OVERVIEW

We are a leading manufacturer of automobile air-conditioning compressors in the PRC. According to the Ourview Report[(1)], we were the second largest PRC manufacturer of automobile air-conditioning compressors in 2010 in terms of production and sales volumes, and our production volume accounted for 16.5% of the entire PRC automobile air-conditioning compressor manufacturing industry in 2010. According to the same report, we were the largest PRC manufacturer of scroll automobile air-conditioning compressors in 2010, and our production volume represented 78.9% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2010. Our wholly-owned subsidiary, Aotecar Nanjing, has been listed as a "China Best Small & Medium-sized Enterprise"[(2)] (中國潛力企業) by Forbes magazine for three consecutive years since 2008. In 2010, our Aotecar brand was acknowledged as a "Well-known Trademark" (馳名商標) in the PRC.

Compressors are a key component of an automobile air-conditioning system. The scroll compressor is the latest generation compressor, and its production accounted for 21.0% of the total production of automobile air-conditioning compressors in the PRC in 2010. Earlier generations of compressors include the piston compressor, the swash plate compressor and the rotary vane compressor. Due to the development of new generations of compressors, the use of piston compressor is generally fading out from the PRC market. Both swash plate compressor and scroll compressor are suitable for use in various types of displacement vehicles, while the rotary vane compressor is more suitable for use in small-displacement vehicles. As compared with the swash plate compressor, the scroll compressor has the benefits of higher cooling efficiency and volume ratio, lighter weight and lower power consumption, and its market share in the PRC increased from 1.9% in 2002 to 21.0% in 2010 in terms of production volume according to the Ourview Report. According to the same report, scroll compressors are not only widely used in traditional gasoline and diesel engine vehicles, they are especially suitable for use in electric vehicles as well. According to the PRC national standard for "Automobile Air-conditioning Electrically Driven Compressor Assembly" (汽車空調用電動壓縮機總成), an electrically driven compressor used in vehicles should comprise both a scroll compressor and an electric motor.

Currently, there are more than 100 automobile air-conditioning compressor manufacturers in the PRC and the production of scroll air-conditioning compressors only accounted for 21.0% of the total PRC market in 2010 in terms of production volume. Since scroll compressors represent the latest generation in the automobile air-conditioning compressor industry, the current penetration rate is still considered to be low and it is expected that it will take time for the automobile manufacturers to switch to the use of scroll air-conditioning compressors in the production of their automobiles.

Notes:

(1) The Ourview Report was issued by Ourview Consultancy, an independent third party, set up in 2004 and headquartered in Beijing. Ourview Consultancy is one of the PRC consultancy firms specialising in market research relating to automobile parts and automobile electronics products in the PRC. We engaged Ourview Consultancy to conduct relevant market research and analyses and prepare the Ourview Report. The Ourview Report data was compiled on the following bases: i) first hand interviews; ii) data from governmental departments, associations and organisations; iii) public publications; and iv) previous data collected by Ourview Consultancy. In connection with our engagement of the Ourview Consultancy, we paid a service fee of RMB84,000. Such payment was neither contingent on our successful Listing nor conditional upon any of the results that were set out in the Ourview Report. The Ourview Report covers analyses of more than 20 foreign, Sino-foreign and domestic PRC automobile air-conditioning compressor manufacturers.

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

Our Group currently supplies automobile air-conditioning compressors to leading PRC automobile manufacturers. The major customers of our automobile air-conditioning compressors include BYD, Chery, Geely, Brilliance and Foton, being among the top ten self-owned automobile brands in the PRC, which, in aggregate, accounted for 32.9%, 36.8% and 34.0% respectively of our total revenue for the three years ended 31 December 2008, 2009 and 2010, and foreign joint venture automobile brands, such as DPCA, NAVECO and SGMW. Amongst our customers, Chery, DPCA, SGMW and NAVECO which were not our top five customers during the Track Record Period, in aggregate, accounted for 5.8%, 4.4% and 5.2% respectively of our total revenue for the three years ended 31 December 2008, 2009 and 2010. As at the Latest Practicable Date, we did not have sufficient industry information on whether we were the sole supplier to any of our customers.

According to the Ourview Report, our Group together with the second and the third largest scroll air-conditioning compressor manufacturers in the PRC accounted for a total of 93.7% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2010. The second largest scroll automobile air-conditioning compressor manufacturer in the PRC is a wholly foreign-owned enterprise based in Guangdong Province and its production volume accounted for 11.6% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2010. The third largest scroll automobile air-conditioning compressor manufacturer in the PRC is a wholly foreign-owned enterprise based in Jiangsu Province, and its production volume accounted for 3.2% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2010. There were also other smaller players in the market but each of their respective production volumes accounted for not more than 2.0% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2010 according to the Ourview Report. According to the same report, the production volumes of the second and the third largest scroll air-conditioning compressors manufacturers in the PRC were 420,000 sets and 115,000 sets, respectively, in 2010, which was considerably less than the 2.9 million sets manufactured by the Group in 2010.

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

	Our Group					
	Year ended 31 December					
	2008		**2009**		**2010**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Scroll compressors						
– 066 series	116,827	30.9	241,850	30.3	321,834	25.8
– 086 series	133,875	35.4	266,076	33.4	441,589	35.5
– 106 series	74,212	19.6	172,089	21.6	258,766	20.8
– electric scroll compressors	152	0.0	1,171	0.1	3,507	0.3
Other compressors	15,391	4.1	18,049	2.3	24,691	2.0
Total compressors	340,457	90.0	699,235	87.7	1,050,387	84.4
Others [(1)]	37,930	10.0	97,791	12.3	194,202	15.6
Total	378,387	100.0	797,026	100.0	1,244,589	100.0

Note:

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

For the three years ended 31 December 2008, 2009 and 2010, our revenue generated from the sales of 086 series accounted for 35.4%, 33.4% and 35.5% of our total revenue respectively. The proportion of our revenue from the sales of 066 series scroll compressors showed a decreasing trend for the three years ended 31 December 2008, 2009 and 2010, representing 30.9%, 30.3% and 25.8% of our total revenue respectively. Our revenue from the sales of 106 series scroll compressors represents 19.6%, 21.6% and 20.8% of our total revenue respectively for the three years ended 31 December 2008, 2009 and 2010. The fluctuations of our revenue by product mix during the Track Record Period were relatively moderate and were attributable to the changes in demand of our customers. 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 following table shows our sales volume and average selling prices during the Track Record Period:

	Our Group					
	Year ended 31 December					
	2008		2009		2010	
	Sales volume (set)	Average selling price (RMB/set)	Sales volume (set)	Average selling price (RMB/set)	Sales volume (set)	Average selling price (RMB/set)
Compressors	820,110	415.1	1,796,268	389.3	2,760,570	380.5

The sales volume of our Group increased by 119.0% between the years ended 31 December 2008 and 2009 and by 53.7% between the years ended 31 December 2009 and 2010. The increase was attributable to:

- increased demand from a number of our key customers (for details, please refer to "Business – Sales and marketing – Customers" in this prospectus) for our major products during the Track Record Period;
- the increase in our production capacity during the Track Record Period following the commencement of production in our New Production Base in 2009 to fulfil the increasing demand for our products resulting in the increased sales volume;
- our competitive pricing and the enhancement of our product quality stimulated sales volume growth during the Track Record Period; and
- growth in market demand of the PRC automobile air-conditioning compressors during the Track Record Period.

The average selling price 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 attributable to the requests from customers to reduce prices from time to time since we operate in a competitive industry. The Group

normally negotiates with the customers on the prices of the products once or twice a year and at that time, some of our customers would require us to adjust the selling prices in order to reflect the general market rate which was decreasing over the Track Record Period. Upon receiving such requests, we would have internal discussions, which would involve our general manager, on whether we would be able to meet such requests without compromising our profitability. The most recent requests we received from such customers for adjusting our selling prices were in March 2011, and we were able to meet our customers' requests without compromising our gross profit margin due to economies of scale and effective cost control. Notwithstanding the decrease in average selling price, we were able to maintain steady gross profit margins at 25.2%, 26.6% and 26.6% respectively during the Track Record Period.

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

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

Type of Customers	**Our Group**					
	Year ended 31 December					
	2008		**2009**		**2010**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Automobile manufacturers	254,109	67.2	468,860	58.8	700,695	56.3
Air-conditioning system suppliers	67,584	17.9	212,245	26.6	307,286	24.7
Automobile part distributors	40,238	10.6	82,369	10.4	160,221	12.9
Others	16,456	4.3	33,552	4.2	76,387	6.1
Total	378,387	100.0	797,026	100.0	1,244,589	100.0

For the year ended 31 December 2010, most of our revenues were generated from 49 automobile manufacturers, 40 air-conditioning system suppliers and 117 automobile part distributors.

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

	Our Group					
	Year ended 31 December					
	2008		**2009**		**2010**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic sales	373,592	98.7	785,822	98.6	1,215,767	97.7
Overseas sales	4,795	1.3	11,204	1.4	28,822	2.3
Total	378,387	100.0	797,026	100.0	1,244,589	100.0

As at the Latest Practicable Date, we had 39 sales and marketing personnel in different teams for external liaison and internal coordination.

According to the information published by CAAM, the PRC automobile production for the year ended 31 December 2010 amounted to 18.3 million units, representing an increase of 32.4% over the year ended 31 December 2009. For the year ended 31 December 2010, the sales volume of our Group amounted to 2.8 million units, representing an increase of 53.7% over the year ended 31 December 2009. Given our recent production levels, and in light of government support to boost demand for the new energy vehicles sector (please refer to "Industry Overview – New energy automobile" in this prospectus for government support policies), which is the future focus of the automobile market and one of our competitive strengths, together with our own proprietary technologies, our robust growth in production capacity, stringent cost control and experienced management team as set out in "Business – Competitive strengths" in this prospectus, we believe our Group will continue to grow and maintain its leading position as a supplier of automobile air-conditioning compressors to leading automobile manufacturers.

We put emphasis on our R&D. As at the Latest Practicable Date, our R&D team has more than 60 members, of whom over 80% have received tertiary education. We developed our own proprietary technologies and have 46 registered patents, seven of which are invention patents as at the Latest Practicable Date. Our technologies, though not absolutely unique, have contributed to the current market position of the Group. We have been accredited by the Jiangsu Provincial government authorities and the Jiangsu Department of Science and Technology with the titles of "High and New Technology Enterprise" (高新技術企業) and the "Jiangsu Province Research Centre for Environmental and Energy-efficient Vehicle Air-conditioning Compressor Engineering Technology" (江蘇省節能環保汽車空調壓縮機工程技術研究中心). We have obtained the copyright in "Aotecar scroll compressor process simulation software V1.0" (奧特佳渦旋壓縮機過程模擬軟件V1.0). Furthermore, we have been approved by the National TC238 on Refrigerating & Air-conditioning Equipment of Standardisation of China (全國冷凍空調設備標準化技術委員會), an institute authorised by the PRC Standardisation Administration[(1)], as the key drafting organisation for the national standards for "Scroll Automobile Air-conditioning Compressors for use in Small-displacement Vehicles" (汽車空調用小排量渦旋壓縮機), which are expected to be published in mid 2011 as the relevant national standards in the PRC. We are conscious of the keen competition from existing market players and will continue our efforts in strengthening our R&D capabilities in order to maintain our competitiveness in the industry.

