as part of our cost of sales. Apart from these product design and development costs which are generally borne by our automakers customers as part of the purchase price of products, we also incur other research and development expenditure, comprising mainly salaries for technical experts and expenditures on experimental materials, which amounted to about RMB9.0 million, RMB4.6 million, RMB5.8 million and RMB2.1 million (representing about 1.2%, 0.6%, 0.6% and 0.4% of our revenue), respectively, for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. The R&D expenses in 2008 were particularly higher than that incurred in 2009 and 2010. This was because additional R&D cost had been incurred in 2008 in connection with construction of new production facilities and installation of new machinery.

We intend to increase our investment in product research and development to bolster our product research and development capabilities by the establishment of our R&D building in Ningbo. We intend to focus our research and development efforts on the following projects:

- LED automotive lighting system
- High-gloss injection moulding — a technology which gives high gloss finish to the plastic part

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- Multi-color injection moulding - a technology which allows the use of different colours or materials on a plastic part
- Enhancement of functionality and quality of resins
- Automobile body parts for alternative energy vehicles

COMPETITION

We face keen competition in our business. Our competitors are primarily other automobile body parts manufacturers specialising in the production of our products based in the PRC, who have the manufacturing capability and expertise to cater for the demands of multinational renowned brands and/or well-established automakers in the PRC. We compete principally on product quality, pricing, reputation, product design and development skills, manufacturing techniques, research and development, production capacity, delivery and relationship with customers.

We maintain our competitiveness by cooperating and forming joint ventures with other manufacturers and maintaining good relationship with our customers. In 2011, we formed a joint venture, namely Changchun Huaxiang Faurecia, with Faurecia (China) Holding Co. Ltd.. Changchun Huaxiang Faurecia is our jointly controlled entity owned as to 50% by Ningbo Huazhong Plastic and 50% by Faurecia (China) Holding Co. Ltd.. By an asset transfer agreement dated 1 June 2011 entered into between Changchun Huaxiang Faurecia as buyer and Changchun Huaxiang as seller, Changchun Huaxiang transferred all its production facility and business to Changchun Huaxiang Faurecia. Changchun Huaxiang Faurecia continues to engage in the business similar to that previously engaged by Changchun Huaxiang, which is manufacturing of bumpers. The joint venture partner, Faurecia (China) Holding Co. Ltd., is a member of a group of companies (“Faurecia Group”) which is a global player in the automobile industry and is one of the largest suppliers of automobile interior and exterior automobile body parts in the world. Capitalised on the expertise, network and industry recognition of our joint venture partner, we believe that the setting up of the joint venture would sharpen our competitive edge in research and development, technique and business management in the manufacturing of bumpers.

According to the CATARC Report, we, as a manufacturer in China which uses LPIM technique in our production for about 10 years, can have competitive edge over some foreign-funded enterprises. According to the independent assessment and knowledge of the industry of the Related Industry Branch of China Association of Automobile Manufacturers (中國汽車工業協會汽車相關工業分會), we are one of the leading manufacturers of automobile body parts using LPIM technique in China. According to China Die & Mould Industry Association* (中國模具工業協會), two of the moulds we developed, namely, LPIM moulds for internal decorative parts for premium-end vehicles with environmental-friendly and advanced fabric (環保高效針織面料模內包履高端轎車內飾件低壓注塑成型模具) and moulds for long fiberglass front-end carrier with medium-sized metal insert (長玻纖汽車前端框架(含中型金屬嵌件)注塑模具) are energy-saving and environmentally-friendly.

We believe that our relationship with our customers, based on our concurrent product development and tooling capability, is difficult to be replicated by our competitors. Furthermore, we also believe that we are among other competitors that have concurrent product development ability and strong research and development capabilities.

The competition of our business is restricted to automobile body parts manufacturers of better tiers. The provision of automobile body parts to automaker is a business with exclusivity given that

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the product development cost is generally borne by the automaker which is usually paid as part of the purchase price of products, each automobile body part is generally developed and supplied by the same automobile body parts manufacturer throughout its product life cycle. Manufacturers can only supply automobile body parts upon passing the automakers' qualification test and thus becoming their approved suppliers. Our Directors believe that as most of the well-established automakers have stringent selection procedures for appointing their qualified automobile body parts suppliers, they tend to establish long term cooperation relationship with reliable automobile body parts suppliers to ensure consistent qualities. Major PRC automakers have their own approval procedures in selecting suppliers and maintain a list of approved suppliers. Major subsidiaries of our Group are on such approval lists of our customers.

According to the CATARC Report, the PRC market of automobile body parts mainly comprises sino-foreign joint ventures invested by major overseas automakers which are of comparatively larger scale and domestic manufacturers which are independent from and not as sino-foreign joint ventures with any automakers. Being an independent automobile body parts manufacturer and leveraged with our strong capability and experience in product design, development and manufacturing, we can develop and manufacture automobile body parts for different international and domestic brands of automobiles. According to the CATARC Report, among the independent domestic manufacturers in the PRC, we were the third largest manufacturer of automobile plastic body parts by revenue in 2009.

While we believe that we are well-positioned to capture market opportunities, there can be no assurance that we will be competitive in the future. Please refer to the section headed "Risk factors" in this prospectus. Please also refer to the section headed "Industry overview — Competitive landscape" in this prospectus for further details about the competitive landscape of the automobile body part industry in the PRC.

ENVIRONMENTAL PROTECTION

Our operation is subject to the current environmental protection laws and regulations promulgated by the PRC government, a summary of which is set out in the section headed "The laws and regulations relating to the industry" in this prospectus.

During the Track Record Period and as of the Latest Practicable Date, save that Changchun Huaxiang was fined RMB50,000 in 2010 for pouring waste oil into the drains and exposure of waste paint at the open area inside the production facility due to inadvertent oversight of the relevant requirement, we have not received any notice or warning in relation to pollution in respect of our production and facilities. To prevent the recurrence of non-compliance of the relevant requirement, we have engaged a waste treatment service provider to provide waste discharge service for Changchun Huaxiang since then. Our annual cost of compliance with the applicable environmental rules and regulations amounted to about RMB76,000, RMB58,000, RMB150,000 and RMB84,000 for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. We expect that the cost to be incurred for compliance with applicable environmental laws and regulations will be at similar level for the years ending 31 December 2011 and 2012.

Non-compliance with any environmental laws, rules and regulations may, depending on the seriousness of the violation, result in an order for rectification from the authorities, penalties or an order for cessation of production. There is no assurance that the PRC national or local authorities will not impose additional environmental protection requirements which might disrupt our manufacturing process or require us to incur additional expenditure in complying with such additional requirements.

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During the Track Record Period, save as disclosed above, we have not been subject to any fines, penalties or other legal actions by government authorities in the PRC resulting from any non-compliance with any environmental protection laws in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government authority in respect thereof.

INSURANCE

We maintain insurance for vehicles and property including office, manufacturing facilities and inventories in the PRC. Our Directors consider our insurance coverage to be adequate and in line with industry practices in China.

For the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, we paid an aggregate of about RMB0.3 million, RMB0.3 million, RMB0.3 million and RMB0.2 million as insurance premium payment for our various insurance policies, respectively.

During the Track Record Period, we had not been subject to any insurance claims which were material to us.

EMPLOYEES

We had about 2,400 full-time employees as at 30 June 2011. The following table shows a breakdown of our employees by division or function as at 30 June 2011:

Function	Number of employees
Management	45
Finance and corporate administration	138
Manufacturing	1,638
Sales and marketing	84
Procurement and inventory	159
R&D and design	113
Quality control	99
Others	<u>117</u>
Total	<u><u>2,393</u></u>

Our total staff costs for the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 were about RMB47.3 million, RMB54.8 million, RMB67.8 million and RMB44.5 million, respectively, which accounted for about 6.3%, 6.6%, 6.7% and 7.8% of our total revenue in the corresponding periods.

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We recognise the importance of maintaining good relationship with our employees. We believe that the working environment and benefits offered to our employees have contributed to building good staff relations and retention. We estimate that the average turnover rate of our employees was about 14.6% for the year ended 31 December 2010 and 7.1% for the six months ended 30 June 2011. We believe that our relatively low turnover rate is attributable to our commitment to staff welfare and good working environment. We continue to provide training for our staff to enhance technical knowledge as well as knowledge of industry quality standards. We believe such initiatives have contributed to the increased employee productivity.

Under the relevant PRC laws and regulations, we are required to make contributions to several social insurance and employee welfare schemes. We make contributions to our employees' social insurance, housing fund and certain other employee benefits in accordance with PRC laws and regulations. We adhere strictly to statutory employment standards, such as wages and working hours, and maintain appropriate internal standards and workplace practices.

Under the Interim Regulations Concerning the Levy of Social Insurance Fees (《社會保險費徵繳暫行條例》) which were promulgated and became effective on 14 January 1999, employers in the PRC should register social insurance with local social insurance authorities, and make contributions to the basic pension insurance fund, basic medical insurance fund, unemployment, maternity and work-related insurance fund for their employees. According to the confirmation letters issued by the relevant competent social security bureaus, each PRC subsidiary of our Group in the PRC has made full contributions to the social insurance fund and complies with the relevant PRC laws and regulations. As advised by our PRC legal advisers, we have complied with the statutory social insurance obligations applicable to us in all material respects under the PRC laws during the Track Record Period and up to the Latest Practicable Date.

The Regulations on Administration of the Housing Provident Fund (《住房公積金管理條例》), which were promulgated and became effective on 3 April 1999 and amended on 24 March 2002, provides that enterprises in the PRC shall undertake to register with the relevant authorities and maintain the relevant accounts with designated banks in respect of the housing provident fund, within 30 days from the date of its establishment; and contribute to the housing provident funds at the rate of no less than 5% of the average monthly salaries paid to the employees in the previous year, within 30 days from the date of employment. Employers who fail to withhold and pay their portion of housing provident fund contributions may be notified by the local housing fund administration authorities to register with the authority and ordered to pay any outstanding contributions into a designated account for the benefit of employees. Failure to comply with such requirements may result in the imposition of fines or penalties in the range of RMB10,000 to RMB50,000. Certain subsidiaries of our Company (namely, Ningbo Huazhong Plastic, Ningbo Huazhong Moulding, Ningbo Huafeng, Ningbo Xinxing, Changchun Huateng, Changchun Huaxiang, Guangzhou Huazhong, Chongqing Huazhong, Chengdu Huazhong, Shanghai Huaxin and Shanghai Xiangmao) had delayed in complying with such requirements. Nevertheless, they have subsequently complied with the requirements to make registration with the relevant government authorities, maintained accounts with designated banks in respect of housing provident fund for their employees and made payments to such housing provident fund in accordance with the applicable regulations. In addition, Ningbo Huazhong Plastic, Ningbo Huazhong Moulding and Ningbo Huafeng received written confirmations issued by the relevant government authority confirming that they will not be subject to any fines or penalties arising out of

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or in connection with their previous delay in compliance. Changchun Huateng, Changchun Huaxiang, Ningbo Xinxing, Guangzhou Huazhong, Chongqing Huazhong, Chengdu Huazhong, Shanghai Huaxin and Shanghai Xiangmao also received written confirmations issued by the relevant government authorities confirming that they have complied with the requirements in respect of registration and payment of housing provident fund. However, there is no assurance that claims in respect of previous outstanding housing provident fund would not be brought against the aforesaid subsidiaries in the future. Our Directors estimate that possible claims for outstanding payments to housing provident funds during the Track Record Period was approximately RMB1.0 million, which our Directors consider that such possible claims would not have significant impact to our financial status and operations. In addition, each of our Controlling Shareholders has agreed to indemnify us against all claims, demands, cost, expenses, fines, actions and liabilities which may arise from or in connection with the non-compliance of the housing provident fund contributions. Save as disclosed above, as advised by our PRC advisers, we are in compliance with the PRC laws and regulations relating to housing provident funds in all material aspects.

As at the Latest Practicable Date, we had not experienced any significant problems with our employees or disruption to our operation due to labour disputes, nor had we experienced any difficulties in the recruitment and retention of experienced staff.

OCCUPATIONAL SAFETY

To ensure that our production facilities comply with the applicable safety standards, we have established operational safety guidelines and manuals, such as fire safety manual and production safety manual, which set out the requisite requirements and procedures to be adhered to for the prevention of accidents in our production facilities. All of our production facilities are required to be thoroughly tested before commencement of production. All operators of our production facilities are required to be trained before they are allowed to operate the facilities. Training sessions are provided on the required safety standards and maintenance and operation. As a result, we have maintained a low average injury rate among our staff at our production facilities. During the Track Record Period, we had not experienced any material or prolonged stoppages of production due to any failure in our production facilities and we had not experienced any major accidents during our production process. We are not aware that any toxic substance produced during our manufacturing processes has caused personal injuries.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had registered four trademarks in Hong Kong and had applied for registration of eight trademarks in the PRC. We are also the registered owner of two domain names. As at the Latest Practicable Date, we are in the process of applying for several patents. To protect the intellectual property of our products, we sign confidentiality agreements with our suppliers and file the statistics of our mould and products in a data room. The details of the trademarks, domain names and patent are set out in the paragraph headed “Intellectual property rights of the Group” under the section headed “C. Further information about our business — 2. Our intellectual property rights” in Appendix VI to this prospectus.

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We have comprehensive measures to manage confidential information and intellectual property rights of our customers, details of which are set out in the section headed “Business — Product development” of this prospectus. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any intellectual property infringement claims which had material impact on our Group nor is involved in any proceedings with third parties in respect of, and we have not received notice of any claims of infringement of, any intellectual property rights of our customers that may be threatened or pending, in which our Group may be involved whether as claimant or respondent.

LEGAL COMPLIANCE AND LEGAL PROCEEDINGS

During the Track Record Period, certain members of our Group had extended loans to other members of our Group or related parties in the amount as set out in note 39(b) of the accountants’ report in Appendix I to this prospectus.

As advised by our PRC legal advisers, a corporation shall not extend a loan to another corporation and our PRC legal advisers are of the view that the above loan arrangements violated the General Principles of Loans of the PRC (貸款通則) promulgated by the People’s Bank of China (“PBOC”) on 28 June 1996. Article 73 of the General Principles of Loans of the PRC (貸款通則) further provides that the PBOC may impose a penalty on the lender of one to five times of the income to be generated from such lending, and may declare the loan invalid.

Our PRC legal advisers further advised that as all of those loans were either interest-free, or the interests payable thereon had been waived, no income-base penalty could be imposed on the relevant members of our Group in respect of such loans. Based on the above, our PRC legal advisers do not consider that the above non-compliance would materially and adversely affect the business and operation of the relevant members of our Group.

During the Track Record Period, our Group had also advanced loans to Ningbo Huayou Properties (a company owned as to 82% by Mr. Zhou) and certain third parties in the form of entrusted loans. Our PRC legal advisers advised that the provision of loans in the form of entrusted loans complied with all relevant PRC laws and regulations.

All the loans that we advanced to related parties and other third parties, regardless of whether they are in the form of entrusted loans, had been or will be settled before Listing.

As advised by our PRC legal advisers, all of our operating subsidiaries are in China and the scope of the business licence set out in their respective constitutional documents and approved by the relevant Chinese authorities permits them to engage in such business, and under the current applicable Chinese laws, there are no other specific licences or certificates required for the operation of our existing business. As advised by our PRC legal advisers and as confirmed by our Directors, during the Track Record Period, save as disclosed above and in the paragraphs headed “Environmental protection”, “Employees” and “Property title defects” in this section, our Group has (i) obtained all

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the requisite licences, permits and certificates to conduct our business, (ii) complied in all material respects with the applicable laws and regulations in the PRC, and (iii) complied in all material respects with the applicable PRC laws and regulations in relation to environmental protection, work safety and labour protection.

As of the Latest Practicable Date, we were not a party to any litigation, arbitration or claim of material importance, and our Directors were not aware of any pending or threatened litigation, arbitration or claim of material importance against our Group.

PROPERTY TITLE DEFECTS

We failed to obtain certain construction permits and/or building ownership certificates of, and failed to file the relevant construction works completion acceptance before the use of, some of our operational facilities in the PRC, details of which are set out below:

Location	Outstanding permits/building ownership certificates/filings	Approximate gross floor area (sq. m.)	Usage of the land/building	Percentage of the production capacity to the total production capacity of our Group as at 30 June 2011
No. 69 Dahetou Road Haishu District Ningbo City Zhejiang Province The PRC	Construction landuse planning permit, construction project planning permit, construction works commencement permit and certification of completion	364.1	One warehouse, one toilet and bathroom, two ancillary rooms	3.5%
No. 1766 Hunan Road Pudong New District Shanghai The PRC	Construction landuse planning permit, construction project planning permit, construction works commencement permit and certification of completion	480.0	One warehouse	—
Damian Town Longquanyi District Chengdu City Sichuan Province The PRC	Filing of construction works completion acceptance and building ownership certificates	8,364.0	One workshop, one office, one guardhouse and one warehouse	2.8%

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Location	Outstanding permits/building ownership certificates/filings	Approximate gross floor area (sq. m.)	Usage of the land/building	Percentage of the production capacity to the total production capacity of our Group as at 30 June 2011
No. 5001 Dong Nanhu Main Road Changchun Economic and Technical Development Zone Changchun City Jilin Province The PRC	Filing of construction works completion acceptance and building ownership certificates	14,262.6	One workshop, one painting workshop, one warehouse, one composite factory, one office, one assembly workshop, one factory, one underground water tank and pump room	2.8%

Pursuant to a confirmation letter issued by the Changchun Housing Protection and Real Estate Administration Bureau on 19 July 2011, Changchun Huaxiang has submitted all requisite documents for obtaining the relevant building ownership certificates in respect of the properties set out in the table above and the issuance of the building ownership certificates is in the process. As at the Latest Practicable Date, among the eight buildings on the above land owned by Changchun Huaxiang with an aggregate total gross floor area of about 25,353.4 sq. m., we have obtained building ownership certificates for two buildings thereof with an aggregate gross floor area of about 11,090.8 sq. m.. Our PRC legal advisers advised that there is no substantial legal impediment or legal risk for Changchun Huaxiang to obtain the remaining building ownership certificates, and Changchun Huaxiang would not face the risk of being administratively fined due to the use of the buildings before obtaining the relevant building ownership certificates. Our PRC legal advisers advised that Changchun Housing Protection and Real Estate Administration Bureau is a competent authority to issue the above confirmation letter. Save for the properties of Changchun Huaxiang mentioned above, as advised by our PRC legal advisers, under the applicable PRC laws, we may be subject to the following penalties due to the lack of construction permits and/or the use of properties without filing the relevant construction works commencement permit and/or completion acceptance:

- for construction work which has not been granted with proper construction project planning permit prior to its commencement, the relevant planning administration bureau has the rights to order for ceasing the construction; if the impact of the non-compliance on the implementation of the planning can be rectified by other rectification measures, such rectification measures are required to be completed within a specified period and the relevant entity would be fined a sum equivalent to 5% to 10% of the contracted construction cost. If the impact of the non-compliance on the implementation of the planning cannot be rectified by other rectification measures, the relevant planning administration bureau has the rights to order to demolish the construction within a specified period, or to forfeit the unauthorised construction work or income generated therefrom and the relevant entity would be fined a sum equivalent to less than 10% of the contracted construction cost;

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- for construction work which has not been granted with proper construction works commencement permit prior to its commencement, the relevant construction administration bureau has the rights to order for ceasing the construction and rectification within a specified period, and the relevant entity would be fined a sum equivalent to 1% to 2% of the contracted construction cost; and
- for construction work which has not filed the relevant construction works completion acceptance before its use, the relevant construction administration bureau has the rights to order for rectification and the relevant entity would be fined a sum equivalent to 2% to 4% of the contracted construction cost.

Our Directors estimate that the maximum potential penalty in respect of our failure to obtain the relevant construction permits and/or our failure to file the relevant construction works commencement permit and/or completion acceptance before the use of the facilities set out in the table above will be about RMB2.0 million. Our Directors considered that (i) our Group will continue to use these buildings instead of selling them, the recoverable amount of the building will be determined according to the value in-use; (ii) our production facilities have been continuously generating net profit and net operating cash inflows during the Track Record Period and this trend would probably continue in the future. Accordingly, our Directors considered that there was no impairment indication of our Group's buildings, even if some of them are without building certificates. Furthermore, as we are in the process of applying for the requisite permits and our Directors are of the view that the possibility of our Group being fined is remote, no provision for penalties has been made to the financial statements.

As advised by our PRC legal advisers, under the application PRC laws, we may not be able to transfer, lease, mortgage and/or otherwise deal with the buildings erected thereon in respect of properties which are lack of building ownership certificates.

In addition, we have failed to file and register the tenancy agreements within the prescribed time in respect of the production facilities leased by Chongqing Huazhong, Changchun Huaxiang Faurecia and Guangzhou Huazhong, and the offices leased by Yantai Huaxiang and Wuhu Huazhong.

We are in the process of applying for registration of the tenancy agreements in respect of the production facilities leased by Chongqing Huazhong, and we will apply for registration of the tenancy agreement in respect of the production facilities leased by Changchun Huaxiang Faurecia after Changchun Huaxiang has obtained the building ownership certificate. Pursuant to a confirmation letter issued by the Changchun Housing Protection and Real Estate Administration Bureau on 19 July 2011, Changchun Huaxiang has submitted all requisite documents for obtaining the relevant building ownership certificates in respect of the properties and the issuance of the building ownership certificates is in the process. There is no substantial legal impediment or legal risk for Changchun Huaxiang to obtain the relevant building ownership certificates.

In respect of the production facilities leased by Guangzhou Huazhong, as mentioned in the paragraph headed "Manufacturing facilities and techniques — Production facilities network" in this section, the landlord was not able to obtain the building ownership certificate as the local government has halted the process for the construction of metro in the area. Due to the lack of building ownership certificate by the landlord, it is unable to file and register the tenancy agreement in respect of the

BUSINESS

production facilities leased by Guangzhou Huazhong. Notwithstanding the lack of building ownership certificate, according to the confirmation letter dated 1 August 2011 and issued by Zengcheng Stated-owned Land Resources and Real Estate Administration Bureau, the production facilities leased by Guangzhou Huazhong are legal construction and are not unauthorised structures, and can be freely leased and transferred.

In respect of the offices leased by Yantai Huaxiang and Wuhu Huazhong, the premises were leased by us merely as the registered offices of Yantai Huaxiang and Wuhu Huazhong for registration purpose. Yantai Huaxiang and Wuhu Huazhong will move to other premises should they commence their business. Therefore, we do not intend to apply for registration of these two tenancy agreements.

As advised by our PRC legal advisers, the non-registration of the tenancy agreements will not invalidate the tenancy. However, it is possible that the landlord and/or lessee of the subject properties would be subject to administrative punishment by the relevant land administration bureau. As advised by our PRC legal advisers, the maximum penalty applicable to entities would be RMB10,000 for each tenancy agreement.

For risks in relation to the above, please refer to the paragraphs headed “Risks relating to our Group — Our financial performance may be adversely affected as a result of certain non-compliance and irregularities of our Group during the Track Record Period and as of the Latest Practical Date” and “Risks relating to our business — Legal defect in certain properties in the PRC could adversely affect our business operations and financial position” in the section headed “Risk Factors” in this prospectus for further details.

Each of our Controlling Shareholders has agreed to indemnify us against all claims, demands, cost, expenses, fines, actions and liabilities suffered or incurred by us due to our failure to obtain the necessary permits and building ownership certificates in respect of these buildings and our failure to file and register the tenancy agreements within the prescribed time. Please refer to the section headed “G. Other information — 1. Deed of Indemnity” in Appendix VI to this prospectus for further information about the indemnity.

Going forward, we will commence operation of new production plants after we have obtained all licenses, permits and approvals required in the PRC. To ensure full compliance in the future, we would (i) designate a specific person in charge of applying licenses and permits when we plan for the construction of a new plant; (ii) the person-in-charge would report regularly to our executive Directors for the status of the license application; (iii) our executive Directors would only approve commencement of operation when all the necessary license and permits have been obtained; and (iv) legal advice will be sought if there are uncertainties on the compliance of the relevant laws and regulations.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering and the Capitalisation Issue, our Controlling Shareholders, namely Huayou Holdings and Mr. Zhou, will control the exercise of voting rights of 75% of the Shares eligible to vote in the general meetings of our Company (assuming the Over-allotment Option is not exercised and that none of the options granted under the Pre-IPO Share Option Scheme is exercised).

Mr. Zhou, one of our Controlling Shareholders, is interested in businesses outside of our Group, namely, property development and the manufacturing of certain car components in the PRC. As at the Latest Practicable Date, Mr. Zhou was indirectly interested in 21.94% of Changchun Xuyang, a company which principally manufactures certain car components. Please refer to the paragraph headed “Changchun Xuyang — Non-competition” in this section for further information of the business in the manufacturing of the car components that Mr. Zhou is interested in outside of our Group. Since the business of Changchun Xuyang is entirely different from that of our Group, Changchun Xuyang does not compete directly or indirectly with the business of the Group.

As at the Latest Practicable Date, none of our Controlling Shareholders nor any of their respective associates had interests in any other companies which (i) held interests in our business during the Track Record Period and will cease to hold such interests upon completion of the Global Offering; or (ii) may, directly or indirectly, compete with the business of our Group.

CHANGCHUN XUYANG

Shareholding of Changchun Xuyang

As at the Latest Practicable Date and to the best knowledge and belief of our Directors, Changchun Xuyang was held as to 42.5% by 長春市人民政府國有資產監督管理委員會(Changchun People’s Government State-owned Asset Supervision and Administration Commission*), 21.94% by Ningbo Huayou Properties, 18.75% by Faurecia (China) Holding Co. Ltd., 16.19% by 長春燈泡電線有限公司 (Changchun Light-bulbs & Cables Co., Ltd.*) and 0.63% by 長春手工業合作聯社 (Changchun Handicrafts Industry Cooperative*). Other than Ningbo Huayou Properties, all of such shareholders of Changchun Xuyang are Independent Third Parties. Mr. Zhou is interested in Changchun Xuyang through his interest in Ningbo Huayou Properties. Mr. Zhou does not control the board of directors of Changchun Xuyang, or the voting at the general meetings of Changchun Xuyang.

As at the Latest Practicable Date, the subsidiaries of Changchun Xuyang include 長春旭陽汽車技術開發有限公司 (Changchun Xuyang Automobile Technology Development Co., Ltd.*), 長春旭陽汽車橡塑製品有限公司 (Changchun Xuyang Automobile Rubber Products Co., Ltd.*), 旭陽集團九台天龍糧油貿易公司 (Xuyang Group Jiutai Tianlong Cereals and Oils Trading Company*), 長春旭陽佛吉亞毯業有限公司 (Changchun Xuyang Faurecia Carpets Co., Ltd.*) and 長春旭陽富維江森汽車座椅骨架有限公司 (Changchun Xuyang Fuwei Jiangsen Car Seat Frames Co., Ltd.*) (together with Changchun Xuyang, “**Xuyang Group**”).

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Non-competition

As at the Latest Practicable Date and to the best knowledge and belief of our Directors, the following table illustrates the differences between our business and the business of Xuyang Group and how Xuyang Group does not directly or indirectly compete with our business:

	Our Group	Xuyang Group
Scope of the business	principally manufactures and sells automobile internal and external structural and decorative parts (including bumpers, dashboards, front-end carriers, air inlet grilles, windshield grilles, rocker panels, tailgate upper/back panels, door anti-rub strips and automobile battery casings), moulds and tooling (including moulds and inspection tooling), air-conditioner and heater unit casings, liquid tanks and other non-automobile products (including top cowl cover for engine of motorboat and office chair parts).	principally manufactures and sells car seats, car seat frames, trunks, interior carpets, interior linings, moulded rubber parts, rubber seals, ABS/polyvinyl chloride (also known as PVC) dashboards skins and interior door panel skins.
Manufacturing techniques	<p>In manufacturing our plastic products, our Group principally uses LPIM and two shot moulding.</p> <p>As the other products of Xuyang Group are not in any way similar to those of our Group, the manufacturing techniques for those products are therefore not analysed.</p>	<p>In manufacturing the rubber products of Xuyang Group, to the best knowledge and belief of our Directors, Xuyang Group principally uses metal plates and frames, pressurised parts and injection moulding (and not LPIM or two shot moulding).</p>

In view of the above, our Directors are of the view and the Sole Sponsor concurs that the business of our Group are different from that of Xuyang Group, there is no major overlapping of their respective products, and as such Xuyang Group does not directly or indirectly compete with the business of our Group.

Reason for the exclusion from our Group

Xuyang Group has been excluded from our Group as (i) Xuyang Group manufactures different products as compared with those of our Group; and (ii) the focus in terms of future development of Xuyang Group is different from that of our Group as Xuyang Group focuses on the manufacturing and selling of car seats and car seat frames, and we focus on the development of automobile internal and external structural and decorative parts, and moulds and tooling.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

As there is currently no competition between us and Xuyang Group, our Controlling Shareholder, Mr. Zhou, does not intend to procure Ningbo Huayou Properties to inject part or all of its interests in Changchun Xuyang into our Group in the future.

DEED OF NON-COMPETITION

Our Controlling Shareholders have entered into the Deed of Non-Competition in favour of our Group, pursuant to which our Controlling Shareholders have undertaken with the Company (for itself and for the benefit of each of the members of our Group) that with effect from the Listing Date and until the earlier of (i) the Shares no longer being listed on the Stock Exchange; or (ii) our Controlling Shareholders are individually or collectively with any of their respective associates directly or indirectly interested in less than 30% of the issued share capital of our Company; or (iii) in relation to each Controlling Shareholder, he or it (or his or its associates) is no longer directly or indirectly interested in the issued share capital of our Company:

- (a) he/it or his/its associates shall not, from the date of the Deed of Non-Competition,
 - (i) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business (whether as owner, director, operator, licensor, licensee, partner, shareholder, joint venturer, employee, consultant or otherwise) in competition with or likely to be in competition with the existing business carried on by our Group (the “Business”), save for the holding of not more than 5% shareholding interests (individually or collectively with his/its associates) in any listed company, provided that neither he/it or his/its associates shall be entitled to appoint the majority of the board of directors of such listed company and there is at least one shareholder of such listed company whose shareholding in such listed company is at all time larger than the aggregate holdings of he/it and his/its associates in such listed company); and
 - (ii) directly or indirectly take any action which constitutes an interference with or a disruption of the Business including, but not limited to, solicitation of the customers, suppliers or personnel of any member of our Group;
- (b) if any new business opportunity which competes or may compete with the Business (the “Business Opportunity”) is made available to any of our Controlling Shareholders or his/its associates:
 - (i) he/it shall direct to our Group any such Business Opportunity;
 - (ii) he/it shall provide to our Company all information and documents possessed by him/it or his/its associates in respect of the Business Opportunity to enable our Company to evaluate the merit of the Business Opportunity and all reasonable assistance as requested by our Company to enable our Group to secure the Business Opportunity; and
 - (iii) he/it shall not pursue the Business Opportunity unless and until our Company gives written notice to our Controlling Shareholders that our Group will not pursue such Business Opportunity.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Company has adopted the follow measures to manage the conflict of interest that may arise from future business of the Controlling Shareholders which may directly or indirectly compete with our business and to safeguard the interests of our Shareholders:

- (a) the independent non-executive Directors will review, on annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-Competition;
- (b) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (c) our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of our Controlling Shareholders under the Deed of Non-Competition in the annual reports of our Company; and
- (d) our Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-Competition in the annual report of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the Global Offering:

Management Independence

Our Board comprises two executive Directors, two non-executive Director and three independent non-executive Directors. Mr. Zhou, a Controlling Shareholder, is our executive Director, chairman of the Board, the chief executive officer of our Company and the sole director of Huayou Holdings, the other Controlling Shareholder which engages in investment holdings.

Except as disclosed above and in the section headed “Directors and senior management” in this prospectus, no other Controlling Shareholder holds any directorship in our Company. Each of our Directors is aware of his or her fiduciary duties as a Director, which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the respective interested Director shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

Operational Independence

We have independent access to sources of supplies or raw materials for the production of our products, as well as independent access to our distributors and customers. We have also established a set of internal controls to facilitate the effective operation of our business. Our Group has registered our own trademarks for which we are able to utilise in marketing our products.

In addition, our Directors consider that our operations do not depend on the operation of our Controlling Shareholders for the following reasons:

- (i) there is no competing business between our Group and any of our Controlling Shareholders; and
- (ii) upon the Listing, we will not rely on any guarantee provided by any of our Controlling Shareholders in respect of bank borrowings and we will not provide any guarantee for the benefit of any of our Controlling Shareholders.

On the basis of the matters described in this section, we believe that we are capable of carrying on our business independently of the Controlling Shareholders and their respective associates.

Our Directors confirmed that our Group has no current intention to enter into any other transactions with any of our connected persons (as defined under the Listing Rules) or their respective associates after the Listing that will affect our operational independence.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to the business needs of our Group.

Our Directors confirm that upon the Listing, all financial assistance, including amounts due to, and loans or guarantees provided by our Controlling Shareholders and their associates to our Group, have been repaid or released or otherwise settled in full. In addition, our Directors confirm that our Group do not intend to obtain any further borrowing or guarantee from any of our Controlling Shareholders. Therefore, there is no financial dependence on our Controlling Shareholders.

CONNECTED TRANSACTIONS

A member of our Group has entered into the following transaction with a connected person of our Company and such transaction will continue after the Listing, thereby constituting continuing connected transaction of our Company under the Listing Rules:

Type of Transaction	Term	Applicable Listing Rule	Waiver Sought
Lease agreement with Guangzhou Chengli	from 1 January 2012 to 31 December 2012	Rule 14A.33	None (De minimis transaction)

CONNECTED PERSONS

The relevant connected person, with whom the member of our Group has entered into the said continuing connected transaction, is Guangzhou Chengli. As at the Latest Practicable Date, Guangzhou Chengli is wholly-owned by Ningbo Huayou Properties, a company which is owned as to 82% by Mr. Zhou and 18% by Huaxiang Group, a company controlled by Mr. Zhou Cimei (周辭美), the father of Mr. Zhou. Accordingly, Guangzhou Chengli is a connected person of our Company.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The following connected transaction will constitute exempted continuing connected transaction for our Group under Rule 14A.33(3) of the Listing Rules and accordingly, will be exempted from the reporting, announcement and independent shareholders' approval requirements as stipulated under the Listing Rules. The following transaction is undertaken on an arm's length basis and on normal commercial terms or terms more favourable to our Group and each of the applicable percentage ratios (other than the profit ratio) of the following transaction on an annual basis is less than 0.1%.

Lease agreement with Guangzhou Chengli

Nature of transaction

Guangzhou Huazhong, a subsidiary of our Company, is principally engaged in the manufacturing and selling of internal and external automobile decorations. It has been leasing certain properties from Guangzhou Chengli in Guangzhou, Guangdong Province, since 2004 as its office and factory premises and will continue to lease the same properties from Guangzhou Chengli in its ordinary course of business. For the year ended 31 December 2010 and the six months ended 30 June 2011, Guangzhou Huazhong has paid nil for the lease of the properties.

Price determination

The prices for the leased properties are agreed between Guangzhou Huazhong and Guangzhou Chengli from time to time on an arm's length basis after making reference to the prevailing market rate.

CONNECTED TRANSACTIONS

Annual caps

Our Directors anticipated that the annual cap for the rent to be paid to Guangzhou Chengli will be approximately RMB520,000 for each of the years ending 31 December 2011 and 2012. Such annual caps have been determined after arm's length negotiations between the parties with reference to the prevailing market rate. Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent valuer, based on its valuation, is of the opinion that the agreed annual rent of the leased properties stated above represented the prevailing market rent as at 30 November 2011.

CONFIRMATION FROM OUR DIRECTORS

Our Directors confirm that the exempt continuing connected transaction was entered into in our ordinary and usual course of business and undertaken on an arm's length basis and on normal commercial terms.

Save as disclosed in this section, our Directors currently do not expect that immediately following the Listing, there will be any transaction which will constitute a continuing connected transaction of our Company under the Listing Rules. On the basis of the above and given that there are no other transactions or agreements which would constitute connected transaction under the Listing Rules upon the Listing, we have not made any application for waiving from strict compliance with Chapter 14A of the Listing Rules.

We will comply with the relevant requirements under Chapter 14A of the Listing Rules, if any connected transaction (as defined in the Listing Rules) occurs on or after the Listing Date.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. Our Board consists of seven Directors, of whom two are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The following table sets forth information regarding members of the Board of Directors of our Company.

Name	Age	Position
Mr. Zhou Minfeng (周敏峰)	45	Chairman, executive Director and chief executive officer
Mr. Chang Jingzhou (常景洲)	51	Executive Director
Ms. Lai Cairong (賴彩絨)	67	Non-executive Director
Mr. Wang Yuming (王玉明)	54	Non-executive Director
Mr. Su Xijia (蘇錫嘉)	57	Independent non-executive Director
Mr. Yu Shuli (於樹立)	63	Independent non-executive Director
Mr. Tian Yushi (田雨時)	66	Independent non-executive Director

Executive Directors

Mr. Zhou Minfeng (周敏峰), aged 45, is the chairman of our Board, executive Director and chief executive officer of our Company. He was appointed as an executive Director of our Company on 3 December 2010. Mr. Zhou is also a member of the remuneration committee and the chairman of the nomination committee of our Board. Mr. Zhou has over 18 years of experience in the automobile body parts industry and is primarily responsible for the overall corporate strategic planning and business development of our Group. Mr. Zhou is the founder of our Group and is also a director of all the subsidiaries of our Company. Mr. Zhou assumes several social positions, such as the vice chairman of the Ningbo Enterprise Federation (寧波企業聯合會), Ningbo Entrepreneurs Association (寧波市企業家協會) and Ningbo Federation of Industrial Economy (寧波市工業經濟聯合會) since 2009. Mr. Zhou is also a representative of the 12th and 13th Standing Committee of Ningbo Municipal People's Congress (寧波市第十二、十三屆人民代表大會常務委員會代表). Mr. Zhou received a diploma of Master Business Administration from China Europe International Business School (中歐國際工商學院) in March 2003. Mr. Zhou is the son of Ms. Lai Cairong (賴彩絨), a non-executive Director. With the extensive experience of Mr. Zhou in the industry of manufacturing and trading of automobile body parts, our Directors consider that it is in the best interest of our Group and our Shareholders as a whole for Mr. Zhou to be given the overall management responsibility of our Group as the chief executive officer of our Company. Our Directors consider that vesting the roles of chairman of our Board and chief executive officer of our Company in the same person, namely Mr. Zhou, is appropriate to our Company at this stage of the corporate development of our Group and believe such arrangement will not result in any material adverse impact to the efficiency of operation and management and the quality of the corporate governance system of our Company.

DIRECTORS AND SENIOR MANAGEMENT

Our Board will consider splitting the roles of chairman of our Board and chief executive officer of our Company at a time when it is appropriate and suitable by taking into account of the circumstances of our Group as a whole.

Mr. Chang Jingzhou (常景洲), aged 51, is an executive Director of our Company. He was appointed as an executive Director of our Company on 7 December 2011. Mr. Chang has over 11 years of experience in the automobile body parts industry and is primarily responsible for overall production management, technology quality assurance and project management of our Group. Mr. Chang worked for the People's Liberation Army of PRC from January 1980 to December 1982. From 1996 to December 1998, Mr. Chang served various positions in Xi'an Airport Industry Wei Yuan Company (西安飛機工業渭原公司), including head of technical department and general engineer. Mr. Chang joined our Group in June 2000 as supervisor of technology development and was promoted to vice general manager in August 2008. Mr. Chang obtained the bachelor's degree in Machinery Manufacturing Process and Equipment (機械製造工藝與設備) from Xi'an City Employee University (西安市職工大學) in June 1990.

Non-executive Directors

Ms. Lai Cairong (賴彩絨), aged 67, is a non-executive Director of our Company. She was appointed as a non-executive Director of our Company on 7 December 2011. Ms. Lai served as a director of Ningbo Huazhong Plastic since September 1999. Since August 2008, Ms. Lai also served as the chairperson of the board of Xiangshan Huangxiang International Hotel (象山華翔國際大酒店). Ms. Lai is the mother of Mr. Zhou, our executive Director and chief executive officer of our Company. Ms. Lai graduated from Xizhou Middle School (西周中學) in July 1961.

Mr. Wang Yuming (王玉明), aged 54, is a non-executive Director of our Company. He was appointed as a non-executive Director of our Company on 7 December 2011. Mr. Wang served as the general manager of First Automobile Work Sihuan Group Company (一汽四環集團公司) since 2007. Mr. Wang served as the director of Changchun Faway Automobile Components Co., Ltd. (長春一汽富維汽車零部件股份有限公司) since December 2007. Mr. Wang received a master's degree in Senior Management and Business Management (高級管理人員與工商管理) from Dongbei University of Finance and Economics (東北財經大學) in June 2008.

Independent non-executive Directors

Mr. Su Xijia (蘇錫嘉), aged 57, was appointed as an independent non-executive Director of our Company on 7 December 2011. Mr. Su is also the chairman of the audit committee of our Board. Mr. Su obtained the bachelor's degree in financial accounting from Xiamen University (廈門大學) in July 1982 and further obtained his doctor degree in philosophy from Concordia University in Canada in May 1997. From August 1982 to December 1984, Mr. Su served as a lecturer in accounting of Shanghai University of Finance (上海財經大學). Mr. Su worked as an assistant professor, an associate professor in accounting and later an Associate Head and Acting Head of the Department of Accountancy of City University of Hong Kong (香港城市大學) from September 1996 to July 2011. On 1 July, 2010, Mr. Su joined China Europe International Business School (中歐國際工商學院) as a professor of accounting. Mr. Su served as an independent non-executive director of two listed companies on the main board of Shenzhen Stock Exchange, namely Shenzhen Seg Co., Ltd.

DIRECTORS AND SENIOR MANAGEMENT

(深圳賽格股份有限公司) and Shenzhen Topraysolar Co., Ltd. (深圳市拓日新能源科技股份有限公司), from 2002 to 2008 and from February 2007 to February 2010, respectively. Mr. Su currently also serves as the independent non-executive director of Franshion Properties (China) Limited (方興地產(中國)有限公司), a listed company on the Main Board since March 2007, Shenzhen Worldunion Properties Consultancy Co., Ltd. (世聯地產顧問股份有限公司), a listed company on the main board of Shenzhen Stock Exchange since August 2007 and Liaoning Baike Group (Holding) Co., Ltd. (遼寧百科集團(控股)股份有限公司), a listed company on the main board of Shanghai Stock Exchange since March 2010.

Mr. Yu Shuli (於樹立), aged 63, was appointed as an independent non-executive Director of our Company on 7 December 2011. Mr. Yu is also the chairman of the remuneration committee of our Board and a member of the nomination committee of our Board. Mr. Yu received a diploma in economics from Shanghai Financial School (上海財經學院) in July 1985. Mr. Yu served as the head of financial department, vice general accountant, general accountant and head of the factory of Aerospace Shanghai Xinxin Machine Factory (航天部上海新新機器廠) from 1986 to 1997. Mr. Yu then joined Shanghai Delphi Automotive Air Conditioning Systems Co., Ltd. (上海德爾福汽車空調系統有限公司) and worked as a general manager until June 2006. Subsequently, Mr. Yu served as the head of the Shanghai Automotive Air Conditioner Factory (上海汽車空調器廠) until November 2008. Mr. Yu currently serves as the director of Zhejiang Sanhua Co., Ltd. (浙江三花股份有限公司) since April 2006. Mr. Yu became a qualified senior accountant in the PRC in August 1995.

Mr. Tian Yushi (田雨時), aged 66, was appointed as an independent non-executive Director of our Company on 7 December 2011. Mr. Tian is also a member of the remuneration committee and nomination committee of our Board. Mr. Tian received the bachelor's degree in machinery from Harbin Industrial University (哈爾濱工業大學) in July 1970 and the bachelor's degree in party policy management (黨政管理) from correspondence school of CPC Central Committee Party School (中共中央黨校函授學院) in December 1992. Mr. Tian served various positions in China First Automobile Group (中國第一汽車集團公司) (formerly known as CPC First Automobile Factory (中共第一汽車製造廠)), a state-owned enterprise which is principally engaged in automobile manufacturing, including department head of the party committee, director for production and dispatching, general director for dispatching, assistant general manager and director for coordination and supporting from May 1991 to January 2000. Mr. Tian was then designated as the general manager of Fawer Automotive Parts Company Ltd. (富奧汽車零部件有限公司), a subsidiary of China First Automobile Group in January 2000. From January 2000 to July 2005, Mr. Tian also served as the chairman of more than 12 subsidiaries of First Automobile Works (第一汽車集團公司). Mr. Tian was appointed as senior consultant of China Auto Parts & Accessories Corp. (中國汽車零部件工業公司) in October 1996.

None of our Directors have any interests in any business apart from business of our Group which competes or is likely to compete, either directly or indirectly, with business of our Group. Please refer to Appendix VI to this prospectus for further information about our Directors, including details of the interest of our Directors in the shares and underlying shares of our Company (within the meaning of Part XV of the SFO) and particulars of their service contracts and remuneration.

Except as disclosed in this prospectus, each of our Directors has confirmed that there are no other matters relating to his or her appointment as a Director that need to be brought to the attention of the Shareholders which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Name	Age	Position
Mr. Zhou Ruqing (周汝青)	65	vice general manager
Mr. Fang Yousheng (方友勝)	39	vice manager of production department
Mr. Le Jun (樂俊)	46	general supervisor of technical department
Mr. Huang Wenhao (黃文豪)	59	vice general manager for production
Mr. Lam King Hang (林景恒)	36	chief financial officer
Mr. Cui Jihong (崔繼宏)	46	assistant to general manager

Mr. Zhou Ruqing (周汝青), aged 65, is our vice general manager and is primarily responsible for the daily management. From August 1988 to October 1993, Mr. Zhou served as a technician of Ningbo Huaxiang Electronics (a company listed on the Shenzhen Stock Exchange). Mr. Zhou then joined Ningbo Huazhong Plastic and worked as a head of the factory until June 1999. Mr. Zhou served as the vice general manager of Ningbo Xinxing until May 2004. From May 2004 to September 2009, Mr. Zhou worked as the vice general manager of Ningbo Huaying Incos Mould Manufacturing Co., Ltd. (寧波華英模具科技發展有限公司), a private company which is principally engaged in mould manufacturing. Mr. Zhou worked as the vice general manager of Ningbo Huazhong Moulding since September 2009. Mr. Zhou became an engineer in December 1993. Mr. Zhou graduated from Xizhou Middle School (西周中學) in July 1963.

Mr. Fang Yousheng (方友勝), aged 39, is our vice general manager of our production department and is primarily responsible for operation and research. Mr. Fang served various positions in TRW (Ningbo) Components and Fastening Systems Co., Ltd. (天合(寧波)電子元件緊固裝置有限公司), including workshop head, department head and production supervisor from May 1998 to January 2010. Mr. Fang joined Ningbo Huazhong Plastics in January 2010 as vice general manager in charge of operation management. Mr. Fang obtained a bachelor's degree in Polymer Materials Science and Engineering from Huainan Mining Institute (淮南礦業學院) in 8 July 1994.

Mr. Le Jun (樂俊), aged 46, is our general supervisor of technical department and our assistant to general manager and is primarily responsible for technological analysis and development. Mr. Le joined our Group as an assistant to general manager in March 2006. Prior to joining our Group, Mr. Le served as a vice general manager for technical department of Ningbo Deye Technology Group Ltd. (寧波德業科技集團有限公司) from August 2004 to March 2005. From March 2005 to December 2005, Mr. Le worked as a vice general manager for technical department of Shanghai Xinhang Metals Co., Ltd. (上海星航五金有限公司). Mr. Le obtained a bachelor's degree in Machinery from Shenyang Architecture University (瀋陽建築大學) (formally known as Shenyang Architecture and Engineering University (瀋陽建築工程學院)) in July 1986.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Huang Wenhao (黃文豪), aged 59, is our vice general manager for production and is primarily responsible for production. Mr. Huang served as the vice general manager of Ningbo Huazhong Plastic since April 2003. Mr. Huang also served as the general manager of Changchun Huateng from August 2010 to April 2011. Mr. Huang received a bachelor's degree from Taipei University of Science and Technology (臺北科技大學) (formerly known as Taipei Industrial College) (臺北工業專科學校) in June 1975.

Mr. Lam King Hang (林景恒), aged 36, is the chief financial officer and the company secretary of our Company. He joined us on November 29, 2010. Mr. Lam received a bachelor's degree of Business Administration from Chinese University of Hong Kong in December 1997. Mr. Lam is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of the Association of Chartered Certified Accountants (FCCA). From September 1997 to November 2010, Mr. Lam served various positions in Ernst & Young including staff accountant, senior accountant, manager and senior manager, responsible for auditing and quality and risk management.

Mr. Cui Jihong (崔繼宏), aged 46, is our assistant to general manager of our Company and is primarily responsible for sales. From February 2001 to October 2004, Mr. Cui served various positions in Ningbo Huazhong Plastic, including the department head for sales, production and technology. Mr. Cui was then delegated to join Nanchang Jiangling Huaxiang Automobile Parts Co., Ltd. (南昌江鈴華翔汽車零部件有限公司), a private company which is principally engaged in automobile body parts manufacturing in October 2004 and worked as the vice general manager until November 2007. Mr. Cui then joined Ningbo Huazhong Plastic and worked as the assistant of the general manager since April 2008. Mr. Cui became an engineer in September 1993. Mr. Cui obtained the bachelor's degree from Dalian University of Technology (大連理工大學) in July 1988.

COMPANY SECRETARY

Mr. Lam King Hang (林景恒) is a member of our senior management and the company secretary of our Company. Please refer to his biography under the paragraph headed “— Senior Management” above.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since the principal business operations and production facilities of our Group are located in China, members of our senior management are and will therefore be expected to continue to be based in China. At present, Mr. Lam King Hang (林景恒), the chief financial officer and company secretary of our Company, is ordinarily resident in Hong Kong but none of the executive Directors are ordinarily resident in Hong Kong or based in Hong Kong. The Stock Exchange has granted us with a waiver from the strict compliance with the requirements under Rule 8.12 of the Listing Rules. For details of the waiver, please refer to the section headed “Waiver from strict compliance with the Listing Rules — Management presence” in this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Audit Committee

We established an audit committee pursuant to a resolution of our Directors passed on 7 December 2011 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are mainly to make recommendation to our Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting and oversee internal control procedures of our Company. At present, the audit committee of our Company consists of three members, being Mr. Su Xijia, Mr. Tian Yushi and Mr. Yu Shuli. Mr. Su Xijia is the chairman of the audit committee.

Remuneration Committee

We established a remuneration committee pursuant to a resolution of our Directors passed on 7 December 2011 with written terms of reference. The primary duties of the remuneration committee are to evaluate and make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group. The remuneration committee consists of three members, being Mr. Zhou, Mr. Yu Shuli and Mr. Tian Yushi. Mr. Yu Shuli is the chairman of the remuneration committee.

Nomination Committee

We established a nomination committee pursuant to a resolution of our Directors passed on 7 December 2011 with written terms of reference. The primary duty of the nomination committee is to make recommendations to our Board regarding candidates to be nominated for directorships. The nomination committee consists of three members, being Mr. Zhou, Mr. Yu Shuli and Mr. Tian Yushi. Mr. Zhou is the chairman of the nomination committee.

REMUNERATION POLICY

We value our employees and recognise the importance of a good relationship with our employees. The remuneration to our employees includes salaries and allowances. We provide training to our staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards.

Our Group offers our staff competitive remuneration packages to our Directors. The remuneration policies of our Group are formulated based on the performance of individual employees and are reviewed regularly. Subject to the profitability of our Group, our Group may also provide a discretionary bonus to our employees as an incentive for their contribution to our Group. The primary goal of the remuneration policy with regard to the remuneration packages of the executive Directors is to enable our Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved. The principal elements of the executive Directors remuneration packages include basic salaries, discretionary bonuses and housing benefits.

DIRECTORS AND SENIOR MANAGEMENT

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus and share based payment compensation in respect of the options granted under the Pre-IPO Share Option Scheme) for the year ending 31 December 2011 will be about RMB527,000.

We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff.

COMPLIANCE ADVISER

Our Company will appoint Guotai Junan Capital as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company on the following matters:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the New Issue in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

PRE-IPO SHARE OPTION SCHEME

We have adopted the Pre-IPO Share Option Scheme to motivate our employees to optimise their performance, efficiency and future contributions to our Group and to reward them for their past contributions to our Group. The principal terms of this scheme are summarised in the paragraph headed “F. Pre-IPO Share Option Scheme” in Appendix VI to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. Additionally, in the case of the executive Directors and senior management of our Group, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The principal terms of this scheme are summarised in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus.

SHARE CAPITAL

SHARE CAPITAL

Our authorised share capital as of the date of this prospectus is as follows:

Authorised share capital:

10,000,000,000 Shares HK\$1,000,000,000

Assuming the Over-allotment Option is not exercised at all, and without taking into account of any Shares to be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the Global Offering and the Capitalisation Issue will be as follows:

Shares		HK\$
1	Shares in issue as at the date of this prospectus	0.10
639,999,999	Shares to be issued under the Capitalisation Issue	63,999,999.90
<u>160,000,000</u>	Shares to be issued under the Global Offering	<u>16,000,000.00</u>
<u>800,000,000</u>	Total	<u>80,000,000.00</u>

Assuming the Over-allotment Option is exercised in full, and without taking into account of any Shares to be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme and options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the Global Offering and the Capitalisation Issue will be as follows:

Shares		HK\$
1	Shares in issue as at the date of this prospectus	0.10
639,999,999	Shares to be issued under the Capitalisation Issue	63,999,999.90
<u>190,000,000</u>	Shares to be issued under the Global Offering ⁽²⁾	<u>19,000,000.00</u>
<u>830,000,000</u>	Total	<u>83,000,000.00</u>

Note:

(1) The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

(2) Assuming 30 million Shares will be issued upon exercise of the Over-allotment Option in full.

SHARE CAPITAL

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table and the Shares that may be issued pursuant to the exercise of the Over-allotment Option, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus.

THE SHARE OPTION SCHEMES

We have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. Under the Pre-IPO Share Option Scheme, certain persons were conditionally granted options to subscribe for our Shares. The principal terms of the Pre-IPO Share Option Scheme are summarised in the paragraph headed “F. Pre-IPO Share Option Scheme” in Appendix VI to this prospectus. As to the Share Option Scheme, its principal terms are summarised in the paragraph headed “G. Share Option Scheme” in Appendix VI to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option); and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Company’s Shareholders in a general meeting.

For further details of this general mandate, please refer to the paragraph headed “A. Further information about our Group — 4. Written resolutions of our sole Shareholder passed on 15 December 2011” in Appendix VI to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Further information about our Group — 5. Repurchase of our shares” in Appendix VI to this prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or Articles of Association to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Company’s Shareholders in a general meeting.

For further details of this repurchase mandate, please refer to the paragraph headed “Further information about our Group — 4. Written resolutions of our Sole Shareholder passed on 15 December 2011” in Appendix VI to this prospectus.

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

Immediately following completion of the Global Offering and Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option, any options that are granted under the Pre-IPO Share Option Scheme or options may be granted under the Share Option Scheme), the following persons will have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be 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:

Interests in our Shares and underlying Shares:

Name	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding
Huayou Holdings	Beneficial owner	600,000,000	75%
Mr. Zhou	Interest in controlled corporation ⁽¹⁾	600,000,000	75%
	Beneficial owner	1,500,000 ⁽²⁾	0.18% ⁽⁴⁾
	Spouse's interest	1,000,000 ⁽²⁾⁽³⁾	0.13% ⁽⁴⁾

Note:

- (1) Mr. Zhou is deemed to be interested in the Shares held by Huayou Holdings by virtue of Huayou Holdings being wholly-owned by Mr. Zhou.
- (2) Shares subject to options under the Pre-IPO Share Option Scheme.
- (3) Ms. Chen Chun'er, the spouse of Mr. Zhou, has been granted an option to subscribe for Shares under the Pre-IPO Share Option Scheme, therefore, Mr. Zhou is deemed to be interested in Ms. Chen Chun'er's option.
- (4) Calculated based on the number of issued Shares taking into account Shares which may be allotted and issued to all grantees upon their full exercise of the options under the Pre-IPO Share Option Scheme.

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

Direct or indirect interests 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 member of our Group:

Name	Shareholder	Approximate percentage of shareholding
Shanghai Huaxin	Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠)	30%
Shanghai Huaxin	Shanghai Beicai Industrial Co., Ltd.* (上海北蔡工業有限公司)	19%
Changxing Huaxin ⁽¹⁾	Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠)	30%
Changxing Huaxin ⁽¹⁾	Shanghai Beicai Industrial Co., Ltd.* (上海北蔡工業有限公司)	19%

Note:

- (1) Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠) and Shanghai Beicai Industrial Co., Ltd.* (上海北蔡工業有限公司) directly hold 30% and 19% interests in Shanghai Huaxin, respectively. Changxing Huaxin is wholly-owned by Shanghai Huaxin and as a result, Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠) and Shanghai Beicai Industrial Co., Ltd.* (上海北蔡工業有限公司) also indirectly hold 30% and 19% interests in Changxing Huaxin, respectively.

Except as disclosed above, our Directors are not aware of any person who will, immediately following the Global Offering and Capitalisation Issue, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be 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 member of our Group.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial position and results of operations together with our combined financial statements for the years ended 31 December 2008, 2009 and 2010 and the accompanying notes as set out in Appendix I to this prospectus. Our combined financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties and, accordingly, you should not place undue reliance on any such statements. Our future results of operations and financial position could differ materially from those discussed in this prospectus. For facts that could cause or contribute to such differences, please refer to the section headed “Risk factors” and elsewhere in this prospectus.

OVERVIEW

We are one of the principal suppliers of automobile body parts in China. According to the CATARC Report, among the domestic manufacturers in the PRC which are independent from and not as sino-foreign joint ventures of any automakers, we were the third largest manufacturer of automobile plastic body parts by revenue in 2009 based on the database and statistic of CATARC.

We offer one-stop solution to our customers, from the design and manufacture of moulds and tooling for mass production of specific products to the development and manufacture of new products which meet our customers’ functional requirements and specifications.

We are equipped with strong ability in production, product design and development. Our production quality and capability are recognised by the accreditation of the ISO/TS16949 certification which signifies that the quality of our manufacturing process is up to the internationally recognised quality management system requirements for the design, development and production of automotive-related products. For the vertical integration of our business operation, we have been producing moulds and tooling for our own manufacturing arms, and are capable to produce tooling for complex or large-size automobile body parts, such as moulds for LPIM, bumper and front-end carrier. Two of the moulds we developed, namely, LPIM moulds for internal decorative parts for premium-end vehicles with environmental-friendly and advanced fabric (環保高效針織面料模內包履高端轎車內飾件低壓注塑成型模具) and moulds for long fiberglass front-end carrier with medium-sized metal insert (長玻纖汽車前端框架(含中型金屬嵌件)注塑模具), have been recognised by China Die & Mould Industry Association* (中國模具工業協會) after independent assessment and inspection of the relevant documents, moulds and products to be energy-saving and environmentally-friendly. For the aforesaid two moulds, we have applied for registration of patents which is pending as at the Latest Practicable Date. For further details of our production and product development capabilities, please refer to the sections headed “Business — Competitive strengths — Strong production capabilities and refined manufacturing and tooling techniques” and “Business — Manufacturing facilities and techniques — Machineries and technology used in our production” in this prospectus.

Our Group, together with our jointly controlled entities, offer a wide range of automobile body parts, including internal and external structural and decorative parts (such as front/rear bumper, front-end carrier, dashboard, ABCD-pillars, air inlet grille and rocker panel), air conditioning unit casings and liquid tanks through our subsidiaries and jointly controlled entities. We also manufacture

FINANCIAL INFORMATION

fabric used for ABCD-pillar and headliner for automobile through one of our jointly controlled entities, Ningbo Hualete. Ningbo Huazhong Moulding, being one of our principal operating subsidiaries, has been producing moulds and tooling for our manufacturing arm, with the ability to produce moulds and tooling for complex or large-size automobile body parts such as bumper and front-end carrier. We also supply moulds and tooling to third party purchasers, such as automakers and other automobile body parts manufacturers. Apart from automobile-related products, we also manufacture other products such as top cowl cover for engine of motorboat and office chair parts.

As we are independent from any particular automaker, we can develop and manufacture automobile body parts for different international and domestic automobile brands. Our customers include factories of PRC joint ventures established by renowned multinational automakers, such as FAW-Volkswagen Automotive Co. Ltd., Shanghai General Motors Co., Ltd, Shanghai-Volkswagen Automotive Company Limited, Changan Ford Mazda Automobile Corporation Ltd., Beijing Benz Automotive Co. Ltd. and Chinese automakers including Chery Automobile Co., Ltd. We also supply products to manufacturers and suppliers of automobile body parts including Shanghai Delphi Automotive Air-conditioning Systems Co., Ltd. and Guangzhou TS Automotive Interior Systems Co., Ltd. We also supply plastic parts and components for the boat products of Mercury Marine Technology Suzhou Co., Ltd.

Headquartered in Ningbo, China, we have strategically established 11 factories operating in different regions to cover major automakers in China. As at the Latest Practicable Date, our Group, together with our jointly controlled entities, had manufacturing facilities in Ningbo, Changchun, Shanghai, Chongqing, Guangzhou and Chengdu with an aggregate site area of about 335,767.7 sq.m. and an aggregate gross floor area of about 134,951.0 sq. m., housed with workforce of about 2,400 employees as at 30 June 2011.

