
RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

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

During the Track Record Period, we derived a significant portion of our revenue from a few major customers. For the three years ended 31 December 2010, sales to the largest customer of our Group represented 17.4%, 17.7% and 13.3%, respectively of our total revenue, and sales to the five largest customers of our Group, in aggregate, accounted for 47.1%, 49.0% and 47.2%, respectively of our total revenue. We cannot assure you that we will be able to maintain or improve our relationships with these customers and they may terminate their respective relationships with us at any time.

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

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

During the Track Record Period, the average selling prices of our air-conditioning compressors were RMB415.1, RMB389.3 and RMB380.5 per set respectively. The average selling prices of our products decreased by 6.2% and 2.3%, respectively, for each of the two years ended 31 December 2009 and 2010. The decrease was mainly attributable to requests from customers to reduce prices from time to time since we operate in a competitive industry. Despite the decrease in average selling price, we were able to maintain steady gross profit margins at 25.2%, 26.6% and 26.6% respectively during the Track Record Period due to the effect from economies of scale and effective cost control where we were able to offer our products at a lower price to maintain our market competitiveness. However, we may be subject to further requests from customers to reduce prices in future and may have to further accommodate their requests. Under such circumstances, if we are unable to maintain a proportionate increase in sales volume and/or scale of operations, we might not be able to maintain steady gross profits and gross profit margins and our business, financial condition and results of operations may be adversely affected.

RISK FACTORS

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

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

The average price of our major raw material, aluminium parts and components (which include brake discs, static plates, front end covers and cases), was RMB74.1, RMB65.0 and RMB67.9 per set respectively during the Track Record Period. Other major raw materials we need for our production include clutches and crankshafts. In relation to clutches, the average price was RMB75.2, RMB74.8 and RMB70.4 per set respectively during the Track Record Period, while the average price of crankshafts was RMB12.8, RMB12.2 and RMB11.9 per set respectively during the Track Record Period.

We also source aluminium ingots for use by Aotecar Casting following its incorporation on 4 December 2008 and the average price of aluminium for the two years ended 31 December 2010 was RMB13.4 and RMB15.0 per kilogram respectively. During the Track Record Period, we recorded a stable gross profit margin of 25.2%, 26.6% and 26.6% respectively. There is no assurance that the prices of our raw materials, parts and components will not fluctuate materially in the future. In the event that the prices of our supplies significantly increase and we are not able to cover such increases by reductions in other production costs or pass such costs to our customers, our profitability, financial condition and results of operations could be adversely affected.

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

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

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

Utilisation rates of production facilities for compressor production by our Group during the Track Record Period was 88.3%, 103.0% and 100.5%, respectively, for our Old Production Base and 92.9% and 99.9% for our New Production Base respectively for each of the two years ended 31 December 2009 and 2010. For further details of our utilisation rates, please refer to “Business – Production facilities and production capacity” in this prospectus. In anticipation of our business

RISK FACTORS

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

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

Our production, to a certain extent, relies on a stable supply of labour. During the Track Record Period, the direct staff costs of our Group in relation to production (excluding Directors' remuneration) were RMB14.4 million, RMB31.4 million and RMB51.0 million, respectively. Direct staff costs include staff costs of production and quality control personnel. The increase in direct staff costs during the Track Record Period was mainly due to the increase in such personnel, which was in line with the increase in production volume during the Track Record Period.

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

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

We experienced substantial growth in revenue during the Track Record Period, and our profit fluctuated during the same period. During the Track Record Period, the total revenue of our Group was RMB378.4 million, RMB797.0 million and RMB1,244.6 million, respectively. We attribute such rapid growth to the successful implementation of our business plans in the past. However, the changes in our revenue and profit during the Track Record Period may not be indicative of our future performance.

As disclosed under "Business – Business strategies" in this prospectus, we plan to adopt a number of strategies, including expansion of market share and production capacity, optimisation of production process and enhancement of R&D to strengthen our leading position in the PRC scroll automobile air-conditioning compressor industry. The successful implementation of our business plans depends on a number of factors which may or may not be within our control, including but not limited to whether the automobile industry, particularly in the PRC, will continue to grow at a pace anticipated by our Directors, whether we will be able to timely and effectively capture the opportunities associated with such growth, the level of competition arising from other automobile

RISK FACTORS

air-conditioning compressor manufacturers, our ability to manage our business growth strategically and cost-effectively, our ability to cope with any increase in product demands, our ability to enhance our R&D capabilities and the availability of funds to finance our strategic plans. There is no assurance that we can successfully manage any of these factors. If we fail to implement our business plans, our business, financial condition and results of operations may be adversely affected.