Our two production bases (the Old Production Base and the New Production Base) are located in Nanjing, Jiangsu Province, with an aggregate annual production capacity of 2.9 million sets of compressors as at 31 December 2010 and we expect that our annual production capacity will reach 4.0 million sets by July 2011 following completion of the expansion of the New Production Base. We pursue "lean production" and target "zero defect" as our quality goal. After obtaining certification from CCCAP for our compressors in 2001, we obtained the ISO/TS 16949:2002 system certification in 2003, as a result of our design, manufacture and implementation of the quality control system for our automobile air-conditioning compressors. We are able to satisfy the product quality expectations of our customers by responding swiftly to quality control queries and continuously improving our quality control measures.

Note:

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

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

	Estimated Production Capacity *('000 sets)*			**Actual Production Volume** *('000 sets)*			**Utilisation Rate** *(%)*	
	Old Production Base	New Production Base	Total	Old Production Base	New Production Base	Total	Old Production Base	New Production Base
31 December 2008	984	—	984	869	—	869	88.3	—
31 December 2009	1,256	620	1,876	1,294	576	1,870	103.0	92.9
31 December 2010	1,269	1,618	2,887	1,275	1,617	2,892	100.5	99.9

We achieved strong and continued growth in production, revenue and profit in the past few years as a result of the strengthening of our R&D capabilities and our broadening customer base. Our production has grown to 2.9 million sets in 2010 from 0.9 million sets in 2008, representing a CAGR of 82.4%, which was much higher than the growth in the overall industry (according to the Ourview Report, the CAGR of the PRC automobile air-conditioning compressor production was 39.0% over the same period). Our total revenue increased from RMB378.4 million in 2008 to RMB1,244.6 million in 2010 with a CAGR of 81.4%, and our profit increased from RMB31.0 million in 2008 to RMB148.7 million in 2010 with a CAGR of 119.1%. We believe that the fast-paced growth of our business has enabled us to consolidate our leading position in the industry, enhance our relationships with our customers and strengthen our R&D capability.

COMPETITIVE STRENGTHS

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

According to the Ourview Report, we were the second largest PRC manufacturer of automobile air-conditioning compressors in 2010 in terms of production and sales volumes, and our production volume accounted for 16.5% of the entire PRC automobile air-conditioning compressor manufacturing industry in 2010. According to the same report, we were the largest PRC manufacturer of scroll automobile air-conditioning compressors in 2010, and our production volume represented 78.9% of the entire PRC scroll automobile air-conditioning compressor manufacturing industry in 2010. In 2010, our Aotecar brand was acknowledged as a "Well-known Trademark" (馳名商標) in the PRC.

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

Note:

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

Advanced products and technologies

As our primary product, the scroll compressor represents the latest generation of the technology which went to market in the late 1990s. Its market share in the PRC automobile market, in terms of production volume, was 21.0% in 2010. Compared with the previous three generations (namely, the piston compressor, the swash plate compressor and the rotary vane compressor), the scroll compressor has the benefits of higher energy efficiency, lower starting torque, lower noise levels and being lighter weight. Not only are they widely used in traditional gasoline and diesel engines vehicles, they are also especially suitable for use in electric vehicles. According to the national standard for "Automobile Air-conditioning Electrically Driven Compressor Assembly" (汽車空調用電動壓縮機總成), an electric compressor should comprise both a scroll compressor and an electric motor. We have patents for our products and have accumulated strong expertise and experience in relation to our products and industry.

We commenced our R&D for the electric vehicle air-conditioning compressor in 2006. In 2009, our "Electric Hermetic Scroll Compressor Industrialisation for use in Hybrid Electric Vehicles" (混合動力車用電動全封閉渦旋式壓縮機產業化) project was approved by the Jiangsu Province Science and Technology Department to receive a special grant from the Ministry of Finance for the commercialisation of technological advancements. The project aims to ameliorate the imperfect mechanisms in the electric hermetic scroll compressor in order to reduce its noise and thus vibration, its size and weight, to increase its displacement level and to simplify its installation procedures. The project commenced in October 2009 and is scheduled to complete in September 2012. As at 31 December 2010 and the Latest Practicable Date, our Group had received various subsidies totalling RMB4.6 million and RMB6.9 million, respectively, for this project. We shall continue receiving the remaining subsidies as we complete the phases of work in accordance with the agreed schedule. The grant may cease or we may be required to return the grant if we fail to comply with the agreed terms in the project unless in circumstances beyond our control. As at the Latest Practicable Date, we had duly followed the agreed schedule. In 2010, we received an invention patent for "High efficiency low noise electric vehicle scroll compressor" (電動汽車用高效低噪渦旋式壓縮機).

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

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

Due to our technological advantages, high product quality, competitive pricing (when compared with the earlier generations of automobile air-conditioning compressors due to fewer production parts and the effect from economies of scale) and market responsiveness, our Group has become a supplier to the top self-owned automobile brands (such as BYD, Chery, Geely, Brilliance and Foton) and Sino-foreign joint venture automobile brands (such as DPCA, NAVECO and SGMW). More importantly, we have established business relationships with a majority of our top five customers for more than five years. In addition, we are seeking to extend sales to international brands and having passed FIAT's quality management system assessment, have become one of its

potential suppliers. We have also been awarded by many of our customers as their "Excellent Supplier" (優秀供應商).

According to the Ourview Report, the market share of the self-owned automobile brands increased from 24.1% in 2005 to 46.1% in 2010. As some of the self-owned automobile brands, including BYD and Geely, are our core customers, our Directors believe that the future development of the self-owned automobile brands will continue to benefit the growth of our Group.

Strong R&D capabilities

As at the Latest Practicable Date, our Group had 46 registered patents, including seven invention patents. Our strong R&D capabilities comprise: i) an R&D team with more than 60 R&D employees and the key employees have rich experience; ii) comprehensive in-house R&D facilities including the copyright in our "Aotecar scroll compressor process simulation software V1.0" (奧特佳渦旋壓縮機過程模擬軟件V1.0); and iii) our Group had collaborated with Purdue University in the US. The collaboration between Aotecar Nanjing and Purdue University was a one-year research project from 1 January 2002 to 31 December 2002 carried out at Purdue University under the sponsorship of Aotecar Nanjing at a cost of US$79,193.0 for developing a modeling tool for one of the Company's automotive scroll compressors. Save for the two research papers entitled "Modeling and Testing of an automobile AC Scroll Compressor" published by and of which copyright jointly owned by Aotecar Nanjing and Purdue University, there was no invention or copyrightable material that had been developed or published from the project at Purdue University.

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

We have received financial support from different levels of the PRC Government for our product development. During the Track Record Period, we received subsidies of RMB8.4 million in total from relevant government authorities.

Cost advantages

We have adopted a platform-based design approach in which we consider factors of cost, broadening product use and the proportion of simple-structured common parts at the design stage. Our Group has maintained a very high capacity utilisation rate during the Track Record Period. At the same time, our average purchasing costs and fixed costs have reduced as our scale has increased. Moreover, with our own intellectual property rights, we do not need to pay technology transfer fees.

For these reasons, our Group enjoys certain cost advantages in the industry and our Directors believe that our Group will be able to further maintain our cost advantages.

Advanced production facilities and measures

As the largest scroll automobile air-conditioning compressor manufacturer in PRC in terms of production volume in 2010, we have accumulated more than 10 years of manufacturing experience and have developed comprehensive measures for mass production. We have over 400 sets of advanced computer numerically controlled production equipment and two imported intelligent assembly lines at our two production bases. We believe that our production equipment and experience can help us to better control our product quality and production costs. Our production capacity will increase from 2.9 million sets to 4.0 million sets upon completion of our expansion project at our New Production Base by July 2011. Our Directors believe that our advanced production equipment and extensive manufacturing experience have greatly contributed to our success in the industry.

Stringent quality control

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

Experienced, stable and committed management team

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

BUSINESS STRATEGIES

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

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

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

Strengthening our R&D capabilities

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

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

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

Increasing our investment in electric vehicle air-conditioning compressors

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

Increasing our production capacities

To increase our production capacities, we are in the course of expanding our New Production Base. We estimate that the new production facilities will commence operations by July 2011 and our overall annual production capacity will increase from 2.9 million sets currently to 4.0 million sets of compressors. We will use 24.8% of the net proceeds of the Global Offering (assuming the Offer Price is determined at the midpoint of the indicative Offer Price range and the Over-allotment Option is not exercised) for the capacity expansion plans of our New Production Base (please refer to "Future Plans and Use of Proceeds" in this prospectus). In light of the information published by CAAM showing the increase of 32.4% in PRC automobile production for the year ended 31 December 2010 as compared to the year ended 31 December 2009, the government support to boost demand for new energy vehicles sector and our competitive strengths, including our own proprietary technologies and stringent cost control, which accounted for the Company's continued growth in revenue during the Track Record Period, the Directors believe that there should be strong demand for the Company's products in the implementation of new production capacity.

Maintaining our cost advantages

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

Gradually expanding our sales in overseas markets

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

PRINCIPAL PRODUCTS

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

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

The following table sets forth our major product series:

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

PRODUCTION FACILITIES AND PRODUCTION CAPACITY

We have two production bases in the Jiangsu Province, namely the Old Production Base and the New Production Base, which have aggregate gross floor areas of 21,279.1 sq.m. and 50,989.0 sq.m. (26,057.8 sq.m. of which is under construction as at the Latest Practicable Date) and site areas of 27,707.5 sq.m. and 82,843.8 sq.m., respectively. The Group also manufactures assembly parts for our compressor production through Aotecar Casting, our joint capital company.

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

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

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

	Estimated Production Capacity[1] *('000 sets)*			**Actual Production Volume[2]** *('000 sets)*			**Utilisation Rate[3]** *(%)*	
	Old Production Base	New Production Base	Total	Old Production Base	New Production Base	Total	Old Production Base	New Production Base
31 December 2008	984	—	984	869	—	869	88.3	—
31 December 2009	1,256[4]	620[4]	1,876	1,294	576[4]	1,870	103.0[6]	92.9
31 December 2010	1,269[5]	1,618[5]	2,887	1,275	1,617	2,892	100.5[6]	99.9

Notes:

(1) The estimated production capacity is determined based on the analysis and figures of actual production volume of the highest output month in the relevant year. The production capacity as set out in the above table is an estimation calculated on the aforesaid basis and hence may not truly reflect the capacity of our production facilities in reality.