According to the CATARC Report, sales of cars in China reached about 18.1 million units in 2010, representing an increase of about 32% from that in 2009. Our long term business relationship with some of the principal multinational automakers and well-established automakers in China, and our strong product development capability enables us to capture the business opportunities in the fast-growing automobile market in China. Our revenue amounted to about RMB755.0 million, RMB826.2 million and RMB1,006.9 million for each of the three years ended 31 December 2010, representing a CAGR of about 15.5%, and about RMB573.5 million for the six months ended 30 June 2011. Our profit and total comprehensive income attributable to owners of our Company amounted to about RMB57.5 million, RMB35.4 million and RMB105.8 million for each of the three years ended 31 December 2010, representing a CAGR of about 35.7%, and about RMB51.0 million for the six months ended 30 June 2011. According to the CATARC Report, the annual production of passenger cars in China was about 4.8 million units in 2010, and is estimated to reach about 5.3 million units in 2012, and 8.7 million units in 2020. Leveraged on the continued growth in the economy of China and the sale of passenger cars in China, and the increasing trend for multinational automakers to establish their manufacturing and purchasing centres in China, our Directors expect that there will be a continual growth in our business in the near future.

FINANCIAL INFORMATION

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The financial information (the “Financial Information”) of our Group has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the International Accounting Standard Board, and the disclosure requirements of the Companies Ordinance. All IFRSs effective for the accounting periods commencing from 1 January 2008, 2009 and 2010, together with the relevant transactional provisions, have been early adopted by our Group in the preparation of the Financial Information throughout the Track Record Period. The Financial Information has been prepared on a historical cost basis. The Financial Information is presented in Renminbi and all values are rounded to the nearest thousands, except when otherwise indicated.

Pursuant to the Reorganisation as more fully explained in the section headed “History and corporate structure — Reorganisation” in this prospectus, our Company became the holding company of the companies now comprising our Group subsequent to the Reorganisation on 29 July 2011, which was after the end of the Track Record Period. Except for those acquired companies as mentioned in note 33 to the Financial Information, the companies now comprising our Group were under the common control of Mr. Zhou, the ultimate controlling shareholder, before and after the Reorganisation. Accordingly, the Financial Information has been prepared on a combined basis as if our Company had always been the holding company of our Group by applying the pooling of interest accounting as if the Reorganisation had been completed at the beginning of the Track Record Period, except for the acquisitions of Ningbo Huafeng, Ningbo Xinxing and Changchun Huateng in 2008, acquisitions of Ningbo Huazhong Moulding and Guangzhou Huazhong in 2010 and acquisition of Shanghai Huaxin in 2011, for which the acquisition method of accounting is applied.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group, as if the current group structure resulted from the Reorganisation had been in existence throughout the Track Record Period, or since when the subsidiaries were incorporated/established or became controlled by the controlling shareholder, whichever is a shorter period.

Equity method is applied to our Group’s investments in associates or jointly controlled entities. Our Group applies pooling of interest method in accounting for an acquisition of an associate or a jointly controlled entity from the controlling shareholder or entities under common control when applying the equity method.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL POSITION

We experienced significant growth in our revenue and profit during the Track Record Period. Our Directors believe that this was the result of implementation of effective business strategies and our competitive advantages in offering comprehensive, one-stop product development and manufacturing solution to our customers. Nevertheless, our results of operations and financial position are and will continue to be affected by various factors that may or may not be entirely within our control, including but not limited to the factors as set out below.

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Demand for our customers' products

During the Track Record Period, most of our customers are automakers and automobile body parts manufacturers. As such, our results of operations are directly affected by the sales performance of particular car model to which our products relate and the overall demand for cars. The demand of our client's products can be affected by the following factors:

- the relevant automaker's ability to anticipate changes in consumer tastes, preferences and requirements, its capability to design and manufacture cars to meet such consumer tastes, preferences and requirements, its sales and marketing capabilities, its sales and after-sales services, and its competitiveness as compared with other competitors in the market;
- global and regional economic and market conditions, personal disposal income and interest rate levels, fuel price, seasonality of sales of automobiles, government policies and measures on emission control and automobile consumption and purchases.

Sales to our major customers

The majority of our revenue has been derived from a limited number of customers. Our sales to our five largest customers during the Track Record Period amounted to about RMB590.3 million, RMB650.6 million, RMB778.4 million and RMB427.3 million, which accounted for about 78.2%, 78.7%, 77.3% and 74.5% of our total revenue for each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. Our profitability and financial position will be affected by our continuing business relationship with these major customers in the future.

Our ability in expanding our product offerings

Our future growth and success depend significantly on our ability to develop and expand our product offerings within our current core products and our ability to develop new products. We need to incur substantial expenses to develop new products and the success of the development and manufacturing of our new products depends on the innovation, skill and experienced R&D technicians, as well as our ability to anticipate technological and market trends accurately.

Cost of resins and other production materials

Cost of production materials represented the largest component of our cost of sales, and a material portion of which represented the cost of resin we used in our production. Our purchase of resin accounted for about 23.5%, 28.8%, 28.7% and 33.7% of our cost of sales for the Track Record Period. Market prices of resins have been historically affected by the cyclicity and high volatility of prices for crude oil, being the primary substance of resin. As we have not entered into any long term supply agreement with our suppliers for resin, any fluctuation of the market price of resin, may materially affect our cost of sales.

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Production capacity

Our product production capacity affects our turnover, in particular our turnover growth in the near future. During the Track Record Period, we have been utilising our production facilities at a very high utilisation rate. If any of our production facilities experience significant downtime, our production may not be able to produce sufficient products to meet the orders of our customers, and resulting in a negative impact on our turnover. We are in the process of expanding our production capacity to cope with the increasing demand for our products. We have allocated about 60% of our net proceeds of the New Issue for funding the capital expenditures required for the expansion of production capacity by building new manufacturing facilities in Yantai, Changchun, Wuhu and Foshan, and expanding and upgrading our existing manufacturing facilities in Ningbo and Chengdu which will increase our production capacity to meet the demand of our customers and our expanding products portfolio. Any prolonged or significant disruption to our expansion plan may adversely affect our business, financial condition and results of operations.

Foreign exchange exposure and currency conversion risks

During the Track Record Period, most of our costs were denominated in RMB, while some of our sales were denominated and settled in US dollars and Euro. During the Track Record Period, we had not adopted any financial instrument to hedge our foreign currency exchange risks. Depreciation of RMB against the US dollar and Euro would increase our cost of imported production materials, which in turn would adversely affect our financial condition and results of operations. Appreciation of RMB could increase the cost of production of our customers in the PRC, which will either result in downward pressure of our product prices, or would otherwise affect the sales of local-made automobiles of our customers as compared with imported automobiles.

CRITICAL ACCOUNTING POLICIES

The critical accounting policies adopted by our Group in arriving at the Financial Information, are set out below:

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership and title have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis;
- (c) rental income, on a time proportion basis over the lease terms; and

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- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, our Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of each item of property, plant and equipment, after taking into account the residual value as follows:

	Estimated useful lives	Estimated residual value
Buildings	20 years	10%
Plant and machinery	5~10 years	10%
Motor vehicles	5 years	10%
Furniture and fixtures	3~5 years	10%
Tooling	3 years	—

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the combined statements of comprehensive income in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less cost to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each of the Track Record Period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying our accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information.

Operating lease commitments - our Group as lessor

Our Group has entered into plant and building leases on its investment property portfolio. Our Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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Classification between investment properties and owner-occupied properties

Our Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, our Group considers whether a property generates cash flows largely independently of the other assets held by our Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, our Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Track Record Period, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Provision for impairment of trade and notes receivables

The provision policy for impairment of trade and notes receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of our customers and our Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Impairment of non-financial assets

Our Group assesses whether there are any indicators of impairment for all non-financial assets as at the end of each of the Track Record Period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value in use. The calculation of the fair value less cost to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental cost for disposing of the asset. When value

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in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

SUMMARY OF RESULTS OF OPERATIONS DURING THE TRACK RECORD PERIOD

The following table summarises our audited combined results for the Track Record Period which are extracted from the accountants' report, the text of which is set forth in Appendix I to this prospectus, and also illustrates certain items in our audited combined statement of comprehensive income expressed as a percentage of revenue for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2008	2009		2010		2010	2011			
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Revenue	755,014	100.0	826,216	100.0	1,006,908	100.0	472,713	100.0	573,538	100.0
Cost of sales	(623,006)	(82.5)	(651,324)	(78.8)	(748,663)	(74.4)	(364,085)	(77.0)	(422,473)	(73.7)
Gross profit	132,008	17.5	174,892	21.2	258,245	25.6	108,628	23.0	151,065	26.3
Other income and gains	13,390	1.8	7,382	0.9	9,993	1.0	4,718	1.0	3,072	0.5
Gain on bargain purchase	37,080	4.9	—	—	21,560	2.1	—	—	9,766	1.7
Selling and distribution costs	(70,265)	(9.3)	(67,423)	(8.2)	(75,622)	(7.5)	(36,380)	(7.7)	(41,239)	(7.1)
Administrative expenses	(37,467)	(5.0)	(41,018)	(5.0)	(51,133)	(5.1)	(21,362)	(4.5)	(34,255)	(6.0)
Other expenses	(6,100)	(0.8)	(4,521)	(0.5)	(5,346)	(0.5)	(2,629)	(0.6)	(3,135)	(0.5)
Operating profit	68,646	9.1	69,312	8.4	157,697	15.6	52,975	11.2	85,274	14.9
Share of profits/(losses) of:										
Associates	895	0.1	—	—	(422)	(0.0)	—	—	100	0.0
Jointly controlled entities	3,980	0.5	3,443	0.4	9,054	0.9	4,856	1.0	4,686	0.8
Finance income	9,681	1.3	7,766	0.9	9,585	1.0	4,274	0.9	4,633	0.8
Finance costs	(22,570)	(3.0)	(29,234)	(3.5)	(34,266)	(3.4)	(15,000)	(3.2)	(23,964)	(4.2)
Profit before tax	60,632	8.0	51,287	6.2	141,648	14.1	47,105	9.9	70,729	12.3
Income tax expense	(9,502)	(1.2)	(15,558)	(1.9)	(35,275)	(3.5)	(12,886)	(2.7)	(18,208)	(3.1)
Profit and total comprehensive income for the year/period	51,130	6.8	35,729	4.3	106,373	10.6	34,219	7.2	52,521	9.2
Profit and total comprehensive income for the year/period attributable to:										
Owners of the parent	57,496	7.6	35,371	4.3	105,839	10.5	33,881	7.2	51,012	8.9
Non-controlling interests	(6,366)	(0.8)	358	0.0	534	0.1	338	0.0	1,509	0.3
	51,130	6.8	35,729	4.3	106,373	10.6	34,219	7.2	52,521	9.2

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Principal Income Statement Items

Revenue

Revenue represents the net amount received and receivable by us for our products sold less returns, discounts and sale related taxes in the normal course of our business. The products manufactured and sold by us during the Track Record Period can be broadly categorised into four categories, namely (i) internal and external structural and decorative parts; (ii) moulds and tooling; (iii) air conditioner/heater unit casings/liquid tanks; and (iv) non-automobile products.

The following table sets forth the revenue and percentage of revenue attributable to each product category for each of the three years ended 31 December 2010 and the six months ended 30 June 2010 and 2011:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Internal and external structural and decorative parts	623,585	82.6	659,939	79.8	839,739	83.5	393,544	83.3	432,897	75.5
Moulds and tooling	18,234	2.4	72,761	8.8	17,505	1.7	4,845	1.0	18,735	3.3
Air conditioner/heater unit casing/liquid tank	87,651	11.6	76,424	9.3	96,056	9.5	50,535	10.7	94,734	16.5
Non-automobile products	25,544	3.4	17,092	2.1	53,608	5.3	23,789	5.0	27,172	4.7
Total	<u>755,014</u>	<u>100</u>	<u>826,216</u>	<u>100</u>	<u>1,006,908</u>	<u>100</u>	<u>472,713</u>	<u>100</u>	<u>573,538</u>	<u>100</u>

During the Track Record Period, most of our products were sold inside the PRC. The following table sets forth an analysis of our revenue and the percentage breakdown of our revenue by geographical market, based on the location of our customers for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
PRC	729,470	96.6	809,121	97.9	952,046	94.6	450,168	95.2	548,325	95.6
Overseas	25,544	3.4	17,095	2.1	54,862	5.4	22,545	4.8	25,213	4.4
Total	<u>755,014</u>	<u>100</u>	<u>826,216</u>	<u>100</u>	<u>1,006,908</u>	<u>100</u>	<u>472,713</u>	<u>100</u>	<u>573,538</u>	<u>100</u>

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Sale of internal and external structural and decorative parts was the most substantial contributor to our total revenue, accounting for about 82.6%, 79.8%, 83.5% and 75.5% of our total revenue during the Track Record Period. Our products of internal and external structural and decorative parts include front/rear bumper, dash board, ABCD-pillars front-end carrier, air inlet grille and rocker panel.

We also developed and made moulds and tooling for automakers and our sale of moulds and tooling accounted for about 2.4%, 8.8%, 1.7% and 3.3% of our total revenue during the Track Record Period. Besides, we manufactured air-conditioner or heater unit casings and liquid tanks, which accounted for about 11.6%, 9.3%, 9.5% and 16.5% of our total revenue during the Track Record Period. Our non-automobile products mainly included top cowl cover and office chair parts which accounted for about 3.4%, 2.1%, 5.3% and 4.7% of our total revenue during the Track Record Period.

Over 94% of our sales were generated in the PRC. The rest of our sales were generated from sales to overseas countries including the U.S., Argentina, Japan and Brazil.

Cost of sales

Cost of sales comprised mainly direct materials costs, direct labour costs, manufacturing overhead and direct purchases from third parties. The following table sets forth the components of our cost of sales for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Direct materials	345,968	55.5	411,640	63.2	507,540	67.8	244,715	67.2	303,480	71.8
Direct labour	24,884	4.0	25,459	3.9	33,292	4.4	15,732	4.3	19,914	4.7
Manufacturing overhead										
Indirect labour	7,417	1.2	7,619	1.2	10,616	1.4	5,552	1.5	7,829	1.9
Depreciation and amortisation	37,895	6.1	36,456	5.6	33,865	4.5	17,360	4.8	22,646	5.4
Electricity	14,813	2.4	18,335	2.8	21,524	2.9	10,913	3.0	13,959	3.3
Others	17,329	2.8	8,506	1.3	20,354	2.7	9,303	2.6	10,338	2.4
Direct purchases from third parties/related parties										
Finished goods (Note)	116,857	18.8	43,042	6.6	46,968	6.3	32,817	9.0	3,391	0.8
Moulds (Note)	12,828	2.0	55,993	8.6	12,723	1.7	4,144	1.1	11,218	2.7
Auxiliary parts	45,015	7.2	44,274	6.8	61,781	8.3	23,549	6.5	29,698	7.0
Total	<u>623,006</u>	<u>100.0</u>	<u>651,324</u>	<u>100.0</u>	<u>748,663</u>	<u>100.0</u>	<u>364,085</u>	<u>100.0</u>	<u>422,473</u>	<u>100.0</u>

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Note: Among these direct purchases of finished goods and moulds, about RMB99.9 million, RMB5.1 million, RMB37.1 million and nil were purchases of finished goods from Changchun Huateng and/or Guangzhou Huazhong in each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively, and about RMB1.7 million, RMB16.5 million, RMB8.1 million and RMB1.9 million were purchases of moulds from Ningbo Huazhong Moulding in each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively. These purchases were accounted for as direct purchases from related parties before our acquisition of these companies pursuant to the Reorganisation in 2008 (for Changchun Huateng) and 2010 (for Guangzhou Huazhong and Ningbo Huazhong Moulding), respectively. Our direct purchases of finished goods and moulds from third parties or related parties (other than Changchun Huateng, Guangzhou Huazhong, and Ningbo Huazhong Moulding which have become members of our Group pursuant to the Reorganisation) during each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 were as follows:

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods	16,927	37,896	9,902	3,391
Moulds	<u>11,130</u>	<u>39,494</u>	<u>4,580</u>	<u>9,318</u>
Total	<u><u>28,057</u></u>	<u><u>77,390</u></u>	<u><u>14,482</u></u>	<u><u>12,709</u></u>

The following table sets forth the cost of sales attributable to each product category for each of the three years ended 31 December 2010 and the six months ended 30 June 2011:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Internal and external structural and decorative parts	521,036	83.6	521,572	80.1	627,522	83.8	306,790	84.3	321,140	76.0
Moulds and tooling	12,828	2.1	55,993	8.6	12,723	1.7	4,144	1.1	11,368	2.7
Air conditioner/heater unit casings/liquid tanks	70,038	11.2	61,672	9.5	71,414	9.5	35,406	9.7	72,211	17.1
Non-automobile products	<u>19,104</u>	<u>3.1</u>	<u>12,087</u>	<u>1.8</u>	<u>37,004</u>	<u>5.0</u>	<u>17,745</u>	<u>4.9</u>	<u>17,754</u>	<u>4.2</u>
Total	<u><u>623,006</u></u>	<u><u>100.0</u></u>	<u><u>651,324</u></u>	<u><u>100.0</u></u>	<u><u>748,663</u></u>	<u><u>100.0</u></u>	<u><u>364,085</u></u>	<u><u>100.0</u></u>	<u><u>422,473</u></u>	<u><u>100.0</u></u>

Our cost of sales primarily comprised direct materials, direct labour, manufacturing overhead and direct purchases from third parties. For each of the years in the Track Record Period, our cost of sales was about RMB623.0 million, RMB651.3 million, RMB748.7 million and RMB422.5 million respectively, representing about 82.5%, 78.8%, 74.4% and 73.7% of our revenue respectively.

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The major component in the cost of sales was direct materials. Resin, of which the price is subject to fluctuation, including PP and PC/ABS, was our principal production material used in the production of our products, with PP being the principal type of resin used by us during the Track Record Period. During each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our purchase of resin accounted for about 23.5%, 28.8%, 28.7% and 33.7%, respectively, of our total cost of sales during the corresponding periods. Our average cost of purchase of PC/ABS per ton was RMB24,790, RMB24,530 and RMB23,930 during each of the years ended 31 December 2008, 2009 and 2010 and our average cost of purchase of PP per ton was RMB13,250, RMB12,260 and RMB12,000 during each of the years ended 31 December 2008, 2009 and 2010, respectively despite the upward trend of price of PP per ton in the PRC from 2008 to 2010 as shown in the chart in the section headed “Industry overview — PRC automobile body parts industry — Market structure — Use of plastic” in this prospectus. Such decrease in our average cost of purchase of PP during the same period was principally attributable to the economies of scale enjoyed by us as a result of increasing amount of bulk purchase of PP every year during the period in line with our business expansion. According to CEIC Data Company Ltd, during the Track Record Period, the largest increase in market price of PP(F401) in a single month was 17%. For illustration purpose only, had our cost of purchase of PP during each of the three years ended 31 December 2010 and the six months ended 30 June 2011 increased by 20%, and assuming all other variable held constant, the profit before tax of our Group would have had decreased by about RMB29.2 million, RMB37.5 million, RMB43.1 million and RMB28.5 million, respectively.

Our cost of direct labour represented mainly wages to our production workforce. Along with our growth in production scale and workforce as well as the inflation in wages, our direct labour cost increased steadily during the Track Record Period and amounted to about RMB24.9 million, RMB25.5 million, RMB33.3 million and RMB19.9 million for each of the years or periods in the Track Record Period.

Our manufacturing overhead includes indirect labour, depreciation and electricity cost. The manufacturing overhead comprised mainly fixed costs and varies less directly with production volume. During the Track Record Period, our total manufacturing overhead amounted to about RMB77.5 million, RMB70.9 million, RMB86.4 million and RMB54.8 million, representing about 12.5%, 10.9%, 11.5% and 13.0% of our total cost of sales.

Apart from direct materials, direct labour and manufacturing overhead for our production, we also purchased finished goods, moulds, auxiliary parts and other materials from third parties and related parties which are sold as part of our deliverables to our customers without further processing by us. Besides, these purchases also included the finished goods and moulds supplied to us from Changchun Huateng, Guangzhou Huazhong and Ningbo Huazhong Moulding before our acquisition of these companies pursuant to the Reorganisation in 2008 (for Changchun Huateng) and 2010 (for Guangzhou Huazhong and Ningbo Huazhong Moulding), respectively.

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Gross profit and gross profit margin

Gross profit represented the difference between revenues and cost of sales. The following table sets forth an analysis of our gross profit and our gross profit margins for the four categories of products during each of the three years ended 31 December 2010 and the six months ended 30 June 2010 and 2011:

	Year ended 31 December						Six months ended 30 June			
	2008		2009		2010		2010		2011	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Internal and external structural and decorative parts	102,549	16.4	138,367	21.0	212,217	25.3	86,754	22.0	111,757	25.8
Moulds and tooling	5,406	29.6	16,768	23.0	4,782	27.3	701	14.5	7,367	39.3
Air conditioner/heater unit casings/liquid tanks	17,613	20.1	14,752	19.3	24,642	25.7	15,129	29.9	22,523	23.8
Non-automobile products	<u>6,440</u>	25.2	<u>5,005</u>	29.3	<u>16,604</u>	31.0	<u>6,044</u>	25.4	<u>9,418</u>	34.7
Total	<u>132,008</u>	17.5	<u>174,892</u>	21.2	<u>258,245</u>	25.6	<u>108,628</u>	23.0	<u>151,065</u>	26.3

For each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our gross profit was about RMB132.0 million, RMB174.9 million, RMB258.2 million and RMB151.1 million respectively. Our gross profit margin was 17.5%, 21.2%, 25.6% and 26.3% respectively for the same periods.

The increase in our gross profit margin was mainly because (i) our customers launched new medium to high-end car models and demanded for more high-ended products from us; (ii) the increase in demand for automobiles in the PRC; and (iii) since part of our manufacturing overhead were fixed costs, as our production volume increased, our gross profit margin increased due to economies of scale.

Other income and gains

Our other income and gains principally arose from our incomes from sale of raw materials. The sale of raw materials refers to the situation where we engaged third party suppliers to manufacture and supply minor parts for us for our assembling into our products before we deliver the final products to our customers. To ensure that these minor parts can conform with the quality and raw materials as specified by our customers and to lower the purchase cost of raw materials, we would purchase and

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sell the required raw materials to the third party suppliers to produce the minor parts. Therefore, the sale of raw materials is intended to be part of our production and procurement process and we have not engaged in any speculation activity in respect of raw material prices. We also recognised revaluation of pre-existing interest in an acquired subsidiary to fair value of about RMB4.3 million. During the year ended 31 December 2008, each of Huaxiang Group and Mr. Zhou transferred their respective 60% and 20% interest in Changchun Huateng to Ningbo Huazhong Plastic. According to the accounting policy of our Group, acquisition method has been applied in accounting for the acquisition of the 60% equity interest in Changchun Huateng from Mr. Zhou Cimei as Mr. Zhou Cimei acts independently with Mr. Zhou. This method involves recognising fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, fair value gain was also recognised in respect of our pre-existing interest in Changchun Huateng held by Mr. Zhou. Besides, we received government grants which consisted of (i) subsidies to support technology upgrade projects for certain specified industries; and (ii) value added tax refund. The following table sets forth the breakdown of our other income and gains during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>				
Government grants	1,719	2,943	1,553	222	284
Revaluation of pre-existing interest in an acquired subsidiary to fair value	4,337	—	—	—	—
Rental income	1,701	1,538	1,594	647	307
Gain on sales of raw materials	4,055	2,296	4,153	2,713	153
Gain on sales of scrap materials	517	285	1,755	624	1,092
Gain on disposal of property, plant and equipment	477	43	362	18	—
Gain on disposal of investment in associates	—	—	—	—	714
Others	584	277	576	494	522
Total	<u>13,390</u>	<u>7,382</u>	<u>9,993</u>	<u>4,718</u>	<u>3,072</u>

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Gain on bargain purchase

Gain on bargain purchase occurs when the fair value of the net identifiable assets acquired and liabilities assumed exceeds the fair value of the consideration paid. During the year ended 31 December 2008, we incurred bargain purchase gain of about RMB37.1 million when we acquired additional equity interests in Ningbo Huafeng, Ningbo Xinxing and Changchun Huateng. During the year ended 31 December 2010, we incurred bargain purchase gain of about RMB21.6 million when we acquired equity interests in Ningbo Huazhong Moulding and its subsidiaries and additional equity interest in Guangzhou Huazhong. During the six months ended 30 June 2011, we recorded bargain purchase gain of about RMB9.8 million when we acquired equity interests in Shanghai Huaxin. The gain on bargain purchase is non-recurring in nature. Please refer to the accountants' report, the text of which is set forth in Appendix I to this prospectus for further details.

Selling and distribution costs

Selling and distribution costs comprised primarily packing expenses and transportation fee. Packing expenses mainly represented expenses for packing materials used in packing finished goods to our customers. Transportation fee mainly represented our fee paid to logistic companies. The following table sets forth the breakdown of our selling and distribution costs during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Salary and welfare	3,909	6,626	7,248	3,208	3,997
Warehousing	4,082	5,045	6,252	3,130	5,255
Packing	24,047	21,788	24,451	11,905	13,279
Transportation fee	35,351	31,910	34,708	16,662	16,484
Other selling and distribution expenses	<u>2,876</u>	<u>2,054</u>	<u>2,963</u>	<u>1,475</u>	<u>2,224</u>
Total	<u><u>70,265</u></u>	<u><u>67,423</u></u>	<u><u>75,622</u></u>	<u><u>36,380</u></u>	<u><u>41,239</u></u>

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Administrative expenses

Administrative expenses comprised primarily salary and welfare, office expense and research and development expenses. The following table sets forth the breakdown of our administrative expenses during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Salary and welfare	11,058	15,117	16,664	9,973	13,706
R&D expense	9,046	4,631	5,482	2,125	2,096
Depreciation and amortisation	3,418	3,479	4,008	1,531	2,619
Office expense	8,585	10,289	10,205	574	817
Professional service fee	1,190	1,179	2,582	421	718
Listing expense	—	—	2,979	—	3,907
Taxes	2,087	3,318	4,178	2,076	2,676
Others	<u>2,083</u>	<u>3,005</u>	<u>5,035</u>	<u>4,662</u>	<u>7,716</u>
Total	<u><u>37,467</u></u>	<u><u>41,018</u></u>	<u><u>51,133</u></u>	<u><u>21,362</u></u>	<u><u>34,255</u></u>

Other expenses

The amount of other expenses represented primarily bank charges, provision for impairment of receivables, and donation.

Finance costs

The amount of finance costs represented the interests on bank loans and borrowings which were all wholly repayable within one year.

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Taxation

Taxation represented the current PRC enterprise income tax and deferred income tax by our Group. The following table sets forth the breakdown of taxation expenses during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Current income tax					
Income tax for the year/period	7,527	12,381	27,379	9,667	14,513
(Over)/under provision in prior years	(83)	(45)	5	5	13
Land appreciation tax	—	—	13,474	—	—
Deferred income tax	<u>2,058</u>	<u>3,222</u>	<u>(5,583)</u>	<u>3,214</u>	<u>3,682</u>
Total tax charge for the year/period	<u>9,502</u>	<u>15,558</u>	<u>35,275</u>	<u>12,886</u>	<u>18,208</u>

Our Company and our subsidiary incorporated in the Cayman Islands and BVI are exempted from taxation.

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong during the Track Record Period.

All of our subsidiaries registered in the PRC and only have operations in the PRC are subject to PRC enterprise income tax on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. On 16 March 2007, the PRC government promulgated the EIT Law, which was effective from 1 January 2008. On 6 December 2007, the State Council issued Implementation Regulation of the EIT Law. The EIT Law and Implementation Regulation changed the tax rate of the PRC enterprise from 33% to 25% from 1 January 2008 onwards.

Pursuant to the relevant tax rules in the PRC, Chongqing Huazhong was qualified as a western China development enterprise and is entitled to a preferential rate of 15% during the Track Record Period. All other subsidiaries operating in the PRC are subject to tax rate of 25% during the Track Record Period.

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According to the requirements of the Provisional Regulations of the PRC on Land Appreciation Tax (“LAT”) effective from 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective from 27 January 1995, all income from the sale or transfer of state-owned leasehold interests on land, buildings and their attached facilities in China is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

Due to the change of usage of land from industrial use to commercial use by the government, the land use rights of the land situated at the Commercial/Residential Zone of Wei Xing Road, Changchun Jingyue Development Zone, Changchun City, Jilin Province, PRC granted to Changchun Huateng were resumed by Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre pursuant to an agreement entered into by Changchun Huateng and Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre dated 10 September 2010. Pursuant to the agreement, Changchun Huateng shall receive RMB67 million as compensation, of which RMB20 million shall be paid within two months after signing of the agreement and RMB47 million shall be paid within three months after signing of the agreement for the transfer of land use rights of the Wei Xing Facility between Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre and a third party purchaser. Our Directors confirm that Changchun Huateng has received the entire sum of RMB67 million as at the Latest Practicable Date. We have estimated, made and included in tax provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations in relation to the above resumption. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated.

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A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate for each of the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>				
Profit before tax	60,632	51,287	141,648	47,105	70,729
Tax at the statutory tax rate	15,158	12,822	35,412	11,776	17,682
Lower tax rate for specific province	(368)	(712)	(1,144)	(575)	(595)
Tax losses not recognised	3,948	293	78	66	—
Profits and losses attributable to jointly controlled entities and associates	(1,219)	(861)	(2,158)	(1,214)	(1,197)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	2,611	3,977	9,188	3,414	4,886
Non-taxable income	(10,663)	(190)	(5,673)	—	(2,620)
(Over)/under provision in prior years	(83)	(45)	5	5	13
Expenses not deductible for tax	118	274	709	769	717
Tax losses utilised	—	—	(1,142)	(1,355)	(678)
	<u>9,502</u>	<u>15,558</u>	<u>35,275</u>	<u>12,886</u>	<u>18,208</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Six months ended 30 June 2011 compared to six months ended 30 June 2010

Revenue

Our revenue increased from about RMB472.7 million in the six months ended 30 June 2010 to about RMB573.5 million in the six months ended 30 June 2011, representing a substantial increase of about 21.3%, or about RMB100.8 million. Such increase in our revenue was primarily attributable to the increase in the sales of internal and external structural and decorative parts, which increased from about RMB393.5 million in the six months ended 30 June 2010 to about RMB432.9 million in the six months ended 30 June 2011, and the increase in the sales of moulds and tooling, which increased from about RMB4.8 million in the six months ended 30 June 2010 to about RMB18.7 million in the six months ended 30 June 2011.

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For the six months ended 30 June 2011, the increase in our revenue was primarily due to (i) the launch and the development of new product models which led to increase in sales of products and moulds; and (ii) the inclusion of the newly acquired Shanghai Huaxin in early 2011 which contributed to an increase of revenue of about RMB47.0 million.

Cost of sales

Our cost of sales comprised mainly our cost of direct materials consumed, direct labour, and other manufacturing overhead such as indirect labour, depreciation, electricity and direct purchases from third parties of finished goods, moulds and auxiliary parts. Among all these costs, our cost of direct materials consumed accounted for about 67.2% and 71.8% of the total cost of sales of our Group for each of the six months ended 30 June 2010 and 2011, respectively.

Our cost of sales increased by about RMB58.4 million, or about 16.0%, from about RMB364.1 million in the six months ended 30 June 2010 to about RMB422.5 million in the six months ended 30 June 2011. The increase was in line with the increase in the revenue as discussed under the paragraph headed “Revenue” above.

Gross profit and gross profit margin

Our gross profit increased by about 39.1% from about RMB108.6 million in the six months ended 30 June 2010 to about RMB151.1 million in the six months ended 30 June 2011, and our gross profit margin increased from about 23.0% in the six months ended 30 June 2010 to about 26.3% in the six months ended 30 June 2011. The increase in our gross profit was mainly attributable to the economies of scale enjoyed by us arising from our continual growth in revenue, and the increase in the sales of our relatively high-end products and mouldings to meet our customers’ requirement.

Other income and gains

Our other income and gains decreased by about 34.0% from about RMB4.7 million in the six months ended 30 June 2010 to about RMB3.1 million in the six months ended 30 June 2011. Such decrease was mainly attributable to the decrease on the gain on sales of raw materials in the amount of about RMB2.6 million as a result of the changes in product model and thus raw materials required in 2010 while no major changes in the first half of 2011. The decrease was partially offset by the increase of sale of scrap materials in the amount of about RMB0.5 million as a result of the disposal of scraped mouldings used in testing new product types.

Gain on bargain purchase

For the six months ended 30 June 2011, we incurred a one-off bargain purchase gain of RMB9.8 million when we acquired equity interests in Shanghai Huaxin. The gain represented the fair value of the net identifiable assets acquired and liabilities assumed in excess of the fair value of the consideration paid. The gain on bargain purchase is non-recurring in nature. Please refer to the accountants’ report, the text of which is set forth in Appendix I to this prospectus for further details.

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Selling and distribution expenses

Our selling and distribution expenses increased by about 13.2% from about RMB36.4 million in the six months ended 30 June 2010 to about RMB41.2 million in the six months ended 30 June 2011. Such increase was mainly due to the increase in packing cost and warehousing and was in line with the increase in sales during the year.

Administrative expenses

Our administrative expenses increased by about 60.3% from about RMB21.4 million in the six months ended 30 June 2010 to about RMB34.3 million in the six months ended 30 June 2011. The increase was mainly due to the increase in salary and welfare as a result of salary increase and headcount increase due to the acquisition of the equity interests in Shanghai Huaxin, Ningbo Huazhong Moulding and Guangzhou Huazhong in early 2011, late 2010 and late 2010 respectively, and the increase in professional service fee in preparation for the Listing.

Other expenses

Our other expenses increased by about RMB0.5 million from about RMB2.6 million in the six months ended 30 June 2010 to about RMB3.1 million in the six months ended 30 June 2011. The increase was mainly due to provision made for certain accounts receivable with long aging.

Finance costs

Our finance costs increased by about 60.0% from about RMB15.0 million in the six months ended 30 June 2010 to about RMB24.0 million in the six months ended 30 June 2011. The increase was mainly attributable to the increase in the use of discounted bank accepted notes and the interest rate during the period.

Taxation

Our taxation expenses increased by about 41.1% from about RMB12.9 million in the six months ended 30 June 2010 to about RMB18.2 million in the six months ended 30 June 2011. The increase was primarily attributable to the increase in our profit before tax for the six months ended 30 June 2011.

Profit for the period and total comprehensive income for the period and net profit margin

As a combined result of the factors discussed above, our profit for the period and total comprehensive income for the six months ended 30 June 2011 increased by about 53.5% from about RMB34.2 million in the six months ended 30 June 2010 to about RMB52.5 million in the six months ended 30 June 2011. In addition, our net profit margin increased from about 7.2% in the six months ended 30 June 2010 to about 9.2% in the six months ended 30 June 2011.

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Year ended 31 December 2010 compared to year ended 31 December 2009

Revenue

Our revenue increased from about RMB826.2 million in 2009 to about RMB1,006.9 million in 2010, representing a substantial increase of about 21.9%, or about RMB180.7 million. Such increase in our revenue was primarily attributable to the increase in the sales of internal and external structural and decorative parts, which increased from about RMB659.9 million in 2009 to about RMB839.7 million in 2010, and the increase in the sales of non-automobile products, which increased from about RMB17.1 million in 2009 to about RMB53.6 million in 2010. The increase was partially offset by the decrease in sales of moulds and tooling, which decreased from about RMB72.8 million in 2009 to about RMB17.5 million in 2010.

During the year ended 31 December 2010, the increase in our revenue was primarily due to (i) stronger demand for our products as driven by the increasing domestic demand for automobile; (ii) the launch of new car models by our customers in mid-2009 which led to increase in our sales in 2010; (iii) expansion of our production facilities due to addition of our plants and equipment; and (iv) the increase in sales of our office chair parts which were launched in mid-2009.

Cost of sales

Our cost of sales comprised mainly our cost of direct materials consumed, direct labour, and other manufacturing overhead such as indirect labour, depreciation, electricity and direct purchases from third parties of finished goods, moulds and auxiliary parts. Among all these costs, our cost of direct materials consumed accounted for about 55.5%, 63.2% and 67.8% of the total cost of sales of our Group for each of the three years ended 31 December 2008, 2009 and 2010, respectively.

Our cost of sales increased by about RMB97.4 million, or about 15.0%, from about RMB651.3 million in 2009 to about RMB748.7 million in 2010. The increase was in line with the increase in the revenue as discussed under the paragraph headed “Revenue” above.

Gross profit and gross profit margin

Our gross profit increased by about 47.6% from about RMB174.9 million in 2009 to about RMB258.2 million in 2010, and our gross profit margin increased from about 21.2% in 2009 to about 25.6% in 2010. The increase in our gross profit was mainly attributable to the economies of scale enjoyed by us arising from our continual growth in revenue, the increase in the sales of our relatively high-end products to meet our customers’ requirement and the booming automobile market in the PRC driven by preferential policy on car consumption.

Other income and gains

Our other income and gains increased by about 35.1% from about RMB7.4 million in 2009 to about RMB10.0 million in 2010. Such increase was mainly attributable to the increase on the gain on sales of raw materials and scrap materials in the amount of about RMB3.3 million, which offset the decrease of government grants in the amount of about RMB1.4 million.

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Gain on bargain purchase

During the year ended 31 December 2010, we incurred a one-off bargain purchase gain of RMB21.6 million when we acquired equity interests in Ningbo Huazhong Moulding and its subsidiaries and additional equity interest in Guangzhou Huazhong. The gain represented the fair value of the net identifiable assets acquired and liabilities assumed in excess of the fair value of the consideration paid. The gain on bargain purchase is non-recurring in nature. Please refer to the accountants' report, the text of which is set forth in Appendix I to this prospectus for further details.

Selling and distribution expenses

Our selling and distribution expenses increased by about 12.2% from about RMB67.4 million in 2009 to about RMB75.6 million in 2010. Such increase was mainly due to the increase in packing cost and transportation fee and was in line with the increase in sales during the year.

Administrative expenses

Our administrative expenses increased by about 24.6% from about RMB41.0 million in 2009 to about RMB51.1 million in 2010. The increase was mainly due to the increase in salary and welfare as a result of salary and headcount increase, and the increase in professional service fee in preparation for the Listing.

Other expenses

Our other expenses increased by about 17.8% from about RMB4.5 million in 2009 to about RMB5.3 million in 2010. The increase was mainly due to the increase in bank charges and donation.

Finance costs

Our finance costs increased by about 17.5% from about RMB29.2 million in 2009 to about RMB34.3 million in 2010. The increase was mainly attributable to the increase of effective interest rate from 2.657%-5.589% in 2009 to 4.217%-5.841% in 2010, and the amount of our bank borrowings increased slightly from about RMB514.0 million as at 31 December 2009 to about RMB547.0 million as at 31 December 2010.

Taxation

Our taxation expenses increased by about 126.3% from about RMB15.6 million in 2009 to about RMB35.3 million in 2010. The increase was primarily attributable to the increase in our profit before tax for the year ended 31 December 2010.

Profit for the year and total comprehensive income for the year and net profit margin

As a combined result of the factors discussed above, our profit for the year and total comprehensive income for the year ended 31 December 2010 increased substantially by about 198.0% from about RMB35.7 million in 2009 to about RMB106.4 million in 2010. In addition, our net profit margin increased from about 4.3% in 2009 to about 10.6% in 2010.

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

Revenue

Our revenue increased from about RMB755.0 million in 2008 to about RMB826.2 million in 2009, representing an increase of about 9.4%, or about RMB71.2 million. Such increase in our revenue was primarily attributable to the substantial increase in the sales of moulds and tooling from about RMB18.2 million in 2008 to about RMB72.8 million in 2009, and the increase in the sales of internal and external structural and decorative parts from about RMB623.6 million in 2008 to about RMB659.9 million in 2009.

During the year ended 31 December 2009, the increase in our revenue was primarily due to (i) the growth in demand for automobile body parts as driven by the growth in sales volume of the automobile in the PRC; (ii) the expansion of our production facilities due to addition of our plants and equipment; (iii) the increase in sales of moulds and tooling by about RMB54.6 million as our customers launched production of more new car models and demand for new moulds and toolings; and (iv) the acquisition of additional equity interest in Changchun Huateng in December 2008 and since then Changchun Huateng became a wholly-owned subsidiary of our Company and further contributed revenue to our Group.

Cost of sales

Our cost of sales increased by about RMB28.3 million, or about 4.5%, from about RMB623.0 million in 2008 to about RMB651.3 million in 2009. The increase was in line with the increase in the revenue generated from our manufacturing and sales of moulds and internal and external structural and decorative parts as discussed under the paragraph headed “Revenue” above.

Gross profit and gross profit margin

Our gross profit increased by about 32.5% from about RMB132.0 million in 2008 to about RMB174.9 million in 2009, and our gross profit margin increased from about 17.5% in 2008 to about 21.2% in 2009. The increase in our gross profit was mainly attributable to the continuing improvement in economies of scale during 2009; the increase in sales of moulds and tooling during the year which are in general of a higher margin; and the launch of more medium-to-high end car models by our automaker customers.

Other income and gains

Our other income decreased significantly by about 44.8% from about RMB13.4 million in 2008 to about RMB7.4 million in 2009. Such decrease was mainly attributable to the decrease in gain on sales of raw materials and scrap materials and the fact that an amount of about RMB4.3 million was recorded by our Group in 2008 as gain on revaluation of pre-existing interest in an acquired subsidiary to fair value while there was no such gain during the year 2009.

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Selling and distribution expenses

Our selling and distribution expenses decreased by about 4.1% from about RMB70.3 million in 2008 to about RMB67.4 million in 2009. Such decrease was attributable to better cost management and change the way of settlement with logistic companies, which resulted in the reduction of packing and transportation fee from about RMB59.4 million in 2008 to about RMB53.7 million in 2009. On the other hand, there was an increase of about RMB2.7 million in the salary and welfare from about RMB3.9 million in 2008 to about RMB6.6 million in 2009, which was mainly due to increase in salary in 2009.

Administrative expenses

Our administrative expenses increased by about 9.3% from about RMB37.5 million in 2008 to about RMB41.0 million in 2009. The increase was mainly due to the increase of salary and welfare from about RMB11.1 million in 2008 to about RMB15.1 million in 2009 resulting from the combination of the results of acquisition of Ningbo Huafeng, Ningbo Xinxing and Changchun Huateng during 2008 and the implementation of performance related salary in 2009.

Other expenses

Our other expenses dropped by about 26.2% from about RMB6.1 million in 2008 to about RMB4.5 million in 2009. The decrease was mainly due to the decrease in bank charges and provision for impairment of receivables.

Finance costs

Our finance costs increased by about 29.2% from about RMB22.6 million in 2008 to about RMB29.2 million in 2009. The increase was mainly attributable to our increase in bank borrowings from about RMB257.3 million as at 31 December 2008 to about RMB514.0 million as at 31 December 2009, which could only partially offset the decrease in effective interest rate from 5.022%-8.068% in 2008 to 2.657%-5.589% in 2009.

Taxation

Our taxation expenses increased by about 64.2% from about RMB9.5 million in 2008 to about RMB15.6 million in 2009. The increase was primarily attributable to the decrease of income not subject to tax for the year ended 31 December 2009 which was partially offset by the impact of decrease of tax losses not recognised.

Profit for the year and total comprehensive income for the year and net profit margin

As a combined result of the factors discussed above, our profit for the year and total comprehensive income for the year ended 31 December 2009 decreased by about 30.1% from about RMB51.1 million in 2008 to about RMB35.7 million in 2009. In addition, our net profit margin decreased from about 6.8% in 2008 to about 4.3% in 2009.

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ANALYSIS OF MAJOR STATEMENTS OF FINANCIAL POSITION ITEMS

The following tables illustrate major statements of financial position items and key financial ratios of our Group as at the end of each financial year during the Track Record Period:

Combined statements of financial position

The following table summarises our audited combined statements of financial position as at 31 December 2008, 2009, 2010 and 30 June 2011 which are extracted from the accountants' report, the text of which is set forth in Appendix I to this prospectus:

	As at 31 December			As at
	2008	2009	2010	30 June 2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	282,202	268,399	259,171	266,757
Investment property	4,732	4,483	4,234	4,110
Prepaid land lease payments	48,590	49,003	93,055	105,650
Investments in associates	—	—	7,044	2,908
Investments in jointly controlled entities	14,821	18,264	21,923	22,609
Prepayments for acquiring property, plant and equipment	5,208	1,134	7,315	9,033
Deferred tax assets	<u>2,781</u>	<u>—</u>	<u>10,840</u>	<u>10,084</u>
 Total non-current assets	 <u>358,334</u>	 <u>341,283</u>	 <u>403,582</u>	 <u>421,151</u>
CURRENT ASSETS				
Inventories	124,039	73,371	89,469	116,800
Trade and notes receivables	193,813	246,068	305,386	345,927
Prepayments and other receivables	34,391	18,675	76,729	39,486
Due from the ultimate shareholder	56	1,849	—	1,455
Due from related parties	110,444	284,812	471,692	497,254
Loans and receivables	30,000	30,000	10,000	20,000
Pledged deposits	264,010	200,103	157,602	173,964
Cash and cash equivalents	<u>12,428</u>	<u>98,870</u>	<u>30,080</u>	<u>92,751</u>
 Non-current assets held for sale	 <u>769,181</u>	 <u>953,748</u>	 <u>1,140,958</u>	 <u>1,287,637</u>
 Total current assets	 <u>769,181</u>	 <u>953,748</u>	 <u>1,140,958</u>	 <u>1,335,144</u>

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	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CURRENT LIABILITIES				
Trade and notes payables	324,222	314,404	409,822	536,871
Other payables, advances from customers and accruals	78,778	52,342	55,458	62,044
Deferred revenue	—	—	—	67,000
Interest-bearing bank borrowings	257,336	513,998	547,000	487,000
Due to the ultimate shareholder	2,041	64,962	21,851	42,876
Due to related parties	307,031	151,766	124,805	169,526
Income tax payable	<u>2,534</u>	<u>3,356</u>	<u>27,214</u>	<u>24,067</u>
 Total current liabilities	 <u>971,942</u>	 <u>1,100,828</u>	 <u>1,186,150</u>	 <u>1,389,384</u>
 NET CURRENT LIABILITIES	 <u>(202,761)</u>	 <u>(147,080)</u>	 <u>(45,192)</u>	 <u>(54,240)</u>
 TOTAL ASSETS LESS CURRENT LIABILITIES	 <u>155,573</u>	 <u>194,203</u>	 <u>358,390</u>	 <u>366,911</u>
 NON-CURRENT LIABILITIES				
Deferred revenue	—	—	67,000	—
Deferred tax liabilities	<u>5,159</u>	<u>5,600</u>	<u>11,553</u>	<u>17,393</u>
 Total non-current liabilities	 <u>5,159</u>	 <u>5,600</u>	 <u>78,553</u>	 <u>17,393</u>
 Net assets	 <u>150,414</u>	 <u>188,603</u>	 <u>279,837</u>	 <u>349,518</u>
 EQUITY				
Equity attributable to owners of the parent				
Share capital	56,178	58,602	44,179	40,515
Reserves	<u>92,710</u>	<u>128,081</u>	<u>231,629</u>	<u>282,661</u>
	<u>148,888</u>	<u>186,683</u>	<u>275,808</u>	<u>323,176</u>
 Non-controlling interests	 <u>1,526</u>	 <u>1,920</u>	 <u>4,029</u>	 <u>26,342</u>
 Total equity	 <u>150,414</u>	 <u>188,603</u>	 <u>279,837</u>	 <u>349,518</u>

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Property, plant and equipment

Our Group's property, plant and equipment decreased by about 4.9% from about RMB282.2 million as at 31 December 2008 to about RMB268.4 million as at 31 December 2009. The decrease was mainly due to the depreciation in the amount of about RMB38.7 million for the year ended 31 December 2009 which could only partially offset by the additions of property, plant and equipment in the amount of about RMB25.1 million for the year ended 31 December 2009.

Our Group's property, plant and equipment decreased by about 3.4% from about RMB268.4 million as at 31 December 2009 to about RMB259.2 million as at 31 December 2010. The decrease was mainly due to the depreciation in the amount of about RMB36.4 million for the year ended 31 December 2010 and the disposal of property, plant and equipment in the amount of RMB10.7 million during the year, which could only partially offset by the additions of property, plant and equipment in the amount of about RMB37.9 million for the year ended 31 December 2010.

Our Group's property, plant and equipment increased by about 2.9% from about RMB259.2 million as at 31 December 2010 to about RMB266.8 million as at 30 June 2011. The increase was mainly because of additions of plants and machinery, toolings and construction in progress amounting to about RMB60.5 million as a result of expansion of business; as well as the acquisition of equity interests in Shanghai Huaxin with fixed assets amounting to about RMB18.9 million. The increase was partially offset by the reclassification of certain buildings and machinery to assets held for sale with net carrying value of about RMB47.5 million; and depreciation during the period amounting to about RMB24.2 million. The reclassification to assets held for sale was mainly due to machinery to be disposed of to a jointly controlled entity of our Group.

Pursuant to an agreement entered between our Group and Changchun Huaxiang Faurecia dated 1 June 2011 and as supplemented by the parties, certain of our machinery, equipment and technological improvement investments were to be disposed to Changchun Huaxiang Faurecia (a jointly controlled entity of our Group). Pursuant to the aforesaid asset transfer agreement (as supplemented), the consideration for the transfer of the relevant machinery, equipment and technological improvement investments amounted to RMB88.9 million, subject to adjustment after inspection and acceptance thereof. Taking into account the consideration of RMB88.9 million, the net carrying value of the relevant assets which is currently estimated to be approximately RMB57.1 million, and our Group's 50% equity interest in Changchun Huaxiang Faurecia, and net of tax effect, we expect to record a gain on disposal of assets of approximately RMB9.2 million in the second half of 2011. The amount of gain would be subject to final audit of our Group for the year ending 31 December 2011.

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Inventories and inventory turnover days

Inventories balance as at the respective year end during the Track Record Period represented the stock balance of raw materials, work in progress and finished goods. The following table sets forth the stock balance of our Group's raw materials, work in progress and finished goods as at 31 December 2008, 2009, 2010 and 30 June 2011:

	At 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	21,736	24,859	31,309	27,073
Work in progress	4,070	8,029	4,023	6,444
Finished goods	<u>98,233</u>	<u>40,483</u>	<u>54,137</u>	<u>83,283</u>
Total	<u><u>124,039</u></u>	<u><u>73,371</u></u>	<u><u>89,469</u></u>	<u><u>116,800</u></u>

The following table sets out the inventory turnover days for the Track Record Period:

	As at and for the year			As at and
	ended 31 December			for the six
	2008	2009	2010	months
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	ended
				30 June
				2011
				<i>RMB'000</i>
Inventory turnover days (note)	59	55	40	44

Note: Inventory turnover days is calculated based on the average inventory (sum of opening and closing balances of inventory of respective years and then divided by two) divided by cost of sales of the respective years/period and multiplied by 365 days or 181 days.

Our inventories level decreased by about 40.8% from about RMB124.0 million as at 31 December 2008 to about RMB73.4 million as at 31 December 2009. The decrease was primarily due to the reason that we had produced a large number of moulds in 2008 for the expected launch of new car models in 2009, and those moulds were accepted by our customers in 2009. The decrease was also attributable to the decrease of finished goods due to the increase of sales volume in 2009. In this connection, our inventory turnover days decreased from about 59 days for the year ended 31 December 2008 to about 55 days for the year ended 31 December 2009.

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Our inventories level increased by about 21.9% to about RMB89.5 million as at 31 December 2010. The increase was primarily attributable to the increase in both raw materials and finished goods in 2010 due to production needs and business expansion. Despite the increase in inventory, our inventory turnover days decreased from about 55 days for the year ended 31 December 2009 to about 40 days for the year ended 31 December 2010.

Our inventories level increased by about 30.5% to about RMB116.8 million as at 30 June 2011. The increase was primarily attributable to the increase in both work in progress and finished goods in 2011 due to the decrease in work in progress resulted from production pause for stock taking at the end of 2010 and business expansion partly contributed by the acquisition of equity interests in Shanghai Huaxin in early 2011. With the increase in inventory, our inventory turnover days increased from about 40 days for the year ended 31 December 2010 to about 44 days for the six months ended 30 June 2011.

As at 31 October 2011, we used up 94.6% of the inventories outstanding as at 30 June 2011.

Trade and notes receivables and debtors' turnover days

Trade and notes receivables balance as at the respective year end during the Track Record Period mainly represented the outstanding amounts receivable by us from our customers less any allowance for doubtful debts. We generally grant credit terms of one to three months to our customers, depending on their legal statuses, their levels of management, their transaction amounts with us, their profit contributions to us and their credit track records. Each of our customers has a maximum credit limit. We maintain strict control over outstanding receivables. Overdue balances are reviewed regularly by senior management.

The following table sets forth the breakdown of our trade and notes receivables as at 31 December 2008, 2009, 2010 and 30 June 2011:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	167,116	239,275	271,475	343,133
Notes receivable	<u>38,936</u>	<u>20,400</u>	<u>47,901</u>	<u>18,300</u>
	206,052	259,675	319,376	361,433
Impairment of the trade receivables	<u>(12,239)</u>	<u>(13,607)</u>	<u>(13,990)</u>	<u>(15,506)</u>
	<u>193,813</u>	<u>246,068</u>	<u>305,386</u>	<u>345,927</u>

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The trade and notes receivables increased by about 27.0% from about RMB193.8 million as at 31 December 2008 to about RMB246.1 million as at 31 December 2009, which is in line with the increase in our revenue during the year ended 31 December 2009. Our trade and notes receivables as at 31 December 2010 increased by about 24.1% or about RMB59.3 million to about RMB305.4 million, as compared to that as of 31 December 2009, was in line with the increase in our revenue during the year ended 31 December 2010. Our trade and notes receivables as at 30 June 2011 increased by about 13.3% or about RMB40.5 million to about RMB345.9 million, as compared to that as of 31 December 2010, which was in line with the sales growth during the period and partly contributed by the acquisition of equity interests in Shanghai Huaxin in early 2011. Our debtors' turnovers days, which is calculated based on the average trade receivables (sum of opening and closing balances of trade receivables of respective years/period and then divided by two) divided by revenue of the respective years/period and multiplied by 365 days or 181 days, were 101 days in 2008, 97 days in 2009, 100 days in 2010 and 103 days in the six months ended 30 June 2011. Our debtors' turnovers days during the Track Record Period were higher than the credit periods granted to our customers because the debtors' turnovers days were calculated with reference to, among others, the opening and closing balances of trade and notes receivables. In general, upon delivery of our products to customers, the customers perform quality inspection and acknowledge goods receipt and acceptance. Some of our customers summarise its total purchase amount in a month and issue a monthly summary to us in around 30 days of the following month. Based on such summary, we would then issue invoices to customers. According to the applicable accounting standards, the balances of trade receivables were booked when our Group delivered products to customers whereas the credit period was calculated starting from the time when our Group issued invoice to customers. Therefore, the debtors' turnovers days would be higher than the credit periods.

The following table sets out the aging analysis of our trade receivables, based on invoice date and net of provisions, as at 31 December 2008, 2009 and 2010 and as at 30 June 2011:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	142,278	214,133	229,627	300,666
3 to 6 months	10,700	8,966	24,789	24,343
6 months to 1 year	<u>1,899</u>	<u>2,569</u>	<u>3,069</u>	<u>2,618</u>
	<u>154,877</u>	<u>225,668</u>	<u>257,485</u>	<u>327,627</u>

The gradual increase of trade receivables past due was in line with the increase of our revenue during the Track Record Period. Trade receivables which are over three months and within one year past due were mainly attributable to the practice of some of our customers of settling our several invoices (including those over-due invoices) altogether instead of settling each of our invoices separately as and when the relevant invoice becomes due and payable. To safeguard collection of our trade receivables, we have specified credit limit for each customer. In the event that the trade receivables of a customer have exceeded its credit limit, we shall suspend delivery of our products to

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such customer until the trade receivables are settled. In addition, we would send our staff to visit or liaise with our customers monthly to ensure trade receivables are settled in full in a timely manner. Of the about RMB327.6 million of trade receivables as at 30 June 2011, about 94.7%, or RMB310.4 million were subsequently settled up to 31 October 2011.

During the Track Record Period, the movement in provision for impairment of trade receivables is set forth in the following table:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year/period	12,288	12,239	13,607	13,990
Impairment for the year/period	1,709	1,368	383	1,516
Write-off for the year/period	<u>(1,758)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>12,239</u>	<u>13,607</u>	<u>13,990</u>	<u>15,506</u>

The impairment of trade receivables was resulted from provision for individually impaired trade receivables which were long overdue and none of the receivables was expected to be recovered. During the Track Record Period, our provision for impairment of trade receivables represented about 7.3%, 5.7%, 5.2% and 4.5% of the total trade receivables, respectively.

Prepayments and other receivables

Our prepayments and other receivables comprise advances to suppliers, prepaid expenses and other residual receivables. The following table set forth the breakdowns of our prepayments and other receivables as at 31 December 2008, 2009 and 2010 and as at 30 June 2011:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	22,924	10,080	14,210	26,737
Other receivables	10,335	7,444	60,774	10,850
Current portion of prepaid land lease payments	<u>1,132</u>	<u>1,151</u>	<u>1,745</u>	<u>1,899</u>
	<u>34,391</u>	<u>18,675</u>	<u>76,729</u>	<u>39,486</u>

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Among prepayments and other receivables, our prepayments mainly comprise the advances made by us to certain suppliers for purchases of raw materials. The amount of prepayments for suppliers decreased by about 55.9% from about RMB22.9 million in 2008 to about RMB10.1 million in 2009, increased by about 40.6% to about RMB14.2 million in 2010 and increased by about 88.0% to about RMB26.7 million for the six months ended 30 June 2011. The decrease in 2009 was mainly due to the decrease of overseas purchase, which requires substantial amount of prepayment. In 2009, we strengthened our cost control on purchase of materials, overseas purchase were made only when requested by customers. In addition, we also purchased overseas materials through large agent with lower price compared to the price in 2008. The increase in 2010 and the six months ended 30 June 2011 was in line with our business expansion in 2010 and 2011 and therefore increase in prepayment for raw materials.

Our other receivables include, among others, prepaid interest expenses for discounted bank acceptance bills and interest receivables. The amount of other receivables decreased by RMB2.9 million from about RMB10.3 million as at 31 December 2008 to about RMB7.4 million as at 31 December 2009, which was mainly because of the decrease in prepaid interest expenses for discounted bank acceptance bills as at 31 December 2009. The amount of other receivables increased by RMB53.4 million from RMB7.4 million as at 31 December 2009 to RMB60.8 million as at 31 December 2010, which was mainly because of the receivables of RMB47.0 million for disposal of a piece of land and certain buildings and machinery as at 31 December 2010 pursuant to an agreement entered into between Changchun Huateng and Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre dated 10 September 2010 and another agreement entered into between Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre and a third party purchaser in relation to the resumption of the land use rights of the land situated at the Commercial/Residential Zone of Wei Xing Road, Changchun Jingyue Development Zone, Changchun City, Jilin Province, PRC. The amount of other receivables decreased by RMB49.9 million from about RMB60.8 million as at 31 December 2010 to about RMB10.9 million, which was mainly because of the decrease of VAT input (being VAT on purchases recoverable out of VAT on sales to be collected from customers) and receipt of compensation of about RMB47 million from Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre in January 2011 as a result of land resumption in Wei Xing Facility.

Trade and notes payables and creditors' turnover days

Trade and notes payables balance as at the respective year/period end during the Track Record Period mainly represented the outstanding amounts payable by us to our suppliers of production materials. During the Track Record Period, we were generally granted credit periods of 30 to 90 days for our production materials. Notes payables are generally with maturity period of 6 months.

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The following table sets out the aged analysis of our trade and notes payables based on invoice date as at 31 December 2008, 2009 and 2010 and as at 30 June 2011:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2011</i> <i>RMB'000</i>
Within 3 months	235,517	225,494	360,616	423,835
3 to 12 months	86,270	86,807	46,000	108,225
1 to 2 years	688	355	1,327	2,659
2 to 3 years	1,729	585	275	548
over 3 years	<u>18</u>	<u>1,163</u>	<u>1,604</u>	<u>1,604</u>
	<u>324,222</u>	<u>314,404</u>	<u>409,822</u>	<u>536,871</u>

Our trade and notes payables balance decreased by about 3.0% from about RMB324.2 million as at 31 December 2008 to about RMB314.4 million as at 31 December 2009 as we used more short-term borrowings instead of notes payable to finance our purchase of raw materials. Our trade and notes payables increased by about 30.3% to about RMB409.8 million as at 31 December 2010. The increase was in line with our Group's increase in purchases of production materials and our revenue during the year. Our trade and notes payables increased by about 31.0% to about RMB536.9 million as at 30 June 2011. The increase was in line with our Group's increase in purchases of production materials during the period and the acquisition of equity interests in Shanghai Huaxin which contributed to an increase of trade and notes payables of about RMB23 million. Trade and notes payables of more than one year amounted to about RMB4.8 million as at 30 June 2011 mainly represented the outstanding amounts payable by us for acquisition of certain manufacturing facilities. Pursuant to some of the purchase agreements entered into by our suppliers and us, we are only required to settle the outstanding purchase price until the expiry of warranty period of the relevant manufacturing facilities. It is expected that such outstanding amounts will be settled after the expiry of the warranty period and before the end of the first quarter in 2012. Some of the outstanding payables over one year were due to miscellaneous suppliers which we have little contact. We are in the course of contacting them to clarify the balances and most of such balances had been settled by the Latest Practicable Date. Our Directors confirm that, as at the Latest Practicable Date, there has not been any dispute with the relevant creditors in relation to the trade and notes payables of more than three years. Our creditors' turnover days, which is calculated based on the average trade and notes payables (sum of opening and closing balances of trade and notes payables of respective years/period and then divided by two) as at the end of the respective years/period divided by cost of sales of the respective years/period and multiplied by 365 days or 181 days, was 165 days in 2008, 179 days in 2009, 177 days in 2010 and 203 days for the six months ended 30 June 2011. Among the trade and notes payables of our Group, most of them were due to our PRC suppliers for which value added tax at the rate of 17% were chargeable. According to the applicable accounting standards, value added tax was not accounted for as part of our Group's cost of sales but the creditors' turnovers days was prolonged by about 15% due to the charging of value added tax.