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

Our management team has extensive experience in and in-depth market knowledge of the PRC automobile air-conditioning compressor industry. Our future performance and success depends to a significant extent on our ability to attract, retain and motivate our senior management team and other key personnel, such as Mr. Qian, our chief executive officer and executive Director, and Mr. Yi Fengshou, Mr. Zhao Chengzhou, Mr. Liu Shantong and Mr. Yu Heyuan of our senior management. They have over ten years' experience working with companies within the Group and had joined us upon the establishment of our first operating subsidiary, Aotecar Nanjing, in 2000. Further information on our Directors and senior management is set forth in "Directors, Senior Management and Employees" in this prospectus. There is no assurance that we will be able to retain members of our senior management team and other key personnel or recruit additional competent personnel for our future development. Moreover, we do not maintain insurance for the loss of any key personnel. Any loss of key personnel without immediate and adequate replacement may limit our competitiveness, affect our production processes, reduce our manufacturing quality or cause customer dissatisfaction, any of which would adversely affect our business, financial condition, results of operations and growth prospects.

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

Immediately following the Global Offering and the Capitalisation Issue, our Controlling Shareholders will beneficially own 34.20% of our issued share capital, assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued pursuant to the exercise of the Pre-IPO Share Options and any options which may be granted under the Share Option Scheme.

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

RISK FACTORS

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

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

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

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

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

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

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

RISK FACTORS

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

Our business nature exposes us to the risk of product liability claims that is inherent in the R&D, manufacturing and marketing of our automobile air-conditioning compressors. As a developer and manufacturer of automobile air-conditioning compressors, we may be subject to product liability claims due to product defects. A substantial claim or a substantial number of claims relating to our products could have a material and adverse impact on our business, financial condition and results of operations. During the Track Record Period, the provision of our Group for product warranties amounted to RMB13.1 million, RMB27.2 million and RMB43.0 million, respectively. The amount of provisions utilised during the Track Record Period amounted to RMB12.7 million, RMB13.9 million and RMB20.7 million, respectively. In line with general industry practice, we have not obtained insurance coverage for product liability or implemented any other protection scheme. If our products prove to be defective and result in losses 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 or used. As a result, we may have to incur significant legal costs and divert our administrative resources regardless of the outcome of the claims. In addition, any such claims could damage our customer relationships and businesses and result in negative publicity. We may also be forced to defend lawsuits and, if unsuccessful, to pay a substantial amount of damages. Though we may be able to recover part of the damages by claims against our suppliers when a product defect is attributable to materials or parts supplied by our suppliers, there is no guarantee of any recovery.

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

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

One subsidiary of our Group, Aotecar Xiangyun, once conducted production business prior to the obtaining of the production licence, it may be subject to administrative penalties including confiscation of products so produced and the resultant income gained, and fines of an amount equivalent to three times the value of the products so produced and the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局) may impose a fine on the past non-compliance. In the event that the administrative penalties were imposed on our Group in any particular financial year, our profits in that particular financial year would be materially affected. There is no assurance that the relevant government authorities will not levy such administrative penalties on us or when such administrative penalties will be levied on us. However, on the basis that (i) Aotecar Xiangyun has properly rectified its non-compliance by obtaining a valid production licence on 2 July 2010, (ii) the Nanjing Bureau of Quality and Technical Supervision, being the competent authority, confirmed in writing on 27 January 2011 that Aotecar Xiangyun was in compliance with the laws and regulations in connection with production licence and administration of product quality, and Aotecar Xiangyun's products were in line with the relevant national quality standards, and (iii) the competent authority had actual knowledge that Aotecar Xiangyun had once conducted production prior to the obtaining of the said production licence, our PRC Legal Advisers consider the risk of Aotecar

RISK FACTORS

Xiangyun being sanctioned due to the above historical non-compliance to be low. Please refer to “Regulatory Overview – Production licence of industrial products and implementation procedures” and “Business – Production licence” of this prospectus for further details.

Changes in interest rates may affect our financing costs.

The interest expenses of our Group related to bank loans and other indebtedness during the Track Record Period were RMB5.1 million, RMB6.6 million and RMB13.2 million, respectively. Most of our borrowings are in the form of interest-bearing short-term loans. Our financing costs and, as a result, our results of operations, are affected by changes in interest rates as most of the loans are short-term in nature. Bank interest rates may increase at the time we renew our bank loans or if and when we seek additional financing. Since the end of 2008, the PBOC has been increasing the bank deposit and lending rates. For instance, the PBOC raised the benchmark interest rates on 5 April 2011. The PBOC may further increase the bank deposit and lending rates to control inflation in the rest of 2011. Any future increase in interest rates may materially and adversely affect our business, financial condition and results of operations.