(2) The actual production volume refers to the actual number of compressors produced in the relevant year.

(3) Utilisation rate is derived by dividing the actual production volume by the estimated production capacity.

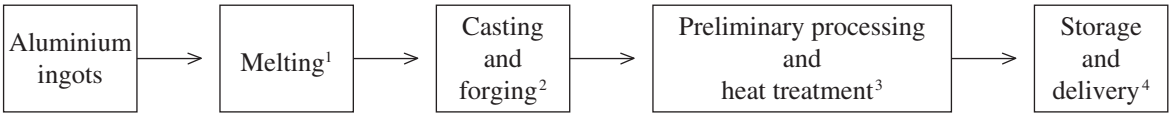
(4) Our New Production Base commenced operation in March 2009. The estimated production capacity and actual production volume for the New Production Base are calculated from the commencement of operation in that year. Given the transition to our New Production Base, we have used a basis for calculating estimated production capacity which is different from 2008 to allow for fluctuations in production capacity arising from the transition to the New Production Base. The estimated production capacity of our Old Production Base for 2009 was calculated by taking the total of (i) the average of the highest and lowest output months' production for the first half of 2009 and multiplying that average by six and (ii) the average of the highest and lowest output months' production for the second half of 2009 and multiplying that average by six. The estimated production capacity of the New Production base for 2009 was calculated by taking the total of (i) the average of the highest and lowest output months' production for April to June of 2009 and multiplying that average by three and (ii) the average of the highest and lowest output months' production for the second half of 2009 and multiplying that average by six.

(5) The estimated production capacity of the Old Production Base and New Production Base for 2010 were calculated by taking the total of (i) the average of the highest and lowest output months' production for the first half of 2010 and multiplying that average by six and (ii) the average of the highest and lowest output months' production for the second half of 2010 and multiplying that average by six.

(6) Utilisation rate over 100% represented over-time operation of the production base.

PRODUCTION PROCESSES

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



Notes:

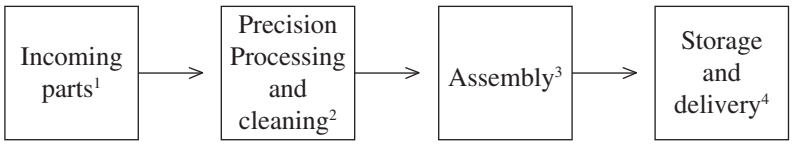
(1) Aluminium ingots are melted in coal-fuelled furnaces.

(2) Melted aluminium is casted and forged into different production parts (i.e. brake discs, static plates, cases and front end covers) by casting stoves and forging machines.

(3) Production parts undergo preliminary processing such as cutting of ragged ends and heat treatment to improve their quality.

(4) Parts are stored and delivered for our compressor production.

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



Notes:

(1) Incoming materials are inspected on a sampling basis and substandard materials will be returned to the suppliers.

(2) Blank parts (i.e. brake discs, static plates, cases and front end covers) undergo a series of processing such as cutting and punching with numerical control machines. Quality checks are performed during the processing stage. Processed parts are cleaned before passing to assembly.

(3) Processed parts are assembled into compressors on our assembly lines. Quality checks are performed automatically by testing facilities.

(4) Our Group will perform key indicators testing (i.e. testing on cooling capacity, crankshaft power and energy efficiency ratio) for all of our compressor products and have automatic work stations equipped with testing equipment to perform quality checks on all of our outputs to ensure its quality. Depending on product specifications, delivery lead time of our compressors is typically seven to nine days.

QUALITY CONTROL

We have implemented systematic quality control measures throughout our production processes. As at the Latest Practicable Date, our quality control department comprised more than 130 quality management and testing personnel. The head of this department is Mr. Zhao Chengzhou, who obtained an associate's degree from the Workers' University of Northwest Machinery Factory (西北機器廠職工大學) in 1983. He completed his undergraduate studies in machinery design and manufacturing from Mechanical Engineering Continuing Education University (機械工程師進修大學) in 1987. Mr. Zhao has been in charge of our quality control department since 2004.

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

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

Quality control in the design and R&D processes

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

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

Quality control of raw materials, parts and components

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

Quality control in the production process

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

Quality control in the product application process

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

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

During the Track Record Period, the provision of our Group (as the case may be) 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.

PRODUCTION LICENCE

We failed to obtain a production licence for the production plant of Aotecar Xiangyun between March 2009 upon its commencement of production and July 2010. The maximum fine/penalty would be confiscation of products so produced and the resulting income gained and a fine of up to three times the value of the manufactured products. In the event that the administrative penalties were imposed on the Group in any particular financial year, the Group's profits in that particular financial year would be materially affected. There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us. However, on the basis that (i) Aotecar Xiangyun had properly rectified its non-compliance by obtaining a valid production licence on 2 July 2010, (ii) the Nanjing Bureau of Quality and Technical Supervision (南京市質量技術監督局), being the competent authority, confirmed in writing on 27 January 2011 that Aotecar Xiangyun is in compliance with the laws and regulations in connection with the production licence and administration of product quality, and Aotecar Xiangyun's products are in line with the relevant national quality standards, and (iii) the competent authority had actual knowledge that Aotecar Xiangyun had once conducted production prior to the obtaining of the said production licence, our PRC Legal Advisers advised that the risk of any fine and penalty in relation to the above historical non-compliance is low, and as such our Directors consider that such historical non-compliance would not have any operational and financial impacts on the Group. Please refer to "Regulatory Overview – Production licence of industrial products and implementation procedures" in this prospectus for details about the production licences related to our products of Aotecar Nanjing and Aotecar Xiangyun.

RESEARCH AND DEVELOPMENT

We put emphasis on our R&D. As at the Latest Practicable Date, our R&D team had more than 60 members, of whom over 80% had received tertiary education. We developed our own proprietary technologies and have 46 registered patents, seven of which are invention patents as at the Latest Practicable Date. Our technologies, though not absolutely unique, has contributed to the current market position of the Group. We have been accredited with the titles of "High and New Technology Enterprise" (高新技術企業) and the "Jiangsu Province Research Centre for Environmental and Energy-efficient Vehicle Air-conditioning Compressor Engineering Technology" (江蘇省節能環保汽車空調壓縮機工程技術研究中心). We have obtained the copyright in "Aotecar scroll compressor process simulation software V1.0" (奧特佳渦旋壓縮機過程模擬軟件V1.0). Furthermore, we have been approved by the National TC238 on Refrigerating & Air-conditioning Equipment of Standardisation of China (全國冷凍空調設備標準化技術委員會), an institute authorised by the PRC Standardisation Administration, as the key drafting organisation for the national standards for "Scroll Automobile Air-conditioning Compressors for use in Small-displacement Vehicles" (汽車空調用小排量渦旋壓縮機), which are expected to be published in mid 2011 as the relevant national standards in the PRC. We are conscious of the keen competition for existing market plans and will continue our efforts in strengthening our R&D capabilities in order to maintain our competitiveness in the industry. Please refer to "Further information about the business – Our intellectual property rights" in Appendix VI in this prospectus for further details on our patents and other intellectual property rights.

We have adopted the following R&D strategies:

(i) to expand product categories and specifications

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

We began to develop the electric vehicle air-conditioning compressor in 2006 and commenced sales in 2008, which created advantages for us as the first comer to the electric vehicles market. According to the Ourview Report, we were the largest manufacturer of air-conditioning compressors for electric vehicles in the PRC in 2010 in terms of production volume. Our Directors believe that with increasing awareness of environmental protection, automobile manufacturers will shift their focus to electric vehicles resulting in greater demand for our electric scroll compressors.

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

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

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

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

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

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

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

We believe that successful R&D is crucial for us to stay competitive in the industry. As such, we have been increasing our R&D expenses and have dedicated RMB1.9 million, RMB3.0 million and RMB7.6 million during the Track Record Period. We intend to continue increasing the R&D expenses and enhancing our R&D capabilities by using 5.0% of the net proceeds from the Global Offering (assuming the Offer Price is determined at the midpoint of the indicative Offer Price range and the Over-allotment Option is not exercised).

PROCUREMENT AND SUPPLIES

Raw materials, parts and components

We procure raw materials and parts for our production, such as aluminium, which is the main raw material of our products. We source our supplies mainly from domestic suppliers, in particular, we have sourced our aluminium ingots from a single supplier, namely Nanjing Yunhai since 1 January 2009. As Nanjing Yunhai is a Shenzhen-listed company situated in Nanjing, it is capable of providing us with quality aluminium at lower transportation cost. We do not have fixed-term supply agreement with Nanjing Yunhai. The amount of aluminium we purchased from Nanjing Yunhai was RMB54.0 million and RMB108.2 million for the two years ended 31 December 2009 and 2010. As there are abundant aluminium ingot suppliers in the PRC, we have also shortlisted six suppliers, from which we can order aluminium ingots if necessary.

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

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

	Our Group					
	Year ended 31 December					
	2008		2009		2010	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Aluminium parts and components	72,012	28.6	94,834	18.0	132,463	16.3
Aluminium ingots	–	–	45,902	8.7	87,711	10.8
Clutches and crankshafts	83,794	33.2	182,888	34.8	269,384	33.0
Others [(1)]	96,105	38.2	202,146	38.5	325,335	39.9
Total	251,911	100.0	525,770	100.0	814,893	100.0

Note:

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

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

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

During the Track Record Period, the single largest supplier of our Group accounted for 13.1%, 12.7% and 12.1%, respectively of our total purchases, and the five largest suppliers of our Group together accounted for 45.4%, 41.5% and 40.9%, respectively, of our total purchases. Our relationship with our top five suppliers are generally two to nine years and they mainly supplied aluminium parts and components, aluminium ingots and clutches to us.

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

Fuels and utilities

We incurred expenses in the amount of RMB3.3 million, RMB9.7 million and RMB19.5 million for coke, electricity, water and other supplies, respectively, representing 1.2%, 1.7% and 2.1%, respectively, of the total cost of sales of our Group during the Track Record Period.

We are able to meet fuel and utilities requirements for production by sourcing from domestic suppliers. We currently source coke which we use in the production process of parts by Aotecar Casting from independent PRC distributors. We source our electricity supply from the State-owned

local power grid and our water supply from an independent local water supplier for our manufacturing operations as well as for domestic use. During the Track Record Period, we did not experience any difficulties in sourcing fuel and utility supplies which adversely affected our operations.