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As at 31 October 2011, about 95.6% of our trade payables outstanding as at 30 June 2011 was subsequently settled.

Other payables, advances from customers and accruals

The following table set forth the breakdowns of our other payables, advances from customers and accruals as at 31 December 2008, 2009, 2010 and 30 June 2011:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables	69,782	46,621	48,983	49,942
Advances from customers	8,338	5,567	6,196	8,564
Accruals	<u>658</u>	<u>154</u>	<u>279</u>	<u>3,538</u>
	<u><u>78,778</u></u>	<u><u>52,342</u></u>	<u><u>55,458</u></u>	<u><u>62,044</u></u>

Other payables mainly represented payables for acquisition of fixed assets, taxes other than corporate income tax, payroll and welfare payable and other payables by our Group.

Accruals mainly represented the accrual of water expenses, electricity expenses and other operating expenses of our Group.

Our other payables, advances from customers and accruals balance decreased by about 33.6% from about RMB78.8 million as at 31 December 2008 to about RMB52.3 million as at 31 December 2009. The decrease was mainly attributable to the settlement of other payables in 2009. Our other payables, advances from customers and accruals balance increased slightly by about 6.1% to about RMB55.5 million in 2010. Such increase was primarily attributable to the increase in value added tax payable due to sales expansion. Our other payables, advances from customers and accruals balance increased by about 11.7% to about RMB62.0 million for the six months ended 30 June 2011. Such increase was primarily attributable to the professional fee in preparation for the Listing and increase of purchase of fixed assets in line with our expansion.

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Amounts due to the ultimate shareholder and related parties

The following table sets forth analysis of the amounts due to the ultimate shareholder and related parties during the Track Record Period:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to the ultimate shareholder				
Mr. Zhou	<u>2,041</u>	<u>64,962</u>	<u>21,851</u>	<u>42,876</u>
Amounts due to other related parties	<u>307,031</u>	<u>151,766</u>	<u>124,805</u>	<u>169,526</u>

The amounts due to the ultimate shareholder and related parties above were unsecured, interest-free and repayable on demand. These amounts due to the ultimate shareholder represented the amount advanced for financing the daily operations of our Group by the the ultimate shareholder while the amount due to related parties represents advances from these related parties for working capital purposes, the amount for purchase of goods or raw materials. Our Directors confirm that all outstanding balances with the ultimate shareholder and the advances from related parties for working capital purposes had been or will be fully settled prior to Listing.

Related party balances and transactions

The related party transactions with Shanghai Huaxin, Ningbo Huazhong Moulding, Changchun Huateng and Guangzhou Huazhong, which are disclosed in note 39 in the accountants' report set out in Appendix I to this prospectus, have ceased to be regarded as related party transactions since the respective date on which they became members of our Group. Save for purchase of goods, purchase of raw materials and leasing of properties to certain related parties which will be continued in the normal course of business of our Group after Listing (the details of which have been disclosed in the Accountants Report in Appendix I to this prospectus), the other related party transactions (including advances to related parties) will be discontinued after Listing.

We expect that the leasing of part of our premise in Jidian Facility to Ningbo Hualete and the purchase of goods from Ningbo Hualete would continue after Listing. Ningbo Hualete is our jointly controlled entity established with two independent German textile manufacturers. It is principally engaged in the manufacture of fabric used for ABCD-pillars and headliners for automobile. Ningbo Hualete supplies fabric to us for manufacturing our automobile body parts products, and it also supplies its fabric to other automobile body parts manufacturers. During the Track Record Period, Ningbo Hualete is our largest supplier and we expect that we would continue to purchase materials from Ningbo Hualete after Listing.

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We also expect that our transactions with 寧波瑪克特汽車飾件有限公司 (Ningbo Makete Automobile Decorative Parts Co., Ltd.*) (“Ningbo Makete”), a subsidiary of Ningbo Huaxiang Electronics, would continue after Listing. As disclosed in the section headed “Business — Manufacturing processes” in this prospectus, we have sub-contracted the sales orders with cherry-wood components to Ningbo Makete. Ningbo Huaxiang Electronics is a joint stock company incorporated in the PRC, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002048). So far as our Directors are aware of after making reasonable enquiry, Ningbo Huaxiang Electronics is owned as to about 6.31% by Huaxiang Group, about 15.86% by Mr. Zhou Xiaofeng (being the brother of Mr. Zhou), and about 77.83% by other public shareholders as at the Latest Practicable Date. Ningbo Huaxiang Electronics is regarded as our related party under IFRSs but it is not a connected person of our Company under the Listing Rules. Our Controlling Shareholder (Mr. Zhou) does not have any beneficial interest in Ningbo Huaxiang Electronics and he is not a director of Ningbo Huaxiang Electronics. Based on public information and to the best knowledge of our Directors, Ningbo Huaxiang Electronics is principally engaged in the business of the manufacture and sales of automobile electronics parts, automobile metallic parts and automobile interior and exterior decorative parts. Ningbo Makete is principally engaged in, among others, production of cherry-wood-made automobile decorative parts which we currently do not engage in. Save for the aforesaid sub-contracting arrangement, we currently do not expect to have any other transactions with Ningbo Huaxiang Electronics after Listing.

All outstanding balances due from our ultimate shareholder and related parties had been or will be settled before Listing, partly by setting off against the net amount of the special dividend (after deduction therefrom a 20% PRC withholding tax in respect of the dividend payable) payable by Ningbo Huazhong Plastic to Mr. Zhou and his nominee, Mr. Chen Yuncai (陳雲財), being two of the then equity holders of Ningbo Huazhong Plastic at the time of the declaration of the special dividend, in the amount of RMB115.36 million, partly by setting off against part of the amount due by our Group to our ultimate shareholder and our related parties, and the balance thereof by way of cash settlement. All remaining balance of the amount due by our Group to our ultimate shareholder and our related parties (other than those balances arisen from the aforesaid related party transactions that are expected to continue after Listing) had been or will be fully settled before Listing.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

We currently fund our operations and growth with bank borrowings and advance from Directors. Following the Global Offering, we expect to fund our foreseeable expenditures with a combination of various resources, including the net proceeds from the New Issue, bank borrowings and our net cash from operating activities.

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The following table set forth a condensed summary of our combined statements of cash flows for each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2010 and 2011:

	As at 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<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 flows generated from operating activities	172,859	94,481	148,420	17,798	191,450
Net cash flows used in investing activities	(380,311)	(126,213)	(105,434)	(7,822)	(117,068)
Net cash flows generated from/ (used in) financing activities	<u>204,156</u>	<u>118,174</u>	<u>(111,776)</u>	<u>6,526</u>	<u>(11,711)</u>
Net (decrease)/increase in cash and cash equivalents	(3,296)	86,442	(68,790)	16,502	62,671
Cash and cash equivalents at beginning of year/period	<u>10,724</u>	<u>7,428</u>	<u>93,870</u>	<u>93,870</u>	<u>25,080</u>
Cash and cash equivalents at end of year/period	<u><u>7,428</u></u>	<u><u>93,870</u></u>	<u><u>25,080</u></u>	<u><u>110,372</u></u>	<u><u>87,751</u></u>

Financial resources and capital structure

Capital structure

We had net current liabilities of about RMB202.8 million, RMB147.1 million, RMB45.2 million and RMB54.2 million as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively. We recorded a decrease of about 27.5% in the net current liabilities of our Group from about RMB202.8 million as at 31 December 2008 to about RMB147.1 million as at 31 December 2009, which decrease is mainly attributable to the combined effect of the increase in our revenue and the resulting increase in trade and notes receivables, the increase in the amount due from certain related parties, the decrease in the amount due to related parties, the increase in the amount of short-term interest-bearing bank borrowings to facilitate our operational needs, and the decrease in the pledged deposits for securing the issue of notes payable during the year ended 31 December 2009. Our net current liabilities as at 31 December 2010 had decreased by about 69.3% to about RMB45.2 million. Such decrease was attributable to the combined effect of the increase in our revenue and the resulting increase in trade and notes receivables, the increase in the amount due from certain related parties and the decrease in the amount due to related parties during the year ended 31 December 2010. We recorded an increase of about 19.9% in the net current liabilities of our Group from about RMB45.2 million as at 31 December 2010 to about RMB54.2 million as at 30 June 2011, which increase is mainly attributable to the combined effect of the increase in trade and notes payables and the decrease in the pledged deposits for securing the issue of notes payable during the six months ended 30 June 2011.

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Cash flows

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows, advances from the ultimate shareholder and related parties and bank borrowings. Following completion of the Global Offering, we expect to finance our capital expenditure and operational requirements through internally generated cash flows, net proceeds from the New Issue, our cash reserve and bank borrowings.

As at 30 June 2011, we had cash and cash equivalents of about RMB92.8 million and undrawn banking facilities of about RMB74.0 million.

Net cash flows from operating activities

Cash flows from operating activities reflect our profit before taxation for the year, as adjusted for interest income, finance costs and other non-cash items, such as depreciation and amortisation, write-down of inventories and provision for impairment of receivables. Our net cash generated from operating activities amounted to about RMB172.9 million, RMB94.5 million, RMB148.4 million and RMB191.5 million for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively.

We had a net cash generated from operating activities of about RMB191.5 million for the six months ended 30 June 2011, while our profit before tax was about RMB70.7 million. The operating cash inflow of about RMB191.5 million was primarily due to the composite effect of (i) decrease in prepayments and other receivables; and (ii) increase in trade and notes payables and partially as discussed under the sub-paragraphs headed "Trade and notes receivables and debtors' turnover days", "Prepayments and other receivables", "Trade and notes payables and creditors' turnover days" and "Other payables, advances from customers and accruals" under the paragraph headed "Analysis of major statements of financial position items" in this section.

We had a net cash generated from operating activities of about RMB148.4 million for the year ended 31 December 2010, while our profit before tax was about RMB141.6 million. The operating cash inflow of about RMB148.4 million was primarily due to the composite effect of (i) an increase in inventories of about RMB4.6 million; (ii) an increase in trade and notes receivables of about RMB57.0 million; (iii) an increase in prepayments and other receivables of about RMB6.7 million; (iv) an increase in trade and notes payables of about RMB81.6 million; (v) an increase in other payables, advances from customers and accruals of about RMB38.0 million; (vi) the increase in amounts due from related parties of about RMB3.4 million; and (vii) the decrease in amount due to related parties of about RMB55.4 million as discussed under the sub-paragraphs headed "Inventories and inventory turnover days", "Trade and notes receivables and debtors' turnover days", "Prepayments and other receivables", "Trade and notes payables and creditors' turnover days", "Other payables, advances from customers and accruals" and "Amounts due to the ultimate shareholder and related parties" under the paragraph headed "Analysis of major statements of financial position items" in this section.

We had a net cash generated from operating activities of about RMB94.5 million for the year ended 31 December 2009, while our profit before tax was about RMB51.3 million. The operating cash

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inflow of about RMB94.5 million was primarily due to the composite effect of (i) a decrease in inventories of about RMB51.6 million; (ii) an increase in trade and notes receivables of about RMB70.5 million; (iii) a decrease in prepayments and other receivables of about RMB15.7 million; (iv) a decrease in trade and notes payables of about RMB9.8 million; (v) an increase in other payables, advances from customers and accruals of about RMB1.7 million; (vi) a decrease in amounts due from related parties of about RMB11.8 million; and (vii) a decrease in amounts due to related parties of about RMB4.3 million as discussed under the sub-paragraphs headed “Inventories and inventory turnover days”, “Trade and notes receivables and debtors’ turnover days”, “Prepayments and other receivables”, “Trade and notes payables and creditors’ turnover days”, “Other payables, advances from customers and accruals” and “Amounts due to the ultimate shareholder and related parties” under the paragraph headed “Analysis of major statements of financial position items” in this section.

We had a net cash generated from operating activities of about RMB172.9 million for the year ended 31 December 2008, while our profit before tax was about RMB60.6 million. The operating cash inflow of about RMB172.9 million was primarily due to the composite effect of (i) an increase in inventories of about RMB42.1 million; (ii) an increase in trade and notes receivables of about RMB13.2 million; (iii) a decrease in prepayments and other receivables of about RMB39.5 million; (iv) an increase in trade and notes payables of about RMB63.9 million; (v) a decrease in other payables, advances from customers and accruals of about RMB8.9 million; (vi) a decrease in amounts due from related parties of about RMB10.5 million; and (vii) an increase in amounts due to related parties of about RMB56.7 million as discussed under the sub-paragraphs headed “Inventories and inventory turnover days”, “Trade and notes receivables and debtors’ turnover days”, “Prepayments and other receivables”, “Trade and notes payables and creditors’ turnover days”, “Other payables, advances from customers and accruals” and “Amounts due to the ultimate shareholder and related parties” under the paragraph headed “Analysis of major statements of financial position items” in this section.

Net cash flows from investing activities

The major cash outflows of our investing activities during the Track Record Period were our advances to related parties. Our net cash used in investing activities amounted to about RMB380.3 million, RMB126.2 million, RMB105.4 million and RMB117.1 million for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, respectively.

Our net cash used in investing activities in the six months ended 30 June 2011 was about RMB117.1 million. Our cash outflow for investing activities consisted mainly of purchases of property, plant and equipment of about RMB62.2 million, additions to prepaid land lease payments in the amount of about RMB3.1 million, advance to ultimate shareholder of about RMB76.4 million, advance to related parties of about RMB340.0 million and increase in pledged deposits in the amount of about RMB16.4 million. Such cash outflow was partially offset by the recovery of advance to related parties of about RMB373.5 million and cash inflow from acquisition of subsidiaries in the amount of about RMB7.6 million.

Our net cash used in investing activities in 2010 was about RMB105.4 million. Our expenditures for investing activities consisted mainly of advances to related parties of about RMB512.6 million, the amount for acquisition of subsidiaries of about RMB11.3 million, investment in jointly controlled

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entities and associates of about RMB5.3 million, the amount for purchase of property, plant and equipment of about RMB39.4 million, capital injection to an associate of about RMB3.0 million and additions to prepaid land lease payments in the amount of about RMB46.0 million. Such cash outflow was partially offset by the proceeds from disposal of property, plant and equipment of about RMB11.1 million, recovery of advance to related parties of about RMB429.4 million, interest received in the amount of about RMB9.6 million, decrease in pledged deposits in the amount of about RMB42.5 million and decrease in loans and receivables in the amount of about RMB20.0 million.

Our net cash used in investing activities in 2009 was about RMB126.2 million. Our expenditures for investing activities consisted mainly of advances to related parties of about RMB322.3 million, the amount for purchase of property, plant and equipment of about RMB19.6 million and additions to prepaid land lease payments in the amount of about RMB1.6 million. Such cash outflow was partially offset by the recovery of advance to related parties of about RMB210.3 million.

Our net cash used in investing activities in 2008 was about RMB380.3 million. Our expenditures for investing activities consisted mainly of advances to related parties of about RMB383.9 million, the amount for acquisition of subsidiaries of about RMB3.4 million, increase in pledged deposit in the amount of about RMB204.1 million, and the amount for purchase of property, plant and equipment of about RMB45.3 million. Such cash outflow was partially offset by the proceeds from disposal of property, plant and equipment of about RMB4.5 million and the recovery of advance to related parties of about RMB275.7 million.

Net cash flows from financing activities

Our financing activities during the Track Record Period mainly included proceeds from and repayments of bank borrowings and advances from related parties. Our net cash from financing activities amounted to about RMB204.2 million and RMB118.2 million for each of the years ended 31 December 2008 and 2009, respectively, and our net cash used in financing activities amount to about RMB111.8 million and RMB11.7 million for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively.

Net cash used in financing activities amounted to about RMB11.7 million for the six months ended 30 June 2011. Our cash outflow for financing activities consisted mainly of (i) the repayment of bank loans of about RMB239.0 million; (ii) interest paid in the amount of about RMB24.0 million; and (iii) repayment of advance from related parties in the amount of about RMB63.3 million. Such cash outflow was partially offset by the new bank loans in the amount of about RMB175.0 million and advance from related parties in the amount of about RMB114.3 million.

Net cash used in financing activities amounted to about RMB111.8 million for the year ended 31 December 2010. Our expenditures for financing activities consisted mainly of (i) the repayment of bank loans of about RMB895.0 million; (ii) interest paid in the amount of about RMB34.3 million; (iii) deemed distribution to an equity holder in the amount of about RMB17.6 million; and (iv) repayment of advance from the ultimate shareholder in the amount of about RMB209.5 million. Such cash outflow was partially offset by the new bank loans in the amount of about RMB928.0 million and advance from related parties in the amount of about RMB134.7 million.

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Net cash from financing activities amounted to about RMB118.2 million for the year ended 31 December 2009, which consisted mainly of (i) new bank loans in the amount of about RMB570.9 million; (ii) the advance from related parties of about RMB488.6 million; and (iii) deemed capital contribution from then equity holder in the amount of about RMB2.4 million. Such increase in cash flow was partially offset by the repayment of bank loans in the amount of about RMB314.2 million, the repayment of advance from related parties in the amount of about RMB596.6 million and interest paid in the amount of about RMB29.2 million.

Net cash from financing activities amounted to about RMB204.2 million for the year ended 31 December 2008, which consisted mainly of (i) new bank loans in the amount of about RMB406.6 million; (ii) the advance from related parties of about RMB631.0 million; and (iii) deemed capital contribution from non-controlling shareholder in the amount of about RMB1.0 million. Such increase in cash flow was partially offset by the repayment of bank loans in the amount of about RMB300.6 million, the repayment of advance from related parties in the amount of about RMB498.6 million, interest paid in the amount of about RMB22.6 million and deemed distribution to an equity holder in the amount of about RMB5.9 million.

Capital expenditure management

Our capital expenditures during the Track Record Period and the six months ended 30 June 2011 mainly related to acquisition of plant and machinery, addition to prepaid lease payments and construction for the expansion of our production facilities. Our capital expenditures for each of the three financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 amounted about RMB45.8 million, RMB26.7 million, RMB79.2 million and RMB63.6 million, respectively.

We expect to meet the future capital expenditure requirements through our available cash and cash equivalents, cash generated from our operating activities, available banking facilities and the expected net proceeds from the New Issue. The following table sets out the amount of our capital expenditures and capital commitments as at 31 December 2008, 2009, 2010 and 30 June 2011 and our estimate of future capital expenditures for the three years ending 31 December 2013:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure	45,848	26,722	79,211	63,557
Capital commitment	9,080	6,801	23,541	44,868
	For the year ending 31 December			
	2011	2012	2013	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Estimated capital expenditure budget	100,000	130,000	170,000	

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Our Directors expected that the estimated capital expenditure budget will be financed by the net proceeds from the New Issue, our internal financial resources and banking facilities.

Current assets and current liabilities

As at 30 June 2011 and 31 October 2011, we had net current liabilities of about RMB54.2 million and RMB250.8 million, respectively. Details of our current assets and current liabilities as at 31 December 2010 are as follows:

	As at 30 June 2011	As at 31 October 2011
	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
CURRENT ASSETS		
Inventories	116,800	128,587
Trade and notes receivables	345,927	395,511
Prepayments and other receivables	39,486	57,005
Due from the ultimate shareholder	1,455	3,246
Due from related parties	497,254	340,882
Loans and receivables	20,000	20,000
Pledged deposits	173,964	140,391
Cash and cash equivalents	<u>92,751</u>	<u>114,377</u>
	1,287,637	1,199,999
Non-current assets held for sale	<u>47,507</u>	<u>—</u>
Total current assets	<u>1,335,144</u>	<u>1,199,999</u>
CURRENT LIABILITIES		
Trade and notes payables	536,871	621,767
Other payables, advances from customers and accruals	62,044	11,433
Deferred revenue	67,000	67,000
Interest-bearing bank borrowings	487,000	440,751
Due to the ultimate shareholder	42,876	63,100
Due to related parties	169,526	234,491
Income tax payable	<u>24,067</u>	<u>12,255</u>
Total current liabilities	<u>1,389,384</u>	<u>1,450,797</u>
NET CURRENT LIABILITIES	<u>(54,240)</u>	<u>(250,798)</u>

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As at 31 October 2011, we had net current liabilities of about RMB250.8 million, representing an increase of net current liabilities from about RMB54.2 million as at 30 June 2011. The increase in net current liabilities was mainly because Ningbo Huazhong Plastic had declared a special dividend in an amount of RMB206 million to its then equity holders in July 2011. Out of such amount, RMB115.36 million was settled by setting off against the amount due from Mr. Zhou and our related parties. This had led to a decrease in our current assets. The management has set out plans to service our indebtedness and capital commitments and to meet our cash requirements as discussed below. Our current liabilities increased from RMB1,389.4 million as at 30 June 2011 to RMB1,450.8 million as at 31 October 2011, mainly because of the increase in the amount due to the ultimate shareholder and related parties.

Management plans to service our indebtedness and capital commitments and to meet other known and reasonably foreseeable cash requirements

We recorded net current liabilities of about RMB202.8 million, RMB147.1 million, RMB45.2 million and RMB54.2 million, respectively, as at 31 December 2008, 2009 and 2010 and as at 30 June 2011, and our gearing ratios as at 31 December 2008, 2009 and 2010 and as at 30 June 2011 were 86.5%, 84.2%, 80.4% and 78.9%, respectively. As at 31 October 2011, we had net current liabilities of about RMB250.8 million, representing an increase of net current liabilities from about RMB54.2 million as at 30 June 2011. Such increase in net current liabilities was mainly attributable to the declaration of a special dividend in an amount of RMB206 million by Ningbo Huazhong Plastic to its then equity holders in July 2011. Out of such amount, RMB115.36 million was settled by setting off against the amount due from Mr. Zhou and our related parties. The net current liabilities and high gearing ratios were principally attributable to the utilisation of short-term bank borrowings to support our capital expenditure and our operations and (in respect of the net current liabilities of our Group as at 31 October 2011) the declaration of the special dividend.

In view of the net current liabilities and high gearing ratios of our Group during the Track Record Period and as at 31 October 2011, we have the following plans to service our indebtedness and capital commitments and to meet other known and reasonably foreseeable cash requirements:

- (1) as our Group was able to generate operating profits and net cash inflow from its operating activities in the amount of about RMB172.9 million, RMB94.5 million, RMB148.4 million and RMB191.5 million during each of the three years ended 31 December 2010 and the six months ended 30 June 2011, it is expected that operating profits and net cash inflow will be generated from our operations after Listing;
- (2) we have unutilised banking facilities amounted to about RMB74.0 million as at 30 June 2011, obtained new credit facilities from banks of about RMB310 million from certain banks in the PRC, and obtained or renewed about RMB438.6 million interest-bearing bank borrowings subsequent to 30 June 2011. These banking facilities can be utilised according to our Group's requirement of working capital; and

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- (3) assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.35 per Share (being the mid-point of the proposed Offer Price range), it is estimated that our Company will receive net proceeds of about HK\$192.6 million from the New Issue.

Directors' opinion on the sufficiency of our working capital

Taking into account the financial resources available to our Group, including internally generated funds, the available banking facilities and the estimated net proceeds from the New Issue, our Directors are of the opinion that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus. Based on the above financial resources available to our Group, the Sole Sponsor and our reporting accountants concur with the view of our Directors.

INDEBTEDNESS

Borrowing and banking facilities

The following table sets forth the amount of bank borrowings owed by us as at 31 December 2008, 2009 and 2010 and as at 30 June 2011. These bank borrowings were due within one year:

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Unsecured	40,000	61,000	100,000	30,000
Secured	<u>217,336</u>	<u>452,998</u>	<u>447,000</u>	<u>457,000</u>
	<u>257,336</u>	<u>513,998</u>	<u>547,000</u>	<u>487,000</u>

Our total bank borrowing balance increased by about 99.8% from about RMB257.3 million as at 31 December 2008 to about RMB514.0 million as at 31 December 2009. Such increase in bank borrowings was primarily for the purpose of financing our operations and investing activities. Our total bank borrowing balance slightly increased by about 6.4% to about RMB547.0 million as at 31 December 2010. Our total bank borrowing balance slightly decreased by about 11.0% to about RMB487.0 million as at 30 June 2011.

The bank borrowings during the Track Record Period were dominated in RMB. The secured bank borrowings were secured by pledge of our assets including property, plant and equipment, investment property, prepaid land lease payments and trade and notes receivables. During the Track Record Period, certain related parties also provided guarantees to our bank borrowings amounting to about RMB155.3 million, RMB386.0 million, RMB337.0 million and RMB353.0 million as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively.

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The range of effective interest rates on our Group's interest bearing borrowings during the Track Record Period is as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>Effective interest rate (%)</i>			2011
Unsecured bank loans	5.804	2.657-2.903	4.217-5.523	6.626
Secured bank loans	5.022-8.068	4.425-5.589	4.779-5.841	4.779-5.841

As at the close of business on 31 October 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, we had bank borrowings of about RMB440.8 million, details of which are set forth below:

	Secured	Unsecured	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term bank borrowings	<u>420,751</u>	<u>20,000</u>	<u>440,751</u>

As at the close of business on 31 October 2011, we had aggregate banking facilities of about RMB441.0 million, of which RMB261.2 million were unutilised.

At 31 December 2008, 2009 and 2010, 30 June 2011 and 31 October 2011, all of our Group's banking facilities were subject to the fulfilment of certain covenants as are commonly found in lending arrangements with financial institutions. If our Group were to breach the covenants, the drawn down facilities would become payable on demand. Our Group regularly monitors its compliance with these covenants. Further details of our Group's management of liquidity risk are set out in note 41 of the Accountants' Report in Appendix I. At 31 December 2008, 2009 and 2010, 30 June 2011 and 31 October 2011, none of the covenants relating to drawn down facilities had been breached.

Contingent liabilities

As at 31 October 2011, we had granted guarantees to banks in respect of borrowings to related parties and a third party, for an amount of about RMB401.7 million, mainly as a condition precedent to the grant of borrowings by the banks to these related parties and the third party or in exchange for guarantee given by related parties and third party to banks in respect of our borrowings from banks.

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Until 31 October 2011, no claims had been made against our Group in respect of the guarantee. The following table sets out the amount of borrowings of related parties and the third party which were guaranteed by our Group as at 31 October 2011:

Name of Borrowers	Amount of borrowings which were guaranteed by our Group as at 31 October 2011 <i>RMB'000</i>
Huaxiang Group	117,000
Ningbo Hualete (note)	7,654
Ningbo Huayou Properties	247,000
Xiangshan Province Xizhou Town Urban Construction Investment and Development Company (象山縣西周鎮城鎮建設投資開發公司)	<u>30,000</u>
	<u><u>401,654</u></u>

Note: The guarantee was provided for the borrowing of Ningbo Hualete. Although the joint venture partners of Ningbo Hualete did not provide guarantee for Ningbo Hualete in proportionate to their respective interest in Ningbo Hualete, our Directors consider that providing guarantee for Ningbo Hualete is in the interest of our Group given that Ningbo Hualete was our largest supplier for the three years ended 31 December 2010 and the six months ended 30 June 2011. Save for the guarantee provided to Ningbo Hualete, all other guarantees will be released before Listing.

All the guarantees given by our Group were in the form of corporate guarantee.

Off-balance sheet arrangements

As at 31 October 2011, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this prospectus, we did not enter into any off-balance sheet arrangements.

Disclaimer

Save as disclosed herein, and apart from intra-group liabilities, we did not have any outstanding mortgages, charges, debentures, loan capital issued or agreed to be issued, bank overdrafts, loans and advances, debt securities borrowing or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at 31 October 2011, being the latest practicable date for the purpose of this indebtedness statement. Our Directors have confirmed that there has been no material adverse change in our indebtedness and contingent liabilities since 31 October 2011, being the latest practicable date for the purposes of this indebtedness statement prior to the printing of this prospectus.

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FINANCIAL RATIOS

Key financial ratios

		As at / for the year ended 31 December			As at/for the six months ended 30 June
	Notes	2008	2009	2010	2011
Current ratio	1	0.8	0.9	1.0	1.0
Quick ratio	2	0.7	0.8	0.9	0.9
Gearing ratio	3	86.5%	84.2%	80.4%	78.9%

Notes:

1. Current ratio is calculated based on the total current assets divided by total current liabilities at the end of the respective years/period.
2. Quick ratio is calculated based on the difference between the total current assets and inventories divided by total current liabilities at the end of the respective years/period.
3. Gearing ratio is calculated based on the net debt (including interest-bearing loans and borrowings, trade and other payables, amounts due to related parties and ultimate shareholders less cash and cash equivalents) divided by total capital (including equity attributable to owners of the parent) plus net debt at the end of the respective years/period and multiplied by 100%.

Current and quick ratios

Our current ratio and our quick ratio remained stable throughout the Track Record Period, with our current ratio maintained at around 0.8 to 1.0 and our quick ratio at around 0.7 to 0.9 throughout.

Gearing ratio

Our gearing ratio decreased from about 86.5% as at 31 December 2008 to about 84.2% as at 31 December 2009, and further decreased to about 80.4% and 78.9% as at 31 December 2010 and as at 30 June 2011, respectively. The decrease in gearing ratio in 2009, 2010 and for the six months ended 30 June 2011 was mainly because the increase in our total assets had been of a greater extent than the increase in our total liabilities.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our principal financial liabilities comprise interest-bearing bank borrowings, trade and notes payables, other payables and amounts due to related parties. The main purpose of these financial liabilities is to raise finance for our operations. We have various financial assets such as trade and notes receivables, other receivables, loan and receivables, cash and cash equivalents, pledged deposits and amounts due from related parties, which arise directly from its operations.

FINANCIAL INFORMATION

The main risks arising from our financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors of our Company reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Our exposure to the risk of changes in market interest rates relates primarily to our bank borrowings with floating interest rates. The interest rate and terms of repayment of borrowings are disclosed in note 30 of the accountants' report in Appendix I to this prospectus.

We have not used any interest swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowing. With all other variables held constant, the profit before tax of our Group is affected through the impact on floating rate borrowings as follows.

	Increase/decrease in basis points	Effect on profit before tax RMB'000
Year ended 31 December 2008		
RMB	+100	(984)
RMB	-100	984
Year ended 31 December 2009		
RMB	+100	(3,230)
RMB	-100	3,230
Year ended 31 December 2010		
RMB	+100	(3,520)
RMB	-100	3,520
Six months ended 30 June 2011		
RMB	+100	(1,790)
RMB	-100	1,790

Credit risk

We trade only with recognised and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

FINANCIAL INFORMATION

The credit risk of our other financial assets, which comprise cash and bank balances, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. As at the end of each of the Track Record Period, except for the trade and notes receivables, there is no significant concentration of credit risk within our Group. The five largest customers accounts for 62.7%, 78.8%, 69.0% and 70.3% of trade and notes receivables as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively.

Since we trade only with recognised and creditworthy third parties, there is no requirement for collateral.

With respect to credit risk arising from the other financial assets of our Group, which comprise cash and cash equivalents, other receivables and amounts due from related parties, our exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

We monitor our exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. Our policy is that all the borrowings should be approved by the chief financial officer.

The tables below summarise the maturity profile of our financial liabilities at the end of each of the Track Record Period based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2008					
Interest-bearing loans and borrowings	—	40,628	228,024	—	268,652
Trade and notes payables	21,905	178,427	123,890	—	324,222
Other payables	69,782	—	—	—	69,782
Amount due to the ultimate shareholder	2,041	—	—	—	2,041
Amounts due to related parties	<u>156,971</u>	<u>2,100</u>	<u>147,960</u>	<u>—</u>	<u>307,031</u>
	<u>250,699</u>	<u>221,155</u>	<u>499,874</u>	<u>—</u>	<u>971,728</u>

FINANCIAL INFORMATION

	On demand	Less than	3 to 12	1 to 5	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2009					
Interest-bearing loans and borrowings	—	160,825	372,954	—	533,779
Trade and notes payables	18,910	230,494	65,000	—	314,404
Other payables	46,621	—	—	—	46,621
Amounts due to the ultimate shareholder	64,962	—	—	—	64,962
Amounts due to related parties	<u>131,766</u>	<u>10,000</u>	<u>10,000</u>	<u>—</u>	<u>151,766</u>
	<u>262,259</u>	<u>401,319</u>	<u>447,954</u>	<u>—</u>	<u>1,111,532</u>

	On demand	Less than	3 to 12	1 to 5	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2010					
Interest-bearing loans and borrowings	—	257,511	307,612	—	565,123
Trade and notes payables	14,206	260,616	135,000	—	409,822
Other payables	48,983	—	—	—	48,983
Amount due to the ultimate shareholder	21,851	—	—	—	21,851
Amounts due to related parties	<u>124,805</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>124,805</u>
	<u>209,845</u>	<u>518,127</u>	<u>442,612</u>	<u>—</u>	<u>1,170,584</u>

FINANCIAL INFORMATION

	On demand	Less than	3 to 12	1 to 5	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
30 June 2011					
Interest-bearing bank borrowings	—	237,864	257,715	—	495,579
Trade and notes payables	33,286	321,662	181,923	—	536,871
Other payables	49,942	—	—	—	49,942
Amount due to the ultimate shareholder	42,876	—	—	—	42,876
Amounts due to related parties	<u>169,526</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>169,526</u>
	<u>295,630</u>	<u>559,526</u>	<u>439,638</u>	<u>—</u>	<u>1,294,794</u>

Capital management

The primary objective of our capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximise shareholders' value.

We manage our capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, we may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the Track Record Period.

We monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. We include, within net debt, interest-bearing loans and borrowings, trade and other payables, amounts due to related parties less cash and cash equivalents. Capital includes equity attributable to the owners of the parent.

FINANCIAL INFORMATION

The gearing ratios as at 31 December 2008, 2009, 2010 and 30 June 2011 were as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and notes payables	324,222	314,404	409,822	536,871
Other payables, advances from customers and accruals	78,778	52,342	55,458	62,044
Interest-bearing bank borrowings	257,336	513,998	547,000	487,000
Amount due to the ultimate shareholder	2,041	64,962	21,851	42,876
Amounts due to related parties	307,031	151,766	124,805	169,526
Less: Cash and cash equivalents	<u>(12,428)</u>	<u>(98,870)</u>	<u>(30,080)</u>	<u>(92,751)</u>
Net debt	<u>956,980</u>	<u>998,602</u>	<u>1,128,856</u>	<u>1,205,566</u>
Equity attributable to owners of the parent	<u>148,888</u>	<u>186,683</u>	<u>275,808</u>	<u>323,176</u>
Capital and net debt	<u>1,105,868</u>	<u>1,185,285</u>	<u>1,404,664</u>	<u>1,528,742</u>
Gearing ratio	<u>86.5%</u>	<u>84.2%</u>	<u>80.4%</u>	<u>78.9%</u>

DIVIDEND POLICY

For each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, our Group did not declare any dividends. In July 2011, a special dividend payable to the then equity holders of Ningbo Huazhong Plastic in an aggregate amount of RMB206 million was declared by Ningbo Huazhong Plastic to its then equity holders in proportion to their equity interest in Ningbo Huazhong Plastic, as to 49% by Mr. Zhou, 21% by Mr. Chen Yuncai (陳雲財) (who held the equity interest on trust for Mr. Zhou) and 30% by Macao Hong Un (which was beneficially owned by Mr. Zhou). The net amount of dividend payable to Mr. Zhou and Mr. Chen Yuncai (after deduction therefrom a 20% PRC withholding tax for individuals), which amounted to about RMB115.36 million, was settled by setting off against the amount due from Mr. Zhou and our related parties. Macao Hong Un had waived the dividend payable to it and such amount (after deduction therefrom a 10% PRC withholding tax for foreign investors), which amounted to RMB55.62 million, was transferred to the capital reserve of Ningbo Huazhong Plastic. Total PRC withholding tax is estimated to be approximately RMB35.02 million and is expected to be settled within 2012.

FINANCIAL INFORMATION

The payment and the amount of any future dividends will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of any future dividends will be subject to our discretion.

Dividends may be paid out of our Company's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our Group's operations. There can be no assurance that our Group will be able to declare or distribute any dividend in the amount set out in any of its plans or at all. Our Group's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Group in the future.

We may declare dividends, if any, after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, the memorandum of association of our Company, the Cayman Islands Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. A distribution of dividend for any financial year shall be subject to Shareholders' approval.

DISTRIBUTABLE RESERVES

As at 30 June 2011, our Company had no reserves available for distribution to the Shareholders. However, the retained earnings of our Group amounted to approximately RMB262.5 million.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules upon Listing.

PROPERTY INTERESTS

Particulars of the property interests of our Group are set out in Appendix IV to this prospectus. Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent property valuer, has valued our property interests as at 30 November 2011. A summary of values and valuation certificates issued by Cushman & Wakefield Valuation Advisory Services (HK) Limited, are included in Appendix IV to this prospectus.

FINANCIAL INFORMATION

The table below sets forth the reconciliation of the net book value of our Group's property interests as at 30 June 2011 and the valuation of such property interests as at 30 November 2011:

	<i>RMB'000</i>
Net book value of the property interests as at 30 June 2011	225,301
Less: Net book value of the property interests as at 30 June 2011 that were without market value as at 30 June 2011	(62,030)
Movements during the five months ended 30 November 2011	
— Additions	1,788
— Depreciation	(4,205)
— Disposal	<u>(21)</u>
Net book value as at 30 November 2011	160,833
Valuation surplus as at 30 November 2011	<u>115,987</u>
Valuation as at 30 November 2011 as per Appendix IV to this prospectus (equivalent to approximately HK\$337.6 million)	<u><u>276,820</u></u>

PROFIT FORECAST

Barring unforeseen circumstance, and based on the basis and assumptions set out in Appendix III to this prospectus, our Directors forecast that the combined profit attributable to owners of the parent for the year ending 31 December 2011 will be not less than RMB110 million. Assuming a total of 800 million Shares had been in issue throughout the year ending 31 December 2011 (assuming the Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2011 but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and repurchase mandate) and converted in Hong Kong dollars at the exchange rate of RMB0.82 to HK\$1. The unaudited proforma forecast earnings per Share for the year ending 31 December 2011 will be not less than HK\$0.167.

UNAUDITED PRO FORMA STATEMENT OF NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out here to illustrate the effect of the Global Offering on the audited combined net tangible assets of our Group as at 30 June 2011, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted net tangible assets of our Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of our Group.

FINANCIAL INFORMATION

The following is an illustrative statement of unaudited pro forma adjusted combined 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 2011. It is based on the audited combined net tangible assets as at 30 June 2011 as shown in the accountants' report of our Group, the text of which is set out in Appendix I to this prospectus, and is adjusted as follows:

	Audited Combined net tangible assets attributable to owners of the parent as at 30 June 2011	Estimated net proceeds receivable by our Company from the New Issue	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	Unaudited pro forma adjusted combined net tangible assets per Share
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB (Note 4)</i>	<i>(HK\$ equivalent) (Note 5)</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>		
Based on the maximum indicative Offer Price of HK\$1.2 per Share	<u>323,176</u>	<u>138,873</u>	<u>462,049</u>	<u>0.58</u>	<u>0.71</u>
Based on the minimum indicative Offer Price of HK\$1.5 per Share	<u>323,176</u>	<u>177,052</u>	<u>500,228</u>	<u>0.63</u>	<u>0.77</u>

Notes:

- (1) The audited combined net tangible assets attributable to owners of the parent as at 30 June 2011 is based on the audited combined net assets attributable to owners of the parent of about RMB323,176,000 as at 30 June 2011 extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the New Issue are based on the Offer Shares and the respective Offer Price of HK\$1.2 and HK\$1.5 per Share, being the low or high end of the proposed Offer Price range, after deduction of the underwriting fees and related expenses payable by us and have not taken into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme. The estimated net proceeds from the New Issue are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1 to RMB0.82.
- (3) Details of the valuations of our Group's properties as at 30 November 2011 are set out in Appendix IV to this prospectus. The revaluation surplus of properties included in buildings included in property, plant and equipment and land use rights was not incorporated in our Group's financial statements for the six months ended 30 June 2011. If the revaluation surplus was recorded in our Group's financial statements, the annual depreciation expense would increase by about RMB6.2 million.

FINANCIAL INFORMATION

- (4) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 800 million Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme.
- (5) The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.82 to HK\$1.
- (6) In July 2011, a special dividend payable to the then equity holders of Ningbo Huazhong Plastic in an aggregate amount of RMB206 million was declared by Ningbo Huazhong Plastic to its then equity holders in proportion to their equity interest in Ningbo Huazhong Plastic, as to 49% by Mr. Zhou, 21% by Mr. Chen Yuncai (陳雲財) (who held the equity interest on trust for Mr. Zhou) and 30% by Macao Hong Un (which was beneficially owned by Mr. Zhou). Macao Hong Un had waived the dividend payable to it and such amount (after deduction therefrom a 10% PRC withholding tax for foreign investors), which amounted to RMB55.62 million, was transferred to the capital reserve of Ningbo Huazhong Plastic. Taking into account the estimated net proceeds from the New Issue at the Offer Price of HK\$1.2 or HK\$1.5; and the impact of the special dividend on the net tangible assets of the Group of HK\$150.38 million (being RMB206 million less the part of dividend waived by Macao Hong Un and after deduction therefrom a 10% PRC withholding tax for foreign investors, calculated as RMB206 million minus RMB55.62 million), the unaudited proforma adjusted net tangible assets per Share would have been approximately HK\$0.48 or HK\$0.54, respectively.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that they are not aware of any material adverse change in our financial or trading position or prospects since 30 June 2011, being the date on which our latest audited combined financial statements were made up, the text of which is set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS FROM THE NEW ISSUE

FUTURE PLANS

We aim to become a leading assembly manufacturer and supplier of automobile body parts in the PRC in terms of market recognition and share and to maximise shareholder value and at the same time broaden the variety of our products, thereby increasing our competitiveness in the industry as well as the return to our Shareholders. To accomplish this goal, we plan to expand our existing production facilities and capabilities by building new manufacturing facilities in Yantai, Changchun, Wuhu and Foshan, and expanding and upgrading our existing manufacturing facilities in Ningbo and Chengdu; to continue to focus on product research and development and product engineering; and to make strategic investments by way of mergers and acquisitions and joint ventures. For detailed descriptions of our future plans, please refer to the section headed “Business — Business strategies” in this prospectus.

USE OF PROCEEDS

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.35 per Share (being the mid-point of the estimated price range), our Directors estimate that the net proceeds to us from the New Issue will be about HK\$192.6 million, after deducting the underwriting commissions and other estimated expenses payable by us in relation to the Global Offering. The Directors presently intend to use the net proceeds from the New Issue as follows:

- (i) about 60% of the net proceeds, or about HK\$115.5 million, will be used to fund the expansion of production capacity by building new manufacturing facilities in Yantai, Changchun, Wuhu and Foshan, and expanding and upgrading our existing manufacturing facilities in Ningbo and Chengdu:
- about 55%, or about HK\$63.5 million, would be applied as the cost of land and construction of our new factory premises;
 - about 45%, or about HK\$52.0 million, would be applied to purchase the machinery, equipment and other fixed assets of the new production facilities;

The allocation of these proceeds to our production facilities is intended to be as follows:

Factory premises	Amount
Yantai	about 20%, or about HK\$23.1 million, for expenses related to the purchase of land, construction of the relevant factory premises and purchase of machinery, equipment and other fixed assets of the manufacturing facilities to increase production capacity. The factory is expected to commence operations in around 2012;
Changchun	about 8%, or about HK\$9.2 million, for expenses related to the purchase of land, construction of the relevant factory premises and purchases of machinery, equipment and other fixed assets of the manufacturing facilities to increase production capacity. The factory is expected to commence operations in around 2012;

FUTURE PLANS AND USE OF PROCEEDS FROM THE NEW ISSUE

Wuhu	about 13%, or about HK\$15.0 million, for expenses related to the purchase of land, construction of the relevant factory premises and purchases of machinery, equipment and other fixed assets of the manufacturing facilities to increase production capacity. The factory is expected to commence operations in around 2013;
Foshan	about 27%, or about HK\$31.2 million, for expenses related to the purchase of land, construction of the relevant factory premises and purchases of machinery, equipment and other fixed assets of the manufacturing facilities to increase production capacity. The factory is expected to commence operations in around 2013;
Ningbo.....	about 17%, or about HK\$19.6 million, for expenses related to construction of new factory premises on our existing manufacturing facilities, the purchase of machinery, equipment and other fixed assets and upgrade of the manufacturing facilities to increase production capacity. The new factory premises is expected to commence operations in around 2013; and
Chengdu	about 15%, or about HK\$17.4 million, for expenses related to the purchase and upgrade of machinery, equipment and other fixed assets and of the existing manufacturing facilities to increase production capacity. The factory premises is expected to commence operations in 2012.
Total	about 60%, or about HK\$115.5 million

- (ii) about 20% of the net proceeds, or about HK\$38.5 million, will be used to support our research and development of potential new products, including establish our R&D building and to LED automotive lighting system, and the research and development on production technologies such as high-gloss injection moulding, multi-colour injection moulding and enhancement of functionality and quality of resins. We plan to apply the funds towards acquiring properties, plants and equipments for the purpose of R&D and, if appropriate, third parties patented technology to strengthen our R&D capability;
- (iii) about 10% of the net proceeds, or about HK\$19.3 million, will be used for acquisition of companies to expand our product offerings, strengthen our product development capabilities and expand our market share and income base, but at the present time we do not have any finalised memorandum of understanding, commitments or agreements with respect to any acquisitions in which the proceeds may be used; and
- (iv) about 10% of the net proceeds, or about HK\$19.3 million, will be used for working capital and other general purposes.

In the event that the Over-allotment Option is exercised, the additional net proceeds of the New Issue of about HK\$39.3 million (assuming that the Offer Price is determined at the mid-point of the stated range) will be applied by us to the above purpose in the same proportions as set out above.

FUTURE PLANS AND USE OF PROCEEDS FROM THE NEW ISSUE

If the Offer Price is fixed above or below HK\$1.35 per Share (being the mid-point of the estimated price range), the Directors presently intend to adjust the allocation of the net proceeds to the above purposes in the same proportions as set out above.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, our Directors estimate that the net proceeds to us from the New Issue will be about HK\$169.4 million. Under such circumstances, the reduced net proceeds will be allocated in the manner and proportions stated above. As the amount of proceeds to us allocated for our expansion of production capacity, research and development and acquisition of companies will be reduced accordingly, we intend to finance the shortfall by our internal resources and bank borrowings. In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, our Directors estimate that the net proceeds to us from the New Issue will be about HK\$204.3 million. We intend to use the additional net proceeds in the manner and proportions stated above.

To the extent that the net proceeds of the New Issue are not immediately required for the above purposes, the Directors presently intend that such proceeds will be placed on short-term deposits with licensed banks or financial institutions in Hong Kong or PRC.

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$1.35 per Offer Share (being the mid-point of the proposed Offer Price range), our Directors estimate that the net proceeds received by the Selling Shareholder from sale of the Sale Shares under the Placing will be about HK\$47.7 million, after deducting the underwriting commissions and other estimated expenses payable by the Selling Shareholder in relation to the Global Offering.

UNDERWRITING

UNDERWRITERS

Public Offer Underwriters

Guotai Junan Securities (Hong Kong) Limited
Ample Orient Capital Limited
Ever-Long Securities Company Limited
South China Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Under the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares to the public in Hong Kong for subscription on and subject to the terms and conditions of this prospectus and the Application Forms.

Pursuant to the Public Offer Underwriting Agreement, and conditional upon, *inter alia*, the Listing Committee granting listing of, and permission to deal in, the Shares, in issue and to be issued as mentioned in this prospectus (either unconditionally or subject only to such customary conditions that may be imposed by the Stock Exchange) and certain other conditions including the Offer Price being determined by our Company (for ourselves and on behalf of the Selling Shareholder) and the Lead Manager (on behalf of the Public Offer Underwriters), the entering into of the Placing Underwriting Agreement and the Price Determination Agreement on or before the Price Determination Date, the Public Offer Underwriters have severally agreed to subscribe for, or procure subscribers to subscribe for, the Public Offer Shares which are not taken up under the Public Offer on the terms and conditions of the Public Offer Underwriting Agreement, this prospectus and the Application Forms.

Grounds for termination

The Lead Manager (on behalf of the Public Offer Underwriters) is entitled to terminate the Public Offer Underwriting Agreement by giving written notice before 8:00 a.m. (Hong Kong time) on the Listing Date (“Termination Time”) to our Company if any of the following events shall occur prior to the Termination Time:

- (a) there comes to the notice of any of the Sole Sponsor, the Lead Manager or any of the Public Offer Underwriters of any matter or event showing any of the representations, warranties or undertakings contained in the Public Offer Underwriting Agreement to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of the warranties or any other obligations imposed on any party to the Public Offer Underwriting Agreement (other than those undertaken by the Public Offer Underwriters, the Sole Sponsor and/or the Lead Manager); or
- (b) any statement contained in this prospectus or the Application Forms has become or been discovered to be untrue, incorrect or misleading in any material respect; or

UNDERWRITING

- (c) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Sole Sponsor and the Public Offer Underwriters), an omission in the context of the Global Offering; or
- (d) any event, act or omission which gives or is likely to give rise to any material liability of our Company or any of the Controlling Shareholders and the executive Directors arising out of or in connection with any representations, warranties or undertakings contained in the Public Offer Underwriting Agreement; or
- (e) there shall have developed, occurred, existed or come into effect:
 - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the British Virgin Islands, the PRC, any of the jurisdictions in which we operate or have or are deemed by any applicable law to have a presence (by whatever name called) (the “Relevant Jurisdictions”); or
 - (ii) any change in, or any event or series of events or development resulting or likely to result in any change in any of the Relevant Jurisdictions of its local, national, regional or international financial, currency, political, military, industrial, economic, stock market or other market conditions; or
 - (iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or

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- (iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in any of the Relevant Jurisdictions; or
- (v) any change or prospective change in the business or in the financial or trading position or prospects of any of the members of our Group taken as a whole; or
- (vi) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the US or by the European Union (or any member thereof) on Hong Kong or the PRC; or
- (vii) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the competent authorities; or
- (viii) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, terrorism, strike or lock-out (whether or not covered by insurance);

which, in the sole and absolute opinion of the Lead Manager (for itself and on behalf of the Public Offer Underwriters):

- (aa) is or will be or is likely to be adverse, in any material respect, to our business, financial or trading condition or prospects taken as a whole or, in the case of sub-paragraph (v) above, on any present or prospective shareholder in his/its capacity as a shareholder of our Company; or
- (bb) has or will have or is likely to have a material adverse effect on the success of the Global Offering as a whole or the level of the Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
- (cc) makes it impracticable, inadvisable or inexpedient to proceed with the Global Offering.

For the above purpose, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US or any change of Hong Kong currency under such system shall be taken as an event resulting in a change in currency conditions; and any material market fluctuation may be considered a change of market conditions.

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Undertakings

Under Rule 10.08 of the Listing Rules, no further Shares or securities convertible into our equity securities (whether or not a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such an issue of Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed by Rule 10.08 of the Listing Rules.

Under the Public Offer Underwriting Agreement, our Company has undertaken to and covenanted with the Sole Sponsor, the Lead Manager and the Public Offer Underwriters that, and each of the Controlling Shareholders and the executive Directors has jointly and severally undertaken to the Sole Sponsor, the Lead Manager and the Public Offer Underwriters to procure (so far as he/she/it is able to do so) that:

- (a) without the prior written consent of the Sole Sponsor and the Lead Manager (on behalf of the Public Offer Underwriters) (such consent not to be unreasonably withheld or delayed) and subject always to the requirements of the Stock Exchange, save for the Offer Shares, the Shares to be issued pursuant to the Capitalisation Issue, the grant of the Over-allotment Option, and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option, the grant of options under the Share Option Scheme, any Shares which may fall to be issued pursuant to the exercise of any option which have been or may be granted under the Pre-IPO Share Option Scheme and/or the Share Option Scheme, or otherwise than by way of scrip dividend schemes or similar arrangements in accordance with the memorandum of association of our Company and the Articles or any consolidation, sub-division or capital reduction of the Shares, our Company shall not allot and issue, accept subscriptions for, offer, sell or contract to sell, grant or agree to grant any option or other right in, directly or indirectly, conditionally or unconditionally, any shares, warrants or other convertible or exchangeable securities carrying the right to subscribe for or exchangeable into shares or other securities of our Company, or offer or agree to do any of the foregoing or announce any intention to do so:
 - (i) at any time during the period commencing from the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (“**First Lock-up Period**”); or
 - (ii) at any time during the six months commencing on the date on which the First Lock-up Period expires (“**Second Lock-up Period**”) so as to result in the Controlling Shareholders, taken together with the other of them, ceasing to be a group of controlling shareholders (as defined in the Listing Rules) of our Company; or
- (b) at any time during the First Lock-up Period subject to the Listing Rules and the Takeovers Code, our Company shall not make or agree to make any repurchase of Shares or other securities of our Company.

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Under Rule 10.07(1) of the Listing Rules, the Controlling Shareholders shall not, and procure that the relevant registered holder(s) shall not:

- (a) during the First 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 of the Shares or our securities in respect of which they are shown by this prospectus to be the beneficial owners; or
- (b) at any time during the six months commencing on the date on which the First Lock-up Period expires (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 of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be our controlling shareholder (as defined in the Listing Rules).

In accordance with Note (3) of Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has also undertaken to us and the Stock Exchange that, during the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is the 12 months from the Listing Date, he/it will:

- (1) when he/it pledges or charges any securities of our Company beneficially owned by him/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (2) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform us of such indications.

Under Note (3) to Rule 10.07(2) of the Listing Rules, we are required to inform the Stock Exchange as soon as practicable after we have been informed of the matters referred to in (1) or (2) above by any of the Controlling Shareholders and disclose such matters by way of an announcement in compliance with the Listing Rules.

Under the Public Offer Underwriting Agreement, each of the Controlling Shareholders jointly and severally undertook to us, the Sole Sponsor, the Lead Manager and the Public Offer Underwriters that, save as (i) pursuant to the Global Offering or the Stock Borrowing Agreement; or (ii) permitted under the Listing Rules and with the prior written consent of the Sole Sponsor and the Lead Manager (on behalf of the Public Offer Underwriters):

- (a) he/it shall not, and shall procure that none of his/its associates or any company controlled by him/it or any of his/its associates, nominees or trustees holding in trust for him/it will, at any time during the First Lock-up Period, sell, transfer or otherwise dispose of (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong

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(the “**Banking Ordinance**”), or enter into any agreement (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance)) to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares (or any interest therein) directly or indirectly owned by him/it or in which he/it is, directly or indirectly, interested immediately after completion of the Global Offering and the Capitalisation Issue or any interest in any shares in any company controlled by him/it which is the beneficial owner of any of these Shares, or enter into any swap or other arrangements that transfer the economic consequences of ownership of such Shares or interest, whether any of the foregoing transactions or arrangement is to be settled by delivery of such Shares or other securities, in cash or otherwise, or offer or agree to do any of the foregoing or announce any intention to do so, provided that the foregoing restriction shall not apply to any Shares which any of them may acquire or become interested in following the Listing Date (save any Shares returned under the Stock Borrowing Agreement) provided further that any such acquisition would not result in any breach of Rule 8.08 of the Listing Rules;

- (b) he/it shall not, and shall procure that none of his/its associates or any company controlled by him/it or any of his/its associates, nominees or trustees holding in trust for him/it will, at any time during the Second Lock-up Period, sell, transfer or otherwise dispose of (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance), or enter into any agreement (other than by way of a security for a bona fide commercial loan in favour of an authorised institution (as defined in the Banking Ordinance)) to sell, transfer or dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares (or any interest therein) directly or indirectly owned by him/it or in which he/it is, directly or indirectly, interested immediately after completion of the Global Offering and the Capitalisation Issue or any interest in any shares in any company controlled by him/it which is the beneficial owner of any of these Shares, or enter into any swap or other arrangements that transfer the economic consequences of ownership of such Shares or interest, whether any of the foregoing transactions or arrangement is to be settled by delivery of such Shares or other securities, in cash or otherwise, or offer or agree to do any of the foregoing or announce any intention to do so, if, immediately following such action, the Controlling Shareholders, when taken together, would cease to be a group of controlling shareholders (as defined in the Listing Rules) of our Company; and
- (c) without prejudice to the undertakings as referred to in paragraphs (a) and (b) above, during the First Lock-up Period and Second Lock-up Period:
 - (i) when he/it pledges or charges or otherwise create any rights of encumbrances over any Shares or other securities of our Company or those of Huayou Holdings beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance) pursuant to Note (2) to Rule 10.07 of the Listing Rules, immediately inform us, the Sole Sponsor and the Lead Manager (on behalf of the Public Offer Underwriters) of such pledge or charge or creation of the rights of encumbrances together with the number of the securities so pledged or charged and all other information as requested by us, the Sole Sponsor and/or the Lead Manager (on behalf of the Public Offer Underwriters); and

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- (ii) subsequent to the pledge or charge or creation of rights or encumbrances over the Shares (or interest therein) or other shares or interests as mentioned in sub-paragraph (i) above, when he/it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (i) above will be disposed of, immediately inform us, the Sole Sponsor and the Lead Manager (on behalf of the Public Offer Underwriters) of such indications.

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company, the Selling Shareholder, the executive Directors and the Controlling Shareholders will enter into the Placing Underwriting Agreement with the Sole Sponsor, the Lead Manager and the Placing Underwriters on or before the Price Determination Date. It is expected that under the Placing Underwriting Agreement, the Placing Underwriters will, subject to certain conditions set out therein, severally agree to subscribe or purchase or procure subscribers or purchasers to subscribe for or purchase the Placing Shares to be initially being offered by our Company and the Selling Shareholder for subscription or purchase under the Placing (subject to reallocation) on and subject to the terms of the Placing Underwriting Agreement. The Placing Underwriting Agreement is expected to contain force majeure provisions as that contained in the Public Offer Underwriting Agreement as mentioned above. In the event that the Placing Underwriting Agreement is not entered into on or before the Price Determination Date, or does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed and will lapse.

It is expected that under the Placing Underwriting Agreement, our Company will grant the Over-allotment Option to the Lead Manager (in its sole and absolute discretion) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last date for lodging of applications under the Public Offer, to allot and issue up to an aggregate of 30 million additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, on the same terms as those applicable to the Global Offering, to cover over-allocations in the Placing.

Commission and expenses

The Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Offer Shares (including any Shares to be issued pursuant to the exercise of the Over-allotment Option), out of which they will (as the case may be) pay any sub-underwriting commissions. In addition, the Sole Sponsor will receive financial advisory and documentation fees for acting as the Sole Sponsor to the Listing. Assuming the Over-allotment Option is not exercised, based on an Offer Price of HK\$1.35 (being the mid-point of the indicative Offer Price range of HK\$1.5 per Offer Share and HK\$1.2 per Offer Share), such underwriting commission and fees, together with the Stock Exchange listing fee, legal and other professional fees, applicable printing and other expenses relating to the Global Offering are estimated to be about RMB25.0 million in total. Under the Underwriting Agreements, the listing expenses (other than the underwriting commission and the related Stock Exchange trading fee and the SFC transaction levy which shall be borne by our Company and the Selling Shareholder in proportion to the number of Offer Shares offered by each of them against the total number of the Offer Shares) shall be borne up to RMB3.8 million by the Selling Shareholder and the balance thereof by our Company.

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In addition, under the Underwriting Agreements, our Company may, at our sole discretion, pay the Lead Manager an additional incentive commission of up to 1.75% of the aggregate Offer Price for all the Shares offered under the Global Offering (including but not limited to Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option).

Public Offer Underwriters' interests in our Company

Save for their respective obligations and interests under the Public Offer Underwriting Agreement as disclosed above and the proposed appointment of the Sole Sponsor as compliance adviser of our Company, none of the Public Offer Underwriters has any shareholding interest in our Company or any of our member or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any of our member.

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DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Lead Manager (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) on or before the Price Determination Date, which is currently scheduled on Friday, 6 January 2012, or such later date as the Lead Manager (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) may agree but in any event no later than 6:00 p.m. (Hong Kong time) on Monday, 9 January 2012. **If, for any reason, the Lead Manager (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) are unable to reach an agreement on the Offer Price by 6:00 p.m. (Hong Kong time) on Monday, 9 January 2012, the Global Offering will not become unconditional and will lapse.**

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$1.5 per Offer Share and is expected to be not less than HK\$1.2 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

The Lead Manager (on behalf of the Underwriters) may, where considered appropriate, based on the level of interests expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company (for ourselves and on behalf of the Selling Shareholder), reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) notice of such a change. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company (for ourselves and on behalf of the Selling Shareholder), will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon with our Company (for ourselves and on behalf of the Selling Shareholder), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

We expect to announce the final Offer Price, the level of indication of interests under the Placing and the basis of allocations of the Public Offer Shares under the Public Offer on or before Wednesday, 11 January 2012 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on our Company's website at www.cn-huazhong.com and the website of the Stock Exchange at www.hkexnews.hk.

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Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by applying online through **HK eIPO White Form Service** or by giving **electronic application instructions** to HKSCC via CCASS will be made available as described under the section headed “How to apply for the Public Offer Shares — Publication of results” in this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.5 per Offer Share and is expected to be not less than HK\$1.2 per Offer Share. Applicants under the Public Offer should pay, on application, the maximum price of HK\$1.5 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, amounting to a total of HK\$3,030.24 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK\$1.5 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in the section headed “How to apply for the Public Offer Shares” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares is conditional upon the satisfaction of all of the following conditions:

1. Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Global Offering, the Capitalisation Issue and Shares which fall to be allotted and issued upon the exercise of the Over-allotment Option and Shares, up to 10% of the Shares in issue on the Listing Date, to be allotted and issued upon exercise of any option which have been or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

2. Underwriting Agreements

The entering into of the Placing Underwriting Agreement between, among others, our Company, the Selling Shareholder and the Placing Underwriters, and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, among other things, the Offer Price be agreed by no later than the Price Determination Date and the Price Determination Agreement has been duly entered into, and if relevant, as a result of the waiver of any conditions given by the Lead Manager (on behalf of the Sole Sponsor and the Underwriters)), and not being terminated in accordance with its terms or otherwise. Details of the Public Offer Underwriting Agreement and grounds for termination are set out in the section headed “Underwriting” in this prospectus. If for any

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

reason, the Placing Underwriting Agreement and the Price Determination Agreement are not entered into, the Global Offering will not proceed. If these conditions are not fulfilled on or before the time and date specified in the Underwriting Agreements or such later date as the Lead Manager (for itself and on behalf of the Sole Sponsor and the Underwriters) may in its absolute discretion determine, the Global Offering will lapse and your application money will be refunded to you, without interest, and by post at your own risk. The terms on which your application money will be returned to you are set out under the paragraph headed “Refund of your money” in the relevant Application Forms.