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

The net current liabilities of our Group were RMB102.4 million, RMB107.5 million and RMB43.3 million as at 31 December 2008, 2009 and 2010, respectively. The net current liabilities of our Group were mainly due to short-term bank borrowings and amount payable to CUAS and Mr. Qian, being related parties of our Group, majority of which were due to the acquisition of Aotecar Nanjing by our Group from Fang Brothers in December 2007. Further discussion on our net current liabilities during the Track Record Period are set out in “Financial Information – Net current liabilities” in this prospectus.

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

We are subject to risks associated with our trade and other receivables.

Trade and other receivables accounted for approximately 32.9%, 44.9% and 45.9% of our total assets as at 31 December 2008, 2009 and 2010. There may be risks of delay in payment by our customers from their respective credit period, which in turn may result in impairment loss provisions. We cannot assure you that we will be able to fully recover our receivables from our customers if at all, or their settlements will be made in a timely manner. In the event that the settlements by our customers are not made in full or in a timely manner, our financial condition and results of operations may be adversely affected.

RISK FACTORS

We rely on certain major suppliers.

We rely on a limited group of suppliers for the raw materials, parts and components we use for our production. In particular, we currently source aluminium ingots from a single domestic supplier, namely Nanjing Yunhai. Purchases from the five largest suppliers of our Group accounted for 45.4%, 41.5% and 40.9%, respectively, of our total purchases and purchases from the largest supplier of our Group accounted for 13.1%, 12.7% and 12.1%, respectively of our total purchases, during the Track Record Period. None of our Directors or their associates, or any Shareholders who own more than 5% of our issued share capital, had, to the best of our Directors' knowledge, any interest in any of our five largest suppliers during the Track Record Period. Should any of our major suppliers cease to supply to us any raw materials, parts or components and suitable replacement cannot be secured on a timely basis, our business may be adversely affected.

We have limited insurance coverage.

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

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

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

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

Due to the shortfall, our PRC Legal Advisers have advised that, whilst no fine is payable with respect to the unpaid contributions of the housing provident fund after Aotecar Nanjing and Aotecar Casting opened the housing provident fund accounts with the competent authorities, the maximum fine/penalty that may be imposed on our Group for the non-compliance with Social Insurance regulations is three times the amount equivalent to the salary amount not reported to the relevant Social Insurance authorities. We may be required by the relevant authorities to contribute all the

RISK FACTORS

unpaid amounts in the prescribed period. A daily overdue fine calculated at 0.2% of any unpaid Social Insurance contributions will be imposed if we failed to contribute in such prescribed period. In the event that the administrative penalties were imposed on our Group in any particular financial year, our Group's profits and financial condition in that particular financial year would be materially and adversely affected. There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us.

On 16 February 2011, Aotecar Nanjing obtained a written confirmation from the Social Insurance Collection and Payment Administration Centre of Nanjing (南京市社會保險徵繳管理中心), the competent Social Insurance authority, which confirmed that Aotecar Nanjing had duly contributed Social Insurance for its employees since its incorporation and Aotecar Nanjing had no record of overdue contributions. Aotecar Nanjing further obtained a written confirmation from the Provincial Institutions Housing Provident Fund Administration Centre of Jiangsu Province (江蘇省省級機關住房資金管理中心) on 16 February 2011, which confirmed that Aotecar Nanjing had duly contributed housing provident fund without any record of being sanctioned for any overdue contribution or non-compliance and there was no record of overdue contribution of Aotecar Nanjing.

Similarly, Aotecar Casting obtained a written confirmation from the Social and Labour Insurance Administration of Nanjing City Jiangning District (南京市江寧區社會勞動保險所) on 27 January 2011, which confirmed that Aotecar Casting had duly contributed Social Insurance for its employees since its incorporation without any record of being sanctioned for any non-compliance and the basis and percentage of Social Insurance contribution complied with the requirements of the PRC laws. Aotecar Casting further obtained a written confirmation from the Housing Provident Fund Administration Centre of Nanjing (南京住房公積金管理中心), the competent housing provident fund authority, on 27 January 2011, which confirmed that Aotecar Casting had promptly and duly contributed housing provident fund for its employees without any non-compliance with laws, regulations or local rules related to housing provident fund. Our PRC Legal Advisers confirmed that the aforementioned are competent Social Insurance and housing provident fund authorities. On the basis of the above, our PRC Legal Advisers are of the view that the risk of the companies being required to contribute the unpaid amounts or imposed fines by the relevant authorities is relatively low. Taking into account the above advice from our PRC Legal Advisers, the Directors consider that the financial impact to our Group is minimal and no provision has been made in this regard, which would not affect the true and fair view of the financial information in Appendix I to this prospectus. As advised by the PRC Legal Advisers, according to the general practice in Nanjing, the contribution basis can only be adjusted in July every year. Aotecar Nanjing will adjust the amount of contribution basis to the required level in July 2011. For further details as to our employees, please refer to "Business – Employees – Social Insurance and housing provident fund contributions" in this prospectus.