INVENTORY MANAGEMENT

Our inventory mainly comprises raw materials, parts, work in progress and finished goods. Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

We have a strict inventory management system and comprehensive warehousing management procedures. There is close coordination among our production, sales and marketing, raw materials procurement and storage departments. They meet daily to monitor our inventory level and to plan production levels. Our inventory management is carried out at our logistics centre and warehouses. We also maintain a database which enables us to monitor our inventory turnover in our warehouses on real-time basis. Upon receipt, inventory will be properly labelled and corresponding data will be updated. We check quantities, specifications, appearance and the packaging condition of finished goods before storage. We retrieve our inventory on a first-in-first-out principle and proper approvals are required for inventory retrievals. We also conduct annual stocktake at year ends.

We usually engage independent third party logistics companies and have maintained a certain level of stock with them. As the warehouses of the independent third party logistics companies are located near to our customers, it would facilitate prompt delivery of our products to our customers. To provide better service to our customers, we have also maintained a minimum inventory at the production sites of our major customers to facilitate their normal production. Our inventory maintained with our third party logistics companies and production sites of our major customers was valued at RMB51.1 million as at 31 December 2010. We have right to access to our major customers' database to monitor our stock level with them. As to our inventories in the independent third party logistics companies, we conduct regular checks and annual stocktake on these external inventories and the third party logistics companies would keep records of the consumption of our inventory maintained with them and report the balance to us at least twice every week in order to ensure the accuracy of our records, and depending on our relationship with our customers, we issue invoices once or twice per month.

Owing to the above measures and close coordination between various departments, our inventory turnover is well managed. During the Track Record Period, we had not encountered any

material issue in relation to the inventory and no provision has been made. The average inventory turnover of our Group for the three years ended 31 December 2010 were 100, 62 and 55 days, respectively.

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

SALES AND MARKETING

Sales

As at the Latest Practicable Date, we had 39 sales and marketing personnel grouped in different teams for external liaison and internal coordination.

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

Our overseas sales recorded significant growth from 2008 to 2010. Our Directors believe that with more global automobile manufacturers' increasing purchases of parts from the PRC and the continuous improvement of our product quality, our overseas sales will continue to grow in the future. Please refer to the "Business – Marketing activities" in this prospectus for the activities we have undertaken in order to increase our overseas orders.

Our revenue primarily derived from our 066, 086 and 106 series products, which accounted for 82.1% of our total revenue in 2010. Our sales of electric scroll compressors have been growing quickly although the number of sales was still small during the Track Record Period. Our Directors believe that as a result of the growing emphasis on environmental protection, electric vehicles will become the focus of the automobile industry in the future leading to a rising demand for our electric scroll compressors.

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

	Our Group					
	Year ended 31 December					
	2008		2009		2010	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic sales	373,592	98.7	785,822	98.6	1,215,767	97.7
Overseas sales	4,795	1.3	11,204	1.4	28,822	2.3
Total	378,387	100.0	797,026	100.0	1,244,589	100.0

Our sales pattern and our revenue during the Track Record Period were generally not subject to seasonal variations.

Customers

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

Our customers include most of the leading domestic automobile brands such as BYD, Geely, Brilliance and Foton, and certain Sino-foreign joint-venture automobile brands, such as DPCA, NAVECO and SGMW. During the Track Record Period, our five largest customers were all automobile manufacturers, except one which was an air-conditioning system supplier. The average years of our relationship with those five largest customers as at 31 December 2010 ranges from five to nine years. By leveraging on our reputation in the PRC market and improving our quality standard, we are now gradually expanding into the overseas market. We usually sign framework agreements with our major customers. Purchase orders with precise volumes are placed on a monthly basis.

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

For the year ended	Number of distributors	Number of newly appointed distributors	Number of distributors that had ceased relationship with us[1]
31 December 2008	85	47	41
31 December 2009	118	62	29
31 December 2010	117	52	53

Note:

(1) *The distributors that had ceased relationship with us were mainly those distributors who placed relatively small amount of orders with us. We believe the main reason for the ceased relationship is due to the fact that most of our technological supports had been directed to those distributors that placed large amount of orders with us for more efficient resources management and that factors such as the business model, the development strategy, the sales performance and internal resources of the distributors were also considered by them when they ceased relationship with us.*

We normally enter into a one-year contract with them under which they place orders with us on a monthly basis and for some of our distributors, we set an annual sales commitment. During the Track Record Period, the maximum annual sales commitment we had set for the distributors was 80,000 sets or RMB40.0 million. We were entitled to terminate our contracts with those distributors which failed to meet the sales commitment. However, the Directors confirmed that, no action had been taken against the distributors which failed to meet the requirement during the Track Record Period. Generally, our distributors settled the payment before delivery. Depending on our relationship with our distributors, the maximum credit period we had given to our distributors was 90 days. We may also require a deposit, depending on the customer's relationship with us, as a guarantee for their orders. These agreements typically provide a warranty on our products for one year. Under the warranty, we agree to repair and replace defective products and to provide a refund to customers if the defective products are not replaceable. We have set up a sales network and started to use the "Alibaba" business platform as the after-sales window so that customers can

conduct online real time procurement and communication with us. We have obtained all relevant approvals or licences for our sales network on "Alibaba".

During the Track Record Period, sales to the five largest customers of our Group, in aggregate, accounted for 47.1%, 49.0% and 47.2%, of our Group's total sales revenue, respectively, and sales to the largest customer of our Group accounted for 17.4%, 17.7%, and 13.3%, of our Group's total sales revenue, respectively. None of our Directors or their associates, or any Shareholders who own more than 5% of our issued share capital, had, to the best of our Directors' knowledge, any interest in any of our five largest customers during the Track Record Period.

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

Type of Customers	**Our Group**					
	Year ended 31 December					
	2008		**2009**		**2010**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Automobile manufacturers	254,109	67.2	468,860	58.8	700,695	56.3
Air-conditioning system suppliers	67,584	17.9	212,245	26.6	307,286	24.7
Automobile part distributors	40,238	10.6	82,369	10.4	160,221	12.9
Others	16,456	4.3	33,552	4.2	76,387	6.1
Total	378,387	100.0	797,026	100.0	1,244,589	100.0

For the year ended 31 December 2010, most of our revenues were generated from 49 automobile manufacturers, 40 air-conditioning system suppliers and 117 automobile part distributors.

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

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

A. Automobile manufacturers that are:

(a) domestic enterprises accounted for 91.0%, 92.5% and 91.2% of our total revenue generated by automobile manufacturers during the Track Record Period, respectively; and

(b) foreign-invested enterprises accounted for 9.0%, 7.5% and 8.8% of our total revenue generated by automobile manufacturers during the Track Record Period, respectively.

B. Air-conditioning system suppliers that are:

(a) domestic enterprises accounted for 73.8%, 72.6% and 81.6% of our total revenue generated by air-conditioning system suppliers during the Track Record Period, respectively; and

(b) foreign-invested enterprises accounted for: 26.2%, 27.4% and 18.4% of our total revenue generated by air-conditioning system suppliers during the Track Record Period, respectively.

C. Automobile part distributors located in:

(a) Eastern China[(1)] accounted for 46.8%, 48.0% and 51.8% of our total revenue generated by automobile part distributors during the Track Record Period, respectively;

(b) Northern China[(2)] accounted for 14.3%, 7.9% and 7.2% of our total revenue generated by automobile part distributors during the Track Record Period, respectively;

(c) Southwest China[(3)] accounted for 7.7%, 9.7% and 8.0% of our total revenue generated by automobile part distributors during the Track Record Period, respectively;

(d) Central and Southern China[(4)] accounted for 19.3%, 20.7% and 15.1% of our total revenue generated by automobile part distributors during the Track Record Period, respectively; and

(e) Overseas accounted for 11.9%, 13.6% and 17.9% of our total revenue generated by automobile part distributors during the Track Record Period, respectively.

Pricing policy and payment terms

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

Notes:

(1) Eastern China: Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province

(2) Northern China: Beijing, Tianjin, Hebei Province, Liaoning Province, Jilin Province, Shaanxi Province and Heilongjiang Province

(3) Southwest China: Chongqing, Sichuan Province and Guizhou Province

(4) Central and Southern China: Henan Province, Hubei Province, Hunan Province, Guangdong Province and Guangxi Autonomous Region

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

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

Marketing activities

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

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

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

AWARDS AND RECOGNITIONS

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

Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
Technology			
Acceptance Certificate for the Projects of State Innovation Fund for Technology Based Firms 科技型中小企業技術創新基金項目驗收合格	May 2002	Management Centre of Innovation Fund for Technology Based Firms of Ministry of Science 科學技術部科技型中小企業技術創新基金管理中心	Fluorine-free and environmental protection scroll automobile air-conditioning compressors (渦旋式無氟環保汽車空調壓縮機)
National Torch Project 國家級火炬計劃項目	July 2002	Ministry of Science for High-tech Torch Production Centre 科學技術部火炬高技術產業開發中心	Fluorine-free and environmental protection scroll automobile air-conditioning compressors (渦旋式無氟環保汽車空調壓縮機)
Gold Award for the 10th Chinese Symposium on New Patented Technology and Products 第十屆中國專利新技術新產品博覽會金獎	August 2002	Organizing Committee and Validation Committee for the 10th Chinese Symposium on New Patented Technology and Products 第十屆中國專利新技術新產品博覽會組織委員會及評審委員會	Aotecar Nanjing (Name of the patent: Variable scroll compressor using micro-motor valve to control its displacement) (以微電機調節閥控制排量的變排量渦旋壓縮機)
High and New Technology Products 高新技術產品	May 2003	Nanjing Science & Technology Bureau 南京市科學技術局	Fluorine-free and environmental protection scroll automobile air-conditioning compressors (渦旋式無氟環保汽車空調壓縮機)
Third Prize Science & Technology Progress of Nanjing 南京市科學技術進步三等獎	December 2004	The People's Government of Nanjing 南京市人民政府	Environmental protection scroll automobile air-conditioning compressors (WXH086) (WXH086環保渦旋式汽車空調壓縮機)

Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
Technology (Continued)			
Second Prize Science & Technology Progress of Jiangsu Province 江蘇省科學技術進步二等獎	2004	The People's Government of Jiangsu Province 江蘇省人民政府	Environmental protection scroll automobile air-conditioning compressors (WXH086) (WXH086環保渦旋式汽車空調壓縮機)
High and New Technology Products 高新技術產品	September 2005	Jiangsu Science and Technology Department 江蘇省科學技術廳	Scroll compressors for passenger vehicle air-conditioning (客車空調用渦旋式壓縮機)
High and New Technology Enterprise 高新技術企業	December 2007	Jiangsu Science and Technology Department 江蘇省科學技術廳	Aotecar Nanjing
Nanjing municipal automobile air-conditioning compressor engineering technology research centre 南京市渦旋式汽車空調壓縮機工程技術研究中心	September 2008	Nanjing Science and Technology Bureau 南京市科學技術局	Aotecar Nanjing
High and New Technology Enterprise 高新技術企業	October 2008	Jiangsu Science and Technology Department 江蘇省科學技術廳 Jiangsu Provincial Department of Finance 江蘇省財政廳 Jiangsu Provincial Office. SAT 江蘇省國家稅務局 Jiangsu Local Taxation Bureau 江蘇省地方稅務局	Aotecar Nanjing

Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
Technology (Continued)			
2008 Top 100 Enterprises with High Growth and Technology Innovation in Nanjing 二○○八年度南京市高成長科技創新型百優優秀企業	January 2009	Nanjing Municipal of the PRC Nanjing Municipal People's Government 中國南京市委南京市人民政府	Aotecar Nanjing
High and New Technology Products 高新技術產品	July 2009	Jiangsu Science and Technology Department 江蘇省科學技術廳	Electric and hermetic scroll compressors for hybrid vehicles (混合動力車用電動全封閉渦旋式壓縮機)
Jiangsu Province Research Centre for Environmental and Energy-efficient Vehicle Air-conditioning Compressor Engineering Technology 江蘇省節能環保汽車空調壓縮機工程技術研究中心	August 2009	Jiangsu Science and Technology Department 江蘇省科學技術廳	Aotecar Nanjing
Commercialisation of the new science & technology achievements in Jiangsu Province 江蘇省科技創新與成果轉化(重大科技成果轉化)專項引導資金項目	September 2009	Jiangsu Science and Technology Department and Jiangsu Department of Finance 江蘇省科學技術廳及江蘇省財政廳	Aotecar Nanjing and Aotecar Xiangyun (Commercialisation of electric and hermetic scroll compressors for hybrid vehicles 南京奧特佳及奧特佳祥雲混合動力車用電動全封閉渦旋式壓縮機產業化)
First Class Award of Science and Technology Progress Award (科技進步獎)	December 2010	All-China Federation of Industry & Commerce (中華全國工商業聯合會)	New Energy Automobile Scroll Electric Compressor (新能源車用渦旋電動壓縮機)
Second Prize Science and Technology of Jiangsu Province (江蘇省科學技術二等獎)	February 2011	Jiangsu Provincial People's Government 江蘇省人民政府	Aotecar Nanjing (New Energy Automobile Hermetic Scroll Compressors 新能源車用全封閉式渦旋式壓縮機)

Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
Quality			
Products with Trustworthy Quality in Nanjing 南京市質量信得過產品	August 2003	Nanjing Bureau of Quality and Technical Supervision 南京市質量技術監督局	Aotecar brand fluorine-free and environmental protection scroll automobile air-conditioning compressors (奧特佳牌渦旋式無氟環保汽車空調壓縮機)
Brilliant enterprise with good quality management in Jiangsu Province 江蘇省質量管理優秀企業	December 2005	Quality Management Association of Jiangsu Province 江蘇省質量管理協會	Aotecar Nanjing
Nanjing Municipal Quality Management Award 南京市質量管理獎	March 2008	Nanjing Municipal People's Government 南京市人民政府	Aotecar Nanjing
One of the drafting party for national standards for Scroll Automobile Air-conditioning Compressors for use in Small-displacement Vehicles 《汽車空調用小排量渦旋壓縮機》國家標準起草單位之一	2009	National TC238 on Refrigerating & Air-conditioning Equipment of Standardisation of China 全國冷凍空調設備標準化技術委員會	Aotecar Nanjing
ISO/TS 16949:2009	September 2009	Quality Austria Training Certification and Evaluation Ltd. 國際認證公司	Aotecar Nanjing
The National Industrial Production License 全國工業產品生產許可證	November 2009	General Administration of Quality Supervision and Quarantine 國家質量監督檢驗檢疫總局	Aotecar Nanjing
CCCAP Certification 汽車產品認證證書	December 2009	CCCAP 中汽認證中心	Aotecar Nanjing
Brand			
Credible Entity in Labour and Social Security in Nanjing City 南京市勞動和社會保障誠信單位	February 2006	Nanjing Labour and Society Security Bureau 南京市勞動和社會保障局	Aotecar Nanjing

Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
Brand (Continued)			
Famous Trademark in Nanjing City 南京市著名商標	December 2006	Nanjing Industry and Commerce Administration 南京市工商行政管理局	"ATC and Graphic" Trademark
Contract trustworthy enterprise of Nanjing City 南京市重合同守信用企業	2006	Nanjing Municipal People's Government 南京市人民政府	Aotecar Nanjing
Original Innovation Award in Chinese Auto Independent-Innovation Result Grand Ceremony 中國汽車自主創新成果大典原始創新獎	December 2006	China Automotive News 《中國汽車報》	Aotecar Nanjing
Advanced Technology Enterprise with Foreign Investment 外商投資先進技術企業	March 2007	Nanjing Foreign Trade and Economic Cooperation Bureau 南京市對外貿易經濟合作局	Aotecar Nanjing
China Best Small & Medium-sized Enterprises 2008 2008中國潛力企業	January 2008	Forbes Magazine 《福布斯》雜誌	Aotecar Nanjing
Nanjing Famous Product 南京名牌產品	January 2005 and March 2008	Nanjing Municipal People's Government 南京市人民政府	Aotecar brand fluorine-free scroll automobile air-conditioning compressors (奧特佳牌渦旋式無氟環保汽車空調壓縮機)

Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
Brand (Continued)			
Outstanding Individuals in China Automobile Industry for the 30th Anniversary of Reform and Opening 改革開放30年中國汽車工業傑出人物	November 2008	China Association Of Automobile Manufacturers 中國汽車工業協會 Society of Automotive Engineers of China 中國汽車工程學會 China Automotive Technology and Research Centre 中國汽車技術研究中心 China Council for the Promotion of International Trade, Automotive Industry Sub-Council 中國貿促會汽車行業分會 Newspaper Office for China Automotive News 中國汽車報社	Mr. Qian
The Enterprises Honouring contracts and credit 重合同守信用企業	December 2008	Jiangsu Provincial People's Government 江蘇省人民政府	Aotecar Nanjing
The Gold Medal Tally for New Energy and New Technology of China Automobile (Science and Technology Cup for FPT Fiat Motive Power) 中國汽車新能源新技術金牌榜 (FPT菲亞特動力科技杯)	December 2008	China Automotive News 《中國汽車報》	Aotecar Nanjing
2009 China Up and Comers 2009中國潛力企業	2009	Forbes Magazine 《Forbes福布斯》雜誌	Aotecar Nanjing
National Top 100 Automotive Parts Suppliers(1) 全國百佳汽車零部件供應商	November 2007, November 2008, October 2009 and December 2010	Newspaper Office for China Automotive News 《中國汽車報》報社	Aotecar Nanjing

Awards / Honours / Certifications	The Time of Granting / Identifying	Granted / Identified by	Products / Entities
Brand (Continued)			
Jiangsu Famous Brand 江蘇名牌產品	December 2006	Famous Brand Strategy Promotion Committee of Jiangsu Province 江蘇省名牌戰略推進委員會	Aotecar brand fluorine-free Scroll automobile air-conditioning compressors (奧特佳牌渦旋式無氟環保汽車空調壓縮機)
Jiangsu Famous Brand 江蘇名牌產品	December 2009	Famous Brand Strategy Promotion Committee of Jiangsu Province 江蘇省名牌戰略推進委員會	Aotecar brand passenger vehicle scroll automobile air-conditioning compressor (奧特佳牌轎車空調用渦旋壓縮機)
Jiangsu Famous Trademark 江蘇省著名商標	2007-2010	Industry and Commerce Administration of Jiangsu Province 江蘇省工商行政管理局	"ATC and Graphic" Trademark
2010 Forbes China Up & Comers 2010福布斯中國潛力企業	2010	Forbes Magazine 《福布斯》雜誌	Aotecar Nanjing
Well-known Trademark 馳名商標	2010	Jiangsu Nanjing Intermediate People's Court 江蘇省南京市中級人民法院	"ATC and Graphic" Trademark

Note:

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

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

Customers	Honours
FAW-Tianjin	Exempted Examination Products in 2005 and Excellent Supplier in 2006 2005年免檢產品及2006年優秀供應商
NAVECO	Excellent Supplier in 2005, 2006 and 2009 2005年、2006年及2009年優秀供應商
China FAW	Cost Improvement Award in 2006 2006年成本改善獎
Brilliance	Cost Contribution Award in 2007 and 2008 2007年及2008年成本貢獻獎
KLM	Excellent Supplier in 2008 and 2009 2008年及2009年優秀供應商
Dongfeng Motor	Excellent Supplier in 2008, 2009 and 2010 2008年、2009年及2010年優秀供應商
BYD	Excellent Supplier in 2008 and 2009 2008年及2009年優秀供應商
Chang'an Automobile	Award for Best Cost Optimisation in 2008 2008年最佳成本優化獎
Foton	Technology Innovation Awards in 2008 2008年科技創新獎
Hafei Auto	Excellent Supplier in 2005, 2006, 2007, 2008, 2009 and 2010 2005年、2006年、2007年、2008年、2009及2010年優秀供應商
FAW-Haima	Excellent Supplier in 2009 2009年優秀供應商
Geely	Excellent Supplier in 2009 and 2010 2009年及2010年優秀供應商
DPCA	Award for Excellent Supplier in Localisation in 2010 2010年國產化優勝獎供應商 Les FNRs excellents de 2010年度優秀供應商

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, our Group was the registered owner of 13 trademarks, one software copyright and owned 46 registered patents. In addition, as at the Latest Practicable Date, we were applying for the registration of 47 patents in the PRC and six trademarks in Hong Kong. For further details of our trademarks, patents and other intellectual property rights, please refer to "Further information about the business – Our intellectual property rights" in Appendix VI to this prospectus.

With respect to two patents owned by our Group, namely "Scroll compressors with oil separator for room air conditioner (帶油氣分離裝置的房間空調器用渦旋式壓縮機)" (PRC Patent No. ZL 2005 2 0074488.9) and "Scroll compressors with axial compensation device for room air conditioner (帶軸向補償裝置的房間空調器用渦旋式壓縮機)" (PRC Patent No. ZL 2005 2 0074483.6), prior to their assignment to Aotecar Nanjing by Mr. Qian on 9 November 2010, an exclusive license was granted

by Mr. Qian to Hebei Zhongxing Automobile Co., Ltd. (河北中興汽車製造有限公司) for a period from 7 July 2009 to 7 July 2016, and an application for the recordal of the assignment was filed on 27 August 2009. Such exclusive license would prevent our Group from using such patents during the relevant licensing period. Our Directors have confirmed that our Group has not used the said patents in our Group's business since their assignment to Aotecar Nanjing and our Group has no intention to use such patents in future. Further, our Directors have confirmed that the said patents are not material to our Group's business.