In the meantime, your application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE GLOBAL OFFERING

The Global Offering comprises the Placing and the Public Offer. A total of 200 million Shares will initially be made available under the Global Offering, of which 180 million Shares, representing 90% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription or purchase under the Placing. The remaining 20 million Shares, representing 10% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription under the Public Offer. The number of Shares offered for subscription or purchase under the Placing and the Public Offer will be subject to re-allocation on the basis described below and the number of Shares offered for subscription and purchase under the Placing will also be subject to the exercise of the Over-allotment Option below. No pre-emption right or right to subscribe for or purchase the Offer Shares has been granted.

THE PLACING

Our Company is initially offering 140 million New Shares and the Selling Shareholder is offering 40 million Sale Shares (subject to re-allocation as mentioned in the paragraph headed “Re-allocation of Offer Shares between the Public Offer and the Placing” below), representing 90% of the total number of Shares being initially offered under the Global Offering (before any exercise of the Over-allotment Option), for subscription and purchase at the Offer Price by way of Placing. The Placing will be managed by the Lead Manager and is expected to be fully underwritten by the Placing Underwriters. Pursuant to the Placing, it is expected that the Placing Underwriters or any selling agents which they nominate will, on behalf of our Company and the Selling Shareholder, conditionally place the Placing Shares at the Offer Price plus 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. It is expected that the Placing Underwriting Agreement will be executed on or around the Price Determination Date.

Allocation of the Placing Shares to professional, institutional and private investors pursuant to the Placing 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 or not it is expected that the investor is likely to subscribe for or purchase further Shares, or hold or sell the

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Shares placed, after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on the basis which would lead to the establishment of a solid broad shareholder base to the benefit of our Company and its Shareholders taken as a whole. Investors to whom Placing Shares are offered are required to undertake not to apply for the Public Offer Shares under the Public Offer. The level of indication of interest in the Placing is expected to be published in South China Morning Post (in English), Hong Kong Economic Times (in Chinese) and on the respective websites of the Stock Exchange at www.hkexnews.hk and of our Company at www.cn-huazhong.com on Wednesday, 11 January 2012. The Placing is subject to the conditions stated in the paragraph headed “Conditions of the Global Offering” above.

OVER-ALLOTMENT OPTION

It is expected that under the Placing Underwriting Agreement, our Company will grant the Over-allotment Option to the Lead Manager (in its sole and absolute discretion) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last date for lodging of applications under the Public Offer, to allot and issue up to an aggregate of 30 million additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, on the same terms as those applicable to the Global Offering, to cover over-allocations in the Placing. The additional Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the Placing and/or to satisfy the Lead Manager’s obligation to return Shares borrowed under the Stock Borrowing Agreement. The Lead Manager may also cover any over-allocations under the Placing through the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 25% of our Company’s enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue. If the Over-allotment Option is exercised in full, the Offer Shares (including the Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent about 27.7% of the enlarged issued share capital of our Company immediately after completion of the Global Offering, the Capitalisation Issue and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made.

Based on an Offer Price of HK\$1.35 per Offer Share (being the mid-point of the Offer Price range between HK\$1.5 per Offer Share and HK\$1.2 per Offer Share), the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised and after deducting related expenses, are estimated to be about HK\$240.4 million, of which about HK\$192.6 million will be the net proceeds of the New Issue and will be payable to our Company. If the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of about HK\$39.3 million, after deducting brokerages, commissions and expenses attributable to the exercise of the Over-allotment Option.

The Public Offer is open to the public as well as to institutional, professional and private investors in Hong Kong. The Placing involves selective marketing of the Placing Shares by the Placing Underwriter to professional, institutional and private investors. Investors may either apply for the

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Shares under the Public Offer or indicate an interest for the Shares under the Placing, and may only receive an allocation of Shares under the Public Offer or the Placing. The Offer Shares are not available for subscription or purchase by the Directors, chief executive of our Company, existing beneficial owners of the Shares or their respective associates.

THE PUBLIC OFFER

We are initially offering, at the Offer Price, 20 million Shares (subject to re-allocation as mentioned in the paragraph headed “Re-allocation of Offer Shares between the Public Offer and the Placing” below), representing 10% of the total number of Shares being initially offered under the Global Offering, for subscription under the Public Offer (before any exercise of the Over-allotment Option). The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Public Offer Underwriting Agreement. Applicants for the Public Offer Shares are required on application to pay the Offer Price plus 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee.

The Public Offer is open to all members of the public in Hong Kong. An applicant for Public Offer Shares will be required to give an undertaking and confirmation in the relevant Application Form submitted by him/her that he/she has not applied for nor taken up any Placing Shares nor participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Public Offer is liable to be rejected.

The total number of the Offer Shares available under the Public Offer (taking into account of any reallocation of Offer Shares between the Public Offer and the Placing) is to be divided equally to the nearest board lot into two pools, pool A and pool B, for allocation purposes:

- Pool A: The Public Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and
- Pool B: The Public Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B but not both. Multiple applications or suspected multiple applications and any application made for more than 100% of the Public Offer Shares initially available under either pool A or pool B (i.e., to apply for more than 10 million Public Offer Shares) are liable to be rejected.

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Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of the Public Offer Shares validly applied for by each applicant. When there is over subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. The results of the Public Offer and basis of allocation of the Public Offer Shares are expected to be published in South China Morning Post (in English), Hong Kong Economic Times (in Chinese) and on the respective websites of the Stock Exchange at www.hkexnews.hk and of our Company at www.cn-huazhong.com on Wednesday, 11 January 2012.

Applications under the Public Offer from investors receiving the Placing Shares under the Placing will be identified and rejected and investors receiving the Public Offer Shares under the Public Offer will not be offered the Placing Shares under the Placing. Multiple applications or suspected multiple applications or applications for more than 100% of the Public Offer Shares in either pool A or pool B being initially offered for public subscription under the Public Offer (i.e. to apply for more than 10 million Public Offer Shares) are liable to be rejected.

The Public Offer is subject to the conditions as stated in the paragraph headed “Conditions of the Global Offering” above.

RE-ALLOCATION OF OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of Offer Shares between the Placing and the Public Offer is subject to re-allocation. If the number of Shares validly applied for in the Public Offer:

- (a) represents 15 times or more but less than 50 times of the number of Shares initially available for subscription under the Public Offer, then 40 million Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 60 million Shares will be available under the Public Offer, representing 30% of the Offer Shares initially available under the Global Offering;
- (b) represents 50 times or more but less than 100 times of the number of Shares initially available for subscription under the Public Offer, then 60 million Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 80 million Shares will be available under the Public Offer, representing 40% of the Offer Shares initially available under the Global Offering;
- (c) represents 100 times or more of the number of Shares initially available for subscription under the Public Offer, then 80 million Shares will be re-allocated to the Public Offer from the Placing, so that an aggregate of 100 million Shares will be available under the Public Offer, representing 50% of the Offer Shares initially available under the Global Offering; and

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (d) in each of the above cases, the number of Shares allocated to the Placing will be correspondingly reduced, subject to the exercise of the Over-allotment Option.

In all cases, the additional Shares re-allocated to the Public Offer will be allocated, if applicable, equally between pool A and pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced.

If the Public Offer is not fully subscribed, the Lead Manager (on behalf of the Underwriters) has the absolute discretion to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as it deems appropriate to satisfy the demand under the Placing. If the Placing is not fully subscribed and purchased, the Lead Manager has the authority to re-allocate all or any unsubscribed and unpurchased Placing Shares originally included in the Placing to the Public Offer, in such number as it deems appropriate provided that there is sufficient demand under the Public Offer to take up such unsubscribed and unpurchased Placing Shares. Details of any re-allocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement, which is expected to be made on Wednesday, 11 January 2012.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or actually purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial Public Offer prices of the securities. In Hong Kong, the stabilisation price will not exceed the initial Public Offer price.

In connection with the Global Offering, the Lead Manager, as stabilising manager, or any person acting for it (on behalf of the Underwriters and not as agent for our Company), may over-allocate Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on the Lead Manager to conduct any such stabilisation action which, if commenced, may be discontinued at any time at the absolute discretion of the Lead Manager, its affiliates or any person acting for it, and must be brought to an end after a limited period. The number of Shares that may be over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 30 million Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Public Offer (“Stabilisation Period”). The Stabilisation Period is expected to expire on Friday, 3 February 2012 and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price, could fall.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

During the Stabilisation Period, the Lead Manager as stabilising manager or any person acting for it, may purchase or agree to purchase, or offer, the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with any such stabilisation actions as described above, the Lead Manager as stabilising manager, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired by it in the course of any stabilisation transactions in order to liquidate any position that has been established by such action.

The Lead Manager may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which the Lead Manager will maintain such a position during the Stabilisation Period, are at the sole discretion of the Lead Manager and is uncertain. In the event that the Lead Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Investors should be aware that the price of the Shares cannot be assured to stay at or above its Offer Price by the taking of any stabilising action. Stabilisation bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

In order to facilitate the settlement of over-allocations, the Lead Manager, as the stabilising manager, or its authorised agents may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of Shares, exercise the Over-allotment Option, engage in a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

In this connection, the Lead Manager will enter into the Stock Borrowing Agreement with Huayou Holdings whereby the Lead Manager may borrow up to 30 million Shares from Huayou Holdings, equivalent to the maximum number of additional Shares to be offered upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The Stock Borrowing Agreement is not subject to the restrictions of rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, provided the following requirements under rule 10.07(3) of the Listing Rules are complied with:

- the Stock Borrowing Agreement will only be effected by the Lead Manager for covering any short position arising from over-allocations under the Placing prior to the exercise of the Over-allotment Option;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- the maximum number of Shares to be borrowed from Huayou Holdings will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Huayou Holdings or its nominees on or before the third business day, a day that is not a Saturday, Sunday or public holiday in Hong Kong, following the earlier of (i) the last day on the Over-allotment Option may be exercised, and (ii) the day on which the Over-allotment Option is exercised in full;
- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to the Lead Manager in relation to the Stock Borrowing Agreement.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

METHODS OF APPLYING FOR THE PUBLIC OFFER SHARES

There are three ways to make an application for the Public Offer Shares. You may apply for the Public Offer Shares by (i) using a **WHITE** or **YELLOW** Application Form; (ii) apply online through the designated website of the designated **HK eIPO White Form** Service Provider, referred to in this section as the “**HK eIPO White Form** service” or; (iii) by giving **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, **you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying using a WHITE or YELLOW Application Form** or applying online through **HK eIPO White Form** service or by giving **electronic application instructions** to HKSCC via CCASS.

WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for Public Offer Shares 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 and will be acquiring the Public Offer Shares in an offshore transaction (as defined in Regulation S); and
- are not a US Person (as defined in Regulation S).

If you wish to apply for Public Offer Shares online through the designated website at www.hkeipo.hk under the **HK eIPO White Form** service, in addition to the above 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 the **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 signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Lead Manager (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The number of joint applicants may not exceed four.

Our Company, the Lead Manager (for itself and on behalf of the Public Offer Underwriters) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

The Public Offer Shares are not available to existing beneficial owners of Shares, our Directors, or chief executive officers or their respective associates or any other connected persons (as defined in Chapter 1 of the Listing Rules) of our Company or persons who will become connected persons (as defined in Chapter 1 of the Listing Rules) of our Company immediately upon completion of the Global Offering.

You should also note that you may apply for Shares under the Public Offer or indicate an interest for Shares under the Placing, but may not do both.

WHICH APPLICATION METHOD YOU SHOULD USE

Use a **WHITE** Application Form or apply online through the **HK eIPO White Form Service** if you want the Public Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Public Offer 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 the stock account of your designated CCASS Participant.

Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf via CCASS. Any Public Offer Shares allocated to you will be registered 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.

Note: Except in the circumstances permitted under the Listing Rules, the Offer Shares are not available for subscription by existing beneficial owners of the Shares, the Directors or chief executive of our Company or any of its subsidiaries or the associates of any of them, or any other connected persons (as defined in Chapter 1 of the Listing Rules) of our Company or persons who will become connected persons (as defined in Chapter 1 of the Listing Rules) of our Company immediately upon completion of the Global Offering.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

WHERE TO COLLECT THE APPLICATION FORMS

Copies of this prospectus, together with the **WHITE** Application Forms, may be obtained during normal business hours from 9:00 a.m. on Friday, 30 December 2011 until 12:00 noon on Thursday, 5 January 2012 from:

Guotai Junan Securities (Hong Kong) Limited

27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Ample Orient Capital Limited

Unit A, 14/F., Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

Ever-Long Securities Company Limited

18th Floor, Dah Sing Life Building
99-105 Des Voeux Road Central
Hong Kong

South China Securities Limited

26/F., Tower 1, Lippo Centre
89 Queensway
Admiralty
Hong Kong

or any of the following branches of **Bank of China (Hong Kong) Limited**:

District	Branch Name	Address
Hong Kong Island:	Bank of China Tower Branch	3/F, 1 Garden Road
	North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
	Connaught Road Central Branch	13-14 Connaught Road Central

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

District	Branch Name	Address
Kowloon:	Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok
	Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O
	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
	Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
New Territories:	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun

The **YELLOW** Application Forms, together with copies of this prospectus, may be obtained during normal business hours from 9:00 a.m. on Friday, 30 December 2011 until 12:00 noon on Thursday, 5 January 2012 at the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong. Your stockbroker may also have the **YELLOW** Application Forms and this prospectus available.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated in the Application Form.

If your application is made through a duly authorised attorney, our Company, the Sole Sponsor, the Lead Manager and/or their respective agents or nominees may accept it at their respective discretion, and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney.

You should note that by completing and submitting an Application Form, among other things:

- (a) you confirm that you have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (b) you agree that none of our Company, the Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not contained in this prospectus (and any supplement thereto) and the Application Forms;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (c) you undertake and confirm that you (if the application is made for your benefit) or the person(s) or whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for, take up, or indicate an interest for, any Placing Shares nor otherwise participated in the Placing; and
- (d) you agree to disclose to our Company, and/or the share registrars, receiving bankers, the Lead Manager, the Underwriters and their respective advisers and agents any personal data and any information which they require about you and the person(s) for whose benefit you have made the application.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signature will be accepted.

(a) if the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

- the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant ID in the appropriate box in the Application Form.

(b) if the application is made by an individual CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's full name and Hong Kong identity card number; and
- (ii) the individual CCASS Investor Participant must insert its CCASS Participant ID in the appropriate box in the Application Form.

(c) if the application is made by joint individual CCASS Investor Participants:

- (i) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all of the joint CCASS Investor Participants; and
- (ii) the CCASS Participant ID must be inserted in the appropriate box in the Application Form.

(d) if the application is made by a corporate CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's company name and the Hong Kong business registration certificate number; and
- (ii) the CCASS Participant ID must be inserted and the company chop (bearing the CCASS Investor Participant's company name) chopped in the appropriate box in the Application Form.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Incorrect or omission of details of the CCASS Participant (include participant ID and/or company chop bearing its company name) or other similar matters may render your application invalid.

If your application is made through a duly authorised attorney, our Company, the Sole Sponsor, the Lead Manager and/or their respective agents or nominees may accept the application at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Our Company, the Sole Sponsor, the Lead Manager and/or their respect agents or nominees will have full discretion to reject or accept any application, in full or in part, without assigning any reasons.

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” account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

HOW TO APPLY THROUGH THE HK eIPO WHITE FORM SERVICE

General

- (a) If you are an individual and meet the criteria set out in the paragraph headed “Who can apply for the Public Offer Shares” of this section, you may apply through the **HK eIPO White Form** service by submitting an application online through the designated website at www.hkeipo.hk. If you apply through the **HK eIPO White Form** service, our Shares will be issued in your own name. 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 the **HK eIPO White Form** service.
- (b) 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 our Company.
- (c) By submitting an application online 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 apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **HK eIPO White Form** service.
- (d) In addition to the terms and conditions set out in this prospectus, the designated **HK eIPO White Form** Service Provider may impose additional terms and conditions upon 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (e) 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 our Company and our Hong Kong Branch Share Registrar.
- (f) You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 2,000 Public Offer Shares. Each application in respect of more than 2,000 Public Offer 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**.
- (g) You should submit an application online through the **HK eIPO White Form** service at the times set out in the paragraph headed “Time for applying for the Public Offer Shares — **HK eIPO White Form**” below.
- (h) You should make payment for your application made through the **HK eIPO White Form** service in accordance with the methods and instructions set out on the designated website at **www.hkeipo.hk**. If you do not make complete payment of the application monies (including any related fees) at or before 12:00 noon on Thursday, 5 January 2012, or such later time as described in the paragraph headed “Effect of bad weather on the opening of the application lists” of this section, 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 on the designated website at **www.hkeipo.hk**.
- (i) **Warning: The application for Public Offer 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. Our Company, our Directors, the Lead Manager, the Sole Sponsor, the Underwriters and the designated HK eIPO White Form Service Provider take no responsibility for any such applications and provide no assurance that applications through the HK eIPO White Form service will be submitted to our Company or that you will be allotted any Public Offer 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 minute for submitting applications in the Public Offer to submit your applications online. In the event that you have problems connecting to the designated website at **www.hkeipo.hk** for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form. However, once you have submitted applications online and completed payment in full using the application reference number provided to you on the designated website at **www.hkeipo.hk**, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please refer to the paragraph headed “How many applications you may make for the Public Offer Shares” below.

Additional information

For the purposes of allocating Public Offer Shares, each applicant submitting applications online through the **HK eIPO White Form** service to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** will be treated as an applicant.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** Service Provider, the designated **HK eIPO White Form** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form** Service Provider on the designated website at **www.hkeipo.hk**.

Otherwise, any monies payable to you due to a refund shall be made pursuant to the arrangements described in the paragraph headed “Despatch/Collection of Share certificates and refund of application money” below.

HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Public Offer Shares and to arrange payment of the monies 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 in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to 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
2nd Floor, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Copies of this prospectus are available for collection from the above address. 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 Public Offer 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 broker or custodian to our Company and our Hong Kong branch share registrar and transfer office.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Application for the Public Offer 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 Offer 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:
 - **agrees** that the Public Offer 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 input **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - **undertakes** and **agrees** to accept the Public Offer Shares in respect of which that person has given electronic application instructions or any lesser number;
 - **undertakes** and **confirms** that that person has not applied for or taken up any Offer Shares under the Placing nor otherwise participated in the Placing;
 - (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, the Sole Sponsor and the Lead Manager in deciding whether or not to make any allotment of the Public Offer 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;
 - **authorises** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund monies 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;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- **confirms** that that person has only relied on the information and representations in this prospectus (and any supplement thereto) 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;
- **agrees** that our Company, the Sole Sponsor, the Lead Manager, the Underwriters, their respective directors, officers, employees, advisers and any other parties involved in the Global Offering are not liable for the information and representations not so contained in this prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to our Company, its registrars, receiving banker, advisor and agents, and any information which they may require about that person;
- **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;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before Friday, 27 January 2012, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before Friday, 27 January 2012 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may only revoke the application on or before Friday, 27 January 2012 after the time of the opening of the application lists if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instruction** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Public Offer 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 the Public Offer Shares;
- **agrees** with our Company (for itself and for the benefit of each of the Shareholders) that the Shares are freely transferable by the holders thereof; and
- **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and constructed in accordance with the laws of Hong Kong.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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, you each jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will 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 CCASS Participants) to apply for Public Offer Shares on your behalf;
- **instructed and authorised** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the Offer Price is less than the maximum offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and 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.

Minimum subscription amount and permitted multiples

You may give or cause your broker or a 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 Offer Shares. Such instructions in respect of more than 2,000 Public Offer Shares must be in one of the numbers or multiples set out in the table in the Application Forms. No application for any other number of the Public Offer Shares will be considered and any such application is liable to be rejected.

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 Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer 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 Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. Further information in this regard is set forth under “How many applications you may make for the Public Offer Shares” below.

Allocation of the Public Offer Shares

For the purposes of allocating the Public Offer 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 instruction is given will be treated as an applicant.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company and the registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

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 application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Warning

The subscription of Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Sole Sponsor, the Lead Manager and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participants will be allotted any Public Offer Shares. To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or 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 CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit the **WHITE** or **YELLOW** Application Form (as appropriate), or (ii) go to HKSCC’s Customer Service Centre to complete an application instruction input request form before 12:00 noon on Thursday, 5 January 2012 or such later time as described under the sub-paragraph headed “Effect of bad weather on the opening of the application lists” below.

HOW MANY APPLICATIONS YOU MAY MAKE FOR THE PUBLIC OFFER SHARES

There is only one situation where you may make more than one application for the Public Offer Shares. You may make more than one application for the Public Offer Shares if you are a nominee, in which case you may make an application by using a **WHITE** or **YELLOW** Application Form or by way of giving **electronic application instructions** to HKSCC via CCASS, and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the relevant Application Form marked “For nominee(s)” you must include:

- 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. If you do not include this information, the application will be treated as being for your own benefit. **Otherwise, multiple applications are not allowed.**

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 via CCASS, you:

- if the application is made for your own benefit, warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by means of the **HK eIPO White Form** service or through giving **electronic application instructions** to HKSCC via CCASS;
- 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 means of the **HK eIPO White Form** service or through giving **electronic application instructions** to HKSCC via CCASS, and that you are duly authorised to sign the relevant Application Form or apply by means of the **HK eIPO White Form** service or give **electronic application instructions** as that other person's agent.

Multiple applications or suspected multiple applications are liable to be rejected. 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 means of the **HK eIPO White Form** service or by way of giving **electronic application instructions** to HKSCC via CCASS;
- apply (whether individually or jointly with others) on one **WHITE** Application Form and one **YELLOW** Application Form or one **WHITE** or **YELLOW** Application Form and by means of the **HK eIPO White Form** service or by way of giving **electronic application instructions** to HKSCC via CCASS;
- apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form or by means of the **HK eIPO White Form** service or by way of giving **electronic application instructions** to HKSCC via CCASS for more than 100% of the Public Offer Shares initially available in either pool A or pool B for subscription under the Public Offer; or
- have 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 an interest in or receive or be placed or allocated Placing Shares under the Placing or otherwise participated in the Placing and make application on **WHITE** or **YELLOW** Application Form or by means of the **HK eIPO White Form** service or by way of giving **electronic application instructions** to HKSCC via CCASS.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) or you have applied for or taken up or otherwise indicated an interest for Offer Shares under the Placing. If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise “statutory control” over that company,

then the application will be treated as being for your benefit.

An unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half the voting power of that company; or
- hold more than one-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).

HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum Offer Price is HK\$1.5 per Offer 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 board lot of 2,000 Public Offer Shares, you will pay HK\$3,030.24. Each Application Form has a table showing the exact amount payable for certain multiples of the Public Offer Shares. You must pay the maximum Offer Price, the brokerage, the Stock Exchange trading fee and the SFC transaction levy in full when you apply for the Public Offer Shares.

Your payment must be made by one cheque or one banker’s cashier order and must comply with the terms of the related Application Forms (if you apply by an Application Form). Your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Thursday, 5 January 2012. If your application is successful, the brokerage is paid to participants of the Stock Exchange, the transaction levy is paid to the Stock Exchange collecting on behalf of the SFC, and the trading fee is paid to the Stock Exchange. If the Offer Price as finally determined is less than HK\$1.5 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the surplus application monies) will be made to applicants, without interests. Details of the procedures for refund are contained below in the section headed “Despatch/collection of share certificates and refund of application money”.

Our Company will not issue temporary documents of title, evidence of title or receipt for payment.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

TIME FOR APPLYING FOR THE PUBLIC OFFER SHARES

WHITE and YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, 5 January 2012, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists”.

Your completed Application Form, with payment in Hong Kong dollars for the full amount payable on application attached, should be deposited in the special collection boxes provided at any one of the branches of Bank of China (Hong Kong) Limited listed under the paragraph headed “Where to collect the Application Forms” above at the following times:

Friday, 30 December 2011 — 9:00 a.m. to 5:00 p.m.
Saturday, 31 December 2011 — 9:00 a.m. to 1:00 p.m.
Tuesday, 3 January 2012 — 9:00 a.m. to 5:00 p.m.
Wednesday, 4 January 2012 — 9:00 a.m. to 5:00 p.m.
Thursday, 5 January 2012 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 5 January 2012.

HK eIPO White Form

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, 30 December 2011, until 11:30 a.m. on Thursday, 5 January 2012, or such later time as described in the paragraph headed “Effect of bad weather on the opening of the application lists” of this section (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 5 January 2012, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” of this section.

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 designated website prior to 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, when the application lists close.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 30 December 2011 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, 31 December 2011 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
Tuesday, 3 January 2012 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 4 January 2012 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 5 January 2012 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note (1): These times are subject to change 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 Friday, 30 December 2011 until 12:00 noon on Thursday, 5 January 2012 (24 hours daily, except the last application date).

The latest time for inputting your **electronic application instructions** (if you are a CCASS Participant) is 12:00 noon on Thursday, 5 January 2012 or, if the application lists are not open on that day, by the time and date stated under “Effects of bad weather on the opening of the application lists” below.

Application lists

Subject to the events as described in the paragraph headed “Effect of bad weather on the opening of the application lists” below, the application lists will open at 11:45 a.m. and close at 12:00 noon on Thursday, 5 January 2012.

No proceedings will be taken on application for the Shares and no allotment of any such Shares will be made until the closing of the application lists.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open 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 Thursday, 5 January 2012.

Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED THE PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allocated the Public Offer Shares are set out in the notes attached to the related Application Forms, and you should read them carefully. You should note, in particular, the following situations in which the Public Offer Shares will not be allocated to you:

If your application is revoked

By depositing the **WHITE** or **YELLOW** Application Form or by applying online through **HK eIPO White Form** service or submitting **electronic application instructions** to HKSCC via CCASS, you agree that your application or the application made by HKSCC Nominees cannot be revoked on your behalf on or before Friday, 27 January 2012.

This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or by applying online through **HK eIPO White Form** service or submit your **electronic application instructions** to HKSCC via CCASS and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before Friday, 27 January 2012 except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before Friday, 27 January 2012, if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicants 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 applicants have not been so notified, or if applicants have been so notified but have not withdrawn their applications in accordance with the procedure(s) to be notified, all applications that have been submitted will 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. Acceptance of application 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 satisfaction of such conditions or the results of such ballot, respectively.

Full discretion of our Company or its agents to reject or accept your application

Our Company and its agents have full discretion to reject or accept any application, or to accept only part of an application, and do not have to give any reason for any rejection or acceptance.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If your application is rejected

Your application will be rejected if:

- it is a multiple application or a suspected multiple application; or
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the Placing Shares. Reasonable steps will be taken to identify and reject applications in the Public Offer from investors who have received the Placing Shares; and to identify and reject indications of interest in the Placing from investors who have received Public Offer Shares in the Public Offer; or
- your Application Form is not completed correctly in accordance with the instructions printed thereon (if you apply by an Application Form); or
- 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
- 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 Placing Shares; or
- our Company or any of its agents believes that by accepting your application, our Company would violate the applicable laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been, completed and/or signed or of any other jurisdiction, or would result in our Company not being able to satisfy the public float requirements under the Listing Rules applicable to our Company; or
- your application is for more than 100% of the Public Offer Shares initially available in pool A or pool B for public subscription under the Public Offer.

If your application is not accepted

Your application (including the part of an application made by HKSCC Nominees acting upon **electronic application instructions**) will not be accepted if either:

- the Public Offer Underwriting Agreement does not become unconditional; or
- the Public Offer Underwriting Agreement is terminated in accordance with its terms and conditions; or
- no agreement has been reached on the Offer Price on or before the Price Determination Date.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If the allotment of Public Offer Shares is void

Any allotment of the Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant the approval of the listing of, and permission to deal in, the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing of the application lists.

PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest under the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares under the Public Offer on or before Wednesday, 11 January 2012 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on our Company's website at www.cn-huazhong.com and the website of the Stock Exchange at www.hkexnews.hk.

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by applying online through **HK eIPO White Form** service or by giving **electronic application instructions** to HKSCC via CCASS will be made available at the times and dates and in the manner specified below:

- on the website of Tricor Investor Services Limited at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on Wednesday, 11 January 2012 to 12:00 midnight on Tuesday, 17 January 2012. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its Application Form to search for his/her/its own allocation result;
- on our Company's website at www.cn-huazhong.com and the website of the Stock Exchange at www.hkexnews.hk on Wednesday, 11 January 2012 onwards;
- from our Company's Public Offer allocation results telephone enquiry hotline. Applicants may find out whether or not their applications have been successful and the number of Offer Shares allocated to them, if any, by calling (852)3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 11 January 2012 to Monday, 16 January 2012 (excluding Saturday, Sunday and public holidays); and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches of the receiving bank from Wednesday, 11 January 2012 to Friday, 13 January 2012 at the addresses set out in the paragraph headed "Where to collect the Application Forms".

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONEY

No temporary documents of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Thursday, 5 January 2012. Our Company will keep any interest accrued on your application monies (up till, in the case of monies to be refunded, the date of despatch of refund cheque).

Any certificate relating to the Offer Shares issued by our Company or deposited into CCASS prior to 8:00 a.m. on the Listing Date will only become valid certificate of title at 8:00 a.m. on the Listing Date if the Public Offer has become unconditional in all aspects and the Underwriting Agreements have not been terminated in accordance with its terms on or before 8:00 a.m. on the Listing Date.

Your application money, or an appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee and the SFC transaction levy, will be refunded, without interest if:

- your application is rejected, not accepted or only accepted in part;
- the Offer Price as finally determined is less than the maximum indicative Offer Price;
- the conditions of the Global Offering are not fulfilled in accordance with the section headed “Structure and conditions of the Global Offering” in this prospectus;
- any application is revoked or any allocation pursuant thereto has become void; or
- any of the reasons set forth under “Circumstances in which you will not be allotted the Public Offer Shares”.

It is intended that special efforts will be made to avoid any undue delay in refunding application money where appropriate.

If you applied through the **HK eIPO White Form** service and paid the application monies from a single bank account, refund monies (where applicable) will be despatched to your application payment bank account in the form of e-Auto Refund payment instructions on Wednesday, 11 January 2012. If you apply through **HK eIPO White Form** service and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund cheque(s) will be despatched on Wednesday, 11 January 2012 by ordinary post at your own risk.

If you have given **electronic application instructions** to HKSCC, your refund (if any) will be credited to your designated bank account or the designated bank account of the designated CCASS Participant through which you are applying on Wednesday, 11 January 2012. If you have instructed your designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on your behalf, you can check the amount of refund (if any) payable to you with that designated CCASS Participant. If you have applied as CCASS Investor Participant, you can

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

check the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 11 January 2012 or in the activity statement showing the amount of refund money credited to your designated bank account made available to you by HKSCC immediately after the credit of refund money to your bank account. All refunds of your application monies (including the related brokerage, the Stock Exchange trading fee and SFC transaction levy) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 11 January 2012.

You will receive one share certificate for all the Public Offer Shares issued to you (except pursuant to applications made on **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC where the share certificate will be deposited into CCASS as described below under "Deposit of share certificates into CCASS" below).

Subject to the provisions mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on your Application Form:

- for applicants on **WHITE** Application Forms or applying online through the **HK eIPO White Form Service**: (i) share certificate for all the Public Offer Shares applied for, if your application is wholly successful; or (ii) share certificate for the number of Public Offer Shares successfully applied for, if your application is partially successful; and/or
- for applicants on **WHITE** and **YELLOW** Application Forms or applying online through the **HK eIPO White Form Service**, a refund cheque crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the excess application money for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application money, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price as determined and the maximum indicative Offer Price, payable upon application, in the event that the Offer Price is lower than the maximum indicative Offer Price, in each case including related brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.003%, without interest. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on the 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 the 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.

In a contingency situation involving a very high level of over-subscription, at the discretion of our Company and the Lead Manager, applications for certain small denominations of the Public Offer Shares may be eliminated in a pre-balloting. In such circumstances, the cheques or banker's cashier orders accompanying such applications on the Application Forms will not be presented for clearing.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Subject as mentioned below, refund cheques (if any) and share certificates for successful applicants under **WHITE** Application Forms are expected to be despatched on Wednesday, 11 January 2012. We reserve the right to retain any share certificates and any excessive application money pending clearance of cheque(s) or banker's cashier order(s).

If you have applied for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form or 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 have indicated your intention in your application to collect your refund cheque (where applicable) and/or Share certificate (where applicable) from our Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, and have provided all information required for your application, or if you have applied for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect (where applicable) your refund cheque and/or (where applicable) Share certificate from our Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on Wednesday, 11 January 2012 from 9:00 a.m. to 1:00 p.m. or any other date notified by us in the newspapers as the date of despatch of Share certificates/ refund cheques.

If you are an individual who opts for collection in person, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for collection in person, the authorised representative bearing a letter of authorisation from the corporation stamped with the corporation's chop must be presented for collection. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Company's Hong Kong branch share registrar and transfer office. If you do not collect your Share certificate and/or refund cheque during the above period, they will be despatched promptly to you by ordinary post to the address as specified in your Application Form or the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider at your own risk.

If you have applied for less than 1,000,000 Public Offer Shares by **WHITE** or **YELLOW** Application Form or through **HK eIPO White Form** service or if you have applied for 1,000,000 Public Offer Shares or more on a **WHITE** or **YELLOW** Application Form but have not indicated in your Application Form that you wish to collect your Share certificate (where applicable) and/or refund cheque in person, the Share certificate and/or refund cheque (if applicable) will be sent to the address as stated on your Application Form or the address specified in your application instruction to the designated **HK eIPO White Form** Service Provider on Wednesday, 11 January 2012 or any other date notified by us in the newspapers as the date of despatch of Share certificates /refund cheques by ordinary post and at your own risk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Deposit of Share certificates into CCASS

If you apply for the Public Offer Shares using a **YELLOW** Application Form or by giving **electronic application instructions** via CCASS, and your application is wholly or partially successful, your Share certificate will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant's stock account or the stock account of your designated CCASS Participant as instructed by you on Wednesday, 11 January 2012, or under 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) using **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS, you can check the number of the Public Offer Shares allotted to you with that CCASS Participant.

We expect to publish the application results of CCASS Investor Participants using **YELLOW** Application Form and the application results of CCASS Participants applying by giving **electronic application instructions** (and where the CCASS Participant is a broker or custodian, we shall include information relating to the beneficial owner, the Hong Kong identity card numbers, passport numbers or other identification code (Hong Kong business registration certificate number for corporations), if supplied) on Wednesday, 11 January 2012. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 11 January 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Applicants applying as CCASS Investor Participant by using **YELLOW** Application Form or by giving **electronic application instructions** can also check the result of application via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) using **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC for Public Offer Shares for credit to the stock account of your designated CCASS Participant (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, you can check your new account balance via the CCASS Phone System and CCASS Internet System immediately after the credit of the Public Offer Shares to your stock account. HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

COMMENCEMENT OF DEALINGS IN THE SHARES

The application for the Offer Shares will commence on Friday, 30 December 2011 up to Thursday, 5 January 2012 for a total of 6.5 calendar days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicants without interest on Wednesday, 11 January 2012. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 12 January 2012. Shares will be traded in board lots of 2,000 Shares.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance 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 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 Shares to be admitted into CCASS.

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, Ernst & Young, Certified Public Accountants, Hong Kong.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

30 December 2011

The Directors
Huazhong Holdings Company Limited
Guotai Junan Capital Limited

Dear Sirs,

We set out below our report on the financial information of Huazhong Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the combined statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2008, 2009, 2010 and the six months ended 30 June 2011 (the “Track Record Period”), and the combined statements of financial position of the Group as at 31 December 2008, 2009, 2010 and 30 June 2011, and the statement of financial position of the Company as at 31 December 2010 and 30 June 2011, together with the notes thereto (the “Financial Information”), and the comparative combined statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six months ended 30 June 2010 (the “Interim Comparative Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 30 December 2011 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 3 December 2010. Pursuant to a group reorganisation (the “Reorganisation”) as set out in note 2.1 of Section II below, which was completed on 29 July 2011, the Company became the holding company of the other subsidiaries comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and established. Details of their statutory auditors during the Track Record Period are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the combined financial statements of the Group (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 were audited by Ernst & Young Hua Ming in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “IAASB”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors' responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 Prospectuses and the Reporting Accountant issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagement 2410 Review of Interim Financial Information performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2008, 2009, 2010 and 30 June 2011 and of the combined results and cash flows of the Group for each of the Track Record Period.

Review conclusion in respect of the Interim Comparative Information

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

I. FINANCIAL INFORMATION

Combined statements of comprehensive income

	Notes	Year ended 31 December			Six months ended	
		2008	2009	2010	2010	2011
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
					<i>(unaudited)</i>	
Revenue	6	755,014	826,216	1,006,908	472,713	573,538
Cost of sales		<u>(623,006)</u>	<u>(651,324)</u>	<u>(748,663)</u>	<u>(364,085)</u>	<u>(422,473)</u>
Gross profit		132,008	174,892	258,245	108,628	151,065
Other income and gains	6	13,390	7,382	9,993	4,718	3,072
Gain on bargain purchase	7	37,080	—	21,560	—	9,766
Selling and distribution costs		<u>(70,265)</u>	<u>(67,423)</u>	<u>(75,622)</u>	<u>(36,380)</u>	<u>(41,239)</u>
Administrative expenses		<u>(37,467)</u>	<u>(41,018)</u>	<u>(51,133)</u>	<u>(21,362)</u>	<u>(34,255)</u>
Other expenses		<u>(6,100)</u>	<u>(4,521)</u>	<u>(5,346)</u>	<u>(2,629)</u>	<u>(3,135)</u>
Operating profit		68,646	69,312	157,697	52,975	85,274
Share of profits/(losses) of:						
Associates		895	—	(422)	—	100
Jointly controlled entities	20	3,980	3,443	9,054	4,856	4,686
Finance income	8	9,681	7,766	9,585	4,274	4,633
Finance costs	9	<u>(22,570)</u>	<u>(29,234)</u>	<u>(34,266)</u>	<u>(15,000)</u>	<u>(23,964)</u>
Profit before tax	10	60,632	51,287	141,648	47,105	70,729
Income tax expense	13	<u>(9,502)</u>	<u>(15,558)</u>	<u>(35,275)</u>	<u>(12,886)</u>	<u>(18,208)</u>
Profit and total comprehensive income for the year/period		<u>51,130</u>	<u>35,729</u>	<u>106,373</u>	<u>34,219</u>	<u>52,521</u>
Profit and total comprehensive income for the year/period attributable to:						
Owners of the parent		57,496	35,371	105,839	33,881	51,012
Non-controlling interests		<u>(6,366)</u>	<u>358</u>	<u>534</u>	<u>338</u>	<u>1,509</u>
		<u>51,130</u>	<u>35,729</u>	<u>106,373</u>	<u>34,219</u>	<u>52,521</u>
Earnings Per Share						
Attributed to owners of the parent	14	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Combined statements of financial position

		As at 31 December			As at
	Notes	2008	2009	2010	30 June
		(RMB'000)	(RMB'000)	(RMB'000)	2011
					(RMB'000)
NON-CURRENT ASSETS					
Property, plant and equipment	15	282,202	268,399	259,171	266,757
Investment property	16	4,732	4,483	4,234	4,110
Prepaid land lease payments	17	48,590	49,003	93,055	105,650
Investments in associates	19	—	—	7,044	2,908
Investments in jointly controlled entities	20	14,821	18,264	21,923	22,609
Prepayments for acquiring property, plant and equipment		5,208	1,134	7,315	9,033
Deferred tax assets	33	2,781	—	10,840	10,084
Total non-current assets		358,334	341,283	403,582	421,151
CURRENT ASSETS					
Inventories	22	124,039	73,371	89,469	116,800
Trade and notes receivables	23	193,813	246,068	305,386	345,927
Prepayments and other receivables	24	34,391	18,675	76,729	39,486
Due from the ultimate shareholder	39(d)	56	1,849	—	1,455
Due from related parties	39(d)	110,444	284,812	471,692	497,254
Loans and receivables	26	30,000	30,000	10,000	20,000
Pledged deposits	27	264,010	200,103	157,602	173,964
Cash and cash equivalents	27	12,428	98,870	30,080	92,751
Non-current assets held for sale	21	—	—	—	47,507
Total current assets		769,181	953,748	1,140,958	1,335,144
CURRENT LIABILITIES					
Trade and notes payables	28	324,222	314,404	409,822	536,871
Other payables, advances from customers and accruals	29	78,778	52,342	55,458	62,044
Deferred revenue	32	—	—	—	67,000
Interest-bearing bank borrowings	30	257,336	513,998	547,000	487,000
Due to the ultimate shareholder	39(d)	2,041	64,962	21,851	42,876
Due to related parties	39(d)	307,031	151,766	124,805	169,526
Income tax payable		2,534	3,356	27,214	24,067
Total current liabilities		971,942	1,100,828	1,186,150	1,389,384

		As at 31 December			As at
	Notes	2008	2009	2010	30 June
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
NET CURRENT LIABILITIES		<u>(202,761)</u>	<u>(147,080)</u>	<u>(45,192)</u>	<u>(54,240)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>155,573</u>	<u>194,203</u>	<u>358,390</u>	<u>366,911</u>
NON-CURRENT LIABILITIES					
Deferred revenue	32	—	—	67,000	—
Deferred tax liabilities	33	<u>5,159</u>	<u>5,600</u>	<u>11,553</u>	<u>17,393</u>
Total non-current liabilities		<u>5,159</u>	<u>5,600</u>	<u>78,553</u>	<u>17,393</u>
Net assets		<u>150,414</u>	<u>188,603</u>	<u>279,837</u>	<u>349,518</u>
EQUITY					
Equity attributable to owners of the parent					
Share capital	35	56,178	58,602	44,179	40,515
Reserves	36	<u>92,710</u>	<u>128,081</u>	<u>231,629</u>	<u>282,661</u>
		<u>148,888</u>	<u>186,683</u>	<u>275,808</u>	<u>323,176</u>
Non-controlling interests		<u>1,526</u>	<u>1,920</u>	<u>4,029</u>	<u>26,342</u>
Total equity		<u>150,414</u>	<u>188,603</u>	<u>279,837</u>	<u>349,518</u>

Combined statements of changes in equity

	Attributable to owners of the parent						Non-controlling interests (RMB'000)	Total equity (RMB'000)
	Share capital (RMB'000) (note 35)	Capital reserve (RMB'000) (note 36(ii))	Statutory reserve funds (RMB'000) (note 36(i))	Merger reserve (RMB'000) (note 36(iii))	Retained earnings (RMB'000)	Total (RMB'000)		
As at 1 January 2008	61,809	5,580	15,906	—	22,228	105,523	4,280	109,803
Profit and total comprehensive income	—	—	—	—	57,496	57,496	(6,366)	51,130
Transfer to statutory reserve fund	—	—	2,124	—	(2,124)	—	—	—
Deemed distribution to an equity holder (note 36(iv))	(5,910)	—	—	—	—	(5,910)	—	(5,910)
Capital contribution from non-controlling interests (note (a))	—	—	—	—	—	—	1,000	1,000
Acquisition of a subsidiary (note 34)	—	—	—	—	—	—	262	262
Deemed contribution (note 36(v))	279	—	—	914	—	1,193	—	1,193
Dividend paid by a jointly controlled entity to its then equity holder	—	—	—	—	(264)	(264)	—	(264)
Deemed acquisition of non-controlling interests	—	—	—	(9,150)	—	(9,150)	2,350	(6,800)
As at 31 December 2008 and 1 January 2009	56,178	5,580*	18,030*	(8,236)*	77,336*	148,888	1,526	150,414
Profit and total comprehensive income	—	—	—	—	35,371	35,371	358	35,729
Transfer to statutory reserve funds	—	—	3,287	—	(3,287)	—	—	—
Deemed contribution (note 36(v))	2,424	—	—	—	—	2,424	36	2,460
As at 31 December 2009 and 1 January 2010	58,602	5,580*	21,317*	(8,236)*	109,420*	186,683	1,920	188,603
Profit and total comprehensive income	—	—	—	—	105,839	105,839	534	106,373
Transfer to statutory reserve funds	—	—	1,291	—	(1,291)	—	—	—
Deemed distribution to an equity holder (note 36(iv))	(17,623)	—	—	—	—	(17,623)	—	(17,623)
Deemed capital contribution (note 36(v))	3,200	—	—	—	—	3,200	—	3,200
Acquisition of additional interest in a jointly controlled entity	—	—	—	(1,322)	—	(1,322)	—	(1,322)
Dividend paid by a jointly controlled entity to its then equity holder	—	—	—	—	(2,507)	(2,507)	—	(2,507)
Acquisition of a subsidiary (note 34)	—	—	—	—	—	—	3,612	3,612
Acquisition of non-controlling interests	—	—	—	1,538	—	1,538	(2,037)	(499)
As at 31 December 2010 and 1 January 2011	44,179	5,580*	22,608*	(8,020)*	211,461*	275,808	4,029	279,837
Profit and total comprehensive income	—	—	—	—	51,012	51,012	1,509	52,521
Deemed capital contribution (note 36(v))	12,800	—	—	—	—	12,800	—	12,800
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	(4,768)	(4,768)
Acquisition of a subsidiary (note 34)	—	—	—	—	—	—	25,628	25,628
Deemed distribution to an equity holder (note 36(iv))	(16,464)	—	—	—	—	(16,464)	—	(16,464)
Acquisition of non-controlling interests	—	—	—	20	—	20	(56)	(36)
As at 30 June 2011	<u>40,515</u>	<u>5,580*</u>	<u>22,608*</u>	<u>(8,000)*</u>	<u>262,473*</u>	<u>323,176</u>	<u>26,342</u>	<u>349,518</u>
<i>(unaudited)</i>								
As at 1 January 2010	58,602	5,580*	21,317*	(8,236)*	109,420*	186,683	1,920	188,603
Profit and total comprehensive income	—	—	—	—	33,881	33,881	338	34,219
Deemed capital contribution (note 36(v))	3,200	—	—	—	—	3,200	—	3,200
As at 30 June 2010	<u>61,802</u>	<u>5,580</u>	<u>21,317</u>	<u>(8,236)</u>	<u>143,301</u>	<u>223,764</u>	<u>2,258</u>	<u>226,022</u>

* These reserve accounts comprise the combined reserves of RMB92,710,000, RMB128,081,000, RMB231,629,000 and RMB282,661,000, as at 31 December 2008, 2009, 2010 and 30 June 2011 respectively in the combined statements of financial position.

Note (a): These arose from the capital contribution to Beijing Huaerte Automotive Parts Co., Ltd. ("Beijing Huaerte") from non-controlling interests amounting to RMB1,000,000.

Combined statements of cash flows

	Notes	Year ended 31 December			Six months ended	
		2008	2009	2010	2010	2011
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
					(unaudited)	
Cash flows from operating activities:						
Profit before tax	10	60,632	51,287	141,648	47,105	70,729
Adjustments for:						
Finance costs	9	22,570	29,234	34,266	15,000	23,964
Share of profits of jointly controlled entities and associates		(4,875)	(3,443)	(8,632)	(4,856)	(4,786)
Interest income	8	(9,681)	(7,766)	(9,585)	(4,274)	(4,633)
(Gain)/loss on disposal of items of property, plant and equipment	6	(477)	(43)	(362)	(18)	59
Depreciation of property, plant and equipment	15	40,534	38,661	36,372	18,187	24,164
Depreciation of investment properties	16	249	249	249	124	124
Amortisation of prepaid land lease payments	17	789	1,151	1,358	580	976
Revaluation of pre-existing interest in an acquired subsidiary to fair value	6	(4,337)	—	—	—	—
Gain on bargain purchase	7	(37,080)	—	(21,560)	—	(9,766)
Gain on disposal of investment in associates	6	—	—	—	—	(714)
Provision for/(reversal of) inventories written down		4,481	(937)	569	—	2,358
Provision for/(reversal of) impairment of receivables	23	1,709	1,368	383	(94)	1,516
(Increase)/decrease in inventories		(42,054)	51,605	(4,605)	(4,790)	(22,903)
Increase in trade and notes receivables		(13,152)	(70,477)	(57,033)	(87,580)	(11,336)
Decrease/(increase) in prepayments and other receivables		39,537	15,735	(6,681)	(2,492)	46,155
Decrease/(increase) in amounts due from related parties		10,536	11,812	(3,412)	(1,042)	5,599
Increase/(decrease) in trade and notes payables		63,864	(9,818)	81,599	41,216	100,105
(Decrease)/increase in other payables, advances from customers and accruals		(8,918)	1,666	37,950	(7,676)	863
Increase/(decrease) in amounts due to related parties		<u>56,666</u>	<u>(4,289)</u>	<u>(55,370)</u>	<u>18,943</u>	<u>(10,648)</u>
Cash generated from operations		180,993	105,995	167,154	28,333	211,826
Income tax paid		<u>(8,134)</u>	<u>(11,514)</u>	<u>(18,734)</u>	<u>(10,535)</u>	<u>(20,376)</u>

	Notes	Year ended 31 December			Six months ended 30 June	
		2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)	2010 (RMB'000)	2011 (RMB'000)
Net cash flows generated from operating activities		<u>172,859</u>	<u>94,481</u>	<u>148,420</u>	<u>17,798</u>	<u>191,450</u>
Cash flows from investing activities:						
Interest received		9,681	7,766	9,585	4,274	4,633
Purchases of items of property, plant and equipment		(45,276)	(19,617)	(39,388)	(15,285)	(62,190)
Proceeds from disposal of items of property, plant and equipment		4,513	324	11,105	122	105
Additions to prepaid land lease payments		—	(1,583)	(46,004)	(3,281)	(3,085)
Acquisition of subsidiaries	34	(3,398)	—	(11,299)	—	7,566
Purchase of equity interests in a jointly controlled entity		—	—	(5,268)	—	—
Capital injection to an associate		—	—	(3,000)	(3,000)	—
Dividends received from a jointly controlled entity		—	—	—	—	4,000
Advance to the ultimate shareholder	39(b)	(7,073)	(105,680)	(613)	(606)	(76,422)
Advance to related parties	39(b)	(383,854)	(322,343)	(512,620)	(61,128)	(339,930)
Recovery of advance to the ultimate shareholder		3,473	40,736	192	—	1,098
Recovery of advance to related parties		275,689	210,277	429,375	32,039	373,519
(Increase)/decrease in loans and receivables		(30,000)	—	20,000	(10,000)	(10,000)
(Increase)/decrease in pledged deposits		<u>(204,066)</u>	<u>63,907</u>	<u>42,501</u>	<u>49,043</u>	<u>(16,362)</u>
Net cash flows used in investing activities		<u>(380,311)</u>	<u>(126,213)</u>	<u>(105,434)</u>	<u>(7,822)</u>	<u>(117,068)</u>
Cash flows from financing activities:						
New bank loans		406,638	570,901	928,002	457,000	175,000
Repayment of bank loans		(300,565)	(314,239)	(895,000)	(404,000)	(239,000)
Acquisition of non-controlling interests		(6,800)	—	(499)	—	—
Deemed distribution to an equity holder		(5,910)	—	(17,623)	—	—
Deemed capital contribution from non-controlling interests		1,000	36	—	—	—
Deemed capital contribution from then equity holders		—	2,424	3,200	3,200	12,800
Interest paid		(22,570)	(29,234)	(34,266)	(15,000)	(23,964)
Advance from the ultimate shareholder	39(b)	4,310	1,386	28,191	11,011	26,196

	Notes	Year ended 31 December			Six months ended 30 June	
		2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)	2010 (RMB'000)	2011 (RMB'000)
Advance from related parties	39(b)	630,980	488,565	134,669	25,056	114,312
Repayment of advance from the ultimate shareholder		(4,310)	(5,100)	(209,517)	(32,565)	(13,778)
Repayment of advance from related parties		<u>(498,617)</u>	<u>(596,565)</u>	<u>(48,933)</u>	<u>(38,176)</u>	<u>(63,277)</u>
Net cash flows generated from/(used in) financing activities		<u>204,156</u>	<u>118,174</u>	<u>(111,776)</u>	<u>6,526</u>	<u>(11,711)</u>
Net (decrease)/increase in cash and cash equivalents		(3,296)	86,442	(68,790)	16,502	62,671
Cash and cash equivalents at beginning of year/period		<u>10,724</u>	<u>7,428</u>	<u>93,870</u>	<u>93,870</u>	<u>25,080</u>
Cash and cash equivalents at end of year/period		<u><u>7,428</u></u>	<u><u>93,870</u></u>	<u><u>25,080</u></u>	<u><u>110,372</u></u>	<u><u>87,751</u></u>
Analysis of balances of cash and cash equivalents						
Cash and cash equivalents as stated in the combined statements of cash flows		<u>7,428</u>	<u>93,870</u>	<u>25,080</u>	<u>110,372</u>	<u>87,751</u>
Cash and bank balances	27	7,428	93,870	25,080	110,372	87,751
Non-pledged time deposits with original maturity of three months or more when acquired	27	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
Cash and cash equivalents as stated in the combined statements of financial position		<u><u>12,428</u></u>	<u><u>98,870</u></u>	<u><u>30,080</u></u>	<u><u>115,372</u></u>	<u><u>92,751</u></u>

Details of major non-cash transactions are included in note 42.

Statements of financial position

		As at	
	<i>Notes</i>	31 December 2010 <i>(RMB'000)</i>	30 June 2011 <i>(RMB'000)</i>
Non-current assets			
Investment in a subsidiary	18	—	—
Total non-current assets		—	—
Current liabilities			
Amount due to a shareholder	31	—	—
Total current liabilities		—	—
Net current liabilities		—	—
NET ASSETS		<u>—</u>	<u>—</u>
CAPITAL AND RESERVES			
Share capital	35	—	—
Reserves	36	—	—
TOTAL EQUITY		<u>—</u>	<u>—</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 3 December 2010. The registered office address of the Company is Cricket Square, Hutchins Drive, PO BOX 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. During the Track Record Period, the Company's subsidiaries were involved in the manufacturing and sale of automobile internal and external structural and decorative parts, moulds and tooling, air conditioning/heater unit casing/liquid tank and non-automobile products, such as top cowl cover and knoll chair.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed "Reorganisation" in the section headed "History and Corporate Structure" to the Prospectus.

As at the date of this report, the Company had direct or indirect interests in its subsidiaries, jointly controlled entity or associates, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Nominal value of issued/registered paid-up capital	Principal activities
		Direct	Indirect		
Subsidiaries					
Huazhong Investment Company Limited ("Huazhong Investment") (note (a))	British Virgin Islands ("BVI") 7 December 2010	100%	—	US\$1	Investment holding
Huayou Investment (Hong Kong) Limited ("Huayou Investment") (note (a))	Hong Kong 28 December 2010	—	100%	HK\$1	Investment holding
Ningbo Huazhong Plastic Products Co., Ltd. ("Ningbo Huazhong Plastic") (note (b))	The People's Republic of China ("PRC") 11 September 1993	—	100%	US\$5,000,000	Plastics granulating and manufacturing of plastic products; design and manufacturing of automobile and motorcycle mould (injection mould, stamping mould and compression mould) and jig (welding jig or examination jig); manufacturing of brake assy of automobile key parts and combination instrument; decoration cloth and transportation of common goods

APPENDIX I
ACCOUNTANTS' REPORT

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Nominal value of issued/registered paid-up capital	Principal activities
		Direct	Indirect		
Ningbo Xinxing Automobile Plastic Parts Manufacturing Co., Ltd. ("Ningbo Xinxing") (note (c))	PRC 25 December 1984	—	100%	RMB3,400,000	Manufacturing of plastic products, automobile accessories, electronic components and mould
Changchun Huateng Automobile Parts Co., Ltd. ("Changchun Huateng") (note (d))	PRC 22 July 1997	—	100%	RMB1,000,000	Processing of automobile parts
Changchun Huaxiang Automobile Plastic Parts Manufacturing Co., Ltd. ("Changchun Huaxiang") (note (d))	PRC 9 June 2000	—	100%	RMB75,000,000	Manufacturing of automobile parts, plastic granulating, plastic products and moulds
Ningbo Huazhong Moulding Manufacturing Co., Ltd. ("Ningbo Huazhong Moulding") (note (e))	PRC 25 January 2002	—	100%	RMB10,000,000	Design, manufacturing and processing of mould and manufacturing and processing of plastic products and auto parts
Guangzhou Huazhong Automobile Decorative Parts Co., Ltd. ("Guangzhou Huazhong") (note (h))	PRC 24 September 2004	—	100%	RMB3,000,000	Production, processing and design of mould; processing and manufacturing; plastic products and auto parts
Chongqing Huazhong Automobile Decorative Parts Co., Ltd. ("Chongqing Huazhong") (note (g))	PRC 30 August 2007	—	100%	RMB5,000,000	Manufacturing of automobile parts and mould
Chengdu Huazhong Automobile Parts Co., Ltd. ("Chengdu Huazhong") (note (f))	PRC 22 October 2009	—	100%	RMB20,000,000	Plastics granulating and manufacturing of plastic products; design and manufacturing of automobiles and motorcycle moulds and jigs; manufacturing of key automobile parts including the brake assembly, combination instrument and decorative fabric
Shanghai Xiangmao Automobile Parts Co., Ltd. ("Shanghai Xiangmao") (note (k))	PRC 30 November 2009	—	100%	RMB500,000	Manufacturing, processing, selling and storage of automobile air-conditioning and its accessories, automobile shock-absorbers and its parts, household air-conditioning, decorative automobile parts

APPENDIX I
ACCOUNTANTS' REPORT

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Nominal value of issued/registered paid-up capital	Principal activities
		Direct	Indirect		
Ningbo Huafeng Plastic and Latex Products Co., Ltd. ("Ningbo Huafeng") (note (c))	PRC 17 March 1999	—	100%	RMB1,500,000	Manufacturing and processing of automotive parts, plastic products, metal products, electronic products, ceramics and lamp
Beijing Huaerte Automobile Parts Co., Ltd. ("Beijing Huaerte") (*) (note (l))	PRC 25 February 2008	—	80%	RMB1,000,000	Manufacturing and sale of plastic parts and automotive parts
Ningbo Huayue Automobile Trimming Co., Ltd. ("Ningbo Huayue") (note (e))	PRC 7 April 2005	—	70%	US\$1,500,000	Manufacturing and sale of automotive ornaments
Wuhu Huazhong Automotive Parts Co., Ltd. ("Wuhu Huazhong") (note (i))	PRC 1 June 2010	—	100%	RMB10,000,000	Manufacturing and processing of automobile parts, plastic products, plastics granulating, braking control systems and dashboards
Yantai Huaxiang Automotive Parts Co., Ltd. ("Yantai Huaxiang") (note (j))	PRC 16 April 2010	—	100%	RMB10,000,000	Manufacturing and processing of automobile parts, plastic products, plastic granulating, moulds, internal decorative materials
Shanghai Huaxin Automobile Latex and Plastic Co., Ltd. ("Shanghai Huaxin") (#)	PRC 21 June 1993	—	51%	RMB20,000,000	Import and export of all kinds of products and technologies (except for the products and technologies restricted or prohibited by the State); sale and processing of plastic and latex products and processing and sales of spare and accessory parts
Changxing Huaxin Automobile Latex and Plastic Co., Ltd. ("Changxing Huaxin") (note (m))	PRC 10 May 2011	—	51%	RMB3,000,000	Producing automotive accumulator containers; selling plastic and latex products
Jointly controlled entities					
Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd. ("Ningbo Hualete") (note (b))	PRC 17 March 2004	—	50%	EURO1,500,000	Manufacturing and processing automobile parts, designing and manufacturing high-grade textile
Changchun Huaxiang Faurecia Automotive Plastic Components Co., Ltd. ("Changchun Huaxiang Faurecia") (note (m))	PRC 3 June 2011	—	50%	RMB120,000,000	Manufacturing, assembling, selling of coating of automobile bumper beams, pedals and external decorative products; providing after-sale services and technical consultations

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company		Nominal value of issued/registered paid-up capital	Principal activities
		Direct	Indirect		
Associates					
Ningbo Huaxiang Technology Co., Ltd. ("Ningbo Huaxiang Technology") (& (note (e)))	PRC 28 May 2010	—	48%	RMB10,000,000	Research, development and production of plastic components and trading
Changchun Huayou Properties Co., Ltd. ("Changchun Huayou Properties") (& (note (l)))	PRC 5 February 2010	—	20%	RMB15,000,000	Real estate development
Shanghai Baodegu Plastic Science & Technology Co., Ltd. ("Shanghai Baodegu") (#)	PRC 14 June 1995	—	23%	US\$500,000	Manufacturing and selling of automobile plastic parts, including air conditioning unit casings and battery casings, and plastic materials for daily use

* the entity was deregistered in 2011; and

the entities were acquired in 2011; and

& the entities were disposed of in 2011

Note (a): No audited financial statements have been prepared for the Company, Huazhong Investment and Huayou Investment since the dates of their respective incorporation as these companies are either not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation or have not been involved in any significant business transactions other than the Reorganisation.

Note (b): The statutory financial statements for the year ended 31 December 2008 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Zhejiang Tianjian Oriental Certified Public Accountants Co., Ltd., and the statutory financial statements for the years ended 31 December 2009 and 2010 prepared under PRC GAAP were audited by Pan-China Certified Public Accountants Co., Ltd.

Note (c): The statutory financial statements for the years ended 31 December 2008, 2009 and 2010 prepared under PRC GAAP were audited by Tianxiang Union Certified Public Accountants Co., Ltd.