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

Our major operating subsidiary, Aotecar Nanjing, enjoyed preferential enterprise income tax rates which were lower than the standard tax rate during the Track Record Period as approved by the relevant tax authorities in the PRC. As an approved foreign invested enterprise, Aotecar Nanjing was exempted from enterprise income tax for its first two profit-making years (after deducting losses incurred in previous years) and entitled to a 50% tax reduction for the three succeeding years. The first

RISK FACTORS

profit-making year of Aotecar Nanjing was 2004, therefore, Aotecar Nanjing enjoyed a 50% tax reduction for the three years ended 31 December 2006, 2007 and 2008. Aotecar Nanjing was accredited as a “High and New Technology Enterprise” (高新技術企業) in October 2008 for a term of three years according to the “Administrative Measures on Recognition of High and New Technology Enterprise” (高新技術企業認定管理辦法) (announced by Ministry of Technology, Ministry of Finance and State Administration of Taxation on 14 April 2008, effective as at 1 January 2008), and was therefore further registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate. Upon expiry, we will have to renew such recognition to continue enjoying the preferential tax treatment. We have started the preparatory work for the renewal of the recognition and expect that we will continue to be eligible for the reduced 15% enterprise income tax rate. However, there can be no assurance that we will succeed in obtaining the renewal or that the 15% reduced tax rate will continue to be available to us.

Changes to the preferential tax treatment mean that comparisons between our past post-tax financial results may not be meaningful and should not be relied upon as indicators of our future performance. Our qualification as a “High and New Technology Enterprise” will be subject to annual evaluation and a three-year review by the relevant government authorities in the PRC. There can be no assurance that Aotecar Nanjing will continue to be a “High and New Technology Enterprise” after the current term or the current favourable tax policies available to us will not be withdrawn or revoked by the PRC Government or become less favourable. If the current preferential tax treatments are reduced or are no longer available in the future, our business, financial condition and results of operations in the future may be adversely affected.

There are uncertainties under the New EIT Law.

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

Under the New EIT Law, our Company and non-PRC subsidiaries may be classified as a “resident enterprise” of the PRC. Under the New EIT Law, an enterprise established outside the PRC

RISK FACTORS

with “de facto management bodies” within the PRC is considered a “resident enterprise”, meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes. The implemented rules of the New EIT Law define “de facto management” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. It is unclear how the PRC tax authorities will determine whether an enterprise should be classified as a “resident enterprise”. If the PRC tax authorities determine that our Company is a “resident enterprise” for PRC enterprise income tax purposes, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest earned on offering proceeds and other income sourced from outside the PRC would be subject to PRC enterprise income tax at a rate of 25%, in comparison to no taxation in the Cayman Islands. Moreover, if we are considered a PRC “resident enterprise,” the dividends our Company pay in respect to our Shares, and the gain investors of our Company may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC withholding tax, which may materially and adversely affect the value of the investment in our Shares.

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

Our business is subject to operational risks.

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

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


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

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

RISK FACTORS

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

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

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

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

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

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

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

As at the Latest Practicable Date, we did not have valid building ownership certificates for 15,020.9 sq.m. of constructed buildings and structures in our Old Production Base and 11,135.2 sq.m. of constructed buildings and structures in our New Production Base. Also, our lessors did not have valid land use right certificates for the Hengxi Lands (with an aggregate site area of 6,832.0 sq.m.) on which the Hengxi Owned Factory, Hengxi Leased Factory and Hengxi Workshop are located and the Hengxi Chongwen Land on which the Hengxi Chongwen Premises (with a gross floor area of 3,527.5 sq.m. and a site area of 5,890 sq.m.) are located.