COMPETITION

Our Directors consider that the auto part industry in which we operate is highly competitive. Although the industry has high entry barriers such as capital requirements, individually-invented production technology protected by patent and market recognition, the competition among existing market players is keen in terms of quality, pricing, product performance, reliability and timeliness of delivery, product development capability, customer service and overall management.

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

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

EMPLOYEES

As at the Latest Practicable Date, we had over 2,300 full-time employees. The following table set out a breakdown of our personnel by function as at the Latest Practicable Date:

Production	1,878
Sales and marketing	39
Sourcing and procurement	23
R&D	67
Quality management and testing	132
Management and administration	215
Finance	11
Total	**2,365**

Mandatory provident fund scheme in Hong Kong

Our Group has participated in a mandatory provident fund scheme for our employees in Hong Kong in accordance with applicable laws and regulations in Hong Kong.

Social Insurance and housing provident fund contributions

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

Aotecar Nanjing, Aotecar Xiangyun and Aotecar Casting, as PRC entities, are obliged by the PRC laws and regulations to make contributions to the Social Insurance and housing provident funds. As advised by our PRC Legal Advisers, Aotecar Xiangyun has fully complied with the laws and regulations on the contributions to the Social Insurance and housing provident funds. However, the amount of contributions paid by Aotecar Nanjing and Aotecar Casting were less than the amount required under the PRC laws and regulations as they had adopted an amount less than the average monthly salary received by each employee in the preceding year as the basis for calculation. Further, since many employees of Aotecar Casting are migrant workers from rural areas or other cities other than Nanjing, they were unwilling to participate in Social Insurance and housing provident fund schemes and they requested our Group not to make the Social Insurance and housing provident fund contributions for them, Aotecar Casting had only made Social Insurance and housing provident fund contributions for some of its employees. Aotecar Casting did not make contributions to housing provident funds for its staff before June 2010.

The amounts of unpaid contributions to Social Insurance of Aotecar Nanjing and Aotecar Casting for the three financial years ended 31 December 2008, 2009 and 2010 were RMB922,000, RMB1,682,000 and RMB2,199,000 respectively, while the amounts of the unpaid contributions to housing provident funds of Aotecar Nanjing and Aotecar Casting for the three financial years ended 31 December 2008, 2009 and 2010 were RMB424,000, RMB754,000 and RMB1,090,000 respectively. In relation to the unpaid contribution amounts, since (i) employees themselves shall also assume the liability to pay part of Social Insurance and housing provident fund contributions as stipulated in the PRC laws and rules and such payment will reduce their direct disposable income, the employees are unwilling to pay up those amounts and decline our requests for payments of Social Insurance and housing provident fund contributions on their behalf; and (ii) due to turnover of our employees and it is not practicable for us to pay up those contribution amounts for those who are no longer our employees, it is not feasible for us to make the relevant contributions under the PRC law unless it is so demanded by the relevant authorities or agreed by those employees.

As advised by our PRC Legal Advisers, the amount of maximum fine/penalty that may be imposed on our Group for the non-compliance with Social Insurance regulations is three times the amount equivalent to the salary amount not reported to the relevant Social Insurance authorities. We may be required by the relevant authorities to contribute all the unpaid amounts in the prescribed period. A daily overdue fine calculated at 0.2% of any unpaid Social Insurance contributions will be imposed if we fail to contribute in such prescribed period. No fines will be imposed for the unpaid housing provident fund contribution after the company opens the housing provident fund account with the competent authority, in accordance with the existing laws and regulations. In the event that

the administrative penalties are imposed on the Group in any particular financial year, the Group's profits in that particular financial year would be materially affected. There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us.

Aotecar Nanjing and Aotecar Casting had communicated with the relevant authorities regarding the contributions of Social Insurance and housing provident fund. Aotecar Nanjing obtained a written confirmation from the Social Insurance Collection and Payment Administration Centre of Nanjing (南京市社會保險徵繳管理中心), the competent Social Insurance authority, on 16 February 2011, which confirmed that Aotecar Nanjing had duly contributed Social Insurance for its employees since its incorporation and Aotecar Nanjing had no record of overdue contributions. Aotecar Nanjing further obtained a written confirmation from the Provincial Institutions Housing Provident Fund Administration Centre of Jiangsu Province (江蘇省省級機關住房資金管理中心), the competent housing provident fund authority, on 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 is no record of overdue contribution of Aotecar Nanjing. Aotecar Casting obtained a written confirmation from the Social and Labor Insurance Administration of Nanjing City Jiangning District (南京市江寧區社會勞動保險所), the competent Social Insurance authority, on 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 law. Aotecar Casting further obtained a written confirmation from the Housing Provident Fund Administration Centre of Nanjing (南京住房公積金管理中心), the competent housing provident fund authority, on 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. On the basis that the above confirmations are issued by competent Social Insurance and housing provident fund authorities, our PRC Legal Advisers are of the view that the risk of Aotecar Nanjing and Aotecar Casting being required to contribute unpaid amounts or imposed fines by the relevant authorities is relatively low. Taking into account the advice from our PRC Legal Advisers above, the Directors consider that the financial impact to the Group is minimal and no provision has been made in this regard, which would not affect the true and fair view of the financial information in Appendix I to this prospectus.

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

We undertake to pay all outstanding contributions as soon as possible should our employee(s) agree to contribute to the Social Insurance and housing provident funds or should we receive any payment notice from the relevant authorities. As at the Latest Practicable Date, we had not received any notice from the relevant authorities demanding for the outstanding contributions. Also, Aotecar

Casting had entered into Labour Service Despatch Agreements (劳務派遣合同) with Nanjing Baiye which had taken up the employment of such workers. Nanjing Baiye would provide foundry and general operational workers to Aotecar Casting as required with effect from 26 September 2010 and would bear the liability to make sufficient Social Insurance and housing provident contributions for and on behalf of each worker dispatched to Aotecar Casting. As agreed, Aotecar Casting would then pay the labour service fees to Nanjing Baiye in accordance with the aforesaid agreement. Since Nanjing Baiye is a qualified institute for providing labour despatch service, the despatched workers are of supportive function as required by PRC laws and the Labour Service Despatch Agreements (劳務派遣合同) also comply with the PRC legal requirements, our PRC Legal Advisers consider that the above arrangement is legal and valid under the PRC Laws. On the basis as above, our Directors consider that such non-compliance would only have minimal financial and operational impacts on the Group.

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

Remuneration

The staff costs of our Group (including staff welfare expenses but excluding Directors' remuneration, which are set out in "Directors, Senior Management and Employees – Remuneration of directors and senior management" in this prospectus) during the Track Record Period were RMB22.4 million, RMB46.9 million and RMB74.5 million, respectively.

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

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

INSURANCE

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

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

SAFETY AND ENVIRONMENTAL MATTERS

Workplace safety

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

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

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

Environmental assessment and approvals

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

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

Aotecar Nanjing and Aotecar Xiangyun had received confirmation from, as to Aotecar Nanjing, the Nanjing Qinhuai District Environmental Bureau (南京市秦淮區環境保護局) on 9 February 2011, and as to Aotecar Xiangyun, the Nanjing Jiangning District Environmental Bureau (南京市江寧區環境保護局) (the "**Jiangning Environmental Bureau**") on 10 February 2011. As advised by our PRC Legal Advisers, both bureaus are competent authorities to issue written confirmations that Aotecar Nanjing and Aotecar Xiangyun have no record of violating environmental rules and regulations since incorporation.

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

Prior to commencement of production, Aotecar Casting consulted the Jiangning Environmental Bureau, the competent environmental protection authority of Jiangning District, regarding approval of environmental impact assessment and verification of environmental protection facilities. The Jiangning Environmental Bureau explained that, in line with the national policy of energy saving and pollutants reduction, it would grant approval of environmental impact assessment and verification of environmental protection facilities only to enterprises with improved environment-friendly measures. Applications from enterprises like Aotecar Casting using traditional energy such as coke in its operation had been suspended. The Jiangning Environmental Bureau also told Aotecar Casting that it would formulate a resolution plan for enterprises such as Aotecar Casting after conducting some investigations and that they did not explicitly prohibit such enterprises from commencing constructions. Accordingly, Aotecar Casting finished the construction project without conducting any environmental impact assessment prior to construction and without obtaining any approval from the local environmental protection bureau after completion of construction. Our PRC Legal Advisers advised that the relevant environmental authority may impose a fine from RMB50,000.0 to RMB200,000.0 on Aotecar Casting if it fails to obtain the approval on the environmental impact assessment within the prescribed period if later required by the relevant authority to rectify the same, and Aotecar Casting may be further subject to a suspension order and a fine of not more than RMB50,000.0 for not having obtained the approval on the environmental protection facilities verification after construction within the prescribed period. In order to mitigate the financial and operational impact on the Group of a suspension order being imposed, on 16 July 2010 and 25 August 2010, Aotecar Nanjing had entered into two memoranda of understanding with two of its existing suppliers namely Danyang Yongyue and Nanjing Yunhai which are independent third parties which provide that, in the event that Aotecar Casting is required to suspend operations or is required to vacate the Hengxi Properties, 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.

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

As advised by our PRC Legal Advisers, the existing PRC laws and regulations do not explicitly prohibit enterprises from using coke in aluminium alloy casting or stipulate any deadline for enterprises to replace coke with clean energies. Our PRC Legal Advisers further advised that as the Jiangning Environmental Bureau is the competent authority to enforce and supervise environmental protection, it has the discretionary power to grant such grace period and the higher authorities would not challenge the administrative action taken by the lower authorities which was made in accordance with the PRC laws. As such, it is unlikely that the decision made by the Jiangning Environmental Bureau will be challenged by the higher authorities. In addition, Aotecar Casting obtained a confirmation letter from the Jiangning Environmental Bureau on 16 February 2011 stating that there is no circumstances which trigger penalties being imposed on Aotecar Casting for violation of environmental laws. Our PRC Legal Advisers advised that the Jiangning Environmental Bureau, being the supervising environmental protection authority of Aotecar Casting, has the power to issue these confirmations. Based on the above, our PRC Legal Advisers further advised that the risk of Aotecar Casting being fined for non-compliance with environmental impact assessment rules is low. Our Directors are of the view that such non-compliance would not have material financial and operational impact on the Group.