Note (d): No audited financial statements have been prepared for those entities for the year ended 31 December 2008, as those entities were all domestic companies and not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. The statutory financial statements for the years ended 31 December 2009 and 2010 prepared under PRC GAAP were audited by Jilin Jinshi Certified Public Accountants Co., Ltd.

Note (e): The statutory financial statements for the year ended 31 December 2010 prepared under PRC GAAP were audited by Tianxiang Union Certified Public Accountants Co., Ltd.

Note (f): No audited financial statements have been prepared for the entity for the year ended 31 December 2009, as this entity was a domestic company and not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation. The statutory financial statements for the year ended 31 December 2010 prepared under PRC GAAP were audited by Sichuan Junyi Certified Public Accountants Co., Ltd.

- Note (g): The statutory financial statements for the year ended 31 December 2008 prepared under PRC GAAP were audited by Zhejiang Tianjian Oriental Certified Public Accountants Co., Ltd., the statutory financial statements for the year ended 31 December 2009 prepared under PRC GAAP were audited by Pan-China Certified Public Accountants Co., Ltd., and the statutory financial statements for the year ended 31 December 2010 prepared under PRC GAAP were audited by Chongqing Yongsheng Certified Public Accountants Co., Ltd.
- Note (h): The statutory financial statements for the year ended 31 December 2008, 2009 and 2010 prepared under PRC GAAP were audited by Zhejiang Tianjian Oriental Certified Public Accountants Co., Ltd., Pan-China Certified Public Accountants Co., Ltd., and Zengcheng Hongri Certified Public Accountants Co., Ltd, respectively.
- Note (i): The statutory financial statements for the year ended 31 December 2010 prepared under PRC GAAP were audited by Wuhu Yongxin Certified Public Accountants Co., Ltd.
- Note (j): The statutory financial statements for the year ended 31 December 2010 prepared under PRC GAAP were audited by Yantai Fenghua Certified Public Accountants Co., Ltd.
- Note (k): No audited financial statements have been prepared for the entity for the year ended 31 December 2009, as this entity was a domestic company and not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation. The statutory financial statements for the year ended 31 December 2010 prepared under PRC GAAP were audited by Shanghai Huaju Certified Public Accountants Co., Ltd.
- Note (l): No audited financial statements have been prepared for those entities for the years ended 31 December 2008, 2009 and 2010, as those entities were all domestic companies and not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.
- Note (m): No audited financial statements have been prepared for those entities for the years ended 31 December 2008, 2009 and 2010, as they were incorporated in 2011.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as described in the section headed “History and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group subsequent to the end of the Track Record Period on 29 July 2011. Except for those acquired companies as mentioned in note 34 to the Financial Information, the companies now comprising the Group were under the common control of Mr. Zhou Minfeng (“Mr. Zhou”), the ultimate controlling shareholder, before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared on a combined basis as if the Company had always been the holding company of the Group by applying the pooling of interest accounting as if the Reorganisation had been completed at the beginning of the Track Record Period, except for the acquisitions of Ningbo Huafeng, Ningbo Xinxing and Changchun Huateng in 2008, acquisitions of Ningbo Huazhong Moulding and Guangzhou Huazhong in 2010 and acquisition of Shanghai Huaxin in 2011 (note 34), for which the acquisition method of accounting is applied (note 3.2).

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group, as if the current group structure resulted from the Reorganisation had been in existence throughout the Track Record Period, or since when the subsidiaries were incorporated/established or became controlled by the controlling shareholder, whichever is a shorter period.

Equity method is applied to the Group's investments in associates or jointly controlled entities. The Group applies pooling of interest method in accounting for the acquisition of associates or jointly controlled entities from the controlling shareholder or entities under common control when applying the equity method.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB, and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting periods commencing from 1 January 2011, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Track Record Period.

The Financial Information has been prepared on a historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousands, except when otherwise indicated.

Basis of combination

The Financial Information comprises the financial statements of the Company and its subsidiaries for the Track Record Period. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. The results of subsidiaries are fully combined from the date of acquisition, being the date on which the Group obtains control, and continue to be combined until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.3 NET CURRENT LIABILITIES

Notwithstanding that the Group had combined net current liabilities of RMB54,240,000 at 30 June 2011, the Financial Information has been prepared by the Directors on a going concern basis. The

net current liability was mainly resulted from RMB67,000,000 of deferred revenue which represented the proceeds received for a piece of land and certain buildings and machinery to be disposed of in 2012 (note 32) and would not result in cash outflow subsequently. Excluding the impact of the deferred revenue, the current assets exceeded the current liabilities by RMB12,760,000 as at 30 June 2011.

Further, in order to improve the Group's financial position, the directors of the Company have adopted the following measures:

- (i) As at 30 June 2011, the Group had unutilised credit facilities from banks of approximately RMB74,000,000. Moreover, subsequent to 30 June 2011, the Group has obtained new credit facilities of approximately RMB310,000,000 from certain PRC banks and successfully obtained or renewed approximately RMB438,600,000 interest-bearing bank borrowings.
- (ii) In order to improve the Group's financial position, the Directors continue to take action to tighten cost controls over various operating expenses, and are actively seeking new investment and business opportunities with an aim to attaining profitable and positive cash flow operations.

In the opinion of the Directors, in light of the measures taken to date, together with the expected results of other measures in progress, it is appropriate to prepare the Financial Information on a going concern basis, notwithstanding the Group's financial and liquidity positions at 30 June 2011.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the combined financial statements:

Amendments to IAS 1	Amendments to IAS 1 Presentation of Items of Other Comprehensive Income ⁴
Amendments to IAS 12	Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets ³
Amendments to IAS 19	Amendments to IAS 19 Employee Benefits ¹
IAS 27 (Revised)	Separate Financial Statements ¹
IAS 28 (Revised)	Investments in Associates and Joint Ventures ¹
Amendments to IFRS 1	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ²
Amendments to IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets ²
IFRS 9	Financial Instruments ¹
IFRS 10	Consolidated Financial Statements ¹
IFRS 11	Joint Arrangements ¹
IFRS 12	Disclosure of Interests in Other Entities ¹
IFRS 13	Fair Value Measurement ¹

- 1 Effective for annual periods beginning on or after 1 January 2013
- 2 Effective for annual periods beginning on or after 1 July 2011
- 3 Effective for annual periods beginning on or after 1 January 2012
- 4 Effective for annual periods beginning on or after 1 July 2012

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, are set out below:

Subsidiaries

A subsidiary is an entity, whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

- (d) an equity investment accounted for in accordance with IAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's investments in jointly controlled entities are stated in the combined statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly controlled entities is included in the combined statements of comprehensive income and combined reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's investments in the jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly controlled entities is included as part of the Group's investments in jointly controlled entities.

The results of jointly controlled entities are included in the Company's statements of comprehensive income to the extent of dividends received and receivable. The Company's investments in jointly controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the combined statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the combined statements of comprehensive income and combined reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Group's combined statements of comprehensive income to the extent of dividends received and receivable. The Group's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each of the Track Record Period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of each item of property, plant and equipment, after taking into account the residual value as follows:

	Estimated useful lives	Estimated residual value
Buildings	20 years	10%
Plant and machinery	5-10 years	10%
Motor vehicles	5 years	10%
Furniture and fixtures	3-5 years	10%
Tooling	3 years	—

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the combined statements of comprehensive income in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction in progress

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment property

Investment property is property which is owned or held under a leasehold interest either to earn rental income or for capital appreciation or for both.

Investment property is stated in the combined statements of financial position at cost less accumulated depreciation and any impairment losses. Depreciation is provided over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values. The estimated useful life of the investment property is 20 years.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition. Transfers are made to or from investment property only when there is a change in use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are recognised as expenses on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the terms.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 of the Group are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

The Group's financial assets include cash and cash equivalents, trade and notes receivables, loans and receivables, other receivables and amounts due from related parties.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the combined statements of comprehensive income. The loss arising from impairment is recognised in the combined statements of comprehensive income in other expenses.

Impairment of financial assets

The Group assesses at the end of each of the Track Record Period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the combined statements of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 of the Group are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group’s financial liabilities include trade and notes payables, other payables, amounts due to related parties and interest-bearing bank borrowings.

Loans and borrowings

After initial recognition, trade and notes payables, other payables, amounts due to related parties and interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the combined statements of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same and a discounted cash flow analysis.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Track Record Period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Track Record Period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Track Record Period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Track Record Period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Track Record Period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership and title have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, on the percentage of completion basis;
- (c) rental income, on a time proportion basis over the lease terms; and

- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Retirement benefits

Pursuant to the relevant regulations, the PRC subsidiaries of the Group have participated in a local municipal government retirement benefit scheme (the “Scheme”), whereby the subsidiaries are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Borrowing costs

Borrowings costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the respective assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currency

The Financial Information is presented in Renminbi (“RMB”), which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of each of the Track Record Period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information.

Operating lease commitments - Group as lessor

The Group has entered into plant and building leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Track Record Period, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management

judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Details of unrecognised tax losses as at the end of each of the Track Record Period are contained in note 33.

Provision for impairment of trade and notes receivables

The provision policy for impairment of trade and notes receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group and the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. Further details are contained in note 23.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets as at the end of each of the Track Record Period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

5. SEGMENT INFORMATION

For management purposes, the Group is organised into one single business unit that includes primarily the manufacture and sale of internal and external decorative and structural parts, moulds and tooling, air conditioning/heater unit casing/liquid tank and non-automobile products. Management reviews the combined results when making decisions about allocating resources and assessing the performance of the Group. Accordingly, no segment analysis is presented.

Geographical information(a) *Revenue from external customers*

An analysis of the Group's geographical information on revenue attributed to the region on the basis of the customers' locations for the Track Record Period is set out in the following table:

	Revenue from external customers				
	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
				<i>(unaudited)</i>	
Mainland China	729,470	809,121	952,046	450,168	548,325
Overseas	<u>25,544</u>	<u>17,095</u>	<u>54,862</u>	<u>22,545</u>	<u>25,213</u>
Total	<u>755,014</u>	<u>826,216</u>	<u>1,006,908</u>	<u>472,713</u>	<u>573,538</u>

(b) *Non-current assets*

Since all the non-current assets, other than deferred tax assets, employed by the Group are located in Mainland China, no geographical information for non-current assets is presented.

Information about major customers

Revenue amounting to 10 percent or more of the Group's revenue derived from sales to a single customer for the Track Record Period is set out in the following table:

Company	Revenue from external customers				
	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
				<i>(unaudited)</i>	
Customer A	363,525	377,698	492,304	214,964	270,912
Customer B	<u>64,115</u>	<u>121,348</u>	<u>119,633</u>	<u>61,905</u>	<u>57,704</u>

The above sales to major customers include sales to a group of entities which are known to be under common control with those customers.

6. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	<i>(unaudited)</i>				
Revenue:					
Sales of goods	<u>755,014</u>	<u>826,216</u>	<u>1,006,908</u>	<u>472,713</u>	<u>573,538</u>
Other income and gains:					
Government grants (note (a))	1,719	2,943	1,553	222	284
Revaluation of pre-existing interest in an acquired subsidiary to fair value (note 34)	4,337	—	—	—	—
Rental income	1,701	1,538	1,594	647	307
Gain on sales of raw materials	4,055	2,296	4,153	2,713	153
Gain on sales of scrap materials	517	285	1,755	624	1,092
Gain on disposal of property, plant and equipment	477	43	362	18	—
Gain on disposal of investment in associates	—	—	—	—	714
Others	<u>584</u>	<u>277</u>	<u>576</u>	<u>494</u>	<u>522</u>
Total	<u>13,390</u>	<u>7,382</u>	<u>9,993</u>	<u>4,718</u>	<u>3,072</u>

Note (a): The amount represents subsidies received from local PRC government authorities by the Group's subsidiaries in connection with certain financial support to local business enterprises for the purpose of encouraging business development.

7. GAIN ON BARGAIN PURCHASE

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	<i>(unaudited)</i>				
Gain on bargain purchase (note 34)	<u>37,080</u>	<u>—</u>	<u>21,560</u>	<u>—</u>	<u>9,766</u>

8. FINANCE INCOME

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	<i>(unaudited)</i>				
Interest income from related party through entrusted loans (note 39(b)(v))	—	—	276	—	2,819
Interest income on loans and receivables	3,310	344	5,308	2,402	709
Interest income on bank deposits	<u>6,371</u>	<u>7,422</u>	<u>4,001</u>	<u>1,872</u>	<u>1,105</u>
	<u>9,681</u>	<u>7,766</u>	<u>9,585</u>	<u>4,274</u>	<u>4,633</u>

9. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	<i>(unaudited)</i>				
Interest expense on bank loans and borrowings	<u>22,570</u>	<u>29,234</u>	<u>34,266</u>	<u>15,000</u>	<u>23,964</u>

10. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December			Six months ended 30 June	
		2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)	2010 (RMB'000)	2011 (RMB'000)
Cost of inventories recognised as expenses		635,750	661,154	786,387	364,178	436,456
Depreciation of property, plant and equipment	15	40,534	38,661	36,372	18,187	24,164
Depreciation of investment property	16	249	249	249	124	124
Amortisation of land lease payments	17	789	1,151	1,358	580	976
Research and development costs		9,046	4,631	5,774	2,134	2,096
Lease payments under operating leases in respect of properties		4,082	6,045	8,047	2,309	4,864
Auditors' remuneration		886	1,020	1,008	420	1,673
Employee benefit expense						
Wages and salaries		44,425	51,250	62,928	29,146	39,437
Pension scheme costs		2,843	3,569	4,892	2,106	5,052
		<u>47,268</u>	<u>54,819</u>	<u>67,820</u>	<u>31,252</u>	<u>44,489</u>
Gross rental income		(4,016)	(3,844)	(4,420)	(2,320)	(504)
Less: direct expenses that generated rental income		<u>2,315</u>	<u>2,306</u>	<u>2,826</u>	<u>1,673</u>	<u>197</u>
		<u>(1,701)</u>	<u>(1,538)</u>	<u>(1,594)</u>	<u>(647)</u>	<u>(307)</u>
Net foreign exchange losses		616	486	666	22	330
Provision for/(reversal of) impairment of receivables	23	1,709	1,368	383	(94)	1,516
Provision for/(reversal of) inventories written-down		4,481	(937)	569	—	2,358
Gain on bargain purchase	7	(37,080)	—	(21,560)	—	(9,766)
Revaluation of pre-existing interest in an acquired subsidiary to fair value	6	(4,337)	—	—	—	—
Gain on disposal of investment in associates	6	—	—	—	—	(714)
(Gain)/loss on disposal of items of property, plant and equipment	6	(477)	(43)	(362)	(18)	59
Interest income	8	<u>(9,681)</u>	<u>(7,766)</u>	<u>(9,585)</u>	<u>(4,274)</u>	<u>(4,633)</u>

11. DIRECTORS' REMUNERATION

Directors' remuneration for the Track Record Period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)	2010 (RMB'000)	2011 (RMB'000)
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	379	387	420	213	211
Performance related bonuses	111	143	144	72	73
Pension scheme contributions	2	1	12	5	7
	<u>492</u>	<u>531</u>	<u>576</u>	<u>290</u>	<u>291</u>

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Track Record Period were as follows:

	Year ended 31 December			Six months ended 30 June	
	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)	2010 (RMB'000)	2011 (RMB'000)
Mr. Su Xijia	—	—	—	—	—
Mr. Yu Shuli	—	—	—	—	—
Mr. Tian Yushi	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

There were no other emoluments payable to the independent non-executive directors during the Track Record Period.

(b) Executive directors and non-executive directors

	Fees (RMB'000)	Salaries, allowances and benefits in kind (RMB'000)	Performance related bonuses (RMB'000)	Pension scheme contributions (RMB'000)	Total remuneration (RMB'000)
Year ended 31 December 2008					
<i>Executive directors:</i>					
Mr. Zhou Minfeng	—	240	81	—	321
Mr. Chang Jingzhou	—	139	30	2	171
	—	379	111	2	492
<i>Non-executive directors:</i>					
Ms. Lai Cairong	—	—	—	—	—
Mr. Wang Yuming	—	—	—	—	—
	—	—	—	—	—
Year ended 31 December 2009					
<i>Executive directors:</i>					
Mr. Zhou Minfeng	—	240	111	—	351
Mr. Chang Jingzhou	—	147	32	1	180
	—	387	143	1	531
<i>Non-executive directors:</i>					
Ms. Lai Cairong	—	—	—	—	—
Mr. Wang Yuming	—	—	—	—	—
	—	—	—	—	—
Year ended 31 December 2010					
<i>Executive directors:</i>					
Mr. Zhou Minfeng	—	251	111	10	372
Mr. Chang Jingzhou	—	169	33	2	204
	—	420	144	12	576
<i>Non-executive directors</i>					
Ms. Lai Cairong	—	—	—	—	—
Mr. Wang Yuming	—	—	—	—	—
	—	—	—	—	—

	Fees (RMB'000)	Salaries, allowances and benefits in kind (RMB'000)	Performance related bonuses (RMB'000)	Pension scheme contributions (RMB'000)	Total remuneration (RMB'000)
Six months ended					
30 June 2010					
(unaudited)					
<i>Executive directors:</i>					
Mr. Zhou Minfeng	—	125	55	4	184
Mr. Chang Jingzhou	—	88	17	1	106
	<u>—</u>	<u>213</u>	<u>72</u>	<u>5</u>	<u>290</u>
<i>Non-executive directors</i>					
Ms. Lai Cairong	—	—	—	—	—
Mr. Wang Yuming	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Six months ended					
30 June 2011					
<i>Executive directors:</i>					
Mr. Zhou Minfeng	—	120	55	6	181
Mr. Chang Jingzhou	—	91	18	1	110
	<u>—</u>	<u>211</u>	<u>73</u>	<u>7</u>	<u>291</u>
<i>Non-executive directors</i>					
Ms. Lai Cairong	—	—	—	—	—
Mr. Wang Yuming	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Track Record Period included 2 directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining 3 non-director, highest paid employees for the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	<i>(unaudited)</i>				
Salaries, allowances and benefits in kind	395	797	826	353	1,079
Performance related bonuses	93	409	267	110	288
Pension scheme contributions	<u>5</u>	<u>19</u>	<u>28</u>	<u>5</u>	<u>6</u>
	<u>493</u>	<u>1,225</u>	<u>1,121</u>	<u>468</u>	<u>1,373</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	<i>(unaudited)</i>				
Nil to RMB1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Track Record Period, none of the directors or the non-director, highest paid employees waived or agreed to waive any remuneration.

13. INCOME TAX

The Company and its subsidiary incorporated in the Cayman Islands and the BVI are exempted from taxation.

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong during the Track Record Period.

All of the Group's subsidiaries registered in the PRC and only have operations in Mainland China are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. On 16 March 2007, the PRC government promulgated the Enterprise Income Tax Law of the PRC (the "EIT Law"), which was effective from 1 January 2008. On 6 December 2007, the State Council issued the Implementation Regulation of the EIT Law. The EIT Law and Implementation Regulation changed the tax rate for the PRC enterprises from 33% to 25% from 1 January 2008 onwards.

Pursuant to the relevant tax rules in the PRC, Chongqing Huazhong was qualified as a Western China development enterprise and is entitled to a preferential rate of 15% during the Track Record Period. All other subsidiaries operating in Mainland China are subject to tax rate of 25% during the Track Record Period.

According to the requirements of the Provisional Regulations of the PRC on Land Appreciation Tax ("LAT") effective from 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective from 27 January 1995, all income from the sale or transfer of state-owned leasehold interests on land, buildings and their attached facilities in Mainland China is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

The Group has estimated, made and included in tax provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated.

The major components of income tax expense of the Group are as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Current income tax					
Income tax for the year/period	7,527	12,381	27,379	9,667	14,513
(Over)/under provision in prior years	(83)	(45)	5	5	13
LAT	—	—	13,474	—	—
Deferred income tax (note 33)	<u>2,058</u>	<u>3,222</u>	<u>(5,583)</u>	<u>3,214</u>	<u>3,682</u>
Total tax charge for the year/period	<u>9,502</u>	<u>15,558</u>	<u>35,275</u>	<u>12,886</u>	<u>18,208</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate for each of the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	<i>(unaudited)</i>				
Profit before tax	60,632	51,287	141,648	47,105	70,729
Tax at the statutory tax rate	15,158	12,822	35,412	11,776	17,682
Lower tax rate for specific province	(368)	(712)	(1,144)	(575)	(595)
Tax losses not recognised	3,948	293	78	66	—
Profits and losses attributable to jointly controlled entities and associates	(1,219)	(861)	(2,158)	(1,214)	(1,197)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	2,611	3,977	9,188	3,414	4,886
Non-taxable income	(10,663)	(190)	(5,673)	—	(2,620)
(Over)/under provision in prior years	(83)	(45)	5	5	13
Expenses not deductible for tax	118	274	709	769	717
Tax losses utilised	—	—	(1,142)	(1,355)	(678)
	<u>9,502</u>	<u>15,558</u>	<u>35,275</u>	<u>12,886</u>	<u>18,208</u>

14. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the number of shares as at the end of each of the Track Record Period is different from the number of shares immediately after the completion of the global offering as more fully explained in the Section of Share Capital of the Prospectus.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings (RMB'000)	Plant and machinery (RMB'000)	Motor vehicles (RMB'000)	Furniture and fixtures (RMB'000)	Tooling (RMB'000)	Construction in progress (RMB'000)	Total (RMB'000)
Cost							
As at 1 January 2008	76,161	223,961	6,141	10,077	31,563	1,730	349,633
Additions	2,775	16,487	472	421	9,239	16,454	45,848
Acquisition of subsidiaries (note 34)	21,720	23,550	1,007	927	—	—	47,204
Transfers	1,755	2,236	—	—	—	(3,991)	—
Disposals	—	(7,323)	(666)	—	—	—	(7,989)
As at 31 December 2008 and 1 January 2009	102,411	258,911	6,954	11,425	40,802	14,193	434,696
Additions	3,497	3,769	453	146	5,622	11,652	25,139
Transfers	24,052	80	—	—	—	(24,132)	—
Disposals	—	(153)	(975)	—	—	—	(1,128)
As at 31 December 2009 and 1 January 2010	129,960	262,607	6,432	11,571	46,424	1,713	458,707
Additions	1,312	9,811	2,472	900	5,705	13,007	33,207
Acquisition of subsidiaries (note 34)	296	4,161	223	—	—	—	4,680
Transfers	265	342	—	—	—	(607)	—
Disposals	(1,125)	(14,523)	(1,229)	(183)	(1,793)	—	(18,853)
As at 31 December 2010 and 1 January 2011	130,708	262,398	7,898	12,288	50,336	14,113	477,741
Additions	351	16,467	668	268	17,393	25,325	60,472
Transfers	—	1,461	—	—	—	(1,461)	—
Acquisition of subsidiaries (note 34)	12,608	5,599	560	182	—	—	18,949
Disposals	—	(612)	—	—	—	—	(612)
Transfer to non-current assets held for sale (note 21)	—	(89,542)	(348)	(451)	—	—	(90,341)
As at 30 June 2011	<u>143,667</u>	<u>195,771</u>	<u>8,778</u>	<u>12,287</u>	<u>67,729</u>	<u>37,977</u>	<u>466,209</u>

	Buildings (RMB'000)	Plant and machinery (RMB'000)	Motor vehicles (RMB'000)	Furniture and fixtures (RMB'000)	Tooling (RMB'000)	Construction in progress (RMB'000)	Total (RMB'000)
Accumulated depreciation							
As at 1 January 2008	14,379	70,675	4,155	7,501	19,203	—	115,913
Depreciation charge	3,369	23,445	263	830	12,627	—	40,534
Disposals	—	(3,377)	(576)	—	—	—	(3,953)
As at 31 December 2008 and 1 January 2009	17,748	90,743	3,842	8,331	31,830	—	152,494
Depreciation charge	3,500	25,279	996	704	8,182	—	38,661
Disposals	—	(17)	(830)	—	—	—	(847)
As at 31 December 2009 and 1 January 2010	21,248	116,005	4,008	9,035	40,012	—	190,308
Depreciation charge	5,429	23,378	386	925	6,254	—	36,372
Disposals	(98)	(6,735)	(1,105)	(172)	—	—	(8,110)
As at 31 December 2010 and 1 January 2011	26,579	132,648	3,289	9,788	46,266	—	218,570
Depreciation charge	3,446	11,325	556	185	8,652	—	24,164
Disposals	—	(448)	—	—	—	—	(448)
Transfer to non-current assets held for sale (note 21)	—	(42,219)	(282)	(333)	—	—	(42,834)
As at 30 June 2011	<u>30,025</u>	<u>101,306</u>	<u>3,563</u>	<u>9,640</u>	<u>54,918</u>	<u>—</u>	<u>199,452</u>
Net book value							
As at 31 December 2008	<u>84,663</u>	<u>168,168</u>	<u>3,112</u>	<u>3,094</u>	<u>8,972</u>	<u>14,193</u>	<u>282,202</u>
As at 31 December 2009	<u>108,712</u>	<u>146,602</u>	<u>2,424</u>	<u>2,536</u>	<u>6,412</u>	<u>1,713</u>	<u>268,399</u>
As at 31 December 2010	<u>104,129</u>	<u>129,750</u>	<u>4,609</u>	<u>2,500</u>	<u>4,070</u>	<u>14,113</u>	<u>259,171</u>
As at 30 June 2011	<u>113,642</u>	<u>94,465</u>	<u>5,215</u>	<u>2,647</u>	<u>12,811</u>	<u>37,977</u>	<u>266,757</u>

Included in the property, plant and equipment as at 31 December 2008, 2009, 2010 and 30 June 2011 were certain buildings with a net carrying value of RMB5,360,000, RMB16,800,000, RMB17,447,000 and RMB17,700,000, respectively, of which the property certificates have not been obtained. The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 30 June 2011.

Included in the property, plant and equipment as at 31 December 2010 and 30 June 2011 were certain buildings and machinery of Changchun Huateng to be disposed of with a net carrying value of RMB15,151,000 and RMB14,651,000, respectively, which was located on a piece of land, the title of which has been transferred to local government. Changchun Huateng will move out of these buildings after the completion of the relocation of its existing factory to the new factory. The proceeds received for the buildings and machinery together with the land to be disposed of were recorded as deferred revenue as at 31 December 2010 and 30 June 2011 (note 32).

Pursuant to an agreement entered between Changchun Huaxiang and Changchun Huaxiang Faurecia dated on 1 June 2011, certain of Changchun Huaxiang's machinery and equipment were to be disposed to Changchun Huaxiang Faurecia. The transaction was completed subsequently in August 2011. Hence, these machinery and equipment with a net carrying value of RMB47,507,000 were classified as non-current assets held for sale as at 30 June 2011 (note 21).

Certain of the Group's buildings with a net carrying value of nil, RMB10,200,000, RMB9,571,000 and RMB21,555,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were pledged to secure bank loans granted to the Group (note 30).

Included in the property, plant and equipment as at 31 December 2008, 2009, 2010 and 30 June 2011 were certain of the Group's machines with a net carrying value of RMB10,182,000, RMB8,834,000, nil and nil, respectively, leased to related parties (note 39(b)(iv)).

16. INVESTMENT PROPERTY

RMB'000

Cost:

As at 1 January 2008, 31 December 2008, 1 January 2009, 31 December 2009, 1 January 2010, 31 December 2010, 1 January 2011 and 30 June 2011	<u>5,542</u>
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Accumulated depreciation:

As at 1 January 2008	561
Depreciation charge	<u>249</u>

As at 31 December 2008 and 1 January 2009	810
Depreciation charge	<u>249</u>

As at 31 December 2009 and 1 January 2010	1,059
Depreciation charge	<u>249</u>

As at 31 December 2010 and 1 January 2011	1,308
Depreciation charge	<u>124</u>

As at 30 June 2011	<u>1,432</u>
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Net book value

As at 31 December 2008	<u>4,732</u>
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As at 31 December 2009	<u>4,483</u>
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As at 31 December 2010	<u>4,234</u>
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As at 30 June 2011	<u>4,110</u>
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The Group's investment properties are situated in Mainland China and on land held under medium term leases.

The fair values of the Group's investment property were RMB4,538,000, RMB4,891,000, RMB5,544,000 and RMB6,271,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, according to the valuation performed by an independent professionally qualified valuer, on an open market basis. The Group's investment properties are leased to a related party under operating leases, further summary details of which are included in note 37.

The Group's investment property with a net carrying value of nil, RMB4,483,000, RMB4,234,000 and RMB4,110,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were pledged to secure bank loans granted to the Group (note 30).

17. PREPAID LAND LEASE PAYMENTS

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
At beginning of year/period	34,730	49,722	50,154	94,800
Additions	—	1,583	46,004	3,085
Acquisition of subsidiaries (note 34)	15,781	—	—	10,640
Amortisation	<u>(789)</u>	<u>(1,151)</u>	<u>(1,358)</u>	<u>(976)</u>
At end of year/period	49,722	50,154	94,800	107,549
Current portion included in prepayments and other receivables (note 24)	<u>(1,132)</u>	<u>(1,151)</u>	<u>(1,745)</u>	<u>(1,899)</u>
At end of year/period	<u>48,590</u>	<u>49,003</u>	<u>93,055</u>	<u>105,650</u>

The leasehold land is situated in Mainland China and is held under medium term lease.

Included in the prepaid land lease payments as at 31 December 2010 and 30 June 2011 were certain lands with a net book value of RMB16,680,000 and RMB16,680,000, respectively, of which the land use right certificates have not been obtained.

Included in the prepaid land lease payments as at 31 December 2010 and 30 June 2011 was a piece of land of Changchun Huateng with a net book value of RMB13,081,000 and RMB12,999,000, respectively, the title of land use right of which has been transferred to local government. Changchun Huateng will move out of this piece of land after the completion of the relocation of its existing factory to the new factory. The proceeds received for this piece of land together with the buildings and machinery to be disposed of were recorded as deferred revenue as at 31 December 2010 and 30 June 2011 (note 32).

Certain of the Group's prepaid land lease payments with a carrying value of nil, RMB2,921,000, RMB2,857,000 and RMB13,249,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were pledged to secure bank loans granted to the Group (note 30).

18. INVESTMENT IN A SUBSIDIARY

Company

	As at	
	31 December 2010 (RMB'000)	30 June 2011 (RMB'000)
Unlisted equity investment, at cost	—	—
Less: Impairment of investment	—	—
	<u>—</u>	<u>—</u>

Particulars of the subsidiary are as follows:

Name	Place and date of incorporation/ registration	Ownership interest	Percentage of			Principal activity
			Voting power	Profit sharing		
Huazhong Investment (note (i))	BVI 7 December 2010	100%	100%	100%	Investment holding	

(i) As at 7 December 2010, Huazhong Investment was incorporated as a company with limited liability in the BVI by the Company with share capital of US\$1 (equivalent to RMB7).

19. INVESTMENTS IN ASSOCIATES

	As at 31 December			As at
	2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)	30 June 2011 (RMB'000)
Unlisted investments, at cost:				
- Share of net assets	<u>—</u>	<u>—</u>	<u>7,044</u>	<u>2,908</u>

Particulars of the associates are as follows:

Name	Place and date of incorporation/ registration	Ownership interest	Percentage of			Principal activities
			Voting power	Profit sharing		
Ningbo Huafeng (note (i))	PRC 17 March 1999	44%	44%	44%	Manufacturing and processing of automobile parts, plastic products, metal products, electronic products, ceramics and lamp	
Changchun Huateng (note (ii))	PRC 22 July 1997	40%	40%	40%	Manufacturing of automobile parts	
Changchun Huayou Properties (note (iii))	PRC 5 February 2010	20%	20%	20%	Real estate development	
Ningbo Huaxiang Technology (note (iv))	PRC 28 May 2010	48%	48%	48%	Research, development and production of plastic components and trading	
Shanghai Baodegu (note (v))	PRC 14 June 1995	23%	45%	23%	Manufacturing and selling of automobile plastic parts, including air conditioning unit casings and battery casings, and plastic materials for daily use	

- (i) Since 19 September 2005, Mr. Zhou held 44% equity interests in Ningbo Huafeng, which was regarded as the Group's interests in Ningbo Huafeng. On 15 January 2008, the Group acquired Ningbo Huafeng through the acquisition of additional 56% equity interests from third parties. Ningbo Huafeng then became a wholly-owned subsidiary of the Group. Further details of the transaction are included in note 34.
- (ii) Since 27 September 2003, Mr. Zhou held 40% equity interests in Changchun Huateng, which was regarded as the Group's interests in Changchun Huateng. On 15 December 2008, the Group acquired Changchun Huateng through the acquisition of additional 60% equity interests from a related party. Changchun Huateng then became a wholly-owned subsidiary of the Group. Further details of the transaction are included in note 34.
- (iii) On 5 February 2010, Changchun Huayou Properties was incorporated in Changchun with a 20% equity interest indirectly held by the Group through its subsidiary, Changchun Huateng. Changchun Huayou Properties then became an associate of the Group. On 31 March 2011, Changchun Huayou Properties was disposed of by the Group to Ningbo Huayou Properties Co., Ltd ("Ningbo Huayou Properties"). Further details of the transaction are included in note 39(c).

- (iv) On 28 May 2010, Ningbo Huaxiang Technology was incorporated in Ningbo with a 48% equity interest held by Ningbo Huazhong Moulding. On 29 October 2010, Ningbo Huazhong Moulding was acquired by the Group. Ningbo Huaxiang Technology then became an associate of the Group thereafter. Further details of the transaction of acquisition of Ningbo Huazhong Moulding are included in note 34. On 24 June 2011, Ningbo Huaxiang Technology was disposed of by the Group to Mr. Zhou. Further details of the transaction are included in note 39(c).
- (v) Since 10 August 1999, Shanghai Huaxin held 45% equity interests in Shanghai Baodegu. On 11 February 2011, the Group acquired 51% equity interests in Shanghai Huaxin from Huaxiang Group Co., Ltd. ("Huaxiang Group"). Shanghai Baodegu then became an associate of the Group thereafter. Further details of the transaction of acquisition of Shanghai Huaxin are included in note 34.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts or financial statements:

	Year ended 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Assets	—	—	174,892	9,450
Liabilities	—	—	(152,223)	(2,565)
Revenues	—	—	—	5,631
Profits/(losses)	<u>2,237</u>	<u>—</u>	<u>(1,635)</u>	<u>529</u>

The financial statements of these companies for the Track Record Period were not audited by Ernst & Young or another member firm of the Ernst & Young global network. Further summary of details is included in note 1.

20. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Unlisted investments, at cost:				
- Share of net assets	<u>14,821</u>	<u>18,264</u>	<u>21,923</u>	<u>22,609</u>

Particulars of the jointly controlled entities are as follows:

Name	Place and date of incorporation/ registration	Ownership interest	Percentage of			Principal activities
			Voting power	Profit sharing		
Ningbo Hualete (Note (i))	PRC 17 March 2004	50%	50%	50%	Manufacturing and processing automobile parts, designing and manufacturing high-grade textile	
Guangzhou Huazhong (Note (ii))	PRC 24 September 2004	41%	50%	41%	Production, processing and design of mould; processing and manufacturing; plastic products, auto parts	
Changchun Huaxiang Faurecia (Note (iii))	PRC 3 June 2011	50%	50%	50%	Manufacturing, assembling, selling of coating of automobile bumper beams, pedals and external decorative products; providing after-sale services and technical consultations	

- (i) Ningbo Hualete was jointly controlled by the Group with a 41% equity interest in 2008 and 2009. On 24 December 2010, the Group acquired an additional 9% equity interest in Ningbo Hualete from Ningbo Huayou Properties, a related party and holds 50% equity interests thereafter and remains to be jointly controlled by the Group.
- (ii) Guangzhou Huazhong was jointly controlled by the Group with a 41% equity interest in 2008 and 2009. On 28 October 2010, the Group acquired Guangzhou Huazhong through the acquisition of additional 50% and 9% equity interests from Ningbo Huazhong Moulding, a related party, and a non-controlling shareholder, respectively. Guangzhou Huazhong became a subsidiary of the Group thereafter. Further details of the transaction are included in note 34.
- (iii) On 3 June 2011, Changchun Huaxiang Faurecia was incorporated in Changchun with a 50% equity interest held by Ningbo Huazhong Plastic.

The following table illustrates the summarised financial information of the Group's jointly controlled entities:

	Year ended 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Share of the jointly controlled entities' statements of financial position:				
Current assets	25,510	38,243	35,154	29,818
Non-current assets	3,444	2,934	6,189	5,691
Current liabilities	(13,736)	(22,913)	(19,420)	(12,900)
Non-current liabilities	<u>(397)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net assets	<u>14,821</u>	<u>18,264</u>	<u>21,923</u>	<u>22,609</u>
Share of the jointly controlled entities' results:				
Revenue	39,459	43,526	57,930	25,190
Other income	<u>90</u>	<u>30</u>	<u>286</u>	<u>281</u>
	39,549	43,556	58,216	25,471
Total expenses	(34,838)	(39,434)	(47,721)	(20,147)
Tax	<u>(731)</u>	<u>(679)</u>	<u>(1,441)</u>	<u>(638)</u>
Profit after tax	<u>3,980</u>	<u>3,443</u>	<u>9,054</u>	<u>4,686</u>

The financial statements of these companies for the Track Record Period were not audited by Ernst & Young or another member firm of the Ernst & Young global network. Further summary of details is included in note 1.

21. NON-CURRENT ASSETS HELD FOR SALE

On 1 June 2011, Changchun Huaxiang entered into an agreement with Changchun Huaxiang Faurecia to dispose certain of its machinery and equipment. The transfer of these machinery and equipment was completed in August 2011.

As at 30 June 2011, these machinery and equipment to be disposed of were classified as non-current assets held for sale and the carrying value was as follows:

(RMB'000)

Property, plant and equipment (note 15)	<u>47,507</u>
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22. INVENTORIES

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011
				(RMB'000)
Raw materials	21,736	24,859	31,309	27,073
Work in progress	4,070	8,029	4,023	6,444
Finished goods	<u>98,233</u>	<u>40,483</u>	<u>54,137</u>	<u>83,283</u>
	<u>124,039</u>	<u>73,371</u>	<u>89,469</u>	<u>116,800</u>

23. TRADE AND NOTES RECEIVABLES

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011
				(RMB'000)
Trade receivables	167,116	239,275	271,475	343,133
Notes receivable	<u>38,936</u>	<u>20,400</u>	<u>47,901</u>	<u>18,300</u>
	206,052	259,675	319,376	361,433
Impairment of the trade receivables	<u>(12,239)</u>	<u>(13,607)</u>	<u>(13,990)</u>	<u>(15,506)</u>
	<u>193,813</u>	<u>246,068</u>	<u>305,386</u>	<u>345,927</u>

The Group's trading terms with its customers are mainly on credit. The credit period is from one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Certain of the Group's trade receivables with a carrying value of nil, RMB16,389,000, RMB13,556,000 and RMB23,858,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were pledged to secure bank loans granted to the Group, respectively (note 30).

The Group's notes receivable were all aged within six months and neither past due nor impaired.

An aged analysis of the trade receivables of the Group, based on the invoice date and net of provisions, is as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011
				(RMB'000)
Within 3 months	142,278	214,133	229,627	300,666
3 to 6 months	10,700	8,966	24,789	24,343
6 months to 1 year	<u>1,899</u>	<u>2,569</u>	<u>3,069</u>	<u>2,618</u>
	<u>154,877</u>	<u>225,668</u>	<u>257,485</u>	<u>327,627</u>

Movements in the provision for impairment of trade receivables are as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011
				(RMB'000)
At beginning of year/period	12,288	12,239	13,607	13,990
Impairment for the year/period	1,709	1,368	383	1,516
Write-off for the year/period	<u>(1,758)</u>	<u>—</u>	<u>—</u>	<u>—</u>
At end of year/period	<u>12,239</u>	<u>13,607</u>	<u>13,990</u>	<u>15,506</u>

An aged analysis of the trade receivables of the Group that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011 (RMB'000)
Neither past due nor impaired	140,332	210,004	235,034	242,157
Less than 1 month past due	5,282	2,039	10,298	70,247
1 to 2 months past due	3,302	5,573	2,642	3,310
2 to 3 months past due	3,114	3,510	3,355	4,203
Over 3 months and within 1 year past due	<u>2,847</u>	<u>4,542</u>	<u>6,156</u>	<u>7,710</u>
	<u>154,877</u>	<u>225,668</u>	<u>257,485</u>	<u>327,627</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no 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, the directors believe 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.

The carrying amount of the trade and notes receivables approximates to their fair value due to their short term maturity.

24. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011 (RMB'000)
Prepayments	22,924	10,080	14,210	26,737
Other receivables	10,335	7,444	60,774	10,850
Current portion of prepaid land lease payments (note 17)	<u>1,132</u>	<u>1,151</u>	<u>1,745</u>	<u>1,899</u>
	<u>34,391</u>	<u>18,675</u>	<u>76,729</u>	<u>39,486</u>

The above balances are unsecured, interest-free and have no fixed terms of repayment.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amount of other receivables approximates to their fair value due to their short term maturity.

25. LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	As at				Maximum amount outstanding during			
	As at 31 December		30 June		the year ended 31 December			six months ended
	2008	2009	2010	2011	2008	2009	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	(note 39(d))	(note 39(d))	(note 39(d))	(note 39(d))				
Mr. Zhou	56	1,849	—	1,455	7,073	109,336	4,216	76,422
Mr. Zhou Cimei (father of Mr. Zhou)	1,339	1,339	—	—	20,000	1,339	1,339	—
Ningbo Huayou Properties (controlled by Mr. Zhou)	101,349	210,936	270,997	220,175	128,220	292,095	466,091	491,062
Changchun Huayou Properties (controlled by Mr. Zhou)	—	—	120,419	228,891	—	—	150,419	237,892
Guangzhou Chengli Industrial Co., Ltd. (controlled by Mr. Zhou)	—	—	2,078	2,078	—	—	2,078	2,078
寧波翔潤石化科技 有限公司 (controlled by Mr. Zhou)	208	2,261	2,441	2,240	8,615	4,514	6,780	4,339
Huaxiang Group (collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong)	594	594	38,403	21,704	7,559	594	72,716	38,997

	Maximum amount outstanding during							
	As at 31 December				As at 30 June			
	the year ended 31 December				six months ended 30 June			
	2008	2009	2010	2011	2008	2009	2010	2011
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	(note 39(d))	(note 39(d))	(note 39(d))	(note 39(d))	(note 39(d))	(note 39(d))	(note 39(d))	(note 39(d))
Ningbo Zhongxin Investment Co., Ltd. (collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong)	—	5,000	—	—	—	5,000	5,000	—
Ningbo Huazhong Moulding (collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong)	—	—	—	—	232,050	134,142	29,521	—
寧波奧林燈飾有限公司 (collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong)	452	—	—	—	452	452	—	—
寧波華越置業有限公司 (Jointly controlled by Mr. Zhou and Mr. Zhou Cimei)	2,245	10,021	21,512	21,512	12,025	10,021	34,512	21,512
	<u>106,243</u>	<u>232,000</u>	<u>455,850</u>	<u>498,055</u>	<u>415,994</u>	<u>557,493</u>	<u>772,672</u>	<u>872,302</u>

Except for the entrusted loans granted to Ningbo Huayou Properties as discussed in Note 39 (b), the other loans granted to directors bear no interest, with no security held and have no fixed terms of repayment.

26. LOANS AND RECEIVABLES

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011
Bank entrusted loans, at amortised cost	<u>30,000</u>	<u>30,000</u>	<u>10,000</u>	<u>20,000</u>

The bank entrusted loans as at 31 December 2008, 2009, 2010 and 30 June 2011 bear an annual interest rate ranging from 15.61% to 19.81%, from 13.22% to 19.81%, 13.22% and 13.22%, respectively, which were all due within one year.

27. CASH AND CASH EQUIVALENTS

Group

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Cash and bank balances	7,428	93,870	25,080	87,751
Time deposits	<u>269,010</u>	<u>205,103</u>	<u>162,602</u>	<u>178,964</u>
	276,438	298,973	187,682	266,715
Less: Pledged deposits	<u>(264,010)</u>	<u>(200,103)</u>	<u>(157,602)</u>	<u>(173,964)</u>
Cash and cash equivalents in the combined statements of financial position	12,428	98,870	30,080	92,751
Less: Non-pledged time deposits with original maturity of three months or more when acquired	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>
Cash and cash equivalents in the combined statements of cash flows	<u>7,428</u>	<u>93,870</u>	<u>25,080</u>	<u>87,751</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods within one year, depending on the immediate cash requirements of the Group.

Pledged deposits with a carrying value of RMB264,010,000, RMB195,103,000, RMB152,602,000 and RMB165,964,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were pledged to secure the issuance of notes payable (note 28).

Pledged deposits with a carrying value of nil, nil, nil and RMB3,000,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were pledged to secure the bank loans granted to the Group (note 30).

Pledged deposits with a carrying value of nil, RMB5,000,000, RMB5,000,000 and RMB5,000,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, were pledged to secure the bank borrowings of a related company (note 39(c) (iii)).

28. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables of the Group as at 31 December 2008, 2009, 2010 and 30 June 2011 based on the invoice date, is as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Within 3 months	235,517	225,494	360,616	423,835
3 to 12 months	86,270	86,807	46,000	108,225
1 to 2 years	688	355	1,327	2,659
2 to 3 years	1,729	585	275	548
Over 3 years	<u>18</u>	<u>1,163</u>	<u>1,604</u>	<u>1,604</u>
	<u>324,222</u>	<u>314,404</u>	<u>409,822</u>	<u>536,871</u>

The trade payables due to third parties are non-interest-bearing and normally settled on terms of 30 to 90 days. Notes payables are generally with a maturity period of six months.

The carrying amounts of the trade and notes payables approximate to their fair values due to their short term maturity.

29. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Other payables	69,782	46,621	48,983	49,942
Advances from customers	8,338	5,567	6,196	8,564
Accruals	<u>658</u>	<u>154</u>	<u>279</u>	<u>3,538</u>
	<u>78,778</u>	<u>52,342</u>	<u>55,458</u>	<u>62,044</u>

Other payables are non-interest-bearing and repayable on demand. The carrying amount of other payables approximates to their fair value due to their short term maturity.

30. INTEREST-BEARING BANK BORROWINGS

	As at 31 December						As at 30 June					
	2008			2009			2010			2011		
	Effective interest rate		RMB '000	Effective interest rate		RMB '000	Effective interest rate		RMB '000	Effective interest rate		RMB '000
	(%)	Maturity		(%)	Maturity		(%)	Maturity		(%)	Maturity	
Current												
Secured bank loans	5.022-8.068	2009	217,336	4.425-5.589	2010	452,998	4.779-5.841	2011	447,000	4.779-5.841	2011-2012	457,000
Discounted bank accepted notes	5.804	2009	<u>40,000</u>	2.657-2.903	2010	<u>61,000</u>	4.217-5.523	2011	<u>100,000</u>	6.626	2011	<u>30,000</u>
			<u>257,336</u>			<u>513,998</u>			<u>547,000</u>			<u>487,000</u>

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
<i>Analysed into:</i>				

Bank loans and discounted bank accepted notes repayable:

Within one year	<u>257,336</u>	<u>513,998</u>	<u>547,000</u>	<u>487,000</u>
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All short term bank borrowings were obtained from third party financial institutions.

As at 31 December 2008, 2009, 2010 and 30 June 2011, the Group's bank loans of nil, RMB135,000,000, RMB65,000,000 and RMB135,000,000 were secured by the pledges of the Group's assets with carrying values as follows:

	Notes	As at 31 December			As at
		2008	2009	2010	30 June
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Property, plant and equipment	15	—	10,200	9,571	21,555
Investment property	16	—	4,483	4,234	4,110
Prepaid land lease payments	17	—	2,921	2,857	13,249
Trade receivables	23	—	16,389	13,556	23,858
Pledged deposits	27	—	—	—	3,000
		<u>—</u>	<u>33,993</u>	<u>30,218</u>	<u>65,772</u>

Certain related parties also provided guarantees to the Group's secured bank loans amounting to RMB155,336,000, RMB386,000,000, RMB337,000,000 and RMB353,000,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively. For details, please refer to note 39(c)(iv).

The carrying amounts of the Group's current interest-bearing bank borrowings approximate to their fair value due to their short term maturity.

31. AMOUNTS DUE TO A SHAREHOLDER

The amounts due to Huayou Holdings Company Limited ("Huayou Holdings"), the shareholder of the Company, amounting to RMB7, were unsecured, interest-free and had no fixed terms of repayment.

32. DEFERRED REVENUE

Deferred revenue represents proceeds received for a piece of land and certain buildings and machinery to be disposed of. The directors anticipate that the disposal of land and certain buildings and machinery is to be completed in the first half year of 2012 and classify it as non-current liability as at 31 December 2010 and current liability as at 30 June 2011.

33. DEFERRED TAX

Deferred tax of the Group as at the end of each of the Track Record Period relates to the following:

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Deferred tax assets arising from:				
- Provision for receivables	3,060	3,402	3,439	3,879
- Write-down of inventories	1,374	1,140	1,140	1,373
- Tax losses	—	147	—	—
- Accruals	185	137	1,126	1,518
- Provision for LAT	—	—	13,474	13,474
	<u>4,619</u>	<u>4,826</u>	<u>19,179</u>	<u>20,244</u>
Deferred tax liabilities arising from:				
- Valuation surplus	4,181	3,633	3,249	5,616
- Withholding taxes	2,816	6,793	16,643	21,937
	<u>6,997</u>	<u>10,426</u>	<u>19,892</u>	<u>27,553</u>

The following are deferred tax assets recognised and their movements during the Track Record Period:

	Provision for receivables <i>(RMB'000)</i>	Write-down of inventories <i>(RMB'000)</i>	Tax losses <i>(RMB'000)</i>	Accruals <i>(RMB'000)</i>	Provision for LAT <i>(RMB'000)</i>	Total <i>(RMB'000)</i>
As at 1 January 2008	3,044	954	—	17	—	4,015
(Charged)/credited to profit or loss (note 13)	(11)	420	—	120	—	529
Acquisition of subsidiaries (note 34)	<u>27</u>	<u>—</u>	<u>—</u>	<u>48</u>	<u>—</u>	<u>75</u>
As at 31 December 2008 and 1 January 2009	3,060	1,374	—	185	—	4,619
(Charged)/credited to profit or loss (note 13)	<u>342</u>	<u>(234)</u>	<u>147</u>	<u>(48)</u>	<u>—</u>	<u>207</u>
As at 31 December 2009 and 1 January 2010	3,402	1,140	147	137	—	4,826
Acquisition of subsidiaries (note 34)	—	—	—	96	—	96
Credited/(charged) to profit or loss (note 13)	<u>37</u>	<u>—</u>	<u>(147)</u>	<u>893</u>	<u>13,474</u>	<u>14,257</u>
As at 31 December 2010 and 1 January 2011	3,439	1,140	—	1,126	13,474	19,179
Acquisition of subsidiaries (note 34)	—	36	—	163	—	199
Credited/(charged) to profit or loss (note 13)	<u>440</u>	<u>197</u>	<u>—</u>	<u>229</u>	<u>—</u>	<u>866</u>
As at 30 June 2011	<u><u>3,879</u></u>	<u><u>1,373</u></u>	<u><u>—</u></u>	<u><u>1,518</u></u>	<u><u>13,474</u></u>	<u><u>20,244</u></u>

The following are deferred tax liabilities recognised and their movements during the Track Record Period:

	Valuation surplus <i>(RMB'000)</i>	Withholding taxes <i>(RMB'000)</i>	Total <i>(RMB'000)</i>
As at 1 January 2008	—	—	—
Acquisition of subsidiaries (note 34)	4,205	205	4,410
(Credited)/charged to profit or loss (note 13)	<u>(24)</u>	<u>2,611</u>	<u>2,587</u>
As at 31 December 2008 and 1 January 2009	4,181	2,816	6,997
(Credited)/charged to profit or loss (note 13)	<u>(548)</u>	<u>3,977</u>	<u>3,429</u>
As at 31 December 2009 and 1 January 2010	3,633	6,793	10,426
Acquisition of subsidiaries (note 34)	130	662	792
(Credited)/charged to profit or loss (note 13)	<u>(514)</u>	<u>9,188</u>	<u>8,674</u>
As at 31 December 2010 and 1 January 2011	3,249	16,643	19,892
Acquisition of subsidiaries (note 34)	2,705	408	3,113
(Credited)/charged to profit or loss (note 13)	<u>(338)</u>	<u>4,886</u>	<u>4,548</u>
As at 30 June 2011	<u><u>5,616</u></u>	<u><u>21,937</u></u>	<u><u>27,553</u></u>

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. For the Group, the applicable rate is 10%.

For presentation purposes, certain deferred tax assets and liabilities have been offset in the combined statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011
				(RMB'000)
Net deferred tax assets recognised in the combined statements of financial position	2,781	—	10,840	10,084
Net deferred tax liabilities recognised in the combined statements of financial position	<u>(5,159)</u>	<u>(5,600)</u>	<u>(11,553)</u>	<u>(17,393)</u>
	<u>(2,378)</u>	<u>(5,600)</u>	<u>(713)</u>	<u>(7,309)</u>

Deferred tax assets have not been recognised in respect of the following items:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011
				(RMB'000)
Unused tax losses	18,302	19,470	15,063	13,313
Deductible temporary differences	<u>576</u>	<u>49</u>	<u>1,770</u>	<u>1,079</u>
	<u>18,878</u>	<u>19,519</u>	<u>16,833</u>	<u>14,392</u>

The above tax losses are subject to an expiry period of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

34. BUSINESS COMBINATIONS

Acquisition of Ningbo Huafeng

On 15 January 2008, the Group acquired Ningbo Huafeng through the acquisition of additional 51% and 5% equity interests from third parties at considerations mutually agreed of RMB765,000 and RMB75,000, respectively, which was determined with reference to register capital of Ningbo Huafeng. Ningbo Huafeng then became a wholly-owned subsidiary of the Group thereafter.

The fair values of the identifiable assets and liabilities of Ningbo Huafeng as at the date of acquisition were as follows:

	<i>Notes</i>	Fair value recognised on acquisition (RMB'000)
Property, plant and equipment	15	982
Deferred tax assets	33	40
Inventories		1,758
Trade and other receivables		46,564
Cash and cash equivalents		314
Trade and other payables		(12,696)
Income tax payable		<u>(1,647)</u>
 Total identifiable net assets at fair value		 35,315
 Less: Gain on bargain purchase recognised in the combined statements of comprehensive income	 7	 <u>(18,937)</u>
		<u><u>16,378</u></u>
 Satisfied by:		
Cash		840
Carrying value of the pre-existing equity interest		<u>15,538</u>
		<u><u>16,378</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	<i>RMB'000</i>
Cash consideration	(840)
Cash and cash equivalents acquired	<u>314</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>(526)</u>

Since its acquisition, Ningbo Huafeng contributed nil to the turnover and RMB6,390,000 to the profit of the Group for the year ended 31 December 2008.

The aggregate of the consideration transferred and the fair value of the pre-existing equity interests in the acquiree was lower than the fair value of the net identifiable assets acquired and liabilities assumed. The difference, after reassessment, was recognised in profit or loss as a gain on bargain purchase.

Acquisition of Ningbo Xinxing

On 8 October 2008, the Group acquired Ningbo Xinxing through the acquisition of an additional 90% equity interest from Huaxiang Group, a related party, at a consideration mutually agreed. Huaxiang Group was collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong, parents of Mr. Zhou. Mr. Zhou's parents and Mr. Zhou act independently. Accordingly, the acquisition of Ningbo Xinxing was not treated as a business combination under common control and the acquisition method of accounting was applied. Further details of the transaction are included in note 39(c)(i) to the Financial Information. Ningbo Xinxing then became a subsidiary of the Group.

The fair values of the identifiable assets and liabilities of Ningbo Xinxing as at the date of acquisition were as follows:

	<i>Notes</i>	Fair value recognised on acquisition (RMB'000)
Property, plant and equipment	15	5,508
Prepaid land lease payments	17	2,130
Inventories		1,408
Trade and other receivables		8,301
Cash and cash equivalents		479
Trade and other payables		(2,575)
Income tax payable		(109)
Deferred tax liabilities	33	(591)
Non-controlling interests		<u>(262)</u>
 Total identifiable net assets at fair value		 14,289
 Less: Gain on bargain purchase recognised in the combined statements of comprehensive income	 7	 (9,965)
Withholding tax at 10% on the distributable profits arising from the business combination	33	<u>(71)</u>
		<u><u>4,253</u></u>
 Satisfied by:		
Cash		3,060
Deemed contribution from then equity holder	36 (iii)	<u>1,193</u>
		<u><u>4,253</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	<i>(RMB'000)</i>
Cash consideration	(3,060)
Cash and cash equivalents acquired	<u>479</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u><u>(2,581)</u></u>

Since its acquisition, Ningbo Xinxing contributed RMB3,870,000 to the turnover and RMB677,000 to the profit of the Group for the year ended 31 December 2008.

The aggregate of the consideration transferred was lower than the fair value of the net identifiable assets acquired and liabilities assumed. The difference, after reassessment, was recognised in profit or loss as a gain on bargain purchase.

Acquisition of Changchun Huateng

On 15 December 2008, the Group acquired Changchun Huateng through the acquisition of an additional 60% equity interest from Huaxiang Group, a related party, at a consideration mutually agreed. Huaxiang Group was collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong, parents of Mr. Zhou. Mr. Zhou's parents and Mr. Zhou act independently. Accordingly, the acquisition of Changchun Huateng was not treated as a business combination under common control and the acquisition method of accounting was applied. Further details of the transaction are included in note 39(c)(ii) to the Financial Information. Changchun Huateng then became a wholly-owned subsidiary of the Group.

The fair values of the identifiable assets and liabilities of Changchun Huateng as at the date of acquisition were as follows:

	<i>Notes</i>	Fair value recognised on acquisition (RMB'000)
Property, plant and equipment	15	40,714
Deferred tax assets	33	35
Prepaid land lease payment	17	13,651
Inventories		4,571
Trade and other receivables		9,982
Cash and cash equivalents		309
Trade and other payables		(50,381)
Income tax payable		(413)
Deferred tax liabilities	33	<u>(3,614)</u>
 Total identifiable net assets at fair value		 14,854
 Less: Gain on bargain purchase recognised in the combined statements of comprehensive income	 7	 (8,178)
Revaluation of pre-existing interest in an acquired subsidiary to fair value	6	(4,337)
Withholding tax at 10% on the distributable profits arising from the business combination	33	<u>(134)</u>
		<u>2,205</u>
 Satisfied by:		
Cash		600
Carrying value of the pre-existing equity interest		<u>1,605</u>
		<u>2,205</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	<i>(RMB'000)</i>
Cash consideration	(600)
Cash and cash equivalents acquired	<u>309</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u><u>(291)</u></u>

Since its acquisition, Changchun Huateng contributed nil to the turnover and nil to the profit of the Group for the year ended 31 December 2008.

The aggregate of the consideration transferred and the fair value of the pre-existing equity interests in the acquiree was lower than the fair value of the net identifiable assets acquired and liabilities assumed. The difference, after reassessment, was recognised in profit or loss as a gain on bargain purchase.

Acquisition of Ningbo Huazhong Moulding and its subsidiary

On 29 October 2010, the Group acquired Ningbo Huazhong Moulding and its subsidiary, Ningbo Huayue, through the acquisition of 100% equity interests from Huaxiang Group and Ningbo Zhongxin Investment Co., Ltd. ("Ningbo Zhongxin"), two related parties, at considerations mutually agreed. Ningbo Huaxiang Technology, an associate investment held by Ningbo Huazhong Moulding, became an associate investment of the Group after the transaction. Ningbo Zhongxin was also collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong, parents of Mr. Zhou. Mr. Zhou's parents and Mr. Zhou act independently. Accordingly, the acquisition of Ningbo Huazhong Moulding and its subsidiary was also not treated as a business combination under common control and the acquisition method of accounting was applied. Further details of the transaction are included in note 39(c)(viii) to the Financial Information. Ningbo Huazhong Moulding and Ningbo Huayue then became wholly-owned subsidiaries of the Group.

The fair values of the identifiable assets and liabilities of Ningbo Huazhong Moulding and its subsidiary as at the date of acquisition were as follows:

	<i>Notes</i>	Fair value recognised on acquisition (RMB'000)
Property, plant and equipment	15	2,875
Investment in an associate		4,466
Deferred tax assets	33	96
Inventories		11,328
Trade and other receivables		26,925
Cash and cash equivalents		326
Trade and other payables		(17,375)
Income tax payable		(741)
Deferred tax liabilities	33	(130)
Non-controlling interests		<u>(3,612)</u>
 Total identifiable net assets at fair value		 24,158
 Less: Gain on bargain purchase recognised in the combined statements of comprehensive income	 7	 (14,003)
Withholding tax at 10% on the distributable profits arising from the business combination	33	<u>(155)</u>
		<u>10,000</u>
Satisfied by:		
Cash		<u>10,000</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	<i>(RMB'000)</i>
Cash consideration	(10,000)
Cash and cash equivalents acquired	<u>326</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>(9,674)</u>

Since its acquisition, Ningbo Huazhong Moulding and its subsidiary contributed nil to the turnover and net loss of RMB512,000 to the profit of the Group for the year ended 31 December 2010.

The aggregate of the consideration transferred was lower than the fair value of the net identifiable assets acquired and liabilities assumed. The difference, after reassessment, was recognised in profit or loss as a gain on bargain purchase.

Acquisition of Guangzhou Huazhong

On 28 October 2010, the Group acquired Guangzhou Huazhong through the acquisition of an additional 59% equity interest from Ningbo Huazhong Moulding, a related party and a non-controlling interest at consideration mutually agreed. Ningbo Huazhong Moulding was then collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong, parents of Mr. Zhou, via Huaxiang Group and Ningbo Zhongxin. Mr. Zhou's parents and Mr. Zhou act independently. Accordingly, the acquisition of Guangzhou Huazhong was not treated as a business combination under common control and the acquisition method of accounting was applied. Further details of the transaction are included in note 39(c)(ix) to the Financial Information. Guangzhou Huazhong then became a wholly-owned subsidiary of the Group.