RISK FACTORS

Lands and Properties

Aotecar Nanjing

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

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

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

- (i) in May 2007, the Nanjing Planning Bureau (南京規劃局) issued a construction suspension notice against Aotecar Nanjing pursuant to which the construction works that were then being carried out in relation to a structure having a total gross floor area of 7,000.0 sq.m. were ordered to be suspended (this structure now includes the Leased Portion occupied by the Lessee as well as the building used by Aotecar Nanjing as offices and staff canteen);
- (ii) in June 2007, the Nanjing Planning Bureau issued another construction suspension notice against Aotecar Nanjing pursuant to which the construction works that were then being carried out in relation to a structure having a total gross floor area of 1,000.0 sq.m. were ordered to be suspended (this structure is now being used by Aotecar Nanjing as warehouse);
- (iii) in August 2007, the Nanjing Planning Bureau issued a demolition order against Aotecar Nanjing to demolish a structure having a total gross floor area of 900.0 sq.m. (this structure is now being used by Aotecar Nanjing as warehouse); and
- (iv) in March 2010, the Nanjing Planning Bureau imposed an administrative fine of RMB36,000.0 against Aotecar Nanjing for an unlawful warehouse structure (this structure is now being used by Aotecar Nanjing as workshop with an actual gross area of 1,339 sq.m.), and to require an unconditional demolition of that structure in future if it would be so required for the purpose of town planning. When the Nanjing Planning Bureau imposed the said administrative fine, the Nanjing Planning Bureau had acknowledged and taken into consideration the special and factual circumstances of the

RISK FACTORS

matter and decided not to impose the maximum administrative fine of up to 10% of the construction costs of the relevant unlawful structure, and had agreed that the unlawful structure be demolished only when such demolition would become necessary for town planning purposes.

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

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

In respect of our lease with the Lessee for the Leased Portion, since the lease relates to a property which has not duly obtained the relevant construction permits and certificates, including the building ownership certificates, according to our PRC Legal Advisers, the Leased Portion should not have been rented to any third party and the lease may be held as invalid and unenforceable, and Aotecar Nanjing may be required to rectify the non-compliance and may be subject to an administrative penalty of up to RMB30,000.

Aotecar Xiangyun

Aotecar Xiangyun owned the New Production Base with a site area of 82,843.8 sq.m. (“**Jiangning Land**”). It has constructed and is constructing various buildings and structures on the Jiangning Land which comprises workshops, dormitory and staff canteen, power house and ancillary facilities with a gross floor area of 24,931.2 sq.m. and 26,057.8 sq.m., respectively (“**Jiangning Buildings**”), out of which a total gross floor area of 24,931.2 sq.m. of Jiangning Buildings were constructed before Aotecar Xiangyun obtained the relevant construction project planning permit (建設工程規劃許可證) and construction licence (建築工程施工許可證) (“**Jiangning Defective Buildings**”). As such, there were legal risks that the relevant governmental authorities may order demolition of Jiangning Defective Buildings within a prescribed period and confiscate any realty or unlawful gains for parts which cannot be demolished and may impose a fine equivalent to not more than 10% of the construction costs, which is RMB3,475,900. Aotecar Xiangyun had subsequently obtained the construction project planning permits (建設工程規劃許可證) for Jiangning Defective Buildings on 14 July 2010 and 16 September 2010. In addition, Aotecar Xiangyun had obtained the construction licences (建築工程施工許可證) for the Jiangning Defective Buildings on 28 October 2010 and 18 November 2010. Aotecar Xiangyun obtained the building ownership certificate for its workshop with a gross floor area of 13,795.9 sq.m. on 26 January 2011 and has yet to obtain the building ownership certificate(s) for the remaining portion of the Jiangning Defective Buildings with a gross floor area of 11,135.2 sq.m. and such building ownership certificate(s) is expected to be obtained around June 2011. Our PRC Legal Advisers have advised us that, since Aotecar Xiangyun has already obtained the land use rights certificate, the construction project planning permits (建設工程規劃許可證) and the construction licences (建築工程施工許可證) and as Aotecar Xiangyun has been able to successfully obtain the building ownership certificate in respect of the workshop with a gross floor area of 13,795.9 sq.m. described above, there should not be legal impediment for Aotecar

RISK FACTORS

Xiangyun to obtain the building ownership certificate(s) for the remaining areas subject to the submission of all the necessary documents in compliance with the required procedures as required under the PRC laws. As such, our Directors are of the view that such would not have material financial and operational impact on our Group.