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

As at the Latest Practicable Date, our Company had commenced the study for the deployment of the improved environment-friendly measures, utilising cleaner energies such as electricity or gas rather than coke (the "**Environmental Improvement Project**"). A task force comprises of three senior staff had been formed for the Environmental Improvement Project and it had been in close contact with the relevant local authorities for the improvements in Aotecar Casting. In addition, the Group has also engaged an environmental consultancy firm since December 2010 to advise on the effectiveness of the plan to ensure an effective implementation of the improvement plan. Our Company is currently keeping liasing with the Nanjing Power Supply Bureau (南京供電局) regarding the aforesaid plan. Our Company plans to (i) complete all the preliminary work of the Environmental Improvement Project by the end of 2011, (ii) install and trial-run the improved environmental facilities in 2012, and (iii) apply for verification of the improved environmental facilities and deploy the same in the production by May 2012. Given the procedures set out above, we would need about two years to complete the Environmental Improvement Project. The expenditures of the Environmental Improvement Project are estimated to be RMB1.9 million. Having reviewed the Environmental Improvement Project, our Directors consider that our Group should be able to implement the Environmental Improvement Project before the end of the grace period and further believe that Aotecar Casting would be able to comply with the environmental assessment requirements of the Jiangning Environmental Bureau after implementation of the above project.

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

PROPERTIES

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

We do not have valid building ownership certificates for 15,020.9 sq.m. of constructed buildings and structures in the Old Production Base, of which 4,465.5 sq.m. is used for the processing of brake discs, static plates, front end covers and cases and production of a small quantity of air-conditioning compressors, and we do not have valid building ownership certificates for the constructed buildings with a total gross floor area of 11,135.2 sq.m. in the New Production Base, and our lessors do not have valid land use right certificates for the Hengxi Lands (with an aggregate site area of 6,832.0 sq.m.) on which our Hengxi Owned Factory, Hengxi Leased Factory and Hengxi Workshop are located (of which 3,909.4 sq.m. are used for production purposes) and for 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.

Aotecar Nanjing

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

While Aotecar Nanjing obtained the valid land use rights certificate for the entire site area, it only obtained building ownership certificates for certain buildings on the land with a total gross floor area of 6,258.3 sq.m. but failed to obtain the said building ownership certificates for the remaining building structures with a total gross floor area of 15,020.9 sq.m. (the "**Non-Permitted Old Production Buildings**") due to failure to obtain relevant construction project planning permits (建設工程規劃許可證) and construction licences (建設工程施工許可證) prior to the construction for the Non-permitted Old Production Buildings. Amongst the Non-Permitted Old Production Buildings, 3,224.0 sq.m. is used as offices and staff canteen, 4,465.5 sq.m. is used as production workshops, 3,742.5 sq.m. is used as warehouses and 592.9 sq.m. is for miscellaneous purposes including building an environment simulation lab with a gross floor area of 400.9 sq.m. and a boiler and pump room with a gross floor area of 192.0 sq.m., and the remaining portion (2,996.0 sq.m.) (the "**Leased Portion**") is leased to an independent third party (the "**Lessee**"). The term of our lease with the Lessee is from 1 November 2007 up to and including 31 October 2017 for an aggregate rental of RMB3.5 million from 1 November 2007 to 31 October 2009, and an annual rental of RMB0.8 million from 1 November 2009 onwards.

In respect of the Non-Permitted Old Production Buildings:

(i) in May 2007, the Nanjing Planning Bureau (南京規劃局) issued a construction suspension notice against Aotecar Nanjing pursuant to which the construction works that were then being carried out in relation to a structure having a total gross floor area of 7,000.0 sq.m. were ordered to be suspended (this structure now includes the Leased

Portion occupied by the Lessee as well as the building used by Aotecar Nanjing as offices and staff canteen);

(ii) in June 2007, the Nanjing Planning Bureau issued another construction suspension notice against Aotecar Nanjing pursuant to which the construction works that were then being carried out in relation to a structure having a total gross floor area of 1,000.0 sq.m. were ordered to be suspended (this structure is now being used by Aotecar Nanjing as warehouse);

(iii) in August 2007, the Nanjing Planning Bureau issued a demolition order against Aotecar Nanjing to demolish a structure having a total gross floor area of 900.0 sq.m. (this structure is now being used by Aotecar Nanjing as warehouse); and

(iv) in March 2010, the Nanjing Planning Bureau imposed an administrative fine of RMB36,000.0 against Aotecar Nanjing for an unlawful warehouse structure (this structure is now being used by Aotecar Nanjing as workshop with an actual gross area of 1,339 sq.m.), and to require an unconditional demolition of that structure in future if it would be so required for the purpose of town planning. When Nanjing Planning Bureau imposed the said administrative fine, the Nanjing Planning Bureau had acknowledged and taken into consideration the special and factual circumstances of the matter and decided not to impose the maximum administrative fine of up to 10% of the construction costs of the relevant unlawful structure, and had agreed that the unlawful structure be demolished only when such demolition would become necessary for town planning purposes.

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

As advised by our PRC Legal Advisers, for those portions of the Non-Permitted Old Production Buildings that have not yet been subject to any administrative fine, there are legal risks that the responsible planning authorities may order demolition of the Non-Permitted Old Production 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 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 a fine not more than RMB30,000.

However, since the Lessee has actual knowledge of the non-compliance, it is unlikely that Aotecar Nanjing will be held liable for the compensation as stipulated in the lease contract. Also, the amount of administrative penalty is relatively small. As such, the PRC Legal Advisers and the

Directors are of the view that such non-compliance would not have material financial and operational impact on the Group.

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

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

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

The relocation plan for Da Xiao Chang Airport had not been announced as at the Latest Practicable Date. Aotecar Nanjing has checked with Nanjing Qinhuai District Development and Reform Bureau (南京市秦淮區發展和改革局) and Nanjing Daming Road Automobile Street Management Office (南京市大明路汽車街管理辦公室) and they have confirmed that they are not aware of any relocation plan for Aotecar Nanjing. Pursuant to the Law of the PRC on Urban and Rural Planning (城鄉規劃法), the Regulation on the Dismantlement of Urban Houses (城市房屋拆遷管理條例), the Administrative Adjudication Ordinance on the Dismantlement of Urban Houses (城市房屋拆遷行政裁決工作規程), and the Circular of the General Office of the State Council on Controlling Dismantlement Scope of Urban Houses and Making Strict Administration on Dismantlement (國務院辦公廳關於控制城鎮房屋拆遷規模嚴格拆遷管理的通知), the provincial construction

administrative departments and the development and reform departments of the same level can approve medium-and-long-term plans and annual plans to dismantle urban houses formulated by the local governments, and the construction projects not included in the annual plans for dismantling shall not be dismantled. Therefore, the Nanjing Qinhuai District Development and Reform Bureau and Nanjing Daming Road Automobile Street Management Office are not the competent authorities for approving the plans for dismantling. Nevertheless, once the plans for dismantling have been approved by the abovementioned competent authorities and become enforced, the Nanjing Qinhuai District Development and Reform Bureau and Nanjing Daming Road Automobile Street Management Office, as their functional departments, are entitled to obtain such information. Based on the above, our PRC Legal Advisers are of the opinion that the Nanjing Qinhuai District Development and Reform Bureau and Nanjing Daming Road Automobile Street Management Office can confirm whether Aotecar Nanjing has been included in any plan of dismantling.

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

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

Moreover, Aotecar Nanjing and Aotecar Xiangyun have already formulated and adopted a relocation plan in July 2010 which set out the planned procedures for relocating the production lines currently installed in the Non-Permitted Old Production Buildings to the alternate production facilities totalling 12,000.0 sq.m. and owned by Aotecar Xiangyun, which aims to ensure a coordinated relocation process and minimise disruptions to the production of Aotecar Nanjing in the event the Non-Permitted Old Production Buildings would be required by the government to be demolished. Based on the relocation plan, the relocation would be completed within 10 days and may involve relocation expenses of about RMB400,000.0 and as such, our Directors consider that the non-compliance would not have material financial and operational impact on the Group. Save for the 166 series and 206 series compressors, all products produced in the Non-Permitted Old Production Buildings are also produced in the New Production Base owned by Aotecar Xiangyun. Since the existing facilities in the New Production Base can also be used for producing 166 series and 266 series compressors when required, the Directors consider that the relocation would not have material disruption to the production of Aotecar Nanjing.

Aotecar Xiangyun

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

Aotecar Xiangyun obtained the valid land use right certificate for a portion of Jiangning Land with a site area of 34,236.3 sq.m. on 13 May 2010 and the land use right certificate for the entire Jiangning land with a site area of 82,843.8 sq.m. on 30 August 2010 after surrendering the land use rights certificate in relation to the site area of 34,236.3 sq.m. to the relevant government authority.

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

In relation to land use right grant contract for the site area of 34,236.3 sq.m. in the Jiangning Land, Aotecar Xiangyun was required to settle the consideration for acquisition of 34,236.3 sq.m. in the Jiangning Land on or before 30 October 2009. However, the last instalment was paid on 27 November 2009, therefore a surcharge of RMB246,680.0 was imposed on Aotecar Xiangyun as a penalty for late payment of the above contractual sum. On 24 March 2010, the Street Office paid the fine of RMB246,680.0 to Nanjing State Land Resources Bureau, Jiangning Office on behalf of Aotecar Xiangyun. On 10 June 2010, the Street Office further issued a notice to Aotecar Xiangyun confirming that it would not seek any recovery or damages from Aotecar Xiangyun. As advised by our PRC Legal Advisers, given the above, there is no risk for Aotecar Xiangyun that either Nanjing State Land Resources Bureau, Jiangning Office or the Street Office will seek any recovery or damages from Aotecar Xiangyun in relation to its failure to pay the contractual sum before the payment deadline.

Aotecar Xiangyun occupies the Jiangning Buildings with a total gross floor area of 50,989.0 sq.m. on the Jiangning Land. The Jiangning Buildings comprises 39,853.7 sq.m. of production workshops, 8,230.7 sq.m. of dormitory and canteen house, 2,692.1 sq.m. of ancillary facilities and 212.5 sq.m. for miscellaneous use. In relation to the 39,853.7 sq.m. of production workshops, Aotecar Xiangyun has already obtained the building ownership certificate in respect of 13,795.9 sq.m., and for the portion of production workshops of 26,057.8 sq.m. which is under construction, Aotecar Xiangyun shall arrange for application for building ownership certificate upon completion of the construction.

As to the Jiangning Defective Buildings, namely the portion of the Jiangning Buildings with a gross floor area of 24,931.2 sq.m., it was constructed before Aotecar Xiangyun had obtained the relevant construction project planning permits (建設工程規劃許可證) and construction licences (建築工程施工許可證). The Jiangning Defective Buildings comprise 13,795.9 sq.m. of workshops, and the remaining areas are not for workshop purposes. As advised by our PRC Legal Advisers, there were legal risks that the relevant governmental authorities may order demolition of Jiangning Defective Buildings within a prescribed period and confiscate any realty or unlawful gains from parts which cannot be demolished and may impose a fine equivalent to not more than 10% of the construction costs, which is RMB3,475,900.0. Aotecar Xiangyun had subsequently obtained the construction project planning permits (建設工程規劃許可證) for Jiangning Defective Buildings on 14 July 2010 and 16 September 2010.