The fair values of the identifiable assets and liabilities of Guangzhou Huazhong as at the date of acquisition were as follows:

	<i>Notes</i>	Fair value recognised on acquisition (RMB'000)
Property, plant and equipment	15	1,805
Inventories		734
Trade and other receivables		28,600
Cash and cash equivalents		145
Trade and other payables		(13,623)
Income tax payable		<u>(993)</u>
Total identifiable net assets at fair value		16,668
Less: Gain on bargain purchase recognised in the combined statements of comprehensive income	7	(7,557)
Withholding tax at 10% on the distributable profits arising from the business combination	33	<u>(507)</u>
		<u><u>8,604</u></u>
Satisfied by:		
Cash		1,770
Carrying value of the pre-existing equity interest		<u>6,834</u>
		<u><u>8,604</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	<i>(RMB'000)</i>
Cash consideration	(1,770)
Cash and cash equivalents acquired	<u>145</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u><u>(1,625)</u></u>

Since its acquisition, Guangzhou Huazhong contributed nil to the turnover and RMB345,000 to the profit of the Group for the year ended 31 December 2010.

The aggregate of the consideration transferred and the fair value of the pre-existing equity interests in the acquiree was lower than the fair value of the net identifiable assets acquired and liabilities assumed. The difference, after reassessment, was recognised in profit or loss as a gain on bargain purchase.

Acquisition of Shanghai Huaxin

On 11 February 2011, the Group acquired Shanghai Huaxin through the acquisition of 51% equity interests from Huaxiang Group at a consideration mutually agreed of RMB16,500,000, which was determined with reference to 51% of the net assets of Shanghai Huaxin as at 31 December 2009. Huaxiang Group was collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong, parents of Mr. Zhou. Mr. Zhou's parents and Mr. Zhou act independently. Accordingly, the acquisition of Shanghai Huaxin was not treated as a business combination under common control and the acquisition method of accounting was applied. Further details of the transaction are included in note 39(c)(xi) to the Financial Information. Shanghai Huaxin then became a subsidiary of the Group.

The fair values of the identifiable assets and liabilities of Shanghai Huaxin as at the date of acquisition were as follows:

	<i>Notes</i>	Fair value recognised on acquisition (RMB'000)
Property, plant and equipment	15	18,949
Prepaid land lease payment	17	10,640
Investment in an associate		2,850
Deferred tax assets	33	199
Inventories		6,786
Trade and other receivables		44,501
Cash and cash equivalents		7,566
Trade and other payables		(29,781)
Income tax payable		(2,703)
Interest-bearing bank borrowings		(4,000)
Deferred tax liabilities	33	(2,705)
Non-controlling interests		<u>(25,628)</u>
 Total identifiable net assets at fair value		 26,674
 Less: Gain on bargain purchase recognised in the combined statements of comprehensive income	 7	 (9,766)
Withholding tax at 10% on the distributable profits arising from the business combination	33	<u>(408)</u>
		<u>16,500</u>
 Satisfied by:		
Offsetting an amount due from a related party		<u>16,500</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	<i>(RMB'000)</i>
Cash consideration	—
Cash and cash equivalents acquired	<u>7,566</u>
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u><u>7,566</u></u>

Since its acquisition, Shanghai Huaxin contributed RMB47,019,000 to the turnover and RMB3,983,000 to the profit of the Group for the six months ended 30 June 2011.

The consideration transferred was lower than the fair value of the net identifiable assets acquired and liabilities assumed. The difference, after reassessment, was recognised in profit or loss as a gain on bargain purchase.

35. SHARE CAPITAL

Group

The Reorganisation was completed on 29 July 2011. Accordingly, the share capital reflected in the combined statements of financial position as at the end of each of the Track Record Period represented the aggregate amount of paid-in capital of the companies now comprising the Group as at that date, after elimination of investments in subsidiaries.

Company

	Number of shares	
	As at 31 December 2010	As at 30 June 2011
Authorised:		
Ordinary shares of HK\$0.1 each	<u>3,800,000</u>	<u>3,800,000</u>
Issued and nil paid:		
Ordinary shares of HK\$0.1 each	<u>1</u>	<u>1</u>

	Amount as at	
	31 December 2010 (RMB'000)	30 June 2011 (RMB'000)
Authorised:		
Ordinary shares of HK\$0.1 each	<u>380</u>	<u>380</u>
Issued and nil paid:		
Ordinary shares of HK\$0.1 each	<u>—</u>	<u>—</u>

The authorised and issued and nil paid share capital of the Company was one share with a par value of HK\$0.1, which was not paid up till 30 June 2011.

Pursuant to a board resolution dated 15 December 2011, the authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of 9,996,200,000 shares with par value of HK\$0.10 each as at 15 December 2011.

36. RESERVES

The changes in the reserves of the Group during the Track Record Period have been disclosed in the combined statements of changes in equity of the Group in Section I above.

(i) Statutory reserve funds

Statutory reserve funds comprise:

(a) *Reserve fund*

PRC laws and regulations require wholly-owned foreign enterprises (“WFOE”) to provide for the reserve fund by appropriating a part of the net profit (based on the entity’s PRC GAAP statutory accounts) before dividend distribution. Each subsidiary being WFOE is required to appropriate at least 10% of its net profit after tax to the reserve fund until the balance of such fund has reached 50% of its registered capital. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

(b) *Enterprise expansion fund*

In accordance with relevant regulations and the PRC subsidiaries’ articles of association, appropriations from net profit should be made to the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors for the subsidiaries registered in the PRC as a foreign invested company. The percentages to be appropriated to the enterprise expansion fund are determined by the boards of directors of the subsidiaries.

(c) *Statutory surplus reserve*

In accordance with the PRC Company Law and the PRC subsidiaries' articles of association, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit as determined under PRC GAAP (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

(ii) **Capital reserve**

Capital reserve represents the excess capital paid over the registered capital to the Group's subsidiaries by the equity holder.

(iii) **Merger reserve**

Prior to 8 October 2008, Mr. Zhou effectively held a 8.2% equity interest in Ningbo Xinxing via Ningbo Huayou Properties, a company beneficially owned by Mr. Zhou as to 82% and controlled by Mr. Zhou. The non-controlling shareholder of Ningbo Huayou Properties, which held the remaining 18% equity interest, was Huaxiang Group. On 8 October 2008, the Group acquired a 90% equity interest in Ningbo Xinxing from Huaxiang Group and Ningbo Xinxing became a subsidiary of the Group thereafter. The 8.2% of equity interest, effectively held by Mr. Zhou via Ningbo Huayou Properties, was deemed to be contributed by Mr. Zhou on the same date as the acquisition of the 90% from Huaxiang Group. The excess of the fair value of the 8.2% equity interest over the deemed capital contribution of RMB279,000, amounting to RMB914,000, was recognised directly in the merger reserve account.

Prior to 15 December 2008, Mr. Zhou effectively held a 54.67% equity interests in Changchun Huaxiang via Ningbo Huayou Properties, a company beneficially owned by Mr. Zhou as to 82% and controlled by Mr. Zhou. On 15 December 2008, the Group and Mr. Zhou acquired the entire equity interests in Changchun Huaxiang from Ningbo Huayou Properties and other non-controlling shareholders and Changchun Huaxiang became a wholly-owned subsidiary of the Group thereafter. For the acquisition of non-controlling interests, the excess of the consideration paid over the net asset value of Changchun Huaxiang shared by the non-controlling interests amounting to RMB9,150,000 was recognised directly in the merger reserve account.

Prior to 19 October 2010, Chongqing Huazhong was owned by Mr. Zhou and Ningbo Huayou Properties, a company beneficially owned by Mr. Zhou as to 82% and controlled by Mr. Zhou, as to 51% and 49%, respectively. On 19 October 2010, the Group acquired the entire equity interests in Chongqing Huazhong from Mr. Zhou and Ningbo Huayou Properties and Chongqing Huazhong became a wholly-owned subsidiary of the Group thereafter. For the acquisition of non-controlling interests, the excess of net asset value of Chongqing Huazhong shared by the non-controlling interests over the consideration paid amounting to RMB1,299,000 was recognised directly in the merger reserve account.

From 8 October 2008 to 25 October 2010, a 90% equity interest of Ningbo Xinxing was held by the Group, a 8.2% equity interest of Ningbo Xinxing was held beneficially by Mr. Zhou via Ningbo Huayou Properties, and a 1.8% equity interest of Ningbo Xinxing was held by non-controlling shareholder, Huaxiang Group, via Ningbo Huayou Properties. On 25 October 2010, the Group acquired an additional 10% equity interest in Ningbo Xinxing from Ningbo Huayou Properties and Ningbo Xinxing became a wholly-owned subsidiary of the Group thereafter. For the acquisition of 1.8% non-controlling interests, the excess of the net asset value of Ningbo Xinxing shared by the non-controlling interests over the consideration paid amounting to RMB239,000 was recognised directly in the merger reserve account.

Prior to 24 December 2010, a 50% equity interest of Ningbo Hualete was held by Ningbo Huayou Properties, a company beneficially owned by Mr. Zhou as to 82% and controlled by Mr. Zhou. Hence, the Group effectively held 41% equity interests in Ningbo Hualete via Ningbo Huayou Properties. The non-controlling shareholder of Ningbo Huayou Properties, which held the remaining 18% equity interest, was Huaxiang Group. On 24 December 2010, the Group acquired an additional 9% equity interest in Ningbo Hualete effectively held by Huaxiang Group via Ningbo Huayou Properties and the excess of the consideration paid to Ningbo Huayou Properties over the 9% net asset value of Ningbo Hualete amounting to RMB1,322,000 was recognised directly in the merger reserve account.

Prior to 23 April 2011, Shanghai Xiangmao was owned by Mr. Zhou and Ningbo Huayou Properties, a company beneficially owned by Mr. Zhou as to 82% and controlled by Mr. Zhou, as to 60% and 40%, respectively. On 23 April 2011, the Group acquired the entire equity interests in Shanghai Xiangmao from Mr. Zhou and Ningbo Huayou Properties and Shanghai Xiangmao became a wholly-owned subsidiary of the Group thereafter. For the acquisition of non-controlling interests, the excess of net asset value of Shanghai Xiangmao shared by the non-controlling interests over the consideration paid amounting to RMB20,000 was recognised directly in the merger reserve account.

(iv) Deemed distribution to an equity holder

- (a) Prior to 15 January 2008, the Group effectively held a 44% equity interest in Ningbo Huafeng via Mr. Zhou. On 15 January 2008, the Group acquired a 34% equity interest in Ningbo Huafeng from Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB510,000 was regarded as a deemed distribution to an equity holder.
- (b) Prior to 15 December 2008, the Group effectively held a 40% equity interest in Changchun Huateng via Mr. Zhou. On 15 December 2008, the Group acquired a 20% equity interest in Changchun Huateng from Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB200,000 was regarded as a deemed distribution to an equity holder.
- (c) Prior to 15 December 2008, the Group effectively held a 54.67% equity interest in Changchun Huaxiang via Ningbo Huayou Properties, a company beneficially owned by Mr. Zhou as to 82% and controlled by Mr. Zhou. On 15 December 2008, the Group acquired a 54.67% equity interest in Changchun Huaxiang beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Ningbo Huayou Properties amounting to RMB5,200,000 was regarded as a deemed distribution to an equity holder.

- (d) On 3 September 2010, the Group acquired an additional 20% equity interest in Changchun Huaxiang from Mr. Zhou, and the consideration paid to Mr. Zhou amounting to RMB3,000,000 was regarded as a deemed distribution to an equity holder.
- (e) Prior to 19 October 2010, the Group effectively held a 91.18% equity interest in Chongqing Huazhong via Mr. Zhou and Ningbo Huayou Properties. On 19 October 2010, the Group acquired a 51% equity interest in Chongqing Huazhong from Mr. Zhou and a 40.18% equity interest in Chongqing Huazhong beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Mr. Zhou and Ningbo Huayou Properties amounting to RMB4,559,000 in aggregate was regarded as a deemed distribution to an equity holder.
- (f) On 22 October 2010, the Group acquired an additional 20% equity interest in Changchun Huateng from Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB200,000 was regarded as a deemed distribution to an equity holder.
- (g) On 25 October 2010, the Group acquired an additional 8.2% equity interest in Ningbo Xinxing beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Ningbo Huayou Properties amounting to RMB279,000 was regarded as a deemed distribution to an equity holder.
- (h) Prior to 28 October 2010, the Group effectively held a 41% equity interest in Guangzhou Huazhong via Ningbo Huayou Properties. On 28 October 2010, the Group acquired a 41% equity interest in Guangzhou Huazhong beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Ningbo Huayou Properties amounting to RMB1,230,000 was regarded as a deemed distribution to an equity holder.
- (i) On 10 December 2010, the Group acquired an additional 49% equity interest in Chengdu Huazhong from Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB1,960,000 was regarded as a deemed distribution to an equity holder.
- (j) On 20 December 2010, the Group acquired an additional 10% equity interest in Ningbo Huafeng from Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB150,000 was regarded as a deemed distribution to an equity holder.
- (k) Prior to 24 December 2010, the Group effectively held a 41% equity interest in Ningbo Hualete via Ningbo Huayou Properties. On 24 December 2010, the Group acquired a 41% equity interest in Ningbo Hualete beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Ningbo Huayou Properties amounting to RMB6,245,000 was regarded as a deemed distribution to an equity holder.
- (l) Prior to 23 April 2011, the Group effectively held a 92.8% equity interest in Shanghai Xiangmao via Mr. Zhou and Ningbo Huayou Properties. On 23 April 2011, the Group acquired a 60% equity interest in Shanghai Xiangmao from Mr. Zhou and a 32.8% equity interest in Shanghai Xiangmao beneficially owned by Mr. Zhou via Ningbo Huayou

Properties and the consideration paid to Mr. Zhou and Ningbo Huayou Properties amounting to RMB464,000 in aggregate was regarded as a deemed distribution to an equity holder.

- (m) Prior to 1 June 2011, the Group effectively held a 100% equity interest in Yantai Huaxiang, of which 80% was held via Mr. Zhou. On 1 June 2011, the Group acquired an 80% equity interest in Yantai Huaxiang owned by Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB8,000,000 was regarded as a deemed distribution to an equity holder.
- (n) Prior to 15 June 2011, the Group effectively held a 100% equity interest in Wuhu Huazhong, of which 80% was held via Mr. Zhou. On 15 June 2011, the Group acquired an 80% equity interest in Wuhu Huazhong owned by Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB8,000,000 was regarded as a deemed distribution to an equity holder

(v) Deemed capital contribution

- (a) In 2009, the Group and Mr. Zhou established Chengdu Huazhong. In addition, Mr. Zhou together with Ningbo Huayou Properties established Shanghai Xiangmao. The capital injections made by Mr. Zhou to Chengdu Huazhong amounting to RMB1,960,000 and made by Mr. Zhou and Ningbo Huayou Properties to Shanghai Xiangmao amounting to RMB500,000 aggregately were regarded as deemed contributions in 2009.
- (b) In 2010, the Group and Mr. Zhou established Wuhu Huazhong and Yantai Huaxiang. The capital injections made by Mr. Zhou to Wuhu Huazhong and Yantai Huaxiang in 2010 amounted to RMB1,600,000 and RMB1,600,000, respectively, which were regarded as deemed contributions in 2010.
- (c) During six months ended 30 June 2011 and prior to acquisition of equity interest held by Mr. Zhou in Wuhu Huazhong and Yantai Huaxiang, the capital injections made by Mr. Zhou to Wuhu Huazhong and Yantai Huaxiang amounted to RMB6,400,000 and RMB6,400,000, respectively, and which were regarded as deemed contribution during the six months ended 30 June 2011.

37. OPERATING LEASE ARRANGEMENTS

- Group as lessee

The Group leases certain of its plants and warehouses under operating lease arrangements.

As at the end of each of the Track Record Period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Within one year	3,372	900	2,133	1,063
After one year but not more than five years	<u>—</u>	<u>—</u>	<u>—</u>	<u>99</u>
	<u>3,372</u>	<u>900</u>	<u>2,133</u>	<u>1,162</u>

- Group as lessor

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's surplus office and manufacturing buildings.

Future minimum rentals receivable under non-cancellable operating leases as at the end of each of the Track Record Period are as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Within one year	3,215	4,420	1,025	6,966
After one year but not more than five years	<u>2,208</u>	<u>—</u>	<u>—</u>	<u>26,004</u>
	<u>5,423</u>	<u>4,420</u>	<u>1,025</u>	<u>32,970</u>

38. COMMITMENTS

The Group had the following capital commitments as at the end of each of the Track Record Period:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Contracted, but not provided for in respect of acquisition of:				
Property, plant and equipment	<u>9,080</u>	<u>6,801</u>	<u>23,541</u>	<u>44,868</u>

39. RELATED PARTY TRANSACTIONS AND BALANCES**(a) Name and relationship**

Name of related party	Relationship with the Group
Mr. Zhou	Ultimate controlling shareholder
Mr. Zhou Cimei	Father of Mr. Zhou
Ms. Lai Cairong	Mother of Mr. Zhou
Huaxiang Group	Collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong
Ningbo Huaxiang Electronic Co., Ltd. ("Ningbo Huaxiang Electronics")	Significantly influenced by the brother of Mr. Zhou
Ningbo Huayou Properties	Controlled by Mr. Zhou
Ningbo Zhongxin	Collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong
寧波華翔汽車後視鏡有限公司 ("Huaxiang Rearview Mirror")	Controlled by Ningbo Huaxiang Electronics
寧波華翔汽車飾件有限公司 ("Huaxiang Trim")	Controlled by Ningbo Huaxiang Electronics
Shanghai Huaxin	Controlled by Huaxiang Group before acquired as a subsidiary on 11 February 2011
寧波瑪克特汽車飾件有限公司 ("Ningbo Makete")	Controlled by Ningbo Huaxiang Electronics
寧波井上華翔汽車零部件有限公司 ("Jingshang Huaxiang")	Controlled by Ningbo Huaxiang Electronics

Name of related party	Relationship with the Group
寧波翔潤石化科技有限公司 ("Xiangrun Petrochemical")	Controlled by Ningbo Huayou Properties
寧波華英模具科技發展有限公司 ("Huaying Moulding")	Jointly controlled by Ningbo Huayou Properties
寧波華越置業有限公司 ("Huayue Properties")	Jointly controlled by Huaxiang Group and Ningbo Huayou Properties
Ningbo Huazhong Moulding	Controlled by Ningbo Zhongxin and became a subsidiary in 2010
寧波翔越實業投資有限公司 ("Xiangyue Industry")	Controlled by Huaxiang Group
寧波華翔汽車銷售服務有限公司 ("Huaxiang Sales Co")	Controlled by Huaxiang Group
南昌江鈴華翔汽車零部件有限公司 ("Nanchang Jiangling")	Jointly controlled by Ningbo Huaxiang Electronics
Ningbo Hualete	Jointly controlled by the Group
Changchun Huateng	An associate to the Group before acquired as a subsidiary on 15 December 2008
Guangzhou Huazhong	Jointly controlled by the Group in 2008 and 2009 and became a subsidiary in 2010
Changchun Xuyang Industrial Group Co., Ltd. ("Changchun Xuyang")	Significantly influenced by Mr. Zhou
象山華翔國際酒店有限公司 ("Huaxiang Resort")	Collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong
Changchun Huayou Properties	An associate to the Group prior to disposal on 31 March 2011 and controlled by Mr. Zhou
Ningbo Huaxiang Technology	An associate to the Group prior to disposal on 24 June 2011 and controlled by Ningbo Huayou Properties
寧波奧林燈飾有限公司 ("Ningbo Aolin")	Controlled by Huaxiang Group
Guangzhou Chengli Industrial Co., Ltd. ("Guangzhou Chengli")	Controlled by Mr. Zhou
Ningbo Huayue	Controlled by Ningbo Huazhong Moulding and became a subsidiary in 2010

(b) *Related party transactions*

In addition to the transactions and balances disclosed elsewhere in this report, the Group had the following material transactions with related parties during the Track Record Period:

	Notes	Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
					<i>(unaudited)</i>	
Sales of goods to related parties*	(i)					
Shanghai Huaxin		8,859	6,836	5,943	2,909	—
Ningbo Huaxiang Electronics		—	—	2,405	904	389
Huaying Moulding		—	—	569	—	—
Changchun Xuyang		1,018	288	151	—	—
		<u>9,877</u>	<u>7,124</u>	<u>9,068</u>	<u>3,813</u>	<u>389</u>
Purchase of goods from related parties	(ii)					
Changchun Huateng*		54,594	—	—	—	—
Guangzhou Huazhong*		45,336	5,146	37,066	23,271	—
Ningbo Huazhong Moulding*		18,843	26,165	16,677	11,110	—
Ningbo Makete		2,462	10,506	11,615	7,951	3,391
Huaying Moulding*		20,632	11,761	569	569	—
Shanghai Huaxin*		—	—	4,138	—	—
Huaxiang Trim*		11,281	5,782	3,742	1,834	1,907
Ningbo Huayou Properties*		3,412	45,906	—	—	—
Nanchang Jiangling*		8,252	4,825	4,136	1,933	3,617
Ningbo Huaxiang Electronics*		1,354	—	1,951	1,071	—
Huaxiang Sales Co*		—	—	—	—	25
Jingshang Huaxiang*		87	—	—	—	—
		<u>166,253</u>	<u>110,091</u>	<u>79,894</u>	<u>47,739</u>	<u>8,940</u>
Purchase of raw materials from a related party	(ii)					
Ningbo Hualete		<u>35,226</u>	<u>39,239</u>	<u>56,520</u>	<u>27,387</u>	<u>25,548</u>

	Notes	Year ended 31 December			Six months ended 30 June	
		2008 (RMB'000)	2009 (RMB'000)	2010 (RMB'000)	2010 (RMB'000)	2011 (RMB'000)
Sales of property, plant and equipment to a related party*	(iii)					
Ningbo Hualete		<u>—</u>	<u>—</u>	<u>7,586</u>	<u>—</u>	<u>—</u>
Gross rental income from related parties	(iv)					
Ningbo Hualete		3,215	3,215	3,233	1,608	504
Ningbo Huazhong Moulding*		600	600	1,187	712	—
Shanghai Huaxin*		153	—	—	—	—
Jingshang Huaxiang*		<u>48</u>	<u>29</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>4,016</u>	<u>3,844</u>	<u>4,420</u>	<u>2,320</u>	<u>504</u>
Interest income from a related party*	(v)					
Ningbo Huayou Properties		<u>—</u>	<u>—</u>	<u>276</u>	<u>—</u>	<u>2,819</u>
Advances to the ultimate shareholder*	(vi)					
Mr. Zhou		<u>7,073</u>	<u>105,680</u>	<u>613</u>	<u>606</u>	<u>76,422</u>
Advances to related parties*	(vi)					
Ningbo Huazhong Moulding		231,696	129,666	—	—	—
Ningbo Huayou Properties		128,220	169,726	255,155	36,309	209,927
Changchun Huayou Properties		—	—	150,420	319	127,472
Huaxiang Group		594	452	72,122	20,300	594
Huayue Properties		12,025	7,776	24,491	1,900	12
Xiangrun Petrochemical		7,513	4,307	4,518	2,300	1,898
Ningbo Zhongxin		—	5,000	—	—	—
Ningbo Huaxiang Electronics		—	—	290	—	27
Guangzhou Huazhong		1,598	—	—	—	—
Ningbo Hualete		<u>2,208</u>	<u>5,416</u>	<u>5,624</u>	<u>—</u>	<u>—</u>
		<u>383,854</u>	<u>322,343</u>	<u>512,620</u>	<u>61,128</u>	<u>339,930</u>
Advances from the ultimate shareholder*	(vi)					
Mr. Zhou		<u>4,310</u>	<u>1,386</u>	<u>28,191</u>	<u>11,011</u>	<u>26,196</u>

	Notes	Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Advances from related parties*	(vi)					
Huaxiang Group		242,500	185,763	—	—	1,571
Ningbo Hualite		101,836	187,990	20,000	884	59,000
Ningbo Huayou Properties		143,704	114,115	60,000	—	3,000
Huaxiang Trim		70,100	—	—	—	—
Ningbo Huazhong Moulding		35,840	—	—	—	—
Changchun Huayou Properties		—	—	44,950	14,950	—
Huaying Moulding		30,000	—	—	—	241
Ningbo Huaxiang Technology		—	—	8,876	8,876	—
Huaxiang Sales Co		—	—	34	—	—
Huaxiang Resort		—	697	706	346	500
Ningbo Huaxiang Electronics		—	—	103	—	—
Ms. Lai Cairong		7,000	—	—	—	—
Xiangyue Industry		—	—	—	—	50,000
		<u>630,980</u>	<u>488,565</u>	<u>134,669</u>	<u>25,056</u>	<u>114,312</u>

Note (i): The sales of goods to the related parties were made according to the prices and terms agreed between the related parties.

Note (ii): The purchases of goods and raw materials from the related parties were made according to the prices and terms offered by the related parties.

Note (iii): The sales of property, plant and equipment to a related party were made according to the prices and terms agreed between the related parties.

Note (iv): The gross rental income from related parties was made according to the terms and conditions agreed between the related parties through entrusted loan agreements.

Note (v): The interest income from related parties was made according to the terms and conditions agreed between the related parties.

Note (vi): During the year ended 31 December 2010, the Group granted an entrusted loan with an amount of RMB15,000,000 and an interest rate of 12% per annum to Ningbo Huayou Properties, which is due on 4 November 2011. During six months ended 30 June 2011, the Group granted entrusted loans with an aggregation amount of RMB140,000,000 and an interest rate of 12% per annum to Ningbo Huayou Properties, which are due on 23 May 2011, 12 April 2012, 28 April 2012, 26 May 2012, 27 May 2012 and 29 May 2012, respectively. Except for these entrusted loans, the other advances from/to related parties are interest free and repayable on demand.

The directors confirmed that the related party transactions in respect of items denoted with “*” above will not be continued in the future after the proposed listing of shares of the Company on the Stock Exchange.

(c) *Other transactions with related parties*

- (i) In 2008, the Group acquired a 90% equity interest in Ningbo Xinxing from Huaxiang Group at a consideration of RMB3,060,000, which was determined with reference to the register capital of Ningbo Xinxing. Details are described in note 34. The acquisition of a subsidiary was made according to the consideration and terms agreed between the related parties.
- (ii) In 2008, the Group acquired a 60% equity interest in Changchun Huateng from Huaxiang Group at a consideration of RMB600,000, which was determined with reference to the register capital of Changchun Huateng. Details are described in note 34. The acquisition of a subsidiary was made according to the consideration and terms agreed between the related parties.
- (iii) During the Track Record Period, the Group provided guarantees to Huaxiang Group, Ningbo Hualete and Ningbo Huayou Properties for their bank facilities amounting to RMB55,794,000, RMB163,500,000, RMB407,170,000 and RMB313,000,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively, among which there were certain bank borrowings of Ningbo Hualete amounting to nil, RMB3,500,000, RMB3,500,000 and RMB3,500,000 as at 31 December 2008, 31 December 2009, 31 December 2010 and 30 June 2011, respectively, which were pledged by the deposits of the Group amounting to nil, RMB5,000,000, RMB5,000,000 and RMB5,000,000, respectively (note 27).
- (iv) During the Track Record Period, the Group received guarantees from Mr. Zhou, Mr. Zhou Cimei and Huaxiang Group for the Group's bank borrowings amounting to RMB155,336,000, RMB386,000,000, RMB377,000,000 and RMB353,000,000 as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively.
- (v) In 2008, the Group offset its amount due from Huaxiang Group and trade receivable from a third party against amounts due to Ningbo Huayou Properties, Ningbo Huaxiang Electronics and Guangzhou Huazhong of RMB58,265,000.
- (vi) In 2009, the Group offset its amount due from Mr. Zhou and Guangzhou Huazhong against amounts due to Ningbo Huayou Properties, Xiangyue Industry and its trade payable to a third party of RMB146,749,000.
- (vii) In 2010, the Group offset its amounts due from Mr. Zhou, Ningbo Zhongxin, Huaxiang Trim, Huaxiang Group and Jingshang Huaxiang against amounts due to Ningbo Huayou Properties, Ningbo Huayue, Huaxiang Rearview Mirror and its trade payable to a third party of RMB148,187,000.

- (viii) In 2010, the Group acquired 49% and 51% equity interests in Ningbo Huazhong Moulding and its subsidiary, Ningbo Huayue, from Huaxiang Group and Ningbo Zhongxin at considerations of RMB4,900,000 and RMB5,100,000, respectively, which were determined with reference to the register capital of Ningbo Huazhong Moulding. Details are described in note 34. The acquisition of subsidiaries was made according to the considerations and terms agreed between the related parties.
- (ix) In 2010, the Group acquired 50% and 50% equity interests in Guangzhou Huazhong from Ningbo Huazhong Moulding and Ningbo Huayou Properties, a company beneficially owned by Mr. Zhou as to 82%, at considerations of RMB1,500,000 and RMB1,500,000, respectively, which were determined with reference to the register capital of Guangzhou Huazhong. Details are described in note 34. The acquisition of subsidiaries was made according to the considerations and terms agreed between the related parties.
- (x) During the six months ended 30 June 2011, the Group offset its amounts due from Mr. Zhou and its trade receivable from a third party against amounts due to Ningbo Huayou Properties and Huaxiang Group of RMB75,998,000.
- (xi) During the six months ended 30 June 2011, the Group acquired a 51% equity interest in Shanghai Huaxin from Huaxiang Group at a consideration of RMB16,500,000, which was determined with reference to 51% of the net assets of Shanghai Huaxin as at 31 December 2009. Details are described in note 34. The acquisition of subsidiaries was made according to the considerations and terms agreed between the related parties.
- (xii) During the six months ended 30 June 2011, the Group disposed a 20% equity interest in Changchun Huayou Properties to Ningbo Huayou Properties at a consideration of RMB3,000,000, which was determined with reference to the register capital of Changchun Huayou Properties. The disposal of an associate was made according to the consideration and terms agreed between the related parties.
- (xiii) During the six months ended 30 June 2011, the Group disposed a 48% equity interest in Ningbo Huaxiang Technology to Mr. Zhou at a consideration of RMB4,800,000, which was determined with reference to the register capital of Ningbo Huaxiang Technology. The disposal of an associate was made according to the consideration and terms agreed between the related parties.
- (xiv) During the track record period, the Group leased certain of its office from Guangzhou Chengli at nil consideration.
- (xv) Pursuant to an agreement entered between the Group and Changchun Huaxiang Faurecia dated on 20 May 2011, certain of the Group's buildings were to be leased to Changchun Huaxiang Faurecia for a period of five years commencing from Changchun Huaxiang Faurecia's formal production and operation date. The lease subsequently commenced from August 2011.

(xvi) Pursuant to an agreement entered between the Group and Changchun Huaxiang Faurecia dated on 1 June 2011, certain of the Group's machinery and equipment were to be disposed to Changchun Huaxiang Faurecia. The transaction was completed subsequently in August 2011. Hence, these machinery and equipment with a net carrying value of RMB47,507,000 was classified as non-current assets held for sale as at 30 June 2011 (note 21).

The related party transaction of office leasing from Guangzhou Chengli as disclosed in item (c)(xiv) above also constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules, which will be continued in the future after the listing of the Company's shares on the Stock Exchange.

The directors confirmed that the related party transactions in respect of items from (c)(i) to (c)(xiii) and item (c)(xvi) will not be continued in the future after the proposed listing of shares of the Company on the Stock Exchange.

(d) *Outstanding balances with related parties*

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011
				(RMB'000)
Amount due from the ultimate shareholder				
Mr. Zhou	<u>56</u>	<u>1,849</u>	<u>—</u>	<u>1,455</u>
Amounts due from related parties				
Ningbo Huayou Properties	101,349	210,936	270,997	220,175
Changchun Huayou Properties	—	—	120,419	228,891
Xiangyue Industry	—	53,036	13,036	48
Huaxiang Group	594	594	38,403	21,704
Huayue Properties	2,245	10,021	21,512	21,512
Ningbo Zhongxin	—	5,000	—	—
Guangzhou Huazhong	1,597	—	—	—
Shanghai Huaxin	2,521	1,595	1,882	—
Xiangrun Petrochemical	208	2,261	2,441	2,240
Mr. Zhou Cimei	1,339	1,339	—	—
Jingshang Huaxiang	—	30	30	—
Changchun Xuyang	139	—	150	—
Ningbo Huaxiang Electronics	—	—	744	606
Ningbo Aolin	452	—	—	—
Guangzhou Chengli	<u>—</u>	<u>—</u>	<u>2,078</u>	<u>2,078</u>
	<u>110,444</u>	<u>284,812</u>	<u>471,692</u>	<u>497,254</u>
Amount due to the ultimate shareholder				
Mr. Zhou	<u>2,041</u>	<u>64,962</u>	<u>21,851</u>	<u>42,876</u>

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Amounts due to related parties				
Ningbo Huayou Properties	35,235	—	59,862	60,000
Ningbo Hualete	43,699	31,973	13,916	8,096
Ningbo Huazhong Moulding	43,770	38,762	—	—
Ningbo Huayue	12,010	12,010	—	—
Huaxiang Group	43,861	11,211	—	—
Huaying Moulding	11,742	11,410	16,185	16,532
Guangzhou Huazhong	11,000	27,281	—	—
Huaxiang Trim	79,030	4,121	4,703	4,707
Changchun Huayou Properties	—	—	13,153	13,153
Xiangyue Industry	9,970	—	—	50,000
Ms. Lai Cairong	7,000	5,000	5,000	5,000
Huaxiang Rearview Mirror	6,044	6,044	—	—
Nanchang Jiangling	1,986	952	441	2,473
Ningbo Makete	1,641	2,844	2,656	1,914
Ningbo Huaxiang Technology	—	—	8,876	7,464
Huaxiang Sales Co	—	19	10	8
Huaxiang Resort	43	139	3	179
	<u>307,031</u>	<u>151,766</u>	<u>124,805</u>	<u>169,526</u>

Included in the amounts due from Ningbo Huayou Properties as at 31 December 2010 and 30 June 2011 were entrusted loans of RMB15,000,000 and RMB145,000,000, respectively, due within one year with an interest rate of 12% per annum in accordance with the terms of entrusted loan agreement. Except for these entrusted loans, the remaining amounts due from/to the ultimate shareholder and related parties are unsecured, interest-free and repayable on demand.

(e) *Compensation of key management personnel of the Group*

	Year ended 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Short term employee benefits	1,629	1,835	1,921	1,656
Post-employment benefits	<u>7</u>	<u>7</u>	<u>25</u>	<u>13</u>
Total compensation paid to key management personnel	<u>1,636</u>	<u>1,842</u>	<u>1,946</u>	<u>1,669</u>

Further details of directors' remuneration are included in note 11 to the Financial Information.

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Track Record Period are as follows:

Financial assets**As at 31 December 2008****Loans and receivables**
(RMB'000)

Loans and receivables	30,000
Trade and notes receivables	193,813
Financial assets included in prepayments and other receivables (note 24)	10,335
Due from the ultimate shareholder	56
Due from related parties	110,444
Pledged deposits	264,010
Cash and cash equivalents	<u>12,428</u>
	<u>621,086</u>

As at 31 December 2009	Loans and receivables <i>(RMB'000)</i>
Loans and receivables	30,000
Trade and notes receivables	246,068
Financial assets included in prepayments and other receivables (note 24)	7,444
Due from the ultimate shareholder	1,849
Due from related parties	284,812
Pledged deposits	200,103
Cash and cash equivalents	<u>98,870</u>
	<u>869,146</u>
As at 31 December 2010	Loans and receivables <i>(RMB'000)</i>
Loans and receivables	10,000
Trade and notes receivables	305,386
Financial assets included in prepayments and other receivables (note 24)	60,774
Due from related parties	471,692
Pledged deposits	157,602
Cash and cash equivalents	<u>30,080</u>
	<u>1,035,534</u>
As at 30 June 2011	Loans and receivables <i>(RMB'000)</i>
Loans and receivables	20,000
Trade and notes receivables	345,927
Financial assets included in prepayments and other receivables (note 24)	10,850
Due from the ultimate shareholder	1,455
Due from related parties	497,254
Pledged deposits	173,964
Cash and cash equivalents	<u>92,751</u>
	<u>1,142,201</u>

Financial liabilities

As at 31 December 2008	Financial liabilities at amortised cost (RMB'000)
Financial liabilities included in other payables, advances from customers and accruals (note 29)	69,782
Trade and notes payables	324,222
Interest-bearing bank borrowings	257,336
Due to the ultimate shareholder	2,041
Due to related parties	<u>307,031</u>
	<u>960,412</u>
As at 31 December 2009	Financial liabilities at amortised cost (RMB'000)
Financial liabilities included in other payables, advances from customers and accruals (note 29)	46,621
Trade and notes payables	314,404
Interest-bearing bank borrowings	513,998
Due to the ultimate shareholder	64,962
Due to related parties	<u>151,766</u>
	<u>1,091,751</u>
As at 31 December 2010	Financial liabilities at amortised cost (RMB'000)
Financial liabilities included in other payables, advances from customers and accruals (note 29)	48,983
Trade and notes payables	409,822
Interest-bearing bank borrowings	547,000
Due to the ultimate shareholder	21,851
Due to related parties	<u>124,805</u>
	<u>1,152,461</u>

As at 30 June 2011	Financial liabilities at amortised cost (RMB'000)
Financial liabilities included in other payables, advances from customers and accruals (note 29)	49,942
Trade and notes payables	536,871
Interest-bearing bank borrowings	487,000
Due to the ultimate shareholder	42,876
Due to related parties	<u>169,526</u>
	<u>1,286,215</u>

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise interest-bearing bank borrowings, trade and notes payables, other payables, an amount due to the ultimate shareholder and amounts due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade and notes receivables, other receivables, loan and receivables, cash and cash equivalents, pledged deposits, an amount due from the ultimate shareholder and amounts due from related parties, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors of the Company reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The interest rate and terms of repayment of borrowings are disclosed in note 30.

The Group has not used any interest swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows.

	Increase/decrease in basis points	Effect on profit before tax (RMB'000)
Year ended 31 December 2008		
RMB	+100	(984)
RMB	-100	984
Year ended 31 December 2009		
RMB	+100	(3,230)
RMB	-100	3,230
Year ended 31 December 2010		
RMB	+100	(3,520)
RMB	-100	3,520
Six months ended 30 June 2011		
RMB	+100	(1,790)
RMB	-100	1,790

A reasonably possible change by 100 basis points in the interest rate with all other variables held constant has no material impact on the Group's equity other than retained earnings.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, other receivables, pledged deposits, loans and receivables, an amount due from the ultimate shareholder and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. As at the end of each of the Track Record Period, except for the trade and notes receivables, there is no significant concentration of credit risk within the Group. The trade and notes receivables arising from the five largest customers accounted for 63%, 79%, 69% and 70% of total the trade and notes receivables as at 31 December 2008, 2009, 2010 and 30 June 2011, respectively.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group monitors its exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is that all the borrowings should be approved by the chief financial officer.

The tables below summarise the maturity profile of the Group's financial liabilities at the end of each of the Track Record Period based on contractual undiscounted payments.

	On demand <i>(RMB'000)</i>	Less than 3 months <i>(RMB'000)</i>	3 to 12 months <i>(RMB'000)</i>	1 to 5 years <i>(RMB'000)</i>	Total <i>(RMB'000)</i>
31 December 2008					
Interest-bearing bank borrowings	—	40,628	228,024	—	268,652
Trade and notes payables	21,905	178,427	123,890	—	324,222
Other payables (note 29)	69,782	—	—	—	69,782
Amount due to the ultimate shareholder	2,041	—	—	—	2,041
Amounts due to related parties	<u>156,971</u>	<u>2,100</u>	<u>147,960</u>	<u>—</u>	<u>307,031</u>
	<u>250,699</u>	<u>221,155</u>	<u>499,874</u>	<u>—</u>	<u>971,728</u>

	On demand <i>(RMB'000)</i>	Less than 3 months <i>(RMB'000)</i>	3 to 12 months <i>(RMB'000)</i>	1 to 5 years <i>(RMB'000)</i>	Total <i>(RMB'000)</i>
31 December 2009					
Interest-bearing bank borrowings	—	160,825	372,954	—	533,779
Trade and notes payables	18,910	230,494	65,000	—	314,404
Other payables (note 29)	46,621	—	—	—	46,621
Amounts due to the ultimate shareholder	64,962	—	—	—	64,962
Amounts due to related parties	<u>131,766</u>	<u>10,000</u>	<u>10,000</u>	<u>—</u>	<u>151,766</u>
	<u>262,259</u>	<u>401,319</u>	<u>447,954</u>	<u>—</u>	<u>1,111,532</u>

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
31 December 2010					
Interest-bearing bank borrowings	—	257,511	307,612	—	565,123
Trade and notes payables	14,206	260,616	135,000	—	409,822
Other payables (note 29)	48,983	—	—	—	48,983
Amount due to the ultimate shareholder	21,851	—	—	—	21,851
Amounts due to related parties	<u>124,805</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>124,805</u>
	<u>209,845</u>	<u>518,127</u>	<u>442,612</u>	<u>—</u>	<u>1,170,584</u>

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>

30 June 2011

Interest-bearing bank borrowings	—	237,864	257,715	—	495,579
Trade and notes payables	33,286	321,662	181,923	—	536,871
Other payables (note 29)	49,942	—	—	—	49,942
Amount due to the ultimate shareholder	42,876	—	—	—	42,876
Amounts due to related parties	<u>169,526</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>169,526</u>
	<u>295,630</u>	<u>559,526</u>	<u>439,638</u>	<u>—</u>	<u>1,294,794</u>

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes, within net debt, interest-bearing loans and borrowings, trade and other payables, an amount due to the ultimate shareholder and amounts due to related parties less cash and cash equivalents. Capital includes equity attributable to the owners of the parent.

The gearing ratios as at the end of each of the Track Record Period were as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Trade and notes payables	324,222	314,404	409,822	536,871
Other payables, advances from customers and accruals	78,778	52,342	55,458	62,044
Interest-bearing bank borrowings	257,336	513,998	547,000	487,000
Amount due to the ultimate shareholder	2,041	64,962	21,851	42,876
Amounts due to related parties	307,031	151,766	124,805	169,526
Less: Cash and cash equivalents	<u>(12,428)</u>	<u>(98,870)</u>	<u>(30,080)</u>	<u>(92,751)</u>
Net debt	<u>956,980</u>	<u>998,602</u>	<u>1,128,856</u>	<u>1,205,566</u>
Equity attributable to owners of the parent	<u>148,888</u>	<u>186,683</u>	<u>275,808</u>	<u>323,176</u>
Capital and net debt	<u>1,105,868</u>	<u>1,185,285</u>	<u>1,404,664</u>	<u>1,528,742</u>
Gearing ratio	<u>87%</u>	<u>84%</u>	<u>80%</u>	<u>79%</u>

42. MAJOR NON-CASH TRANSACTIONS

- (i) In 2008, the Group offset its amount due from Huaxiang Group and trade receivable from a third party against amounts due to Ningbo Huayou Properties, Ningbo Huaxiang Electronics and Guangzhou Huazhong of RMB58,265,000.
- (ii) In 2009, the Group offset its amount due from Mr. Zhou and Guangzhou Huazhong against amounts due to Ningbo Huayou Properties, Xiangyue Industry and its trade payable to a third party of RMB146,749,000.
- (iii) In 2010, the Group offset its amounts due from Mr. Zhou, Ningbo Zhongxin, Huaxiang Trim, Huaxiang Group and Jingshang Huaxiang against amounts due to Ningbo Huayou Properties, Ningbo Huayue, Huaxiang Rearview Mirror and its trade payable to a third party of RMB148,187,000.
- (iv) During the six months ended 30 June 2011, the Group offset its amounts due from Mr. Zhou and its trade receivable from a third party against amounts due to Ningbo Huayou Properties and Huaxiang Group of RMB75,998,000.
- (v) During the six months ended 30 June 2011, the Group acquired Shanghai Huaxin through the acquisition of 51% equity interests from Huaxiang Group at a consideration mutually agreed of RMB16,500,000, which was satisfied by offsetting the amount due from Ningbo Huayou Properties. Details are described in note 34.
- (vi) During the six months ended 30 June 2011, the Group disposed a 20% equity interest in Changchun Huayou Properties to Ningbo Huayou Properties at a consideration of RMB3,000,000, which was determined with reference to the register capital of Changchun Huayou Properties and was satisfied by offsetting the amount due to Ningbo Huayou Properties.
- (vii) During the six months ended 30 June 2011, the Group disposed a 48% equity interest in Ningbo Huaxiang Technology to Mr. Zhou at a consideration of RMB4,800,000, which was determined with reference to the register capital of Ningbo Huaxiang Technology and was satisfied by the amount due from Mr. Zhou.

III. SUBSEQUENT EVENTS

In addition to subsequent events detailed elsewhere in this report, the following events took place subsequent to 30 June 2011 and up to the date of this accountants' report:

Pursuant to an agreement entered between the Group and Changchun Huaxiang Faurecia dated on 20 May 2011, certain of the Group's buildings were to be leased to Changchun Huaxiang Faurecia for a period of five years commencing from Changchun Huaxiang Faurecia's formal production and operation date. The lease subsequently commenced from August 2011.

Pursuant to an agreement entered between the Group and Changchun Huaxiang Faurecia dated on 1 June 2011, certain of the Group's machinery and equipment were to be disposed to Changchun Huaxiang Faurecia. The transaction was completed subsequently in August 2011. Hence, these machinery and equipment with a net carrying value of RMB47,507,000 were classified as non-current assets held for sale as at 30 June 2011 (note 21). The Group's gain on this transaction was approximately RMB9,236,000.

Pursuant to the board resolution of Ningbo Huazhong Plastic on 18 July 2011, Ningbo Huazhong Plastic declared dividends of RMB206,000,000 to its then shareholders.

For the purpose to aid the Group in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of the Company, under a pre-IPO share option scheme, the Company granted options to subscribe at an exercise price equivalent to 80% of the Listing offer price for an aggregate of 18,000,000 shares in the Company ("Pre-IPO Share Option Scheme"). The principal terms of the Pre-IPO Share Option Scheme were approved by resolutions in writing of all the shareholders passed on 15 December 2011.

IV. CONTINGENT LIABILITIES

The Group had issued guarantees to banks in respect of the banking facilities granted to the following parties:

	As at 31 December			As at
	2008	2009	2010	30 June
	(RMB'000)	(RMB'000)	(RMB'000)	2011
				(RMB'000)
Related parties (note 39 (c)(iii))	55,794	163,500	407,170	313,000
Third parties	<u>—</u>	<u>50,000</u>	<u>30,000</u>	<u>30,000</u>
	<u>55,794</u>	<u>213,500</u>	<u>437,170</u>	<u>343,000</u>

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 30 June 2011.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this Appendix does not form part of the Accountants' Report prepared by the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, as set forth in Appendix I 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" and "Appendix I — Accountants' Report" in this prospectus.

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out herein to provide prospective investors with further financial information about (i) how the Global Offering might have affected the combined net tangible assets of our Group after the completion of the Global Offering as if the Global Offering had occurred on 30 June 2011 and the Reorganisation had been completed on 30 June 2011; and (ii) how the Global Offering might have affected the unaudited pro forma forecast earnings per Share for the year ending 31 December 2011 as if the Global Offering had taken place on 1 January 2011 and the Reorganisation had been completed on 1 January 2011.

The accompanying unaudited pro forma financial information of our Group is based on currently available information along with a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of our Group does not purport to predict our Group's future financial position or results of operations.

Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of our Group's financial results and positions of the financial periods concerned.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted combined 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 2011 and the Reorganisation and the Capitalisation Issue had been completed on 30 June 2011. It is based on the adjusted combined net tangible assets attributable to owners of the parent as at 30 June 2011 as shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus, and is adjusted as described below. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of our Group.

	Audited combined net tangible assets attributable to owners of the parent as at 30 June 2011	Estimated net proceeds from the New Issue	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	<i>(Note 3)</i>	<i>(Note 4)</i>	<i>(Note 5)</i>
Based on an Offer Price of HK\$1.2 per Share	323,176	138,873	462,049	0.58	0.71
Based on an Offer Price of HK\$1.5 per Share	323,176	177,052	500,228	0.63	0.77

Notes:

- (1) The audited combined net tangible assets attributable to owners of the parent as at 30 June 2011 is based on the audited combined net assets attributable to owners of the parent of about RMB323,176,000 as at 30 June 2011 extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the New Issue are based on the Offer Shares and the respective Offer Price of HK\$1.2 and HK\$1.5 per Share, being the low or high end of the proposed Offer Price range, after deduction of the underwriting commissions and related expenses payable by us and have not taken into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option or any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme. The estimated net proceeds from the New Issue are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1 to RMB0.82.
- (3) Details of the valuations of the Group's properties as at 30 November 2011 are set out in "Appendix IV" to this prospectus. The revaluation surplus of properties included in buildings included in property, plant and equipment and land use rights was not incorporated in our Group's financial statements for the six months ended 30 June 2011. If the revaluation surplus was recorded in our Group's financial statements, the annual depreciation expense would increase by about RMB6.2 million.
- (4) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 800 million Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue without taking into account any Shares which may be issued upon exercise of the Over-allotment Option or any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme.
- (5) The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1 to RMB0.82.

- (6) On 18 July 2011, a special dividend payable to the then equity holders of Ningbo Huazhong Plastic in an aggregate amount of RMB206 million was declared by Ningbo Huazhong Plastic to its then equity holders in proportion to their equity interest in Ningbo Huazhong Plastic, as to 49% by Mr. Zhou, 21% by Mr. Chen Yuncai (陳雲財) (who held the equity interest on trust for Mr. Zhou) and 30% by Macao Hong Un (which was beneficially owned by Mr. Zhou). Macao Hong Un had waived the dividend payable to it and such amount (after deduction therefrom a 10% PRC withholding tax for foreign investors), which amounted to RMB55.62 million, was transferred to the capital reserve of Ningbo Huazhong Plastic. Taking into account the estimated net proceeds from the New Issue at the Offer Price of HK\$1.2 or HK\$1.5; and the impact of the special dividend on the net tangible assets of the Group of RMB150,380,000 (being RMB206 million less the part of dividend waived by Macao Hong Un and after deduction therefrom a 10% PRC withholding tax for foreign investors, calculated as RMB206 million minus RMB55.62 million), the unaudited proforma adjusted net tangible assets per Share would have been approximately HK\$0.48 or HK\$0.54, respectively.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share of our Group for the year ending 31 December 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2011. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial results of the Group.

	Forecast for the year ending 31 December 2011
Forecast combined profit attributable to owners of the parent ⁽¹⁾	RMB110 million
Unaudited pro forma forecast earnings per Share ⁽²⁾	HK\$0.167

Notes:

- (1) The forecast combined profit attributable to owners of the parent for the year ending 31 December 2011 is extracted from the profit forecast as set out under the section headed “Financial Information — Profit Forecast” in this prospectus. The bases on which the above profit forecast for the year ending 31 December 2011 has been prepared are summarised in Appendix III to this prospectus.
- (2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast combined profit attributable to owners of the parent for the year ending 31 December 2011 and assuming a total of 800 million Shares had been in issues throughout the year ending 31 December 2011 (assuming the Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2011 but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the issuing mandate and repurchase mandate).
- (3) The unaudited pro forma forecast earnings per Share is converted into Hong Kong dollars at an exchange rate of HK\$1 to RMB0.82.

C. LETTER FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, received from our Company's reporting accountants, Ernst & Young, in respect of the unaudited pro forma financial information and for the purpose of incorporation in this prospectus.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

30 December 2011

The Directors
Huazhong Holdings Company Limited
Guotai Junan Capital Limited

Dear Sirs,

We report on the unaudited pro forma adjusted combined net tangible assets and unaudited pro forma forecast earnings per share (the “Unaudited Pro Forma Financial Information”) of Huazhong Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which have been prepared by the directors of the Company (the “Directors”) for illustrative purposes only, to provide information about how the public offer and placing of 200,000,000 shares of HK\$0.10 each in the capital of the Company might have affected the financial information presented, for inclusion in Appendix II to the prospectus of the Company dated 30 December 2011 (the “Prospectus”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II to the Prospectus.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with the 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 the 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 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 the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance 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 on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to the 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, and, because of its hypothetical nature, 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 2011 or any future dates; or
- the forecast earnings per share of the Group for the year ending 31 December 2011 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated;
- (b) such bases are consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to the paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The forecast of our combined profit attributable to owners of the parent of our Group for the year ending 31 December 2011 is set out in the paragraph headed “Profit Forecast” in the section headed “Financial Information” in this prospectus.

A. BASES AND ASSUMPTIONS

The Directors have prepared the forecast of combined profit of our Group for the year ending 31 December 2011 on the basis of the audited combined results of the Group for the six months ended 30 June 2011, the unaudited combined results based on the management accounts of the Group for the four months ended 31 October 2011, and a forecast of the combined results of the Group for the remaining two months ending 31 December 2011. The forecast has been prepared on a basis consistent in all material respects with the accounting policies normally adopted by us as set out in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus and is based on the following principal assumptions:

- there will be no material change in existing laws or regulations, government policies or political, legal, fiscal, market or economic conditions in the PRC, and the places in which our Group carries on business or to which our Group currently exports or from which it obtains its supply of materials;
- there will be no material change in the bases or rates of taxation in the PRC or any other country or territory in which our Group operates, except as otherwise disclosed in this prospectus;
- there will be no significant inflation or deflation and changes in interest rate or exchange rates from those presently prevailing;
- our Group’s operations will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of our Directors, including but not limited to the occurrence of natural disasters, epidemics or serious accidents;
- there will be no change in accounting practice by regulatory bodies which may significantly affect the results of our Group during the forecast period;
- there will be no material unbudgeted capital expenditure or bad debts;
- our Group will not be materially and adversely affected by any of the risk factors set out in the section headed “Risk Factors” of this prospectus.

B. LETTERS

Set out below are texts of letters received by our Directors from (i) Ernst & Young, our auditors and reporting accountants; and (ii) the Sole Sponsor prepared for the purpose of incorporation in this prospectus in connection with the forecast of our combined profit attributable to owners of the parent for the year ending 31 December 2011.

(i) Letter from the Reporting Accountants

22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

30 December 2011

The Directors
Huazhong Holdings Company Limited
Guotai Junan Capital Limited

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the forecast of the combined profit attributable to owners of Huazhong Holdings Company Limited (the “Company”, together with its subsidiaries, hereinafter collectively referred to as the “Group”) for the year ending 31 December 2011 (the “Profit Forecast”) as set out in the paragraph headed “Profit Forecast” under the section headed “Financial Information” in the prospectus of the Company dated 30 December 2011 (the “Prospectus”) for which the directors of the Company (the “Directors”) are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 “Accountants’ Report on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the audited combined results of the Group for the six months ended 30 June 2011, the unaudited combined results of the Group for the four months ended 31 October 2011 and a forecast of the combined results of the Group for the remaining two months ending 31 December 2011.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions made by the Directors as set out in Part A of 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 30 December 2011, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(ii) Letter from the Sole Sponsor

The following is the text of a letter, prepared for inclusion in this prospectus, which we have received from Guotai Junan Capital Limited, the Sole Sponsor, in connection with our forecast of the combined profit attributable to owners of the parent for the year ending 31 December 2011.



Guotai Junan Capital Limited

30 December 2011

The Board of Directors
Huazhong Holdings Company Limited

Dear Sirs,

We refer to the forecast of the combined profit attributable to owners of Huazhong Holdings Company Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) for the year ending 31 December 2011 (the “**Profit Forecast**”), as set out under the paragraph headed “Profit Forecast” in the section headed “Financial Information” in the prospectus issued by the Company dated 30 December 2011 (the “**Prospectus**”).

The Profit Forecast, for which the directors of the Company (the “**Directors**”) are solely responsible, has been prepared by you based on the audited combined results of the Group for the six months ended 30 June 2011, the unaudited combined results based on the management accounts of the Group for the four months ended 31 October 2011, and a forecast of the combined results of the Group for the remaining two months ending 31 December 2011.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 30 December 2011 addressed to you and us from Ernst & Young 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 Ernst & Young, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
for and on behalf of
Guotai Junan Capital Limited
Wilson Lo
Executive Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent valuer, in connection with its valuation as at 30 November 2011 of the property interests of the Group.

Cushman & Wakefield Valuation Advisory Services (HK) Limited

9th Floor, St George's Building
2 Ice House Street,
Central, Hong Kong
Tel: (852) 2956 3888
Fax: (852) 2956 2323

www.cushmanwakefield.com



30 December 2011

The Board of Directors
Huazhong Holdings Company Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Dear Sirs,

Preliminary

In accordance with your instructions to value the properties in which Huazhong Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in The People’s Republic of China (“The PRC”). We confirm that we have carried out physical inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 November 2011 (the “date of valuation”).

Basis of Valuation

Our valuations of the property interests represent the “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 valuation has been prepared in accordance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards — Global (7th Edition) published by The Royal Institution of Chartered Surveyors and effective from May 2011; and The HKIS Valuation Standards on Properties (2005, First Edition) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Valuation Assumptions Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

As the properties in Groups I, II and III are held under long term land use rights, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term of the land use rights.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor 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.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and/or official plans handed to us by the Group are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

Site Inspection We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

Valuation Methodology In valuing the industrial properties in Group I which are held for owner occupation by the Group, due to the nature of the buildings and structures that were constructed, there are no readily identifiable market evidences, the buildings and structures cannot be valued on the basis of direct comparison; we have considered their values on the basis of their depreciated replacement costs.

Depreciated replacement cost is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) cost of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation.

The depreciated replacement cost of the property generally provides the most reliable indication of value for the property in the absence of a known market based on comparable sales.

In arriving at our opinion of value of the property interest in Group II, we have taken into account the construction cost and professional fee relevant to the stage of construction as at the date of valuation and the remainder of the cost and fee to be incurred to complete the development.

We have attributed no commercial value to the property interests in Group IV, which are leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Source of Information We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, identification of the properties and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Title Investigations We have been, in some instances, provided by the Group with extracts of the title documents including State-owned Land Use Rights Grant Contracts, State-owned Land Use Rights Certificates and Building Ownership Certificates relating to the property interests in the PRC, and have made relevant enquiries. However, we have not searched the original documents to verify the existing titles to the property interests in Groups I, II and III and any material encumbrances that might be attached to the properties or any lease amendments which may not appear on the copies handed to us. We have relied considerably on the advice given by the Company's legal advisers - Jingtian & Gongcheng, concerning the validity of the Group's titles to the property interests in the PRC.

Currency & Exchange Rate Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB). The exchange rate adopted in our valuations is approximately Renminbi Yuan (RMB)0.82 = HK\$1 which was approximately the prevailing exchange rates as at the date of valuation.

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,

for and on behalf of

Cushman & Wakefield Valuation Advisory Services (HK) Limited

Vincent K. C. Cheung

Registered Professional Surveyor (GP)

BSc(Hons) MBA MRICS MHKIS

National Director

Note: Mr. Vincent K. C. Cheung holds a Master of Business Administration and he is a Registered Professional Surveyor with over 14 years' experience in real estate industry and assets valuations sector. His experience on valuations covers Hong Kong, Macau, Taiwan, South Korea, Mainland China, Vietnam, Cambodia and other overseas countries. Mr. Cheung is a member of The Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. Mr. Cheung is one of the valuers on the "list of property valuers for undertaking valuation for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers" as well as a Registered Business Valuer of the Hong Kong Business Valuation Forum.