Aotecar Casting

Hengxi Lands

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

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

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

Hengxi Chongwen Land

In March 2010, Aotecar Casting entered into the Hengxi Chongwen Lease for the Hengxi Chongwen Land and the Hengxi Chongwen Premises. The lease is for a term of five years starting from 1 April 2010. The Hengxi Chongwen Premises comprises a primary factory building with a gross floor area of 2,574 sq.m., a power room with a gross area of 127.5 sq.m., an ancillary building with a gross floor area of 826 sq.m. and open ground of 5,890 sq.m. Aotecar Casting had built steel structures with the gross area of approximately 2,200 sq.m. on this land for production and storage purposes without obtaining the required legal permits and certificates.

As advised by our PRC Legal Advisers, the Hengxi Chongwen Land is collective construction land. Before the lessor leased the Hengxi Chongwen Land to Aotecar Casting, the consent of the collective construction land owners should have been obtained and the relevant certification procedures of collective construction lands should have been completed. In addition, the lessor has not provided the relevant title documents demonstrating that it has the right to lease the premises. Since these legal and other requirements have not been fulfilled, the Hengxi Chongwen Lease may become void and the rights of Aotecar Casting in the Hengxi Chongwen Land and the Hengxi Chongwen Premises may not be protected by law.

RISK FACTORS

Similarly, as to the steel structures mentioned above, since the relevant construction permits and certificates were not obtained before the construction of such steel structures commenced, there is a risk that the relevant governmental authorities may order demolition of such steel structures within a prescribed time and confiscate any realty or unlawful gain from parts which cannot be demolished, and may impose a fine of equivalent to not more than 10% of the construction costs.

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

Leased Properties

Aotecar Xiangyun

Aotecar Xiangyun has leased a total of 450.0 sq.m. staff quarters from a landlord who could not provide the relevant building title document for review. As such, our PRC Legal Advisers advised that the lease for the relevant leased quarters may be invalid and unenforceable under the PRC law. However, Aotecar Xiangyun as lessee would not be liable for any civil or criminal responsibilities or any administrative penalty. Nevertheless, the lease has not been registered at the relevant authority and the PRC Legal Advisers advised that Aotecar Xiangyun may be liable for a fine of RMB1,000.0 to RMB10,000.0 for the non-registration though the non-registration would not affect the validity of the lease. Moreover, our Directors consider that the lease of Aotecar Xiangyun is only short-term for staff quarters and any early termination would not materially affect the finance and operations of the Group.

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

We are exposed to environmental liabilities

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

Aotecar Casting finished the construction project without conducting any environmental impact assessment prior to construction and without applying for approval from the local environmental protection bureau. Our PRC Legal Advisers advised that the relevant environmental authority may impose a fine from RMB50,000.0 to RMB200,000.0 on Aotecar Casting if it fails to prepare an environmental impact assessment and to rectify such within a prescribed period required by the relevant environmental authority and Aotecar Casting may be required to complete the rectification on environmental protection facilities within a prescribed period, failing which, Aotecar Casting may be subject to a suspension order and a fine of not more than RMB50,000.0 for not having applied for verification of environmental protection facilities. In order to mitigate the

RISK FACTORS

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

As at the Latest Practicable Date, neither Aotecar Casting nor any members of our Group had been subject to any fines or suspension order in relation to any breach of environmental laws or regulations. However, we will be held liable should any relevant environmental authority take any action against our Group. Furthermore, environmental laws and regulations may become more onerous in the future. Stricter interpretations of existing laws may occur leading to enforcement in the PRC. Our financial position may be materially and adversely affected if our Group is penalised for violations of environmental laws and regulations as a result of the above-mentioned in the future. For further details of our environmental matters, please refer to “Business – Safety and environmental matters” in this prospectus.

RISKS RELATING TO OUR INDUSTRY

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

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

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

The average selling price for the automobile air-conditioning compressor market in the PRC has shown a gradually decreasing trend. For the three years ended 31 December 2008, 2009 and 2010, the average selling prices for our automobile air- conditioning compressors were RMB415.1, RMB389.3 and RMB380.5, respectively, which decreased by 11.9%, 6.2% and 2.3%, respectively as compared to the previous year. The reduction in average selling price is on the one hand due to the demands from automobile manufacturers for price reduction to their auto part suppliers including

RISK FACTORS

automobile air-conditioning compressors suppliers. On the other hand, as a result of the competitive landscape of the industry, certain compressor manufacturers actively reduce their pricing in order to compete for purchase orders from and maintain their existing supply relationships with the automobile manufacturers. The decrease in average selling price, coupled with the increase in raw material prices, leads to adverse impacts on the profit margins of the automobile air-conditioning compressor manufacturers and causes enormous pressure on their cost management. In the event that we have to reduce our prices to maintain our competitiveness in the market but fail to correspondingly reduce our production costs, our profitability may be adversely affected.