SUMMARY OF VALUES

GROUP I — PROPERTY INTERESTS OWNED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Market Value in existing state as at 30 November 2011 <i>RMB</i>	Interest attributable to the Group	Market Value in existing state as at 30 November 2011 attributable to the Group <i>RMB</i>
1.	An industrial facility located at Nos. 102 & 104 Zhenan Road Xizhou Town Xiangshan County Ningbo City Zhejiang Province The PRC	40,920,000	100%	40,920,000
2.	An industrial facility located in Jidian Industrial Area Xizhou Town Xiangshan County Ningbo City Zhejiang Province The PRC	90,090,000	100%	90,090,000
3.	Staff dormitories located at No. 11 Jingang Road Xizhou Town Xiangshan County Ningbo City Zhejiang Province The PRC	12,700,000	100%	12,700,000
4.	An industrial facility located at No. 69 Dahetou Road Haishu District Ningbo City Zhejiang Province The PRC	18,860,000	100%	18,860,000

No. Property	Market Value in existing state as at 30 November 2011 <i>RMB</i>	Interest attributable to the Group	Market Value in existing state as at 30 November 2011 attributable to the Group <i>RMB</i>
5. An industrial facility located at No. 1766 Hunan Road Pudong New District Shanghai The PRC	26,980,000	51%	13,759,800
6. An industrial facility located in Damian Town Longquanyi District Chengdu City Sichuan Province The PRC	5,910,000	100%	5,910,000
7. An industrial facility located at No. 5001 Dong Nanhu Main Road Changchun Economic and Technical Development Zone Changchun City Jilin Province The PRC	38,970,000	100%	38,970,000
Sub-total:	<u>234,430,000</u>		<u>221,209,800</u>

GROUP II — PROPERTY INTEREST HELD UNDER DEVELOPMENT BY THE GROUP IN THE PRC

No. Property	Market Value in existing state as at 30 November 2011 <i>RMB</i>	Interest attributable to the Group	Market Value in existing state as at 30 November 2011 attributable to the Group <i>RMB</i>
8. An industrial facility located at Nanhu Nan Road (Lot No. 55-125-23) Changchun Jingyue Development Zone Changchun City Jilin Province The PRC	42,390,000	100%	42,390,000
Sub-total:	<u>42,390,000</u>		<u>42,390,000</u>

GROUP III — PROPERTY INTEREST TEMPORARILY OCCUPIED BY THE GROUP IN THE PRC

No. Property	Market Value in existing state as at 30 November 2011 <i>RMB</i>	Interest attributable to the Group	Market Value in existing state as at 30 November 2011 attributable to the Group <i>RMB</i>
9. An industrial facility located at the Commercial/ Residential Zone of Wei Xing Road (Lot No. 05009-2) Changchun Jingyue Development Zone Changchun City Jilin Province The PRC	No commercial value	100%	Nil
Sub-total:	<u>Nil</u>		<u>Nil</u>

GROUP IV — PROPERTY INTERESTS LEASED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Market Value in existing state as at 30 November 2011 RMB	Interest attributable to the Group	Market Value in existing state as at 30 November 2011 attributable to the Group RMB
10.	An industrial facility located at Fenghuang West Road Yonghe Fenghuang Development Area Xintang Town Zengcheng Guangzhou City Guangdong Province The PRC	No commercial value	100%	Nil
11.	An industrial facility located in West Zone of Yubei Molding Industrial Area Yubei District Chongqing The PRC	No commercial value	100%	Nil
12.	An industrial facility located at No. 25 Hangdu Road Hangtou Town Pudong New District Shanghai The PRC	No commercial value	100%	Nil
13.	An office unit located at No. 881 Yongda Street Fushan District Yantai City Shandong Province The PRC	No commercial value	100%	Nil

No. Property	Market Value in existing state as at 30 November 2011 <i>RMB</i>	Interest attributable to the Group	Market Value in existing state as at 30 November 2011 attributable to the Group <i>RMB</i>
14. An office unit located at A1 Road Jiujiang Economic Development Area Jiujiang District Wuhu City Auhui Province The PRC	No commercial value	100%	Nil
15. An industrial facility located in Huicheling Village Heping Town Changxing County Huzhou City Zhejiang Province The PRC	No commercial value	51%	Nil
Sub-total:	_____ Nil		_____ Nil
Grand-total:	<u>276,820,000</u>		<u>263,599,800</u>

VALUATION CERTIFICATE

GROUP I — PROPERTY INTERESTS OWNED AND OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
1. An industrial facility located at Nos. 102 & 104 Zhenan Road Xizhou Town Xiangshan County Ningbo City Zhejiang Province The PRC	<p>The property comprises an industrial facility formed by four land parcels with a total site area of approximately 16,441.74 square metres, on which are erected ten buildings and various ancillary structures completed in various stages between 1998 and 2000.</p> <p>The total gross floor area of the buildings is approximately 24,537.36 square metres (Please refer to Notes 2 to 3 below).</p> <p>The buildings comprise a canteen, a production workshop, a dormitory, two warehouses, a warehouse/injection molding & repairing workshop, two painting workshops, administration building and a painting workshop/file room/car port/sample warehouse. The structures mainly comprise rain shed, roads and boundary walls.</p> <p>The land use rights of the property were granted for various terms with the latest expiry date being 28 June 2051 for industrial and landscaping uses (Please refer to Note 1 below).</p>	<p>The property is currently occupied by the Group for production, warehouse and office purposes, except for a portion of the facility which is currently leased out to a connected party (Please refer to Note 5 below).</p>	<p>40,920,000</p> <p>(100% interest attributable to the Group: RMB40,920,000)</p>

Notes:-

- Pursuant to four State-owned Land Use Rights Certificates issued by the People's Government of Xiangshan County, the land use rights of property with a total site area of 16,441.74 square metres were granted to Ningbo Huazhong Plastics Products Co., Ltd. ("Ningbo Huazhong Plastic") for various terms and for industrial and landscaping uses.

Details of the four State-owned Land Use Rights Certificates are listed below:

Certificate No.	Date of Issue	Land Use Rights Expiry Date	Permitted Uses	Site Area (sqm)
Xiang Guo Yong (2000) Zi Di No. 04-0064	19-Oct-2000	15-Sep-2046	Industrial	11,003.23
Xiang Guo Yong (2000) Zi Di No. 04-0065	19-Oct-2000	15-Sep-2046	Industrial	1,298.76
Xiang Guo Yong (2000) Zi Di No. 00-0066	19-Oct-2000	15-Sep-2046	Industrial	3,895.74
Xiang Guo Yong (2001) Zi Di No. 04-0027	12-Jul-2001	28-Jun-2051	Landscaping	244.01
			Total:	<u>16,441.74</u>

2. Pursuant to two Building Ownership Certificates both dated 3 July 2000 and issued by the People's Government of Xiangshan County, the building ownership rights of five buildings of the property with a total gross floor area of 12,984.44 square metres were vested in Ningbo Huazhong Plastic with details as follows:

Certificate No. (Xiang Fang Quan Zheng Xi Zhou Zhen Zi Di)	Building	Gross	
		Floor Area (sqm)	No. of Storey
No. 042435	Production Workshop	1,519.03	1- to 2-storey
No. 042435	Dormitory	706.53	4-storey
No. 042435	Warehouse	2,843.39	1-storey
No. 042435	Warehouse	3,331.16	1-storey
No. 042436	Canteen	4,584.33	3-storey
Total:		<u>12,984.44</u>	

3. Pursuant to another Building Ownership Certificate, Xiang Fang Quan Zheng Xi Zhou Zhen Zi Di No. 2007-040149 dated 29 November 2007 and issued by the Development Bureau of Xiangshan County, the building ownership rights of five buildings of the property with a total gross floor area of 11,552.92 square metres were vested in Ningbo Huazhong Plastic with details as follows:

Building	Gross	
	Floor Area (sqm)	No. of Storey
Warehouse/Injection Molding & Repairing Workshop	7,565.83	2-storey
Painting Workshop	522.68	2-storey
Administration Building	875.67	3-storey
Painting Workshop	515.46	1-storey
Painting Workshop/File Room/Car Port/Sample Warehouse	2,073.28	3-storey
Total:		<u>11,552.92</u>

4. In the course of our valuation, we have disregarded the value of the guardhouse which is ancillary to the operation of the industrial facility and will not be granted with proper title certificate.
5. Pursuant to a tenancy agreement, No. 20100101 dated 1 April 2010 and entered into between Ningbo Huazhong Plastic and Ningbo Huafeng Plastic and Latex Products Co., Ltd. ("Ningbo Huafeng"), a wholly-owned subsidiary of Ningbo Huazhong Plastic, portion of the property with a gross floor area of 1,500 square metres was leased to Ningbo Huafeng for a term commencing on 1 January 2010 and expiring on 31 March 2015 at nil consideration.
6. Ningbo Huazhong Plastic is a wholly-owned subsidiary of the Company.
7. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
- a. Ningbo Huazhong Plastic obtains and owns the land use rights of the property legally and effectively, and is the only legal owner of the land use rights. Ningbo Huazhong Plastic legally enjoys the exclusive rights to occupy and use the subject land, and no additional approval, permit or agreement is required for Ningbo Huazhong Plastic to transfer, lease, mortgage and/or otherwise handle the land use rights in accordance with law provisions (save and except for those disclosed in Note d below);

- b. Ningbo Huazhong Plastic obtains and owns the building ownership rights of the property (save as those disclosed in Note 4 above) legally and effectively, and is the only legal owner of the building ownership rights. Ningbo Huazhong Plastic legally enjoys the exclusive rights to occupy and use the buildings, and no additional approval, permit or agreement is required for Ningbo Huazhong Plastic to transfer, lease, mortgage and/or otherwise handle the building ownership rights in accordance with law provisions (save and except for those disclosed in Note d below);
- c. Pursuant to a Maximum Amount Mortgage Agreement, No. 82906200900000417 dated 19 January 2009 and entered into between Ningbo Huazhong Plastic and Agricultural Bank of China, Xiangshan Branch (“Mortgagor 1”), the land use rights of portion of the subject land held under State-owned Land Use Rights Certificate, Xiang Guo Yong (2000) Zi Di No. 04-0064 with a site area of 11,003.23 square metres were subject to a mortgage in favour of Mortgagor 1 for a term of three years commencing on 19 January 2009 and expiring on 18 January 2012 to secure general banking facilities with a maximum amount of RMB64,690,000;
- d. Pursuant to another Maximum Amount Mortgage Agreement, No. 82906200800005017 dated 18 December 2008 and entered into between Ningbo Huazhong Plastic and Mortgagor 1, the land use rights of portion of the subject land held under State-owned Land Use Rights Certificate, Xiang Guo Yong (2000) Zi Di No. 00-0066 with a site area of 3,895.74 square metres, and the building ownership rights of the buildings held under Building Ownership Certificates, Xiang Fang Quan Zheng Xi Zhou Zhen Zi Di Nos. 042435 and 042436 with a total gross floor area of 12,984.44 square metres were together subject to a mortgage in favour of Mortgagor 1 for a term of three years commencing on 18 December 2008 and expiring on 17 December 2011 to secure general banking facilities with a maximum amount of RMB14,000,000;
- e. The land use rights and building ownership rights of portion of the property (as mentioned in Notes c and d above) were subject to a mortgage in favour of Mortgagor 1; however, the mortgages have not been registered with the relevant Real Estate Administration Bureau. According to the PRC laws, all property-related mortgages are required to be registered with the relevant Real Estate Administration Bureau; the non-registered mortgage rights are established when the mortgage agreements become effective. The aforesaid mortgage agreements are legal and effective, and Mortgagor 1 has the rights to request Ningbo Huazhong Plastic to register the mortgages and carry out the necessary procedures with the relevant Real Estate Administration Bureau. During the mortgage period, Ningbo Huazhong Plastic may in accordance with law provisions transfer or otherwise handle the aforesaid land use rights and building ownership rights upon obtaining prior written consent from Mortgagor 1; and
- f. The aforesaid tenancy agreement fulfills the requirements of the PRC laws, and is legal and binding between the lessor and the lessee, and the registration procedures have in accordance with relevant law provisions been completed at the relevant Real Estate Administration Bureau. Ningbo Huafeng has the rights to lease the property in accordance with the tenancy agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 <i>RMB</i>
2. An industrial facility located in Jidian Industrial Area Xizhou Town Xiangshan County Ningbo City Zhejiang Province The PRC	<p>The property comprises an industrial facility formed by two land parcels with a total site area of approximately 166,831.80 square metres, on which are erected eight buildings and various ancillary structures completed in various stages between 2004 and 2005.</p> <p>The total gross floor area of the buildings is approximately 37,588.94 square metres (Please refer to Notes 2 to 4 below).</p> <p>The buildings comprise six production workshops, a production workshop/warehouse/office and a moulding workshop. The structures mainly comprise rain shed, roads and boundary walls.</p> <p>The land use rights of the property were granted for various terms with the latest expiry date being 11 May 2054 for industrial uses (Please refer to Note 1 below).</p>	The property is currently occupied by the Group for production, warehouse and office purposes, except for a portion of the facility which is currently leased out to two connected parties (Please refer to Notes 6 and 7 below).	<p>90,090,000</p> <p>(100% interest attributable to the Group: RMB90,090,000)</p>

Notes:-

- Pursuant to two State-owned Land Use Rights Certificates issued by the People's Government of Xiangshan County, the land use rights of property with a total site area of 166,831.80 square metres were granted to Ningbo Huazhong Plastic for industrial uses.

Details of the two State-owned Land Use Rights Certificates are listed below:

Certificate No.	Date of Issue	Land Use Rights Expiry Date	Permitted Uses	Site Area (<i>sqm</i>)
Xiang Guo Yong (2004) Zi Di No. 04-0012	02-Mar-2004	12-Jan-2054	Industrial	135,002.49
Xiang Guo Yong (2004) Di No. 04-0045	27-Aug-2004	11-May-2054	Industrial	31,829.31
			Total:	<u>166,831.80</u>

2. Pursuant to a Building Ownership Certificate, Xiang Fang Quan Zheng Xi Zhou Zhen Zi Di No. 2005-040066 dated 25 April 2005 and issued by the Development Bureau of Xiangshan County, the building ownership rights of two buildings of the property with a total gross floor area of 5,543.29 square metres were vested in Ningbo Huazhong Plastic with details as follows:

Building	Gross	
	Floor Area (sqm)	No. of Storey
Production Workshop	4,540.59	1-storey
Production Workshop/Warehouse/Office	1,002.70	2-storey
Total:	<u>5,543.29</u>	

3. Pursuant to two other Building Ownership Certificates both dated 29 November 2007 and issued by the Development Bureau of Xiangshan County, the building ownership rights of five buildings of the property with a total gross floor area of 22,123.30 square metres were vested in Ningbo Huazhong Plastic with details as follows:

Certificate No. (Xiang Fang Quan Zheng Xi Zhou Zhen Zi Di)	Building	Gross	
		Floor Area (sqm)	No. of Storey
No. 2007-040150	Production Workshop	15,392.50	2-storey
No. 2007-040150	Production Workshop	302.10	1-storey
No. 2007-040150	Production Workshop	433.20	1-storey
No. 2007-040150	Production Workshop	199.50	1-storey
No. 2007-040152	Production Workshop	5,796.00	1-storey
Total:		<u>22,123.30</u>	

4. Pursuant to another Building Ownership Certificate, Xiang Fang Quan Zheng Xi Zhou Zhen Zi Di No. 2011-040349 dated 11 August 2011 and issued by the Development Bureau of Xiangshan County, the building ownership rights of the moulding workshop of the property was a gross floor area of 9,922.35 square metres were legally vested in Ningbo Huazhong Plastics.

5. In the course of our valuation, we have disregarded the values of five buildings (including an air pump room, a power distribution room, two guardhouses and an ancillary room) which are ancillary to the operation of the industrial facility and will not be granted with proper title certificates.

6. Pursuant to a tenancy agreement, No. 20101230 dated 31 December 2010 and entered into between Ningbo Huazhong Plastic and Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd. ("Ningbo Hualete"), a 50% interest-owned subsidiary of Ningbo Huazhong Plastic, portion of the property (as mentioned in Note 2 above) with a total gross floor area of 5,543.29 square metres was leased to Ningbo Hualete for a term of one year commencing on 1 January 2011 and expiring on 31 December 2011 at an annual rent of RMB1,007,400.

7. Pursuant to another tenancy agreement, No. 20100101 dated 22 October 2010 and entered into between Ningbo Huazhong Plastic and Ningbo Huazhong Moulding Manufacturing Co., Ltd. ("Ningbo Huazhong Moulding"), a wholly-owned subsidiary of Ningbo Huazhong Plastic, another portion of the property with a gross floor area of 9,758 square metres was leased to Ningbo Huazhong Moulding for a term of one year commencing on 22 October 2010 and expiring on 23 October 2011 at an annual rent of RMB1,424,668.

8. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
- a. Ningbo Huazhong Plastic obtains and owns the land use rights of the property legally and effectively, and is the only legal owner of the land use rights. Ningbo Huazhong Plastic legally enjoys the exclusive rights to occupy and use the subject land, and no additional approval, permit or agreement is required for Ningbo Huazhong Plastic to transfer, lease, mortgage and/or otherwise handle the land use rights in accordance with law provisions (save and except for those disclosed in Note d below);
 - b. Ningbo Huazhong Plastic obtains and owns the building ownership rights of the property (save as those disclosed in Note 5 above) legally and effectively, and is the only legal owner of the building ownership rights. Ningbo Huazhong Plastic legally enjoys the exclusive rights to occupy and use the buildings, and no additional approval, permit or agreement is required for Ningbo Huazhong Plastic to transfer, lease, mortgage and/or otherwise handle the building ownership rights in accordance with law provisions (save and except for those disclosed in Note c below);
 - c. Pursuant to a Maximum Amount Mortgage Agreement, No. 82906200900000417 dated 19 January 2009 and entered into between Ningbo Huazhong Plastic and Mortgagor 1, the building ownership rights of the buildings held under Building Ownership Certificates, Xiang Fang Quan Zheng Xi Zhou Zhen Zi Di Nos. 2005-040066 and 2007-040152 with a total gross floor area of 11,339.29 square metres were subject to a mortgage in favour of Mortgagor 1 for a term of three years commencing on 19 January 2009 and expiring on 18 January 2012 to secure general banking facilities with a maximum amount of RMB64,690,000;
 - d. Pursuant to another Maximum Amount Mortgage Agreement, No. 82906200800005017 dated 18 December 2008 and entered into between Ningbo Huazhong Plastic and Mortgagor 1, the land use rights of portion of the subject land held under State-owned Land Use Rights Certificate, Xiang Guo Yong (2004) Zi Di No. 04-0012 with a site area of 135,002.49 square metres were subject to a mortgage in favour of Mortgagor 1 for a term of three years commencing on 18 December 2008 and expiring on 17 December 2011 to secure general banking facilities with a maximum amount of RMB14,000,000;
 - e. The land use rights and building ownership rights of portion of the property (as mentioned in Notes c and d above) were subject to a mortgage in favour of Mortgagor 1; however, the mortgages have not been registered with the relevant Real Estate Administration Bureau. According to the PRC laws, all property-related mortgages are required to be registered with the relevant Real Estate Administration Bureau; the non-registered mortgage rights are established when the mortgage agreements become effective. The aforesaid mortgage agreements are legal and effective, and Mortgagor 1 has the rights to request Ningbo Huazhong Plastic to register the mortgages and carry out the necessary procedures with the relevant Real Estate Administration Bureau. During the mortgage period, Ningbo Huazhong Plastic may in accordance with law provisions transfer or otherwise handle the aforesaid land use rights and building ownership rights upon obtaining prior written consent from Mortgagor 1; and
 - g. The aforesaid tenancy agreements fulfill the requirements of the PRC laws, and are legal and binding between the lessor and the lessees, and the registration procedures have in accordance with relevant law provisions been completed at the relevant Real Estate Administration Bureau. Ningbo Huaite and Ningbo Huazhong Moulding have the rights to lease the property in accordance with the tenancy agreements.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
3. Staff dormitories located at No. 11 Jingang Road Xizhou Town Xiangshan County Ningbo City Zhejiang Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 7,344.38 square metres, on which are erected two staff dormitories which were completed in about 2001.</p> <p>The total gross floor area of the buildings is approximately 6,361.39 square metres (Please refer to Note 2 below).</p> <p>The land use rights of the property were granted for a term expiring on 25 March 2059 for industrial uses (Please refer to Note 1 below).</p>	The property is currently occupied by the Group as staff dormitories.	<p>12,700,000</p> <p>(100% interest attributable to the Group: RMB12,700,000)</p>

Notes:-

1. Pursuant to a State-owned Land Use Rights Certificate, Xiang Guo Yong (2011) Zi Di No. 0036 dated 28 April 2011 and issued by the People's Government of Xiangshan County, the land use rights of property with a site area of 7,344.38 square metres were granted to Ningbo Huazhong Plastic for a term expiring on 25 March 2059 for industrial uses.
2. Pursuant to a Building Ownership Certificate, Xiang Fang Quan Zheng Xi Zhou Zhen Zi Di No. 2010-040529 dated 29 November 2010 and issued by the Development Bureau of Xiangshan County, the building ownership rights of the property with a total gross floor area of 6,361.39 square metres were vested in Ningbo Huazhong Plastic.
3. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
 - a. Ningbo Huazhong Plastic obtains and owns the land use rights of the property legally and effectively, and is the only legal owner of the land use rights. Ningbo Huazhong Plastic legally enjoys the exclusive rights to occupy and use the subject land, and no additional approval, permit or agreement is required for Ningbo Huazhong Plastic to transfer, lease, mortgage and/or otherwise handle the land use rights in accordance with law provisions; and
 - b. Ningbo Huazhong Plastic obtains and owns the building ownership rights of the property legally and effectively, and is the only legal owner of the building ownership rights. Ningbo Huazhong Plastic legally enjoys the exclusive rights to occupy and use the buildings, and no additional approval, permit or agreement is required for Ningbo Huazhong Plastic to transfer, lease, mortgage and/or otherwise handle the building ownership rights in accordance with law provisions.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 <i>RMB</i>
4. An industrial facility located at No. 69 Dahetou Road Haishu District Ningbo City Zhejiang Province The PRC	<p>The property comprises an industrial facility formed by a land parcel with a site area of approximately 5,887.30 square metres, on which are erected 11 buildings and various ancillary structures completed in various stages between 1993 and 1998.</p> <p>The total gross floor area of the buildings is approximately 6,723.47 square metres (Please refer to Notes 2 to 4 below).</p> <p>The buildings comprise a guardhouse/warehouse/power distribution room, three warehouses, a main office/canteen, a production workshop, a water pump room, a toilet and bathroom, new composite building and two ancillary rooms. The structures mainly comprise rain shed, roads and boundary walls.</p> <p>The land use rights of the property were granted for a term expiring on 21 April 2061 for industrial uses (Please refer to Note 1 below).</p>	The property is currently occupied by the Group for production, warehouse and office purposes.	18,860,000 (100% interest attributable to the Group: RMB18,860,000)

Notes:-

- Pursuant to a State-owned Land Use Rights Certificate, Yong Guo Yong (2011) Di No. 0101701 dated 16 May 2011 and issued by the People's Government of Ningbo City, the land use rights of property with a site area of 5,887.30 square metres were granted to Ningbo Xinxing Automobile Parts Manufacturing Co., Ltd. ("Ningbo Xinxing") for a term expiring on 21 April 2061 for industrial uses.
- Pursuant to a Building Ownership Certificate, Fang Quan Zheng Yong Hai Duan Zi Zi Di No. 2009002 dated 6 February 2009 and issued by the Real Estate Title Administration Office of Ningbo City, the building ownership rights of three buildings of the property with a total gross floor area of 2,260.86 square metres were vested in Ningbo Xinxing with details as follows:

Building	Gross Floor Area (<i>sqm</i>)	No. of Storey
Guardhouse/Warehouse/Power Distribution Room	947.73	1- to 2-storey
Warehouse	243.29	1-storey
Main Office/Canteen	1,069.84	3-storey
Total:	<u>2,260.86</u>	

3. Pursuant to four other Building Ownership Certificates all dated 7 November 2011 and issued by the Real Estate Title Administration Office of Ningbo City, the building ownership rights of four buildings of the property with a total gross floor area of 4,101.21 square metres were vested in Ningbo Xinxing with details as follows:

Certificate No. (Fang Quan Zheng Yong Hai Duan Zi Zi Di)	Building	Gross Floor	
		Area (<i>sqm</i>)	No. of Storey
No. 20110100	New Composite Building	2,991.21	6-storey
No. 20110101	Water Pump Room	65.25	1-storey
No. 20110102	Warehouse	66.42	1-storey
No. 20110103	Production Workshop	978.33	1-storey
	Total:	<u>4,101.21</u>	

4. In the course of our valuation, we have attributed no commercial value to four buildings with a total gross floor area of approximately 361.40 square metres as they are yet to be granted with proper title certificates. For reference purposes, we are of the opinion that the value of these buildings (excluding the land), assuming they have been granted with the proper title certificates and are freely transferable as at the date of valuation, would be RMB350,000.

Details of the four buildings are listed below:

Building	Gross Floor	
	Area (<i>sqm</i>)	No. of Storey
Warehouse	175.79	1-storey
Toilet and Bathroom	54.08	2-storey
Ancillary Room	103.95	1-storey
Ancillary Room	27.59	1-storey
	Total:	<u>361.40</u>

5. Ningbo Xinxing is a wholly-owned subsidiary of Ningbo Huazhong Plastic.
6. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
- Ningbo Xinxing obtains and owns the land use rights of the property legally and effectively, and is the only legal owner of the land use rights. Ningbo Xinxing legally enjoys the exclusive rights to occupy and use the subject land, and no additional approval, permit or agreement is required for Ningbo Xinxing to transfer, lease, mortgage and/or otherwise handle the land use rights in accordance with law provisions;
 - Ningbo Xinxing obtains and owns the building ownership rights of the property (save as those disclosed in Note 4 above) legally and effectively, and is the only legal owner of the building ownership rights. Ningbo Xinxing legally enjoys the exclusive rights to occupy and use the buildings, and no additional approval, permit or agreement is required for Ningbo Xinxing to transfer, lease, mortgage and/or otherwise handle the building ownership rights in accordance with law provisions; and

- c. The buildings as mentioned in Note 4 above are yet to be granted with the Construction Land Use Planning Permit, Construction Project Planning Permit, Construction Works Commencement Permit or Building Ownership Certificate, and have not been certified for completion in accordance with law provisions. According to the PRC laws, the relevant Real Estate Administration Bureau has the rights to fine the following:
- (1) for land which has not been granted with proper Construction Land Use Planning Permit prior to the construction, the approval document would be voided by the People's Government at county level or above; the occupier should return the land to the original owner and compensate the owner in case of damages arising therefrom;
 - (2) for construction work which has not been granted with proper Construction Project planning Permit prior to its commencement, the relevant Planning Administration Bureau has the rights to order for ceasing the construction; if rectification to the construction work is able to mitigate the effects to local planning, such rectification is required to be completed within a specified period and the relevant entity would be fined a sum equivalent to 5% to 10% of the contracted construction cost. If the rectification is not able to mitigate the effects to local planning, the relevant Planning Administration Bureau has the rights to order for demolition within a specified period, or forfeiting the unauthorised construction work or income generated therefrom if the demolition is not able to be carried out. The relevant entity would be fined a sum equivalent to less than 10% of the contracted construction cost; and
 - (3) for construction work which has not been granted with proper Construction Works Commencement Permit prior to its commencement, the relevant Construction Administration Bureau has the rights to order for ceasing the construction and rectification within a specified period, and the relevant entity would be fined a sum equivalent to 1% to 2% of the contracted construction cost.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
5. An industrial facility located at No. 1766 Hunan Road Pudong New District Shanghai The PRC	<p>The property comprises an industrial facility formed by a land parcel with a site area of approximately 9,021.00 square metres, on which are erected six buildings and various ancillary structures completed in various stages between 1994 and 2006.</p> <p>The total gross floor area of the buildings is approximately 7,892.44 square metres (Please refer to Notes 1 to 2 below).</p> <p>The buildings comprise two production workshops, main workshop/office, a warehouse/canteen and two warehouses. The structures mainly comprise rain shed, roads and boundary walls.</p> <p>The land use rights of the property were granted for a term of 50 years commencing on 1 July 2004 and expiring on 30 June 2054 for industrial uses (Please refer to Note 1 below).</p>	The property is currently occupied by the Group for production, warehouse and office purposes.	26,980,000 (51% interest attributable to the Group: RMB13,759,800)

Notes:-

- Pursuant to a Shanghai Certificate of Real Estate Ownership, Hu Fang Di Pu Zi (2008) Di No. 027853 dated 21 April 2008 and issued by the Shanghai Housing and Land Resources Administration Bureau, the land use rights of property with a site area of 9,021.00 square metres and the building ownership rights of five buildings with a total gross floor area of 7,412.44 square metres were legally vested in Shanghai Huaxin Automobile Latex and Plastic Co., Ltd. ("Shanghai Huaxin"). The land use rights were granted for a term of 50 years commencing on 1 July 2004 and expiring on 30 June 2054 for industrial uses.

Details of the five buildings are listed below:

Building	Gross Floor Area (<i>sqm</i>)	No. of Storey
New Production Workshop Extension	1,932.57	2-storey
New Production Workshop	2,383.86	3-storey
Main Workshop/Office	1,934.87	3-storey
Warehouse/Canteen	657.64	1-storey
Warehouse	<u>503.50</u>	1-storey
Total:	<u><u>7,412.44</u></u>	

- In the course of our valuation, we have attributed no commercial value to a warehouse with a gross floor area of approximately 480.00 square metres as it is yet to be granted with proper title certificate. For reference purposes, we are of the opinion that the value of the building (excluding the land), assuming it has been granted with the proper title certificate and is freely transferable as at the date of valuation, would be RMB860,000.

3. Shanghai Huaxin is a 51% interest-owned subsidiary of Ningbo Huazhong Plastic.
4. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
 - a. Shanghai Huaxin obtains and owns the land use rights and building ownership rights of the property (save as those disclosed in Note 2 above) legally and effectively, and is the only legal owner of the land use rights and building ownership rights. Shanghai Huaxin legally enjoys the exclusive rights to occupy and use the land and buildings, and no additional approval, permit or agreement is required for Shanghai Huaxin to transfer, lease, mortgage and/or otherwise handle the land use rights and building ownership rights in accordance with law provisions;
 - b. Pursuant to a Maximum Amount Mortgage Agreement, No. 18149103110079 dated 2 August 2010 and entered into between Shanghai Huaxin and Shanghai Rural Commercial Bank, Pudong Branch ("Mortgagor 2"), the building ownership rights of the buildings and the land use rights of the subject land held under Shanghai Certificate of Real Estate Ownership, Hu Fang Di Pu Zi (2008) Di No. 027853 with a total gross floor area of 7,412.44 square metres and a site area of 9,021.00 square metres were together subject to a mortgage in favour of Mortgagor 2 for a term of three years commencing on 6 August 2010 and expiring on 5 August 2013 to secure general banking facilities with a maximum amount of RMB10,000,000;
 - c. The land use rights and building ownership rights of the property were subject to a mortgage in favour of Mortgagor 2; however, the mortgage has not been registered with the relevant Real Estate Administration Bureau. According to the PRC laws, all property-related mortgages are required to be registered with the relevant Real Estate Administration Bureau; the non-registered mortgage rights are established when the mortgage agreements become effective. The aforesaid mortgage agreement is legal and effective, and Mortgagor 2 has the rights to request Shanghai Huaxin to register the mortgage and carry out the necessary procedures with the relevant Real Estate Administration Bureau. During the mortgage period, Shanghai Huaxin may in accordance with law provisions transfer or otherwise handle the aforesaid land use rights and building ownership rights (save and except for those disclosed in Note 2 above) upon obtaining prior written consent from Mortgagor 2; and
 - d. The building as mentioned in Note 2 above is yet to be granted with the Construction Land Use Planning Permit, Construction Project Planning Permit, Construction Works Commencement Permit or Building Ownership Certificate, and has not been certified for completion in accordance with law provisions. According to the PRC laws, the relevant Real Estate Administration Bureau has the rights to fine the following:
 - (1) for land which has not been granted with proper Construction Land Use Planning Permit prior to the construction, the approval document would be voided by the People's Government at county level or above; the occupier should return the land to the original owner and compensate the owner in case of damages arising therefrom;
 - (2) for construction work which has not been granted with proper Construction Project Planning Permit prior to its commencement, the relevant Planning Administration Bureau has the rights to order for ceasing the construction; if rectification to the construction work is able to mitigate the effects to local planning, such rectification is required to be completed within a specified period and the relevant entity would be fined a sum equivalent to 5% to 10% of the contracted construction cost. If the rectification is not able to mitigate the effects to local planning, the relevant Planning Administration Bureau has the rights to order for demolition within a specified period, or forfeiting the unauthorised construction work or income generated therefrom if the demolition is not able to be carried out. The relevant entity would be fined a sum equivalent to less than 10% of the contracted construction cost; and
 - (3) for construction work which has not been granted with proper Construction Works Commencement Permit prior to its commencement, the relevant Construction Administration Bureau has the rights to order for ceasing the construction and rectification within a specified period, and the relevant entity would be fined a sum equivalent to more than 1% but less than 2% of the contracted construction cost.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
6. An industrial facility located in Damian Town Longquanyi District Chengdu City Sichuan Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 34,444.93 square metres, on which are erected four buildings and various ancillary structures completed in various stages between 2010 and 2011.</p> <p>The total gross floor area of the buildings is approximately 8,364 square metres (Please refer to Notes 4 to 5 below).</p> <p>The buildings comprise a workshop, an office, a guardhouse and a warehouse. The structures mainly comprise rain shed, roads and boundary walls.</p> <p>The land use rights of the property were granted for a term expiring on 29 July 2060 for industrial uses (Please refer to Notes 1 and 2 below).</p>	The property is currently occupied by the Group for production, warehouse and office purposes.	<p>5,910,000</p> <p>(100% interest attributable to the Group: RMB5,910,000)</p>

Notes:-

- Pursuant to a State-owned Land Use Rights Grant contract, No. 510101-2010-0079 dated 12 July 2010 entered into between the State-owned Land Resources Bureau of Longquanyi District, Chengdu City and Chengdu Huazhong Automobile Parts Co., Ltd. ("Chengdu Huazhong"), the land use rights of the property with a site area of 34,444.93 square metres were granted to Chengdu Huazhong for industrial uses at a consideration of RMB5,786,748.24.

The salient details of the State-owned Land Use Rights Grant Contract are listed below:

Particulars	Details
Minimum Gross Floor Area	31,001 square metres
Plot Ratio	Not less than 0.90
Site Coverage	Not less than 40%
Landscaping Ratio	Not higher than 20%
Ancillary Office and Dormitories	Should not occupy more than 2,412 square metres of the site and should not have a total gross floor area of more than 2,171 square metres

- Pursuant to a State-owned Land Use Rights Certificate, Long Guo Yong (2011) Di No. 14429 dated 15 August 2011 and issued by the People's Government of Longquanyi District, Chengdu City, the land use rights of the property with a site area of 34,444.93 square metres were granted to Chengdu Huazhong for a term expiring on 29 July 2060 for industrial uses.

3. Pursuant to a Construction Land Use Planning Permit, Di Zi Di No. 510112201120025 (Gong) dated 28 July 2011 and issued by the Project Construction Services Bureau of Chengdu Economic and Technology Development Zone, the proposed land use of the property with a net site area of 51.6674 Chinese-mu (or approximately 34,445 square metres) as industrial and the proposed development scale of 22,073.80 square metres were approved.
4. Pursuant to a Construction Project Planning Permit, Jian Zi Di No. 510112201130053 (Gong) dated 26 August 2011 and issued by the Project Construction Services Bureau of Chengdu Economic and Technology Development Zone, the proposed development of the workshop, office and warehouse of the property with a proposed gross floor area of 8,334 square metres was approved.
5. Pursuant to a Construction Works Commencement Permit, No. 510112201110200101 dated 20 October 2011 and issued by the Project Construction Services Bureau of Chengdu Economic and Technology Development Zone, the construction works of the proposed development with a total planned gross floor area of 8,338.80 square metres were approved to commence.
6. In the course of our valuation, we have attributed no commercial value to four buildings with a total gross floor area of approximately 8,364.00 square metres as they are yet to be granted with proper title certificates. For reference purposes, we are of the opinion that the value of these buildings (excluding the land), assuming they have been granted with the proper title certificates and are freely transferable as at the date of valuation, would be RMB14,480,000.

Details of the four buildings are listed below:

Building	Gross Floor Area	No. of Storey
	<i>(sqm)</i>	
Workshop	6,230.00	1-storey
Office	1,900.00	1-storey
Guardhouse	30.00	1-storey
Warehouse	204.00	1-storey
	Total:	
	<u>8,364.00</u>	

7. Chengdu Huazhong is a wholly-owned subsidiary of Ningbo Huazhong Plastic.
8. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
 - a. Chengdu Huazhong obtains and owns the land use rights of the property legally and effectively, and is the only legal owner of the land use rights. Chengdu Huazhong legally enjoys the exclusive rights to occupy and use the subject land, and no additional approval, permit or agreement is required for Chengdu Huazhong to transfer, lease, mortgage and/or otherwise handle the land use rights in accordance with law provisions; and
 - b. The buildings as mentioned in Notes 4 to 6 above have been granted with the Construction Land Use Planning Permit, Construction Project Planning Permit, Construction Works Commencement Permit, but are yet to be granted with the Building Ownership Certificate, and have not been certified for completion in accordance with law provisions. According to the PRC laws, for construction work which has not been certified for completion and has been in use without prior approval, the relevant Construction Administration Bureau has the rights to order for rectification and the relevant entity would be fined a sum equivalent to more than 2% but less than 4% of the contracted construction cost.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 <i>RMB</i>
7. An industrial facility located at No. 5001 Dong Nanhu Main Road Changchun Economic and Technical Development Zone Changchun City Jilin Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 39,980 square metres, on which are erected eight buildings and various ancillary structures completed in various stages between 2001 and 2010.</p> <p>The total gross floor area of the buildings is approximately 25,353.42 square metres (Please refer to Notes 2 to 6 below).</p> <p>The buildings comprise an office, three workshops, two factories, a warehouse and an underground water tank and pump room. The structures mainly comprise rain sheds, roads and boundary walls.</p> <p>The land use rights of the property were granted for a term of 50 years expiring on 16 November 2049 for industrial uses (Please refer to Note 1 below).</p>	<p>The property is currently occupied by the Group for production, warehouse and office purposes, except for a portion of the facility which is currently leased out to a connected party (please refer to Note 8 below).</p>	<p>38,970,000</p> <p>(100% interest attributable to the Group: RMB38,970,000)</p>

Notes:-

- Pursuant to a State-owned Land Use Rights Certificate, Chang Guo Yong (2007) Di No. 071004053 dated 18 January 2007 and issued by the People's Government of Changchun City, the land use rights of the property with a site area of 39,980 square metres were granted to Changchun Huaxiang Automobile Plastic Parts Manufacturing Co., Ltd. ("Changchun Huaxiang") for a term expiring on 16 November 2049 for industrial uses.
- Pursuant to three Construction Land Use Planning Permits issued by the Planning Bureau of Changchun City to Changchun Huaxiang, the proposed land uses of the subject site with a site area of 39,881 square metres for the construction of seven buildings with a total gross floor area of 19,583.55 square metres were approved.

Details of the three Construction Land Use Planning Permits are listed as follows:-

Permit No.	Date of Issue	Building	Total GFA (<i>sqm</i>)
Chang Gui (2002) No. 27	21-Jan-2002	Block 1, Block 2, Block 3	7,095.80
Chang Gui Yong Di (2004) No. 156	05-Jul-2004	Block 5	1,771.04
Chang Gui Yong Di (2006) No. 0032	17-Feb-2006	Block 4, transformer room, Block 9	10,716.71
			<u>19,583.55</u>

- 3 Pursuant to three Construction Project Planning Permits issued by the Planning Bureau of Changchun City to Changchun Huaxiang, the proposed development of seven buildings with a total planned gross floor area of 18,610.51 square metres was approved.

Details of the three Construction Project Planning Permits are listed as follows:-

Permit No.	Date of Issue	Building	Total GFA (sqm)
Chang Gui (2002) No. 25	21-Jan-2002	Block 1, Block 2, Block 3	7,095.80
Chang Gui (2002) No. 407	02-Dec-2002	Block 7	798.00
Chang Gui Gong Cheng (2006) No. 0076	27-Apr-2006	Block 4, transformer room, Block 9	10,716.71
			<u>18,610.51</u>

4. Pursuant to two Construction Works Commencement Permits issued by the Construction and Development Bureau of Changchun Economic and Technical Development Zone to Changchun Huaxiang, the construction works of six buildings with a total planned gross floor area of 17,812.00 square metres were approved to commence.

Details of the two Construction Works Commencement Permits are listed as follows:-

Permit No.	Date of Issue	Building	Total GFA (sqm)
No. 220105200006160101	30-May-2002	Block 1, Block 2, Block 3	7,095.00
No. 220105200512070101/ 220105200512070201/ 220105200512070301	29-Sep-2006	Block 4, transformer room, Block 9	10,717.00
			<u>17,812.00</u>

5. Pursuant to two Building Ownership Certificates both dated 21 November 2011 and issued by the Real Estate Title Registration and Certificate Issuing Centre of Changchun City, the building ownership rights of two buildings of the property with a total gross floor area of 11,090.84 square metres were vested in Changchun Huaxiang with details as follows:

Certificate No. (Fang Quan Zheng Chang Fang Quan Zi Di)	Building	Gross Floor Area (sqm)	No. of Storey
No. 2060173521	Composite Factory (Block 4)	10,292.84	3-storey
No. 2060173534	Assembly Workshop (Block 7)	798.00	1-storey
	Total:	<u>11,090.84</u>	

6. In the course of our valuation, we have attributed no commercial value to six buildings with a total gross floor area of approximately 14,262.58 square metres as they are yet to be granted with proper title certificates. For reference purposes, we are of the opinion that the value of these buildings (excluding the land), assuming they have been granted with the proper title certificates and are freely transferable as at the date of valuation, would be RMB23,470,000.

Details of the six buildings are listed below:

Building	Gross Floor Area	No. of Storey
	<i>(sqm)</i>	
Workshop (Block 1)	2,520.33	1/3-storey
Painting Workshop (Block 2)	1,872.00	1/2-storey
Warehouse (Block 3)	1,980.13	1-storey
Office (Block 5)	1,771.04	3-storey
Factory (Block 8)	5,869.09	1/2-storey
Underground Water Tank and Pump Room (Block 9)	<u>249.99</u>	N/A
	Total:	
	<u><u>14,262.58</u></u>	

7. In the course of our valuation, we have disregarded the values of two buildings (including a guardhouse and a power distribution room) which are ancillary to the operation of the industrial facility and will not be granted with proper title certificates.
8. Pursuant to a tenancy agreement dated 20 May 2011 and entered into between Changchun Huaxiang and Changchun Huaxiang Faurecia Automotive Plastic Components Co., Ltd. ("Changchun Huaxiang Faurecia"), a 50% interest-owned subsidiary of Ningbo Huazhong Plastic, portion of the property with a gross floor area of 20,836.55 square metres was leased to Changchun Huaxiang Faurecia for a term of five years commencing on the date of formal operation of Changchun Huaxiang Faurecia at an initial rent of RMB26 per square metre inclusive of management fee.
9. Changchun Huaxiang is a wholly-owned subsidiary of Changchun Huateng, which is a wholly-owned subsidiary of Ningbo Huazhong Plastic.
10. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
 - a. Changchun Huaxiang obtains and owns the land use rights of the property legally and effectively, and is the only legal owner of the land use rights. Changchun Huaxiang legally enjoys the exclusive rights to occupy and use the subject land, and no additional approval, permit or agreement is required for Changchun Huaxiang to transfer, lease, mortgage and/or otherwise handle the land use rights in accordance with law provisions;
 - b. Changchun Huaxiang obtains and owns the building ownership rights of the property (save as those disclosed in Notes 6 and 7 above) legally and effectively, and is the only legal owner of the building ownership rights. Changchun Huaxiang legally enjoys the exclusive rights to occupy and use the buildings, and no additional approval, permit or agreement is required for Changchun Huaxiang to transfer, lease, mortgage and/or otherwise handle the building ownership rights in accordance with law provisions;
 - c. Pursuant to a Certification dated 19 July 2011 and issued by the Changchun Housing Protection and Real Estate Administration Bureau, Changchun Huaxiang is one of the business enterprises of the Changchun Economic and Technical Development Zone, and possesses the industrial facility and ancillary office with a total gross floor area of approximately 28,076.30 square metres. Changchun Huaxiang has submitted all requisite documents for obtaining the relevant Building Ownership Certificates to the Market and Title Registration Office of the bureau. According to the Changchun Housing Protection and Real Estate Administration Bureau, the aforesaid documents fulfill the legal requirements and the issuance of the Building Ownership Certificates is in the process. There is no substantial legal impediment or legal risk for Changchun Huaxiang to obtain the relevant Building Ownership Certificates, and Changchun Huaxiang would not face the risk of being administratively fined due to the use of the buildings before obtaining the relevant Building Ownership Certificates;

- d. The buildings as mentioned in Note 6 above have been granted with proper Construction Land Use Planning Permits, Construction Project Planning Permits, Construction Works Commencement Permits, but are yet to be granted with the Building Ownership Certificate, and have not been certified for completion in accordance with law provisions. According to the PRC laws, for construction work which has not been certified for completion and has been in use without prior approval, the relevant Construction Administration Bureau has the rights to order for rectification and the relevant entity would be fined a sum equivalent to more than 2% but than 4% of the contracted construction cost;
- e. Changchun Housing Protection and Real Estate Administration Bureau has the rights to issue the Certification as mentioned in Note c above;
- f. The aforesaid tenancy agreement has been established upon signing between Changchun Huaxiang and Changchun Huaxiang Faurecia. However, as Changchun Huaxiang has not shown any title documents or prove of ownership of the property, the ownership rights as to the property by Changchun Huaxiang and the effectiveness of the tenancy agreement are yet to be confirmed. If the lessor does not have the ownership rights over the property, the tenancy agreement would only be effective upon confirmation by the owner of such rights or upon obtaining the handling rights by the party who wishes to obtain the handling rights by signing an agreement with the owner; and
- g. The aforesaid tenancy agreement has not been registered with the relevant Real Estate Administration Bureau. According to the PRC laws, the lessor and lessee are required to sign a tenancy agreement and register the tenancy with the relevant Real Estate Administration Bureau for a formal tenancy; shall it be contravened, the local Real Estate Administration Bureau will order for rectification within a specified period. A person will be fined less than RMB1,000 and a unit will be fined more than RMB1,000 but less than RMB10,000 if the rectification has not been carried out within the specified period. However, both lessor and lessee have the obligations to complete the registration procedures for the tenancy; if the rectification has not been carried out within the specified period pursuant to the order by the Real Estate Administration Bureau, both lessor and lessee will face the risk of being fined by the Real Estate Administration Bureau. Nevertheless, the effectiveness of the tenancy agreement even if the registration procedures have not been completed by the lessor, and non-registration will not affect the use of the property by Changchun Huaxiang Faurecia in accordance with the tenancy agreement during the lease term.

VALUATION CERTIFICATE

GROUP II — PROPERTY INTEREST HELD UNDER DEVELOPMENT BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
8. An industrial facility located at Nanhu Nan Road (Lot No. 55-125-23) Jingyue Development Zone Changchun City Jilin Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 83,188 square metres, on which an industrial facility was planned.</p> <p>The total planned gross floor area of the property is approximately 15,631.73 square metres.</p> <p>The land use rights of the property were granted for a term of 50 years commencing on 23 July 2010 and expiring on 23 July 2060 for industrial uses (Please refer to Notes 1 and 2 below).</p>	<p>The property is currently under construction and the construction is expected to be completed by the end of 2011.</p> <p>As advised by the Group, the total budgeted construction cost is RMB22,000,000, of which a total of approximately RMB10,532,000 has been settled as at the date of valuation.</p>	<p>42,390,000</p> <p>(100% interest attributable to the Group: RMB42,390,000)</p>

Notes:-

- Pursuant to a State-owned Construction Land Grant Contract, Contract No. JY2010009 dated 23 July 2010 and entered into between the State-owned Land Resources Bureau of Changchun City and Changchun Huateng Automobile Parts Co., Ltd. ("Changchun Huateng"), the land use rights of the property with a site area of 83,188 square metres were granted to Changchun Huateng for a term of 50 years for industrial uses at a consideration of RMB22,200,000.

The salient details of the State-owned Land Use Rights Grant Contract are listed below:

Particulars	Details
Plot Ratio	Not less than 0.50 but not higher than 1.00
Site Coverage	Not higher than 60%
Landscaping Ratio	Not higher than 20%
Uses	Workshop, ancillary office and dormitories
Minimum Investment Requirement	Not less than RMB3,500 per square metre of site area
Ancillary Office and Dormitories	Should not occupy more than 7% of the total site area

2. Pursuant to a State-owned Land Use Rights Certificate, Chang Guo Yong (2010) Di. No. 081004421 dated 1 November 2010 and issued by the People's Government of Changchun City, the land use rights of the property with a site area of 83,188 square meters were granted to Changchun Huateng for a term expiring on 23 July 2060 for industrial uses.
3. Pursuant to a Construction Land Use Planning Permit, Di Zi Di No. 220000201000384 dated 3 September 2010 and issued by the Planning Bureau of Changchun City, the proposed land use of the subject site with a site area of 83,188 square meters as industrial was approved.
4. Pursuant to a Construction Project Planning Permit, Jian Zi Di No. 220000201100090 dated 25 March 2011 and issued by the Planning Bureau of Changchun City, the proposed development of the property with a total planned gross floor area of 15,699.23 square metres was approved.
5. Pursuant to a Construction Works Commencement Permit, No. 220102201010160101 dated 8 August 2011 and issued by the Construction and Development Bureau of Jingyue Development Zone, Changchun City, the construction works of the proposed development with a total planned gross floor area of 15,699.23 square metres were approved to commence.
6. Changchun Huateng is a wholly-owned subsidiary of Ningbo Huazhong Plastic.
7. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
 - a. Changchun Huateng obtains and owns the land use rights of the property legally and effectively, and is the only legal owner of the land use rights. Changchun Huateng legally enjoys the exclusive rights to occupy and use the subject land, and no additional approval, permit or agreement is required for Changchun Huateng to transfer, lease, mortgage and/or otherwise handle the land use rights in accordance with law provisions.

VALUATION CERTIFICATE

GROUP III — PROPERTY INTEREST TEMPORARILY OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
9. An industrial facility located at the Commercial/ Residential Zone of Wei Xing Road (Lot No. 05009-2) Changchun Jingyue Development Zone Changchun City Jilin Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 54,995 square metres, on which are erected five buildings and various ancillary structures completed in about 2006.</p> <p>The total gross floor area of the buildings is approximately 10,546.62 square metres. (Please refer to Note 3 below).</p> <p>The buildings comprise a factory, an ancillary factory, two guardhouses, a transformer room and an underground water tank and pump room. The structures mainly comprise roads and boundary walls.</p>	The property is currently occupied by the Group for production and warehouse purposes.	No commercial value

Notes:-

1. Pursuant to a Changchun City State-owned Land Use Rights Resumption and Compensation Agreement, No. JY201004 dated 10 September 2010 and entered into between Changchun Jingyue Economic Development Zone Land Acquisition and Reserve Centre (“Acquirer”) and Changchun Huateng, the land use rights of the property with a site area of 54,995 square metres and the building ownership rights of the property with a gross floor area of 10,334 square metres which are held by Changchun Huateng (pursuant to a State-owned Land Use Rights Certificate, Chang Guo Yong (2006) Di No. 081000622) were resumed by the Acquirer subject to a compensation of RMB67,000,000. According to the agreement, Changchun Huateng is required to move out from the property within three months from the date of the agreement (“land resumption date”); Changchun Huateng would be liable to a penalty if they are yet to move out from the property within the three-month period, the Acquirer can even void the contract if Changchun Huateng is yet to move out 60 days from the land resumption date.
2. Pursuant to the Supplementary Agreement to the aforesaid agreement dated 13 May 2011 and entered into between the Acquirer and Changchun Huateng, both parties agreed the following:
 - a. The aforesaid move-out period is extended to the date of completion of the relocation of the existing factory;
 - b. Changchun Huateng has the right to use the land use rights of the property before the land resumption date at nil consideration;
 - c. The Acquirer forfeits the rights to inquire Changchun Huateng for the non-performance of the agreed terms of the aforesaid agreement due to delay in moving-out from the property; and
 - d. Changchun Huateng should liaise with Changchun Huayou Real Estate Co., Ltd. (i.e. the new grantee of the land use rights of the property) regarding the way to handover the property and the relevant matters.

3. Details of the five buildings are listed below:

Building	Gross Floor Area <i>(sqm)</i>	No. of Storey
Factory No. 3	8,329.00	1/2-storey
Ancillary Factory	1,977.00	2-storey
Guardhouses	67.10	1-storey
Transformer Room	135.72	1-storey
Underground Water Tank and Pump Room	<u>37.80</u>	1-storey
	Total:	
	<u><u>10,546.62</u></u>	

4. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:

- a. The aforesaid Changchun City State-owned Land Use Rights Resumption and Compensation Agreement and the Supplementary Agreement entered into between the Acquirer and Changchun Huateng are legal and effective, and are binding between the two parties; according to the aforesaid agreements, Changchun Huateng has the rights to extend the move-out period to the date of completion of the relocation of the existing factory, and has the rights to use the land at nil consideration before the land resumption date.

VALUATION CERTIFICATE

GROUP IV — PROPERTY INTERESTS LEASED AND OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
10. An industrial facility located at Fenghuang West Road Yonghe Fenghuang Development Area Xintang Town Zengcheng Guangzhou City Guangdong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 5,245.90 square metres, on which are erected ten buildings and various ancillary structures completed in various stages between 2004 and 2010.</p> <p>The total gross floor area of the buildings is approximately 3,590.13 square metres (Please refer to Note 2 below).</p> <p>The property is currently leased by Guangzhou Huazhong Automobile Decorative Parts Co., Ltd. (“Guangzhou Huazhong”) from a connected party for a term of one year commencing on 1 January 2012 and expiring on 31 December 2012 an annual rent of RMB520,000 exclusive of public utility charges.</p>	The property is currently occupied by the Group for production, warehouse and office purposes.	No commercial value

Notes:-

- Pursuant to a tenancy agreement dated 5 August 2011 and entered into between 廣州市誠力實業有限公司 (“Guangzhou Chengli”) and Guangzhou Huazhong, the property was leased to Guangzhou Huazhong for a term of one year commencing on 1 January 2012 and expiring on 31 December 2012 at an annual rent of RMB520,000 exclusive of public utility charges.
- Details of the ten buildings are listed below:

Building	Gross Floor Area (<i>sqm</i>)	No. of Storey
Guardhouse	11.14	1-storey
Workshop	40.20	1-storey
Moulding Workshop	2,044.44	1-storey
Raw Materials Warehouse	342.62	1-storey
Power Distribution Room	20.17	1-storey
Machine Room	59.42	1-storey
Rest Room	36.11	1-storey
Repairing Warehouse	520.54	1-storey
Toilet	19.49	1-storey
Canteen/Office/Dormitory	496.00	4-storey
Total:	<u>3,590.13</u>	

3. Guangzhou Huazhong is a wholly-owned subsidiary of Ningbo Huazhong Plastic.
4. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
 - a. Pursuant to a Certification dated 1 August 2011 and issued by the Zengcheng State-owned Land Resources and Real Estate Administration Bureau, Guangzhou Chengli owns the land use rights of the property with a site area of 5,425 square metres, and the building ownership rights of portion of the property with a gross floor area of 2,031 square metres since 2005. Guangzhou Chengli has in accordance with law provisions obtained the State-owned Land Use Rights Certificate (Zeng Guo Yong (2005) Di No. B0400558), and has ever applied for the Building Ownership Certificates for the buildings of the property. However, pursuant to a Notice, No. Zeng Fu [2010] No. 3 dated 20 January 2010 and issued by the People's Government of Zengcheng, the property is located within the planning area of the proposed Xintang Station of the metro system and will be resumed in the future. The buildings of the property held by Chengli are legal construction and are not unauthorised structures, and can be freely leased and transferred; and
 - b. Zengcheng State-owned Land Resources and Real Estate Administration Bureau has the rights to issue the Certification as mentioned in Note a above.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
11. An industrial facility located in West Zone of Yubei Molding Industrial Area Yubei District Chongqing The PRC	<p>The property comprises a single-storey workshop and a two-storey office building with a total gross floor area of approximately 3,900 square metres; plus adjoining land with a site area of approximately 100 square metres. The buildings were completed in about 2007.</p> <p>The property is currently leased by Chongqing Huazhong Automobile Decorative Parts Co., Ltd. (“Chongqing Huazhong”) from an independent third party for a term of five years commencing on 1 June 2007 and expiring on 1 June 2012 at a current rent of RMB700,000 exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for production, warehouse and office purposes.	No commercial value

Notes:-

1. Pursuant to a tenancy agreement dated 25 April 2007 and entered into between 重慶市博升材料裝飾有限公司 (“Chongqing Bosheng”) and Chongqing Huazhong, the property was leased to Chongqing Huazhong for a term of five years commencing on 1 June 2007 and expiring on 1 June 2012 at an annual rent of RMB624,000 for the first year, RMB655,200 for the second year, RMB687,960 for the third year, RMB700,000 for the fourth year and RMB720,000 for the fifth year. The rent would be exclusive of water and electricity charges.
2. Chongqing Huazhong is a wholly-owned subsidiary of Ningbo Huazhong Plastic.
3. We have been provided with a legal opinion regarding the legality of the Group’s property interests by the Group’s PRC legal adviser, which contains, inter alia, the following:
 - a. The aforesaid tenancy agreement fulfills the requirements of the PRC laws, and is legal and binding between the lessor and the lessee. Chongqing Huazhong has the rights to lease the property in accordance with the tenancy agreement; and
 - b. The aforesaid tenancy agreement has not been registered with the relevant Real Estate Administration Bureau. According to the PRC laws, the lessor and lessee are required to sign a tenancy agreement and register the tenancy with the relevant Real Estate Administration Bureau for a formal tenancy; shall it be contravened, the local Real Estate Administration Bureau will order for rectification within a specified period. A person will be fined less than RMB1,000 and a unit will be fined more than RMB1,000 but less than RMB10,000 if the rectification has not been carried out within the specified period. However, both lessor and lessee have the obligations to complete the registration procedures for the tenancy; if the rectification has not been carried out within the specified period pursuant to the order by the Real Estate Administration Bureau, both lessor and lessee will face the risk of being fined by the Real Estate Administration Bureau. Nevertheless, the effectiveness of the tenancy agreement even if the registration procedures have not been completed by the lessor, and non-registration will not affect the use of the property by Chongqing Huazhong in accordance with the tenancy agreement during the lease term.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 <i>RMB</i>
12. An industrial facility located at No. 25 Hangdu Road Hangtou Town Pudong New District Shanghai The PRC	<p>The property comprises a parcel of land with a site area of approximately 2,920 square metres, on which are erected two buildings which were completed in about 2008.</p> <p>The total gross floor area of the buildings is approximately 4,654.62 square metres.</p> <p>The property is currently leased by Shanghai Xiangmao Automobile Parts Co., Ltd. (“Shanghai Xiangmao”) from an independent third party for a term of three years commencing on 1 June 2011 and expiring on 31 May 2014 at an annual rent of RMB1,244,640.72 inclusive of management fees, water, electricity, gas, communications, cable TV charges and all other outgoings.</p>	The property is currently occupied by the Group for production, warehouse and office purposes.	No commercial value

Notes:-

1. Pursuant to a tenancy agreement dated 3 August 2011 and entered into between 上海森普車用空調有限公司 (“Shanghai Senpu”) and Shanghai Xiangmao, Block 1 of the property with a gross floor area of 2,327.31 square metres was leased to Shanghai Xiangmao for a term of three years commencing on 1 June 2011 and expiring on 31 May 2014 at a monthly rent of RMB51,860.03 inclusive of management fees, water, electricity, gas, communications, cable TV charges and all other outgoings.
2. Pursuant to another tenancy agreement dated 3 August 2011 and entered into between Shanghai Senpu and Shanghai Xiangmao, Block 14 of the property with a gross floor area of 2,327.31 square metres was leased to Shanghai Xiangmao for a term of three years commencing on 1 June 2011 and expiring on 31 May 2014 at a monthly rent of RMB51,860.03 inclusive of management fees, water, electricity, gas, communications, cable TV charges and all other outgoings.
3. Shanghai Xiangmao is a wholly-owned subsidiary of Ningbo Huazhong Plastic.
4. We have been provided with a legal opinion regarding the legality of the Group’s property interests by the Group’s PRC legal adviser, which contains, inter alia, the following:
 - a. The aforesaid tenancy agreements fulfill the requirements of the PRC laws, and are legal and binding between the lessor and the lessee, and the registration procedures have in accordance with relevant law provisions been completed at the relevant Real Estate Administration Bureau. Shanghai Xiangmao has the rights to lease the property in accordance with the tenancy agreements; and
 - b. The tenancy agreements shall not be enforceable against the chargees and transferors of the leased property and, in the event that the chargees exercise their rights under the charges and dispose of the leased property, the tenancy agreements may not be binding on the new owner of the leased property and Shanghai Xiangmao may need to reallocate its operations thereat to elsewhere. According to the relevant law provisions, for property which is leased after the establishment of the mortgage rights, the tenancy relationship is non bona fide to the registered mortgage rights. Upon the realization of the mortgage rights, the tenancy agreement is no longer binding to the future purchaser. If a written notice regarding the mortgage has been served to the lessee when the mortgagor leases the property, the lessee needs to bare the damages arising from the realization of the mortgage rights. Therefore, if the mortgagee realizes the mortgage rights by handling the ownership rights of the property, the lease rights of Shanghai Xiangmao is non bona fide to the ownership rights held by the new owner of the property, so that Shanghai Xiangmao may be required to move out from the property.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
13. An office unit located at No. 881 Yongda Street Fushan District Yantai City Shandong Province The PRC	<p>The property comprises an office unit which was completed in the 2000s.</p> <p>The gross floor area of the property is approximately 20 square metres.</p> <p>The property is currently leased by Yantai Huaxiang Automotive Parts Co., Ltd. ("Yantai Huaxiang") from an independent third party for a term of two years commencing on 10 April 2010 and expiring on 9 April 2012 at a total rent of RMB3,000 exclusive of management fees, water, electricity, gas, telephone, cable TV, sanitary charges and other outgoings.</p>	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:-

1. Pursuant to a tenancy agreement dated 10 April 2010 and entered into between 煙台經濟技術開發區福山高新技術產業區管委會 ("Fushan High-tech") and Yantai Huaxiang, the property was leased to Yantai Huaxiang for a term of two years commencing on 10 April 2010 and expiring on 9 April 2012 at a total rent of RMB3,000 exclusive of management fees, water, electricity, gas, telephone, cable TV, sanitary charges and other outgoings.
2. Yantai Huaxiang is a wholly-owned subsidiary of Ningbo Huazhong Plastic.
3. We have been provided with a legal opinion regarding the legality of the Group's property interests by the Group's PRC legal adviser, which contains, inter alia, the following:
 - a. The aforesaid tenancy agreement has been established upon signing between Fushan High-tech and Yantai Huaxiang. However, as Fushan High-tech has not shown any title documents or prove of ownership of the property, the ownership rights as to the property by Fushan High-tech and the effectiveness of the tenancy agreement are yet to be confirmed. If the lessor does not have the ownership rights over the property, the tenancy agreement would only be effective upon confirmation by the owner of such rights or upon obtaining the handling rights by the party who wishes to obtain the handling rights by signing an agreement with the owner; and
 - b. The aforesaid tenancy agreement has not been registered with the relevant Real Estate Administration Bureau. According to the PRC laws, the lessor and lessee are required to sign a tenancy agreement and register the tenancy with the relevant Real Estate Administration Bureau for a formal tenancy; shall it be contravened, the local Real Estate Administration Bureau will order for rectification within a specified period. A person will be fined less than RMB1,000 and a unit will be fined more than RMB1,000 but less than RMB10,000 if the rectification has not been carried out within the specified period. However, both lessor and lessee have the obligations to complete the registration procedures for the tenancy; if the rectification has not been carried out within the specified period pursuant to the order by the Real Estate Administration Bureau, both lessor and lessee will face the risk of being fined by the Real Estate Administration Bureau. Nevertheless, the effectiveness of the tenancy agreement even if the registration procedures have not been completed by the lessor, and non-registration will not affect the use of the property by Yantai Huaxiang in accordance with the tenancy agreement during the lease term.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
14. An office unit located at A1 Road Jiujiang Economic Development Area Jiujiang District Wuhu City Anhui Province The PRC	<p>The property comprises an office unit which was completed in the 2000s.</p> <p>The gross floor area of the property is approximately 60 square metres.</p> <p>The property is currently leased by Wuhu Huazhong Automotive Parts Co., Ltd. (“Wuhu Huazhong”) from an independent third party for a term of two years commencing on 17 May 2010 and expiring on 16 May 2012 at nil consideration.</p>	The property is currently occupied by the Group for office purposes.	No commercial value

Notes:-

1. Pursuant to a tenancy agreement dated 17 May 2010 entered into between 蕪湖鳩江經濟開發區管理委員會企業辦事中心 (“Jiujiang Management Committee”) and Wuhu Huazhong, the property was leased to Wuhu Huazhong for a term of two years commencing on 17 May 2010 and expiring on 16 May 2012 at nil consideration.
2. Wuhu Huazhong is a wholly-owned subsidiary of Ningbo Huazhong Plastic.
3. We have been provided with a legal opinion regarding the legality of the Group’s property interests by the Group’s PRC legal adviser, which contains, inter alia, the following:
 - a. Pursuant to a Certification dated 17 May 2010 and issued by Jiujiang Management Committee, 鳩江經濟開發區管理委員會 is the legal owner of the property; however, as the State-owned Land Use Rights Certificate of the property is in the process of application, the Building Ownership Certificate of the property is temporarily unavailable;
 - b. Jiujiang Management Committee has the rights to issue the Certification as mentioned in Note a above;
 - c. The aforesaid tenancy agreement has been established upon signing between Jiujiang Management Committee and Wuhu Huazhong. However, as Jiujiang Management Committee has not shown any title documents or prove of ownership of the property, the ownership rights as to the property by Jiujiang Management Committee and the effectiveness of the tenancy agreement are yet to be confirmed. If the lessor does not have the ownership rights over the property, the tenancy agreement would only be effective upon confirmation by the owner of such rights or upon obtaining the handling rights by the party who wishes to obtain the handling rights by signing an agreement with the owner; and
 - d. The aforesaid tenancy agreement has not been registered with the relevant Real Estate Administration Bureau. According to the PRC laws, the lessor and lessee are required to sign a tenancy agreement and register the tenancy with the relevant Real Estate Administration Bureau for a formal tenancy; shall it be contravened, the local Real Estate Administration Bureau will order for rectification within a specified period. A person will be fined less than RMB1,000 and a unit will be fined more than RMB1,000 but less than RMB10,000 if the rectification has not been carried out within the specified period. However, both lessor and lessee have the obligations to complete the registration procedures for the tenancy; if the rectification has not been carried out within the specified period pursuant to the order by the Real Estate Administration Bureau, both lessor and lessee will face the risk of being fined by the Real Estate Administration Bureau. Nevertheless, the effectiveness of the tenancy agreement even if the registration procedures have not been completed by the lessor, and non-registration will not affect the use of the property by Wuhu Huazhong in accordance with the tenancy agreement during the lease term.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 November 2011 RMB
15. An industrial facility located in Huicheling Village Heping Town Changxing County Huzhou City Zhejiang Province The PRC	<p>The property comprises two single-storey workshops which were completed in about 2009.</p> <p>The total gross floor area of the property is approximately 1,800 square metres.</p> <p>The property is currently leased by Changxing Huaxin Automobile Latex and Plastic Co., Ltd. (“Changxing Huaxin”) from an independent third party for a term of two years commencing on 6 May 2011 and expiring on 5 May 2013 at an annual rent of RMB176,640 exclusive of management fees, water, electricity charges, tax and other outgoings.</p>	The property is currently occupied by the Group for production, warehouse and office purposes.	No commercial value

Notes:-

1. Pursuant to a tenancy agreement dated 6 May 2011 and entered into between 浙江特通電纜有限公司 (“Zhejiang Tetong”) and Changxing Huaxin, the property was leased to Changxing Huaxin for a term of two years commencing on 6 May 2011 and expiring on 5 May 2013 at an annual rent of RMB176,640 exclusive of management fees, water, electricity charges, tax and other outgoings.
2. Changxing Huaxin is a wholly-owned subsidiary of Shanghai Huaxin, which is a 51% interest-owned subsidiary of Ningbo Huazhong Plastic.
3. We have been provided with a legal opinion regarding the legality of the Group’s property interests by the Group’s PRC legal adviser, which contains, inter alia, the following:
 - a. The aforesaid tenancy agreement fulfills the requirements of the PRC laws, and is legal and binding between the lessor and the lessee. Changxing Huaxin has the rights to lease the property in accordance with the tenancy agreement; and
 - b. The aforesaid tenancy agreement has not been registered with the relevant Real Estate Administration Bureau. According to the PRC laws, the lessor and lessee are required to sign a tenancy agreement and register the tenancy with the relevant Real Estate Administration Bureau for a formal tenancy; shall it be contravened, the local Real Estate Administration Bureau will order for rectification within a specified period. A person will be fined less than RMB1,000 and a unit will be fined more than RMB1,000 but less than RMB10,000 if the rectification has not been carried out within the specified period. However, both lessor and lessee have the obligations to complete the registration procedures for the tenancy; if the rectification has not been carried out within the specified period pursuant to the order by the Real Estate Administration Bureau, both lessor and lessee will face the risk of being fined by the Real Estate Administration Bureau. Nevertheless, the effectiveness of the tenancy agreement even if the registration procedures have not been completed by the lessor, and non-registration will not affect the use of the property by Changxing Huaxin in accordance with the tenancy agreement during the lease term.

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND THE CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 December 2010 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 15 December 2011. The following is a summary of certain provisions of the Articles:

(a) Directors

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

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Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments 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 be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or

**APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY
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other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for 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 his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or 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 his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

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(dd) any contract or arrangement in which the Director or his associate(s) 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; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

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The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

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The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

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(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. 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 an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, 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; or

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- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified 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 general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

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An ordinary resolution is defined in the Articles 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.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation 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 deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

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(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and,

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in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) 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 ninety-five per cent (95%) in nominal value of the issued 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:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) 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 twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a

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clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so 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 in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may 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, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

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(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. 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 this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part

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thereof) in cash in lieu of such allotment, or (b) that shareholders 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 board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, 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 in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. 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.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

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(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

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(q) 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 of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles 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 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.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in the paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and 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 *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members 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 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.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of

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different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of 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. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) 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 of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's 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 amount of its authorised share capital.

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(b) Share capital

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 premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums 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 the company subject to the provisions, if any, of its memorandum and articles of association in (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) 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; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of 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 business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), 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.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any 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).

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There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person 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 acting 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.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the 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 and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. 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 and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have 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 issued shares of the company other than shares held as treasury 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.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

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Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, 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 the paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative 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 and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court 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 Court shall direct.

Any shareholder of a company may petition the Court 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must 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.

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(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) 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.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 14 December, 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.

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(k) 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.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the 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.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office,

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the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

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(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the 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.

(q) 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 court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "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 is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 3 December 2010. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 8 December 2011 and our principal place of business in Hong Kong is at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. Mr. Lam King Hang of Unit 7, 17/F., Block 45, Heng Fa Chuen, 100 Shing Tai Road, Chai Wan, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant law of the Cayman Islands and its constitution comprising a memorandum of association and the Articles of Association. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles of Association is set out in Appendix V to this Prospectus.

2. Changes In Share Capital Of Our Company

As at the date of incorporation of our Company, the authorised share capital of our Company was HK\$380,000 divided into 3,800,000 Shares with par value of HK\$0.10 each. On the same date, one Share with par value of HK\$0.10 each in the share capital of our Company was allotted and issued as nil paid to Codan Trust Company (Cayman) Limited, which was then transferred to Huayou Holdings. The said Share was credited as fully paid on 7 December 2011.

On 15 December 2011, the authorised share capital of our Company was increased from HK\$380,000 to HK\$1,000,000,000 by the creation of 9,996,200,000 shares with par value of HK\$0.10 each which rank *pari passu* in all respects with the Shares in issue as at 15 December 2011.

Immediately following completion of the Global Offering and the Capitalisation Issue and without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options granted under the Pre-IPO Share Option Scheme, the authorised share capital of our Company will be HK\$1,000,000,000 divided into 10,000,000,000 Shares, of which 800,000,000 Shares will be issued fully paid or credited as fully paid, and 9,200,000,000 Shares will remain unissued.

Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our sole Shareholder passed on 15 December 2011" in this Appendix, we do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting of our Company, no issue of Shares will be made which would effectively alter the control of our Company.

Except as disclosed in this prospectus, there has been no alternation in the share capital of our Company since its incorporation.

3. *Changes In Share Capital Of Our Subsidiaries*

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

Huazhong Investment

Huazhong Investment, a directly wholly-owned subsidiary of our Company, was established in the BVI on 7 December 2010 with an authorised share capital of US\$50,000, which is divided into 50,000 ordinary shares with par value of US\$1.00 each. On the same date, one share with par value of US\$1.00 in the share capital of Huazhong Investment was issued to our Company for a consideration of US\$1.00.

Huayou Investment

Huayou Investment, an indirectly wholly-owned subsidiary of our Company, was incorporated in Hong Kong on 28 December 2010 with an authorised share capital of HK\$10,000, divided into 10,000 shares with par value of HK\$1.00 each. On the same date, one share with par value of HK\$1.00 was allotted to Huazhong Investment for a consideration of HK\$1.00.

Except as set out above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. *Written Resolutions Of Our Sole Shareholder Passed On 15 December 2011*

Pursuant to the written resolutions of the then sole Shareholder entitled to vote at general meetings of our Company, which were passed on 15 December 2011:

- (a) the authorised share capital of our Company be increased from HK\$380,000 to HK\$1,000,000,000 by the creation of 9,996,200,000 shares of HK\$0.10 each which rank *pari passu* in all respects with the Shares in issue as at the date of passing of the written resolutions;
- (b) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option, the Pre-IPO Share Option Scheme and the Share Option Scheme) as mentioned in the Prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if

relevant, as a result of the waiver of any condition(s) by the Lead Manager (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise:

- (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms and the Directors be authorised to do all things and execute all documents in connection with or incidental to the Global Offering with such amendments or modifications (if any) as the Directors may consider necessary or appropriate;
 - (ii) the rules of the Pre-IPO Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorised, at their sole discretion, to: (i) administer the Pre-IPO Share Option Scheme; (ii) modify/ amend the Pre-IPO Share Option Scheme from time to time as requested by the Stock Exchange; (iii) grant options to subscribe for Shares under the Pre-IPO Share Option Scheme up to the limits referred to in the Pre-IPO Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Pre-IPO Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Pre-IPO Share Option Scheme;
 - (iii) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorised, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/ amend the Share Option Scheme from time to time as requested by the Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;
- (c) a general unconditional mandate be and is hereby given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of Rights Issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole

or part of a dividend on Shares in accordance with the Articles or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options which may be granted under the Pre-IPO Share Option Scheme the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue before any exercise of the Over-allotment Option, until the conclusion of the next annual general meeting of the Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by the Shareholders in general meeting of the Company varying or revoking the authority given to the Directors, whichever occurs first;

For the purpose of this paragraph, “Rights Issue” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by our Directors to holders of Shares in our Company on the register on a fixed record date in proportion to their holdings of Shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognised regulatory body or any stock exchange applicable to our Company);

- (d) a general unconditional mandate be and is hereby given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but before the exercise of the Over-allotment Option, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by the Shareholders in general meeting of the Company varying or revoking the authority given to the Directors, whichever occurs first;
- (e) the extension of the general mandate to allot, issue and deal with Shares as mentioned in the paragraph (c) above 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 our 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 paragraph (d) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following the Global Offering and the Capitalisation Issue but before the exercise of the Over-allotment Option until the conclusion of the next annual general meeting of the Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by the Shareholders in general meeting of the Company varying or revoking the authority given to the Directors, whichever occurs first, be and is approved;

- (f) conditional on the share premium account of our Company being credited as a result of the Global Offering, the sum of HK\$63,999,999.90 be capitalised and be applied in paying up in full at par 639,999,999 Shares for allotment and issue to the Shareholder whose name was on the register of members of our Company as at the close of business on 15 December 2011 and the Shares to be allotted and issued pursuant to the written resolutions shall rank *pari passu* in all respects with the existing issued Shares; and
- (g) the adoption of the Articles of Association.

Each of the general mandates referred to in paragraphs (c), (d) and (e) above will remain in effect until whichever is the earliest of:

- (i) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (ii) the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (iii) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

5. *Repurchase of Our Shares*

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(1) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on 15 December 2011 by our then sole Shareholder, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following the completion of the Global Offering, details of which have been described above in the paragraph headed "Further information about our Group — Written resolutions of our sole shareholder passed on 15 December 2011".

(ii) *Source of funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Companies Law. We are not permitted to repurchase our Shares 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.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(2) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(3) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(4) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. REORGANISATION

The Reorganisation which was effected in preparation for the Listing, whereby our Company became the holding company of our Group, included the following major steps:

Stage 1: Incorporation of holdings companies in the Cayman Islands, the BVI and Hong Kong for our Group:

- (i) Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 December 2010 as our holding company. One Share with par value of HK\$0.10, representing its entire issued share capital, was allotted and issued to Codan Trust Company (Cayman) Limited as nil paid on 3 December 2010. On the same date, Codan Trust Company (Cayman) Limited transferred the said Share to Huayou Holdings, a company wholly-owned by Mr. Zhou. The said Share was credited as fully paid on 7 December 2011.

- (ii) Huazhong Investment was incorporated in the BVI with limited liability on 7 December 2010. One share with par value of US\$1.00, representing its entire issued share capital, was allotted and issued to our Company.
- (iii) Huayou Investment was incorporated in Hong Kong on 28 December 2010. One share with par value of HK\$1.00, representing its entire issued share capital, was allotted and issued to Huazhong Investment.

Stage 2: Restructuring of PRC operating subsidiaries:

- (i) On 20 September 2010, each of Ningbo Huazhong Plastic and Mr. Zhou transferred their respective 80% and 20% equity interests in Changchun Huaxiang to Changchun Huateng at a consideration of RMB12,000,000 and RMB3,000,000, respectively. Upon completion of these equity transfers, Changchun Huaxiang was wholly-owned by Changchun Huateng.
- (ii) On 28 October 2010, Ningbo Huazhong Moulding and Ningbo Huayou Properties transferred their respective 50% equity interest in Guangzhou Huazhong to Ningbo Huazhong Plastic for a consideration of RMB1,500,000 each. Upon completion of these equity transfers, Guangzhou Huazhong was wholly-owned by Ningbo Huazhong Plastic.
- (iii) On 29 October 2010, Huaxiang Group and Ningbo Zhongxin transferred their respective 49% and 51% equity interests in Ningbo Huazhong Moulding to Ningbo Huazhong Plastic for a consideration of RMB4,900,000 and RMB5,100,000, respectively. Upon completion of these equity transfers, Ningbo Huazhong Moulding was wholly-owned by Ningbo Huazhong Plastic.
- (iv) On 4 November 2010, Ningbo Huayou Properties and Mr. Zhou transferred their respective 49% and 51% equity interests in Chongqing Huazhong to Ningbo Huazhong Plastic for a consideration of RMB2,450,000 and RMB2,550,000, respectively. Upon completion of these equity transfers, Chongqing Huazhong was wholly-owned by Ningbo Huazhong Plastic.
- (v) On 4 November 2010, Mr. Zhou transferred his 20% equity interest in Changchun Huateng to Ningbo Huazhong Plastic for a consideration of RMB200,000. After the share transfer, Changchun Huateng was wholly-owned by Ningbo Huazhong Plastic.
- (vi) On 5 November 2010, Ningbo Huayou Properties transferred its 10% equity interest in Ningbo Xinxing to Ningbo Huazhong Plastic for a consideration of RMB340,000. Upon completion of this equity transfer, Ningbo Xinxing was wholly-owned by Ningbo Huazhong Plastic.
- (vii) On 22 December 2010, Mr Zhou transferred his 10% equity interest in Ningbo Huafeng to Ningbo Huazhong Plastic for a consideration of RMB150,000. Upon completion of this equity transfer, Ningbo Huafeng was wholly-owned by Ningbo Huazhong Plastic.

- (viii) On 24 December 2010, Ningbo Huayou Properties transferred its 50% equity interest in Ningbo Hualete to Ningbo Huazhong Plastic at a consideration of RMB13,513,746.02. Upon completion of this equity transfer, Ningbo Hualete was held as to 50% by Ningbo Huazhong Plastic, 25% by Roekona and 25% by Zoeppritex.
- (ix) On 28 December 2010, Mr. Zhou transferred his 49% equity interest in Chengdu Huazhong to Ningbo Huazhong Plastic for a consideration of RMB1,960,000. Upon completion of this equity transfer, Chengdu Huazhong was wholly-owned by Ningbo Huazhong Plastic.
- (x) On 7 January 2011, Ningbo Huaxiang Electronics transferred its 51% equity interest in Shanghai Huaxin to Huaxiang Group for a consideration of RMB16,209,100. Upon completion of this equity transfer, Shanghai Huaxin was held as to 51% by Huaxiang Group, 30% by 上海汽車空調器廠 (Shanghai Automobile Air Conditioner Factory*) and 19% by 上海北蔡實業總公司 (Shanghai Beicai Industrial Head Company*).
- (xi) On 23 March 2011 Huaxiang Group transferred its 51% equity interest in Shanghai Huaxin to Ningbo Huazhong Plastic for a consideration of RMB16,500,000. Upon completion of this equity transfer, Shanghai Huaxin was held as to 51% by Ningbo Huazhong Plastic and 30% by Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠) and 19% by 上海北蔡實業總公司 (Shanghai Beicai Industrial Head Company).
- (xii) On 23 April 2011, Mr. Zhou and Ningbo Huayou Properties transferred their respective 60% and 40% equity interests in Shanghai Xiangmao to Ningbo Huazhong Plastic for a consideration of RMB300,000 and RMB200,000, respectively. Upon completion of these equity transfers, Shanghai Xiangmao was wholly-owned by Ningbo Huazhong Plastic.
- (xiii) On 1 June 2011, Mr Zhou transferred his 80% equity interest in Yantai Huaxiang to Ningbo Huazhong Plastic for a consideration of RMB8,000,000. Upon completion of this equity transfer, Yantai Huaxiang was wholly-owned by Ningbo Huazhong Plastic.
- (xiv) On 15 June 2011, Mr Zhou transferred his 80% equity interest in Wuhu Huazhong to Ningbo Huazhong Plastic for a consideration of RMB8,000,000. Upon completion of this equity transfer, Wuhu Huazhong was wholly-owned by Ningbo Huazhong Plastic.
- (xv) As part of the Reorganisation, Beijing Huaerte was liquidated through members' voluntary liquidation on 30 June 2011.
- (xvi) On 24 June 2011, Ningbo Huazhong Moulding transferred its 48% equity interest in Ningbo Huaxiang Technology to Mr. Zhou for a consideration of RMB4,800,000, which was determined with reference to the registered capital of Ningbo Huaxiang Technology.

(xvii) On 29 July 2011, Macao Hong Un Real Estate Company and Ningbo Huazhong Moulding transferred their respective 30% and 70% equity interests in Ningbo Huayue to Ms. Lai Danfen, a cousin of Mr. Zhou, for a total consideration of RMB12,000,000, which was determined with reference to the net book value of Ningbo Huayue as at 31 December 2010.

(xviii) On 4 August 2011, Ningbo Huazhong Moulding transferred its 50% equity interests in Guangzhou Chengli to Ningbo Huayou Properties for a consideration of RMB250,000. Upon completion of the share transfer, Guangzhou Chengli was wholly-owned by Ningbo Huayou Properties.

Stage 3: Transfer of Ningbo Huazhong Plastic to Huayou Investment

On 29 July 2011, Mr. Chen Yuncai (陳雲財), Mr. Zhou and Macao Hong Un Real Estate Company transferred their respective 21%, 49% and 30% equity interests in Ningbo Huazhong Plastic to Huayou Investment at a consideration of RMB8,400,000, RMB19,600,000 and RMB12,000,000, respectively. Upon completion of these equity transfers, Ningbo Huazhong Plastic was owned as to 100% by Huayou Investment.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an equity transfer agreement dated 29 August 2010 entered into between Huaxiang Group as buyer and Ningbo Huaxiang Electronics as seller in relation to the transfer of 51% equity interests in Shanghai Huaxin for a consideration of RMB16,209,100;
- (b) an equity transfer agreement dated 3 September 2010 entered into between Changchun Huateng as buyer, and Mr. Zhou and Ningbo Huazhong Plastic as sellers, in relation to the transfer of the entire equity interests of Changchun Huaxiang for a total consideration of RMB15,000,000;
- (c) an equity transfer agreement dated 9 September 2010 entered into between Ningbo Huazhong Plastic as buyer, and Ningbo Huazhong Moulding and Ningbo Huayou Properties as sellers, in relation to the transfer of the entire equity interests in Guangzhou Huazhong for a total consideration of RMB3,000,000;
- (d) an equity transfer agreement dated 19 October 2010 entered into between Ningbo Huazhong Plastic as buyer and Mr. Zhou as seller in relation to the transfers of 51% equity interests in Chongqing Huazhong for a consideration of RMB2,550,000;

- (e) an equity transfer agreement dated 19 October 2010 entered into between Ningbo Huazhong Plastic as buyer and Ningbo Huayou Properties as seller in relation to the transfer of 49% equity interests in Chongqing Huazhong for a consideration of RMB2,450,000;
- (f) an equity transfer agreement dated 22 October 2010 entered into between Ningbo Huazhong Plastic as buyer, and Huaxiang Group and Ningbo Zhongxin as sellers in relation to the transfer of the entire equity interests in Ningbo Huazhong Moulding for a total consideration of RMB10,000,000;
- (g) an equity transfer agreement dated 22 October 2010 entered into between Ningbo Huazhong Plastic as buyer and Mr. Zhou as seller in relation to the transfer of 20% equity interests in Changchun Huateng for a consideration of RMB200,000;
- (h) an equity transfer agreement dated 25 October 2010 entered into between Ningbo Huazhong Plastic as buyer and Ningbo Huayou Properties as seller in relation to the transfer of 10% equity interests in Ningbo Xinxing for a consideration of RMB340,000;
- (i) an equity transfer agreement dated 1 December 2010 entered into between Ningbo Huazhong Plastic as buyer and Huaxiang Group as seller in relation to the transfer of 51% equity interests in Shanghai Huaxin for a consideration of RMB16,500,000;
- (j) an equity transfer agreement dated 7 December 2010 entered into between Ningbo Huazhong Plastic as buyer and Ningbo Huayou Properties as seller in relation to the transfer of 50% equity interests in Ningbo Hualete for a consideration of RMB13,513,746.02;
- (k) an equity transfer agreement dated 10 December 2010 entered into between Ningbo Huazhong Plastic as buyer and Mr. Zhou as seller in relation to the transfer of 49% equity interests in Chengdu Huazhong for a consideration of RMB1,960,000;
- (l) an equity transfer agreement dated 20 December 2010 entered into between Ningbo Huazhong Plastic as buyer and Mr. Zhou as seller in relation to the transfer of 10% equity interests in Ningbo Huafeng for a consideration of RMB150,000;
- (m) an equity transfer agreement dated 11 February 2011 entered into between Ningbo Huayou Properties as buyer and Changchun Huateng as seller in relation to the transfer of 20% equity interests in Changchun Huayou Properties for a consideration of RMB3,000,000;
- (n) an equity transfer agreement dated 12 April 2011 entered into between Ningbo Huazhong Plastic as buyer, and Mr. Zhou and Ningbo Huayou Properties as sellers, in relation to the transfer of the entire equity interests in Shanghai Xiangmao for a total consideration of RMB500,000;





- (o) an equity transfer agreement dated 26 May 2011 entered into between Ningbo Huazhong Plastic as buyer and Mr. Zhou as seller in relation to the transfer of 80% equity interests in Yantai Huaxiang for a consideration of RMB8,000,000;
- (p) an equity transfer agreement dated 1 June 2011 entered into between Ningbo Huazhong Plastic as buyer and Mr. Zhou as seller in relation to the transfer of 80% equity interests in Wuhu Huazhong for a consideration of RMB8,000,000;
- (q) an asset purchase agreement dated 1 June 2011, both English and Chinese versions (the “Asset Purchase Agreement”), entered into between Changchun Huaxiang Faurecia as buyer and Changchun Huaxiang as seller in relation to the transfer of production and manufacturing equipment and machinery, relevant technology improvement, inventory and intangible assets of Changchun Huaxiang for a consideration to be further confirmed by the parties;
- (r) a confirmation letter dated 23 December 2011 signed by Changchun Huaxing Faueria and Changchun Huaxing in relation to the amendments to certain terms of the Asset Purchase Agreement;
- (s) an equity transfer agreement dated 17 June 2011 entered into between Mr. Zhou as buyer and Ningbo Huazhong Moulding as seller in relation to the transfer of 48% equity interests in Ningbo Huaxiang Technology for a consideration of RMB4,800,000;
- (t) an equity transfer agreement dated 1 July 2011 entered into between Ms. Lai Danfen (賴丹芬) as buyer, and Macao Hong Un Real Estate Company (澳門鴻源地產置業公司) and Ningbo Huazhong Moulding as sellers in relation to the transfer of the entire equity interests in Ningbo Huayue for a total consideration of RMB12,000,000;
- (u) an equity transfer agreement dated 20 July 2011 entered into between Huayou Investment as buyer, and Mr. Zhou, Mr. Chen Yuncai (陳雲財) and Macao Hong Un Real Estate Company (澳門鴻源地產置業公司) as sellers, in relation to the transfer of the entire equity interests in Ningbo Huazhong Plastic for a total consideration of RMB40,000,000;
- (v) an equity transfer agreement dated 2 August 2011 entered into between Ningbo Huayou Properties as buyer and Ningbo Huazhong Moulding as seller in relation to the transfer of 50% equity interests in Guangzhou Chengli for a consideration of RMB250,000;
- (w) a deed of waiver dated 29 December 2011 entered into between Mr. Zhou and Huayou Investment, pursuant to which Mr. Zhou absolutely, irrevocably and unconditionally waived and renounced all his rights in connection to a sum of US\$4,466,545 transferred to Huayou Investment’s bank account pursuant to a loan agreement dated 29 December 2011 entered into between Mr. Zhou as borrower and Investment Finance Limited as lender;

- (x) Deed of Indemnity;
- (y) Deed of Non-competition; and
- (z) Public Offer Underwriting Agreement.



2. *Our Intellectual Property Rights*







Trademarks

As at the Latest Practicable Date, we have registered the following trademarks:

Trademark	Place of Registration	Class	Registration number	Registration date	Expiry date
	Hong Kong	2, 6, 8, 12, 17 and 39	301804374	5 January 2011	4 January 2021
	Hong Kong	2, 6, 8, 12, 17 and 39	301804374	5 January 2011	4 January 2021
	Hong Kong	2, 6, 8, 12, 17 and 39	301804374	5 January 2011	4 January 2021
	Hong Kong	2, 6, 8, 12, 17 and 39	301804374	5 January 2011	4 January 2021

As at the Latest Practicable Date, we have applied for the registration of the following trademarks:

Trademark	Place of application	Class	Application number	Application date
	PRC	6	9306031	6 April 2011
	PRC	7	9306067	6 April 2011

Trademark	Place of application	Class	Application number	Application date
 华众企业 WHIZZO COMPANY	PRC	24	9306071	6 April 2011
 华众企业 WHIZZO COMPANY	PRC	17	9306080	6 April 2011
 华众企业 WHIZZO COMPANY	PRC	39	9306081	6 April 2011
	PRC	12	9306093	6 April 2011
	PRC	12	9306098	6 April 2011
	PRC	12	9306142	6 April 2011

Notes: International classification of goods and services

Goods

- Class 2: Paints, varnishes, lacquers; preservatives against rust and against deterioration of wood; colorants; mordants; raw natural resins; metals in foil and powder form for painters, decorators, printers and artists.
- Class 6: Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores.
- Class 7: Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs.
- Class 8: Hand tools and implements (hand operated); cutlery; side arms; razors.
- Class 12: Vehicles; apparatus for locomotion by land, air or water.
- Class 17: Rubber, gutta-percha, gum, asbestos, mica and goods made from these materials and not included in other classes; plastics in extruded form for use in manufacture; packing, stopping and insulating materials; flexible pipes, not of metal.

Class 24: Textiles and textile goods, not included in other classes; bed and table covers.

Services

Class 39: Transport; packaging and storage of goods; travel arrangement.

Domain Names

As at the Latest Practicable Date, we have registered the following domain names:

Registrant	Domain name	Date of registration	Date of expiry
Ningbo Huazhong Plastic	cn-huazhong.com	16 March 2005	16 March 2013
Shanghai Huaxin	huaxinxs.com	27 May 2005	26 May 2012

Patents

As of the Latest Practicable Date, we have applied for registration of the following patents:

Patents	Patent type	Place of application	Application number	Application date
(i) an automotive upper guard plate of the centre pillar* (用於汽車的中立柱上護板)	Utility model	PRC	201120294446.1	15 August 2011
(ii) an automotive upper guard plate of the back pillar* (用於汽車的後立柱上護板)	Utility model	PRC	201120294436.8	15 August 2011
(iii) an automobile back pillar assembly* (汽車後立柱總成)	Utility model	PRC	201120294440.4	15 August 2011
(iv) a guard plate for the automobile backseats* (一種汽車後座椅護板)	Utility model	PRC	201120294438.7	15 August 2011
(v) a guard plate for the automobile backseats* (汽車後座椅護板)	Utility model	PRC	201120294437.2	15 August 2011
(vi) an automotive upper guard plate of the front pillar* (一種汽車前立柱上護板)	Utility model	PRC	201120294610.9	15 August 2011
(vii) an automotive upper guard plate of the front pillar* (汽車前立柱上護板)	Utility model	PRC	201120294500.2	15 August 2011

Patents	Patent type	Place of application	Application number	Application date
(viii) an automotive upper guard plate of the back pillar* (汽車後立柱上護板)	Utility model	PRC	201120294631.0	15 August 2011
(ix) a double-layer low-pressure injection mould* (雙型腔低壓注塑模)	Utility model	PRC	201120294635.9	15 August 2011
(x) an automotive front frame* (汽車前端框架)	Utility model	PRC	201120294539.4	15 August 2011
(xi) an automobile middle pillar assembly* (汽車中立柱總成)	Utility model	PRC	201120294545.X	15 August 2011
(xii) an automotive front-end module die block slider* (汽車前端模組模具的抽芯機構) (Note)	Utility model	PRC	201120375267.0	28 September 2011
(xiii) an automotive front-end module die block* (汽車前端模塊模具) (Note)	Utility model	PRC	201120372645.X	28 September 2011
(xiv) an automotive upper guard plate of the middle pillar*(一種汽車中立柱上護板)	Utility model	PRC	201120294439.1	15 August 2011

Note: Items (xii) and (xiii) represent two of the moulds we developed, namely, LPIM moulds for internal decorative parts for premium-end vehicles with environmental-friendly and advanced fabric (環保高效針織面料模內包履高端轎車內飾件低壓注塑成型模具) and moulds for long fiberglass front-end carrier with medium-sized metal insert (長玻纖汽車前端框架(含中型金屬嵌件)注塑模具), which have been recognised by China Die & Mould Industry Association as energy-saving and environmentally-friendly.

3. Further Information About Our Subsidiaries in the PRC

(a) Ningbo Huazhong Plastic

- | | |
|-----------------------------------|---|
| (i) nature of the company: | limited liability company (wholly foreign-owned enterprise) |
| (ii) incorporation date: | 11 September 1993 |
| (iii) term of business operation: | From 11 September 1993 to 10 September 2015 |
| (iv) total amount of investment: | US\$7 million |
| (v) registered capital: | US\$5 million |

- (vi) attributable interest of the company: 100%
- (vii) scope of business: Plastics granulating and manufacturing of plastic products; design and manufacturing of automobile and motorcycle mould (injection mould, stamping mould and compression mould) and jigs (welding jigs or examination jigs); manufacturing of brake assy of automobile key parts and combination instrument; decoration cloth and transportation of common goods of the Company

(b) *Chengdu Huazhong*

- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 22 October 2009
- (iii) term of business license: From 22 October 2009 to 21 October 2024
- (iv) total amount of investment: Not applicable
- (v) registered capital: RMB20 million
- (vi) attributable interest of the company: 100%
- (vii) general nature of business: Plastics granulating and manufacturing of plastic products; design and manufacturing of automobiles and motorcycle moulds and jigs; manufacturing of key automobile body parts including the brake assembly, combination instrument and decorative fabric

(c) *Guangzhou Huazhong*

- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 22 September 2004
- (iii) term of business license: since 24 September 2004
- (iv) total amount of investment: Not applicable
- (v) registered capital: RMB3 million
- (vi) attributable interest of the company: 100%

- (vii) general nature of business: Production, processing and design of mould; processing and manufacturing of plastic products, and automobile body parts
- (d) *Ningbo Huazhong Moulding*
- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 25 January 2002
- (iii) term of business license: From 25 January 2002 to 24 January 2012
- (iv) total amount of investment: Not applicable
- (v) registered capital: RMB10 million
- (vi) attributable interest of the company: 100%
- (vii) general nature of business: Design, manufacturing and processing of mould and manufacturing and processing of plastic products and automobile body parts.
- (e) *Changchun Huateng*
- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 22 July 1997
- (iii) term of business license: From 22 July 1997 to 30 June 2014
- (iv) total amount of investment: Not applicable
- (v) registered capital: RMB1 million
- (vi) attributable interest of the company: 100%
- (vii) general nature of business: Processing of automobile body parts
- (f) *Changxing Huaxin*
- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 10 May 2011
- (iii) term of business license: From 10 May 2011 to 9 May 2031
- (iv) total amount of investment: Not applicable
- (v) registered capital: RMB3 million
- (vi) attributable interest of the company: 100%

- (vii) general nature of business: Producing automotive accumulator containers; selling plastic and latex products; import and export of products and technologies
- (g) *Ningbo Xinxing*
- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 25 December 1984
- (iii) term of business license: From 8 November 2001 to 7 November 2029
- (iv) total amount of investment: Not applicable
- (v) registered capital: RMB3.4 million
- (vi) attributable interest of the company: 100%
- (vii) general nature of business: Manufacturing of plastic products, automobile accessories, electronic components and moulds
- (h) *Chongqing Huazhong*
- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 30 August 2007
- (iii) term of business license: since 30 August 2007
- (iv) total amount of investment: Not applicable
- (v) registered capital: RMB5 million
- (vi) attributable interest of the company: 100%
- (vii) general nature of business: Manufacturing of automobile body parts and moulds
- (i) *Shanghai Huaxin*
- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 21 June 1993
- (iii) term of business license: From 21 June 1993 to 31 May 2021
- (iv) total amount of investment: Not applicable
- (v) registered capital: RMB20 million

- | | | |
|-------|---------------------------------------|---|
| (vi) | attributable interest of the company: | 51% |
| (vii) | general nature of business: | Import and export of all kinds of products and technologies (except for the products and technologies restricted or prohibited by the State); sales and processing of plastic and latex products accessories. |
- (j) *Changchun Huaxiang*
- | | | |
|-------|---------------------------------------|---|
| (i) | nature of the company: | PRC domestic company with limited liability |
| (ii) | incorporation date: | 9 June 2000 |
| (iii) | term of business license: | From 9 June 2000 to 17 April 2013 |
| (iv) | total amount of investment: | Not applicable |
| (v) | registered capital: | RMB75 million |
| (vi) | attributable interest of the company: | 100% |
| (vii) | general nature of business: | Manufacturing of automobile body parts, plastic granulating, plastic products and mould |
- (k) *Ningbo Huafeng*
- | | | |
|-------|---------------------------------------|---|
| (i) | nature of the company: | PRC domestic company with limited liability |
| (ii) | incorporation date: | 17 March 1999 |
| (iii) | term of business license: | From 17 March 1999 to 16 March 2012 |
| (iv) | total amount of investment: | not applicable |
| (v) | registered capital: | RMB1.5 million |
| (vi) | attributable interest of the company: | 100% |
| (vii) | general nature of business: | Manufacturing and processing of automobile body parts, plastic products, metal products, electronic products, ceramics and lamp |
- (l) *Wuhu Huazhong*
- | | | |
|------|------------------------|---|
| (i) | nature of the company: | PRC domestic company with limited liability |
| (ii) | incorporation date: | 1 June 2010 |

- (iii) term of business license: From 1 June 2010 to 30 May 2012
- (iv) total amount of investment: not applicable
- (v) registered capital: RMB10 million
- (vi) attributable interest of the company: 100%
- (vii) general nature of business: Plastics granulating and manufacturing of plastic products; design, manufacturing and sales of automobile and motorcycle mould (including injection mould, stamping mould and compression mould) and jigs (welding jigs or examination jigs), brake assembly, dashboard, combination instrument and decorative fabric)
- (m) *Yantai Huaxiang*
- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 16 April 2010
- (iii) term of business license: From 16 April 2010 to 16 April 2060
- (iv) total amount of investment: not applicable
- (v) registered capital: RMB10 million
- (vi) attributable interest of the company: 100%
- (vii) general nature of business: Manufacturing and processing of automobile body parts, plastic products, plastics granulating and moulds; design, manufacturing and sales of jigs; manufacturing and sales of internal decorative materials
- (n) *Shanghai Xiangmao*
- (i) nature of the company: PRC domestic company with limited liability
- (ii) incorporation date: 30 November 2009
- (iii) term of business license: From 30 November 2009 to 29 November 2029
- (iv) total amount of investment: not applicable
- (v) registered capital: RMB0.5 million

- | | | |
|-------|---------------------------------------|---|
| (vi) | attributable interest of the company: | 100% |
| (vii) | general nature of business: | Manufacturing, processing, selling and storage of automobile air-conditioning and its accessories, automobile shock-absorbers and its parts, household air-conditioning, internal and external decorative automobile body parts, mould, hardware machine; import and export of products and technologies. |

4. *Further Information About Our Jointly Controlled Entities in the PRC*

(a) *Changchun Huaxiang Faurecia*

- | | | |
|-------|---------------------------------------|---|
| (i) | nature of the company: | Joint venture with limited liability |
| (ii) | incorporation date: | 3 June 2011 |
| (iii) | term of business license: | From 3 June 2011 to 2 June 2021 |
| (iv) | total amount of investment: | RMB150 million |
| (v) | registered capital: | RMB120 million |
| (vi) | attributable interest of the company: | 50% |
| (vii) | general nature of business: | Manufacturing, assembling, selling of coating of automobile bumper beams, pedals and external decorative products; providing after-sale services and technical consultations. |

(b) *Ningbo Hualete*

- | | | |
|-------|---------------------------------------|---|
| (i) | nature of the company: | Joint venture with limited liability |
| (ii) | incorporation date: | 17 March 2004 |
| (iii) | term of business license: | From 17 March 2004 to 16 March 2014 |
| (iv) | total amount of investment: | EUR2.1 million |
| (v) | registered capital: | EUR1.5 million |
| (vi) | attributable interest of the company: | 50% |
| (vii) | general nature of business: | Manufacturing automobile body parts, designing, manufacturing and processing high-grade textile |

D. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Directors' Service Contracts**

Each of our Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

All reasonable traveling, accommodation and other out-of-pocket expenses incurred by our Directors in the process of discharging their duties as directors will be borne by our Company. A Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current basic annual salaries of our Directors are as follows:

Name	Annual Amount (HK\$)
Mr. Zhou Minfeng (周敏峰)	650,000
Mr. Chang Jingzhou (常景洲)	240,000
Ms. Lai Cairong (賴彩絨)	240,000
Mr. Wang Yuming (王玉明)	240,000
Mr. Su Xijia (蘇錫嘉)	240,000
Mr. Yu Shuli (於樹立)	240,000
Mr. Tian Yushi (田雨時)	240,000

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

We have not entered into any service contract with our Directors which is for a duration that may exceed three years or which is not determine by us within one year without payment of compensation (other than statutory compensation).

2. Directors' Remuneration During The Track Record Period

For the year ended 31 December 2008, 2009 and 2010, and the six months ended 30 June 2011, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was RMB492,000, RMB531,000, RMB576,000 and RMB291,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the year ended 31 December 2008, 2009 and 2010, and the six months ended 30 June 2011 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending 31 December 2011 will be approximately RMB527,000.

E. DISCLOSURE OF INTERESTS1. *Disclosure Of Interests****Interests and short positions of our Directors in our share capital and our associated corporations following the Global Offering and the Capitalisation Issue***

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme, the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors and the chief executive in our Shares, underlying Shares and debentures and our associated corporations, within the meaning of Part XV of the SFO which 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 he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in our Shares, underlying Shares and debentures and our associated corporations:

Long Position in our Company:

Name of Director	Capacity/ Nature of interest	Number of Shares	Percentage of the issued share capital
Mr. Zhou	Interest in controlled corporation ⁽¹⁾	600,000,000	75%
	Beneficial owner	1,500,000 ⁽²⁾	0.18% ⁽⁴⁾
	Spouse's interest	1,000,000 ⁽²⁾⁽³⁾	0.13% ⁽⁴⁾
Mr. Chang Jingzhou	Beneficial owner	600,000 ⁽²⁾	0.07% ⁽⁴⁾

Note:

- (1) Mr. Zhou is deemed to be interested in the Shares held by Huayou Holdings by virtue of Huayou Holdings being wholly-owned by Mr. Zhou.
- (2) Shares subject to options under the Pre-IPO Share Option Scheme.
- (3) Ms. Chen Chun'er, the spouse of Mr. Zhou, has been granted an option to subscribe for Shares under the Pre-IPO Share Option Scheme, therefore, Mr. Zhou is deemed to be interested in Ms. Chen Chun'er's option.
- (4) Calculated based on the number of issued Shares taking into account Shares which may be allotted and issued to all grantees upon their full exercise of the options under the Pre-IPO Share Option Scheme.

Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme, the Share Option Scheme or the exercise of the Over-allotment Option, in addition to the interests disclosed under the paragraph above, so far as our Directors are aware, the following persons are expected to have interests or short positions in our shares or underlying shares which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to 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 any member of our Group.

Interests and short positions in our Shares and underlying Shares:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
Huayou Holdings	Beneficial owner	600,000,000	75%

Direct or indirect interests 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 member of our Group:

Name	Shareholder	Approximate percentage of shareholding
Shanghai Huaxin	Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠)	30%
Shanghai Huaxin	Shanghai Beicai Industrial Co., Ltd.* (上海北蔡工業有限公司)	19%
Changxing Huaxin ⁽¹⁾	Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠)	30%
Changxing Huaxin ⁽¹⁾	Shanghai Beicai industrial Co., Ltd.* (上海北蔡工業有限公司)	19%

Note:

- (1) Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠) and Shanghai Beicai Industrial Co., Ltd.* (上海北蔡工業有限公司) directly hold 30% and 19% interests in Shanghai Huaxin, respectively. Changxing Huaxin is wholly-owned by Shanghai Huaxin and as a result, Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠) and Shanghai Beicai Industrial Co., Ltd.* (上海北蔡工業有限公司) also indirectly hold 30% and 19% interests in Changxing Huaxin, respectively.

2. *Disclaimers*

Save as disclosed in this Prospectus:

- (a) none of our Directors nor any of the parties listed in the section headed “Other Information — Consents of experts” of this Appendix is interested 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 our Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of its subsidiaries;
- (b) none of our Directors nor any of the parties listed in the section headed “Other information — Consents of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business; and
- (c) none of our Directors or their associates (as defined in the Listing Rules) or our existing Shareholder (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. PRE-IPO SHARE OPTION SCHEME

Summary of Terms

The purpose of the Pre-IPO Share Option Scheme is to aid us in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of our Company through the granting of options. The principal terms of the Pre-IPO Share Option Scheme, approved by written resolutions of our Sole Shareholder passed on 15 December 2011, are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per Share of the options granted under the Pre-IPO Share Option Scheme may not exceed the Offer Price;
- (b) save for the options which have been granted before the Listing Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and
- (c) each option granted under the Pre-IPO Share Option Scheme is exercisable subject to the vesting schedule as set out in the relevant offer letter, in any event, if exercised, must be exercised prior to the fifth anniversary of the Listing Date.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the 18,000,000 Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

Outstanding Options Granted

As at the date of this prospectus, options to subscribe to an aggregate of 18,000,000 Shares representing approximately 2.25% of the enlarged issued share capital of our Company immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised) at an exercise price equal to 80% of the Offer Price have been conditionally granted to 13 grantees by our Company under the Pre-IPO Share Option Scheme. All the options under the Pre-IPO Share Option Scheme (the “Pre-IPO Share Options”) were granted on 23 December 2011 and no further options will be granted under the Pre- IPO Share Option Scheme on and after the Listing Date.

The options have been conditionally granted based on the performance of the grantees who have made important contributions and are important to the long-term growth and profitability of our Group. A total of 13 employees of our Group, including two executive Directors, one non-executive Director and six members of the senior management of our Group (set out in the section headed “Directors and Senior Management” of this prospectus) have been conditionally granted options under the Pre-IPO Share Option Scheme.

The Pre-IPO Share Options shall vest according to the following schedule:

- (i) 35% of each option may be exercised from the first anniversary of the Listing Date;
- (ii) 70% of each option may be exercised from the second anniversary of the Listing Date; and
- (iii) 100% of each option may be exercised from the third anniversary of the Listing Date;

A summary of the grantees who have been granted options under the Pre-IPO Share Option Scheme is set out below:

Grantee	Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
Directors				
Mr. Zhou	Executive Director	No. 82 Zhenan Road, Xizhou Town, Xiangshan County, Zhejiang Province, China	1,500,000	0.18%
Mr. Chang Jingzhou	Executive Director	Room 205, Expert Building, No. 11 Jingang Road, Xizhou Town, Xiangshan County, Zhejiang Province, China	600,000	0.07%

Grantee	Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
Ms. Lai Cairong	Non-executive Director	No. 82 Zhenan Road, Xizhou Town, Xiangshan County, Zhejiang Province, China	3,800,000	0.46%
Senior Management				
Mr. Huang Wenhao	Vice general manager for production	No. 42, Third China West Road, Gangshan Town, Gaoxiong County, Taiwan	600,000	0.07%
Mr. Cui Jihong	Vice general manager	Xinwuzhuang Community, Xuzhou City, China	350,000	0.04%
Mr. Zhou Ruqing	Vice general manager	No. 38, Zhenying Road, Xizhou Town, Xiangshan County, Zhejiang Province, China	600,000	0.07%
Mr. Fang Yousheng	Vice general manager	Room 102, No.29, 12th Building, 95 Garden, State High-tech District, Ningbo City, Zhejiang Province, China	100,000	0.01%
Mr. Le Jun	Assistant general manager	Room 230, No. 141, West Beijing Road, West Lake District, Nanchang City, China	350,000	0.04%
Mr. Lam King Hang	Chief financial officer	Unit 7, 17th Floor, Block 45, Heng Fa Chuen, 100 Shing Tai Road, Chai Wan, Hong Kong	200,000	0.02%
Others				
Ms. Chen Chun'er ¹	Human resources manager	No. 82 Zhenan Road, Xizhou Town, Xiangshan County, Zhejiang Province, China	1,000,000	0.12%
Ms. Lai Danfen	Financial manager	No. 4, Kangning Xiang, Xizhou Town, Xiangshan County, Zhejiang Province, China	8,100,000	0.99%
Mr. Chen Yuncai	General manager assistant	No.166, Songxi Road, Xizhou Town, Xiangshan County, Zhejiang Province, China	300,000	0.04%

Grantee	Position	Address	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issue share capital of our Company after full exercise of the Pre-IPO Share Option
Ms. Zhang Meilan	Finance director of Ningbo Huazhong Plastic	No. 10, Jingang Road, Xizhou Town, Xiangshan County, Zhejiang Province, China	500,000	0.06%
		Total:	<u>18,000,000</u>	<u>2.25%</u>

Notes:

- (1) Ms. Chen Chun'er is the spouse of Mr. Zhou, a Controlling Shareholder, an executive Director, the chairman of the Board and the chief executive officer of our Company. Hence, Mr. Zhou is deemed to be interested in the option granted under the Pre-IPO Share Option Scheme to Ms. Chen Chun'er.

Our shareholding immediately following completion of the Global Offering and Capitalisation Issue would be diluted by 2.2% upon the exercise in full of the Pre-IPO Share Options (assuming the Over-allotment Option is not exercised).

Assuming that (i) our Company had been listed on the Stock Exchange since 1 January 2011, (ii) a total of 818,000,000 Shares had been in issue during the financial year ending 31 December 2011 (including Shares allotted and issued pursuant to all the Pre-IPO Share Options exercised in full on 1 January 2011, without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and 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 HK\$0.167 to approximately HK\$0.163 for the year ending 31 December 2011.

Mr. Zhou, Mr. Chang Jingzhou and Ms. Lai Cairong have undertaken to our Company that they will not exercise the Pre-IPO Share Options to such an extent that the Shares held by the public (as defined in the Listing Rules) after the Global Offering and Capitalisation Issue will fall below the required percentage as set out in Rule 8.08 of the Listing Rules or such other percentage as approved by the Stock Exchange from time to time.

G. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the then sole Shareholder passed on 15 December 2011 and adopted by a resolution of the Board on 15 December 2011 (the “Adoption Date”). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimise their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Conditions Of The Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) subject to (b) and (c) below, the approval of all the shareholders of our Company for the adoption of the Share Option Scheme;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 80,000,000 Shares to be allotted and issued pursuant to the exercise of the Options (as defined below) in accordance with the terms and conditions of the Share Option Scheme;
- (c) the commencement of dealing of the Shares on the Main Board of the Stock Exchange on the Listing Date; and
- (d) the obligations of the underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms thereof or otherwise.

3. Who May Join

The Board may, at its absolute discretion, offer options (“Options”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“Executive”), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (“Employee”);

- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (c) above (the persons referred above are the “Eligible Persons”).

4. *Maximum Number Of Shares*

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10 per cent of the Shares in issue as at the Listing Date, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the “Scheme Mandate Limit”) provided that:

- (a) Our Company may at any time as the Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10 per cent of the Shares in issue as at the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules.
- (b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules.
- (c) The maximum number of 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 schemes of our Group shall not exceed 30% of our Company’s issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

5. *Maximum Entitlement Of Each Participant*

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1 per cent of our Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent of the Shares in issue, such further grant shall be separately approved by Shareholders in general meeting with such Eligible Person and his associates abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

6. *Offer And Grant Of Options*

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

7. *Granting Options To Connected Persons*

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already 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:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by Shareholders (voting by way of a poll). Our Company shall send a circular to Shareholders containing the information required under the Listing Rules. All Connected Persons of our Company must abstain from voting in favour at such general meeting.

Approval from the Shareholders of our Company is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates.

8. *Offer Period And Number Accepted*

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the Offer Date (the “Acceptance Date”). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

9. *Restriction On The Time Of Grant Of Options*

The Board shall not grant any Option under the Share Option Scheme 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 announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing two months immediately preceding the earlier of 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 our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for our 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 the results announcements.

10. *Minimum Holding Period, Vesting And Performance Target*

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in

the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

11. *Amount Payable For Options*

The amount payable on acceptance of an Option is HK\$1.00.

12. *Subscription Price*

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days (as defined in the Listing Rules) immediately preceding the offer date.

13. *Exercise Of Option*

- (i) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option Period in the manner as set out in this Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.

- (ii) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.
- (iii) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorised share capital of our Company.
- (iv) Subject as hereinafter provided:
 - (a) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;
 - (b) in the event that the grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;
 - (c) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of shareholders of our Company (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
 - (d) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
 - (i) the Option Period (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our

Directors to each grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);

- (ii) the period of two months from the date of such notice; or
 - (iii) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his Option.
- (e) in the event a notice is given by our 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 our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each Grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

14. *Ranking Of Shares*

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

15. *Life Of Share Option Scheme*

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

16. *Lapse Of Share Option Scheme*

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of Option;
- (c) subject to the period mentioned in the paragraph headed “Share Option Scheme — Exercise of Option” in this section, the date of the commencement of the winding-up of our Company;
- (d) there is an unsatisfied judgment, order or award outstanding against the grantee or our Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts; or
- (e) a bankruptcy order has been made against any director or shareholder of the Grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

17. *Adjustment*

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or
- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or
- (c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall be made on the basis that the aggregate subscription price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;
- (b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (c) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to Share Option Schemes); and
- (d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

18. *Cancellation Of Options Not Exercised*

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “Cancellation Date”):

- (a) the grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

19. *Termination*

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

20. *Transferability*

The Option shall be personal to the Grantee and shall not be assignable and no Grantee 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 Option or attempt to do so, except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

21. *Amendment*

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the shareholders of our Company in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of Grantee; and (iii) any alteration to the aforesaid termination provisions.

G. OTHER INFORMATION

1. *Deed of Indemnity*

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favour of our Company for itself and as trustee for its subsidiaries, to provide indemnities on a joint and several basis, in respect of, among other things:

- (a) certain estate duty which might be payable by or recovered against any member of our Group by virtue of or under the provisions of the Estate Duty Ordinance (Chapter 111 of Laws of Hong Kong);
- (b) any tax liability, together with all reasonable costs (including all legal costs), expenses, interest, penalties or other liabilities which any member of our Group may properly incur resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any event or transaction on or before the Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such tax liabilities is chargeable against or attributable to any other person, firm, company or corporation;
- (c) all losses, claims, actions, demands, liabilities, damages, costs, expenses, fines and of whatever nature suffered or incurred by any member of our Group directly or indirectly arising out of or in connection with unlawful or non-compliance with applicable laws and regulations of certain real properties owned or leased by our Group; and

- (d) all losses, claims, actions, demands, liabilities, damages, costs, expenses, fines and of whatever nature suffered or incurred by any member of our Group directly or indirectly arising out of or in connection with the non-compliance or alleged non-compliance by any member of our Group with any applicable PRC rules, regulations and laws in relation to the contribution from any member of our Group to the housing provident funds in the PRC on or before the Listing Date, provided that the Controlling Shareholders shall be under no liability under this Deed of Indemnity in respect of any such claim:
- (1) to the extent that provision or reserve has been made for such claim in the audited accounts of any member of our Group for any accounting period up to 30 June 2011; or
 - (2) to the extent that any provision or reserve made for such claim in the audited accounts of any member of our Group for any accounting period up to 30 June 2011 which is finally established to be over-provision or an excessive reserve, in which case the Controlling Shareholders' liability (if any) in respect of such claim shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Controlling Shareholders' liability in respect of such claim shall not be available in respect of any such liability arising thereafter.

The Deed of Indemnity does not cover any claim and the Controlling Shareholders shall be under no liability under this Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or allowance has been made for such claim or liability in the combined audited accounts of our Group for the three years ended 31 December 2010 and the six months ended 30 June 2011;
- (b) to the extent that any such liability on any of the members of our Group in respect of any accounting period commencing on or after 1 July 2011 and ending on the Listing Date where such claim or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Controlling Shareholders, other than any such act, omission or transaction:
 - (1) carried out or effected in the ordinary course of business or in the ordinary course of acquiring or disposing of capital assets after 1 July 2011; or
 - (2) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2011 or pursuant to any statement of intention made in this prospectus; or

- (c) to the extent of any provision or reserve made for such claim or liability in the combined audited accounts of our Group for the three years ended 31 December 2010 and the six months ended 30 June 2011 which is finally established to be an over-provision or an excessive reserve, in which case the Controlling Shareholders' liability (if any) in respect of any taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Controlling Shareholders' liability in respect of taxation shall not be available in respect of any such claim or liability arising thereafter.

2. *Litigation*

As at the Latest Practicable Date, neither we nor any of our subsidiaries are/is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. *Preliminary Expenses*

Our estimated preliminary expenses are approximately HK\$40,000 and have been paid by us.

4. *Sponsor*

The Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, Shares to be issued pursuant to the Global Offering and Capitalisation Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and, the Shares, up to 10% of the Shares in issue as at the Listing Date, that may be issued upon the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. *No Material Adverse Change*

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 30 June 2011 (being the date to which our latest audited combined financial statements were made up).

6. *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.

7. *Miscellaneous*

- (1) Save 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 its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (b) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
 - (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
 - (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
 - (g) we have no outstanding convertible debt securities.
- (2) 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.

8. *Qualifications Of Experts*

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Guotai Junan Capital	a licensed corporation holding a license under the SFO to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Ernst & Young	Certified Public Accountants

Name	Qualification
Cushman & Wakefield Valuation Advisory Services (HK) Limited	Independent professional property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	PRC legal advisers to our Company

9. *Consents of Experts*

Each of Guotai Junan Capital, Ernst & Young, Cushman & Wakefield Valuation Advisory Services (HK) Limited, Conyers Dill & Pearman and Jingtian & Gongcheng has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears. None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

10. *Bilingual Prospectus*

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provide by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. *Particulars of the Selling Shareholder in the Global Offering*

Name	Description	Registered office	Number of Sale Shares
Huayou Holdings ⁽¹⁾	Corporation	Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands	40,000,000

Note:

- (1) Huayou Holdings is a Controlling Shareholder and is wholly-owned by Mr. Zhou, a Controlling Shareholder, an executive Director, the chief executive officer of our Company and the chairman of our Board.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

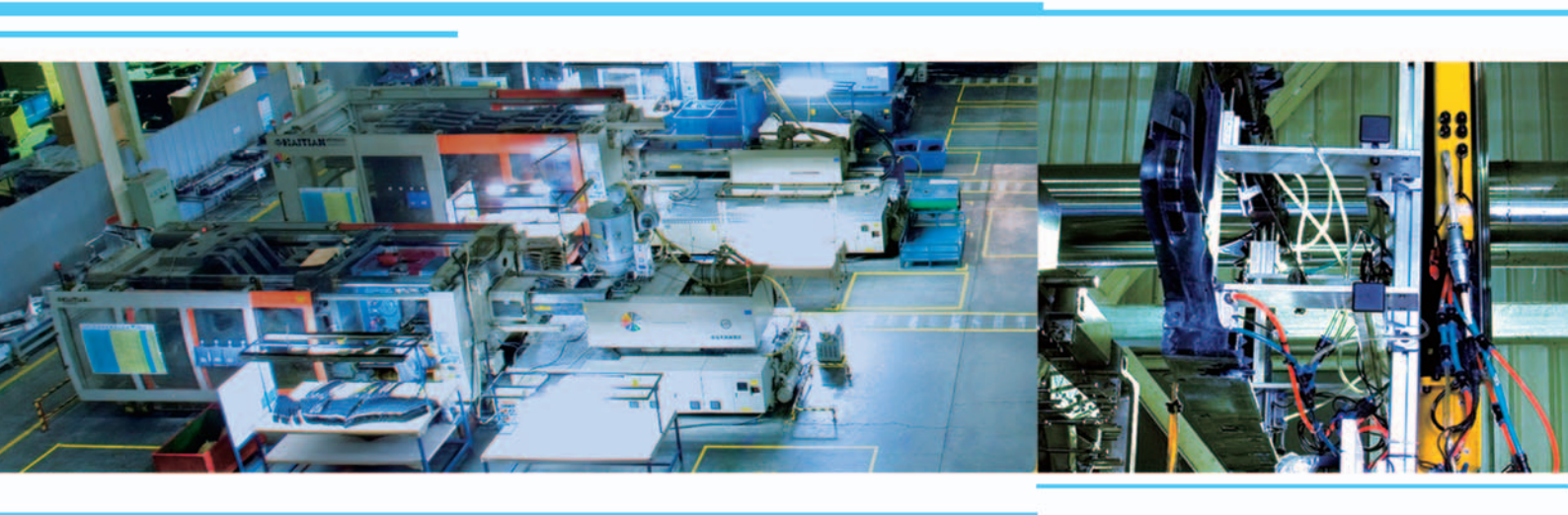
The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW and GREEN** Application Forms, the written consents referred to in the paragraph headed “Other information — Consents of experts” in Appendix VI to this prospectus, particulars of the Selling Shareholder referred to in the paragraph headed “Other information — Particulars of the Selling Shareholder in the Global Offering” in Appendix VI to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of the 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 Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (1) our Memorandum and the Articles of Association;
- (2) the accountants’ report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (3) the audited financial statements for the companies now comprising our Group for each of the three years ended 31 December 2010 and six months ended 30 June 2011;
- (4) the letter received from Ernst & Young on unaudited pro forma financial information, the texts of which is set out in Appendix II to this prospectus;
- (5) the letters prepared by Ernst & Young and the Sponsor relating to the profit forecast respectively, the texts of which are set out in Appendix III to this prospectus;
- (6) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Cushman & Wakefield Valuation Advisory Services (HK) Limited, the texts of which are set out in Appendix IV to this prospectus;
- (7) the material contracts referred to in the paragraph headed “Further information about our Group — Summary of the Material Contracts” of Appendix VI to this prospectus;
- (8) the service contracts with our Directors, referred to in the paragraph headed “Further information about our Directors — Directors’ service contracts” of Appendix VI to this prospectus;
- (9) the written consents referred to in the paragraph headed “Other Information — Consents of experts” of Appendix VI to this prospectus;

- (10) the PRC legal opinions prepared by Jingtian & Gongcheng, our legal adviser as to the PRC law, in respect of certain aspects of our Group and our property interests;
- (11) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Companies Law referred to in Appendix V to this prospectus;
- (12) the Cayman Companies Law;
- (13) the rules of the Pre-IPO Share Option Scheme;
- (14) the rules of the Share Option Scheme; and
- (15) the particulars of the Selling Shareholder.



Huazhong Holdings Company Limited
華眾控股有限公司