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

There is a direct correlation between our business and automobile production volume and sales, which are dependent on economic policies and market sentiment. The production of automobiles in the PRC has grown at a very fast pace in the past due to various factors, including the continued growth of the PRC economy, ongoing government incentive policies and a relatively low rate of vehicle ownership. However, according to the information published by CAAM, passenger vehicle sales have cooled down, such that the average growth in sales volume has decreased from 46% in 2009 to 32% in 2010. Any significant reduction in automobile production and sales to our customers would have a material and adverse effect on our business.

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

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

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

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

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

RISK FACTORS

The PRC Government adopted an automobile consumption tax on 1 April 2006. The increase of applicable tax rates on large-displacement vehicles pursuant to the “Notice on Adjusting the Policy of the Consumption Tax on Passenger Vehicles” (關於調整乘用車消費稅政策的通知) promulgated by the PRC Ministry of Finance and the State Administration of Taxation took effect on 1 September 2008. Pursuant to the Notice on Adjusting the Policy of the Consumption Tax on Passenger Vehicles (關於調整乘用車消費稅政策的通知) jointly promulgated by the PRC Ministry of Finance and the State Administration of Taxation on 1 August 2008, effective on 1 September 2008, the automobile consumption tax rate for passenger vehicles with emission on or below 1 litre is reduced from 3% to 1%, whereas the automobile consumption tax rate applicable for those with emission 3 litres to 4 litres is increased from 15% to 25% and the automobile consumption tax rate applicable for those with emission above 4 litres is increased from 20% to 40%.

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 also adopted an automobile purchase tax at the rate of 10%. To stimulate growth in the domestic automobile industry, the PRC Government reduced the automobile purchase tax rate applicable to small-displacement vehicles from 10% to 5% for such vehicles purchased during the period from 20 January 2009 to 31 December 2009. However, pursuant to the “Notice on Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 litres” (關於減徵1.6升及以下排量乘用車車輪購置稅的通知) this reduced 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 litres” (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 is discontinued and the automobile purchase tax rate applicable to such small-displacement vehicles is resumed to 10%.

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

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

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

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

We are required to comply with the environmental protection and workplace safety laws and regulations promulgated by the national and local governments of the PRC, including the prescribed standards relating to the discharge of sewage water and industrial wastes. The annual cost of

RISK FACTORS

compliance with the applicable environmental rules and regulations during the Track Record Period of our Group was RMB0.8 million, RMB1.3 million and RMB0.8 million, respectively.

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

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

The global financial crisis which commenced in 2008 caused substantial volatility in capital markets and a downturn in the global economies. Demand for the automobiles, automobile accessories and other related products may decrease if the level of consumption in the PRC is affected by these changing market conditions, which would adversely impact our operations. In addition, some of the automakers may also be adversely impacted with declines in profits and production output. Furthermore, the availability of credit to entities, such as ourselves, operating within emerging markets, is significantly influenced by levels of investor confidence in such markets as a whole and any factors that may impact market confidence could affect the costs or availability of funding for entities within any of these markets. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. Although a global economic recovery has been underway for some time, there is no assurance that the recovery will continue or be sustained. If this economic downturn continues or there are prolonged disruptions to the credit markets, this could limit our ability to borrow funds from our current or other funding sources or cause the continued access to funds to become more expensive, and our business may be exposed to a downturn in sales that might be caused by such tightening of credit conditions, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

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

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

- its structure;
- the level of governmental involvement;
- the level of development;
- inflation or deflation, as well as the government's measures to control them;
- growth rate;

RISK FACTORS

- the control of foreign exchange; and
- the allocation of resources.

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

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

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

A substantial part of our operations are conducted in the PRC. The PRC legal system is based on written statutes and prior court decisions are not binding. Since 1979, the PRC Government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade.

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

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

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

RISK FACTORS

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

The “PRC Labour Contract Law” (中華人民共和國勞動合同法) and the “PRC Labour Contract Law Implementation Rules” (中華人民共和國勞動合同法實施條例) took effect on 1 January 2008 and 18 September 2008, respectively. These labour laws and rules impose additional stringent requirements on employers in relation to entering into fixed term employment contracts, hiring of part-time employees and dismissing employees. Pursuant to the PRC Labour Contract Law, since 1 January 2008, we have been required to enter into non-fixed term employment contracts with employees who have worked for us for more than 10 consecutive years or for whom a fixed term employment contract has been concluded for two consecutive time, unless otherwise provided in the PRC Labour Contract Law. We may not be able to efficiently terminate non-fixed term employment contracts under the PRC Labour Contract Law without cause unless there exists special circumstances as stipulated in the PRC Labour Contract Law Implementation Rules as well as other PRC laws for the termination of the employment contracts by the employer. We are also required to make severance payments to fixed term contract employees when the term of their employment contracts expire, except for certain circumstances prescribed in the PRC Labour Contract Law including where an employee voluntarily rejects an offer to renew the contract where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer, except in the circumstances where (i) the term of service is more than six months but less than a year, the amount of severance payment shall be calculated the same as a full year of service; (ii) the term of service is less than six months, the employer shall pay half a month’s wage to the employee as severance payment; and (iii) the employee’s monthly wage is more than three times the local average monthly wage of the proceeding year announced by the local relevant PRC Government, the calculation of the severance payment will be based on a monthly wage equal to three times the average monthly wage multiplied by the number of years of service which cannot exceed a maximum of 12. A minimum wage requirement has also been incorporated into the PRC Labour Contract Law. Liability for damages or fines may be imposed for any material breach of the PRC Labour Contract Law. In addition, under the “Regulations on Paid Annual Leave for Employees” (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have continuously worked for more than one year are entitled to paid holidays ranging from 5 to 15 days, depending on their length of service. Employees who agree to waive their holiday time at the request of their employers must be compensated with three times their normal daily salary for each holiday waived. As a result of these PRC laws, rules and regulations, our labour costs have increased. There can be no assurance that any disputes, work stoppages or strikes will not arise in the future. Further, there can be no assurance that there will be additional or new labour laws, rules and regulations in the PRC, which may lead to potential increases in our labour costs and future disputes with our employees. In such events, our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

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

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

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

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

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

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

PRC laws, rules and regulations require that dividends be paid only out of the net profit calculated according to PRC generally accepted accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws, rules and

RISK FACTORS

regulations also require PRC-incorporated companies, such as our PRC subsidiaries, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

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

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

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

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

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

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

RISK FACTORS

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

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

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

Our production operations require significant and stable supplies of coke, water and electricity, the use of which will further increase substantially as we expand our production capacity. We had not experienced any coke, water and electricity shortage at our production facilities in the PRC during the Track Record Period. Given the increasing demand in the PRC amidst limited supply, shortages or suspensions of coke and utilities are not uncommon and we may not always have adequate supplies to meet our needs at our production facilities which if happen for a significant period of time may have an adverse effect on our business.

RISKS RELATING TO THE GLOBAL OFFERING

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

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

RISK FACTORS

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

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

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

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

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

The Offer Price of our Shares is higher than the net tangible assets per Share immediately before the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible assets to HK\$1.00 per Share as at 31 December 2010, based on the maximum Offer Price of HK\$2.38 per Share (without taking into account Shares that may be issued and allotted pursuant to the exercise of the Over-allotment Option, the Pre-IPO Share Options or the options which may be granted under the Share Option Scheme.) Purchasers of our Shares may experience dilution in the net tangible assets per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible assets per Share.

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

We have adopted the Pre-IPO Share Option Scheme under which we have granted options to subscribe for an aggregate of 7,500,000 Shares, representing 0.74% of our enlarged issued share capital as at the Listing Date if the Pre-IPO Share Options are exercised in full (assuming the Over-allotment Option and any options which may be granted under the Share Option Scheme are not

RISK FACTORS

exercised). We have also conditionally adopted the Share Option Scheme pursuant to which options may be granted after the Listing Date, subject to the provisions of the Share Option Scheme and the Listing Rules. Details of the Share Option Schemes are set out in “Share Option Schemes” in Appendix VI to this prospectus. Any exercise of the options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme will result in an increase in the number of Shares in issue, and may result in the dilution in the percentage of ownership of the Shareholders, the earnings per Share and net asset value per Share.

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

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

Facts and statistics from official sources contained in this prospectus are derived from various publicly available government official publications and generally believed to be reliable. However, we cannot guarantee the quality and reliability of these publications. Whilst our Directors and the Sponsor have taken reasonable care to ensure that the facts and statistics in this prospectus are accurately reproduced from other respective official sources, these facts and statistics have not been independently verified by us. Our Company, the Sponsor, the Underwriters, their respective directors and advisers or any other parties involved in the Global Offering do not make any representation as to the accuracy of any facts and statistics derived from government official publications which may not be consistent with other information and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics derived from government official publications may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

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

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