On 28 October 2010 and 18 November 2010, Aotecar Xiangyun had obtained construction licences (建築工程施工許可證) for the Jiangning Defective Buildings, Aotecar Xiangyun obtained the building ownership certificate for its workshop with a gross floor area of 13,795.9 sq.m. on 26 January 2011 and is yet to obtain the building ownership certificate(s) for the remaining portion of 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. As advised by our PRC Legal Advisers, since Aotecar Xiangyun had already obtained the land use rights certificate, the construction project planning permits (建設工程規劃許可證) and the construction licences (建築工程施工許可證) for the Jiangning Defective Buildings 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 any legal impediment for Aotecar Xiangyun to obtain the building ownership certificate for the remaining portion of the Jiangning Defective Buildings subject to the submission of all the necessary documents in compliance with the required procedures in accordance with the PRC laws. As such, the Directors are of the view that such would not have material financial and operational impact on the Group. Our PRC Legal Advisers further advised that, in light of the fact that approval was obtained on 22 April 2010 from Nanjing Planning Bureau (南京市規劃局) for the plan of construction work in Jiangning Defective Buildings and that the construction land planning permits (建設用地規劃許可證) in relation to the constructions of Jiangning Defective Buildings and Jiangning Land were obtained on 17 March 2010 and 14 May 2010 respectively, the risk for future fine or penalty arising out of the above non-compliance is minimal.

Aotecar Casting

Hengxi Lands

Aotecar Casting has leased the Hengxi Lands with site areas of 4,840.0 sq.m. and 1,992.0 sq.m., respectively and the Hengxi Leased Factory pursuant to the Hengxi Lease. The terms of the Hengxi Lease for these two pieces of lands are from 1 December 2008 to on 30 July 2036, and from 1 December 2008 to 30 March 2012 respectively and the annual rentals payable by Aotecar Casting are respectively RMB24,200.0 and RMB24,000.0 (rental includes the lease of the Hengxi Leased Factory with a gross floor area of 1,377.6 sq.m. as mentioned below). Hengxi Lands are collective construction lands. Before Changheng Casting leased the Hengxi Lands to Aotecar Casting, the consent of the collective construction land owners should have been obtained and the relevant certification procedures of collective construction lands should have been completed. Since these legal requirements have not been fulfilled, the Hengxi Lease may become void and the rights of Aotecar Casting in the Hengxi Lands and the Hengxi Leased Factory may not be protected by law.

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

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

As to the Hengxi Workshop, since the relevant construction permits and certificates were not obtained before the construction of the 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 for parts which cannot be demolished, and may impose a fine equivalent to not more than 10% of the construction costs, which is RMB161,600.

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

Hengxi Chongwen Land

Aotecar Casting has leased the Hengxi Chongwen Premises located on the Hengxi Chongwen Land pursuant to the Hengxi Chongwen Lease. The term of the Hengxi Chongwen Lease for this parcel of land is from 1 April 2010 to 31 March 2015, and the annual rental payable by Aotecar Casting is RMB297,846. Aotecar Casting occupies the Hengxi Chongwen Premises, namely a

primary factory building, a power room, an ancillary building and an open ground, with a gross floor area of 2,574 sq.m., 127.5 sq.m. and 826 sq.m. and a site area of 5,890 sq.m., respectively, and steel structures with a gross floor area of approximately 2,200 sq.m. which it built on the open ground on the Hengxi Chongwen Land for production and storage purposes.

The Hengxi Chongwen Land is a piece of collective construction land. Similar to the case of the Hengxi Lease described above, before the lessor leased the Hengxi Chongwen Land to Aotecar Casting, the consent of the collective construction land owner(s) should have been obtained and the relevant certification procedures of collective construction lands should have been completed. Since those legal 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.

In relation to the Hengxi Chongwen Land and the Hengxi Chongwen Premises, since the lessor could not provide the relevant building title document for review, our PRC Legal Advisers advised that the Hengxi Chongwen Lease may be invalid and unenforceable under the PRC law. However, Aotecar Casting as lessee would not be liable for any civil and criminal responsibilities or any administrative penalty.

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 equivalent to not more than 10% of the construction costs, which is approximately RMB61,416.6.

Aotecar Casting produces brake discs, static plates, front end covers and cases in the properties situated on the Hengxi Lands and the Hengxi Chongwen Land. In the event Aotecar Casting will be required to vacate the Hengxi Properties and the Hengxi Chongwen Land due to land title issues, given that the products that are produced at the properties on the Hengxi Lands and the Hengxi Chongwen Land are not highly technically complicated products and only involve general aluminium casting procedures, our Directors plan to deploy measures such as leveraging on our established relationships with certain third party suppliers to cover our production needs and to stock up additional stocks to meet our production requirements during the transitional period for the transfer from producing our own brake discs, static plates, front end covers and cases to purchasing them from third party suppliers. In relation to this, on 16 July 2010 and 25 August 2010, Aotecar Nanjing had entered into two memoranda of understanding with two of its existing suppliers namely Danyang Yongyue and Nanjing Yunhai which are independent third parties to provide that, in the event Aotecar Casting requires, the supplier would be willing to be contracted by Aotecar Nanjing to produce the products that are currently produced at the Hengxi Properties and the Hengxi Chongwen Premises. The products supplied by Danyang Yongyue and Nanjing Yunhai will be at prevailing market prices at the relevant times. Our Directors anticipate that the transfer process would have only minimal impact on our overall operations and production costs.

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

Leased Staff Quarters

As at the Latest Practicable Date, (i) Aotecar Nanjing had entered into 48 lease agreements with various independent third parties in respect of 48 residential flats ("**Aotecar Nanjing Leased Staff Quarters**") for a total gross floor area of 4,267.5 sq.m. at a total monthly rental of RMB70,680 which are due to expire between April 2011 and March 2013, all of which are used as staff quarters of Aotecar Nanjing, and (ii) Aotecar Xiangyun had entered into a lease agreement with an independent third party in respect of 18 residential flats ("**Aotecar Xiangyun Leased Staff Quarters**") for a total gross floor area of 450.0 sq.m. at a total monthly rental of RMB10,800.0 for the period from 1 June 2010 to 31 May 2011, all of which are used as staff quarters of Aotecar Xiangyun.

All 48 lease agreements for the Aotecar Nanjing Leased Staff Quarters have been duly registered with the relevant authority.

In respect of the Aotecar Xiangyun Leased Staff Quarters, the landlord has not provided Aotecar Xiangyun with evidence of its legal title to the properties and hence our PRC Legal Advisers have advised that the lease agreement may not be legally valid and enforceable, but that Aotecar Xiangyun as lessee would not be liable for any civil or criminal responsibilities or any administrative penalty. Moreover, the lease agreement has not been registered at the relevant authority. As a result of the non-registration of the lease agreement, our PRC Legal Advisers have advised that each of the landlord and Aotecar Xiangyun may be liable for a fine from RMB1,000 to RMB10,000, but our PRC Legal Advisers have further advised that the non-registration of the lease agreement does not affect the validity of the lease agreement. Given that all the Aotecar Xiangyun Leased Staff Quarters are used as staff dormitories under a short term lease, our Directors are of the view that any early termination of the lease agreement would not materially impact on the business operations of Aotecar Xiangyun.

Please refer to "Property Valuation" in Appendix IV to this prospectus for further information about the Aotecar Nanjing Leased Staff Quarters and the Aotecar Xiangyun Leased Staff Quarters.

COMPLIANCE AND LEGAL PROCEEDING

During the Track Record Period, the Group had inadvertently failed to strictly comply with some PRC laws, rules or regulations due to lack of a very comprehensive understanding in certain rules and regulations in the PRC. For those non-compliance of the Group mentioned in "Summary – Non-compliance of the Group" in this prospectus, the Company's PRC Legal Advisers considered that most of the risks of future fines/penalties being imposed on the Group were low. Taking into account the advice from our PRC Legal Advisers, the Directors consider that the financial and operational impact of such non-compliance to the Group is minimal and would not affect our future expansion plan and no provision has been made in this regard, which would not affect the true and fair view of the financial information in Appendix I to this prospectus. In light of the opinion from the PRC Legal Advisers, the Directors are of the view and the Sponsor concurs with the Directors' view that the non-compliance of the Group, whether individually and collectively, has minimal impact on its business operations and financial positions and such will not affect the Company's compliance with Rule 8.05(1)(a) of the Listing Rules. For further details, please refer to the relevant paragraphs under "Business" in this prospectus.

Save as disclosed in this prospectus, as at the Latest Practicable Date and for the Track Record Period, the Group was not engaged in any litigation, arbitration or claim of material importance, and there was no litigation or arbitration proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group's financial condition or results of operations.

INTERNAL CONTROLS

In connection with the Listing, the Group has undertaken an evaluation of its internal controls over financial reporting, including engaging an external advisory firm to perform certain agreed upon procedures. The scope of the agreed upon procedures work undertaken by the external advisory firm was limited to certain areas and did not extend to all aspects of the Company's internal controls over financial reporting. The scope of the agreed-upon procedures covered (i) entity wide and corporate level controls including conflict of interests policy, composition and competency of the Board and its committees, risk assessment policies and procedures and information and communication policies and procedures and (ii) business process level controls including sales and receipts, purchases and payments, inventory management, capital expenditure and fixed assets management, human resources and payroll, treasury management, insurance management, budgeting, tax management, financial reporting, information technology controls. As a result of such scope, the findings of the internal control review may not include all control deficiencies in internal controls over financial reporting. The following table set forth a summary of the major findings:

Major findings	Recommended measures	Actions taken by the Group
We have developed relevant working practices for our key operations and some of our daily operations. However some of these practices were not formally documented in the existing policies and procedures	We should establish and formalise the working practices requirements, in particular those with financial impact, and periodically review and update these policies and manuals	We had established and formalised the relevant policies and procedures, including the "Corporate Governance Manual" and "Internal Control Policy" for our key operations and other policies in relation to the control activities of our daily operations on 31 October 2010
Cut-off adjustments in respect of sales recognition, inventory and construction in progress mainly due to the booking of accounting entries based on issuance of value-added tax invoices and supplier invoices instead of actual delivery and receipt of goods or actual completion of construction in progress	• We should recognise sales upon customers' acceptance of goods receipt instead of upon issuance of value-added tax invoices • We should calculate any sales timing differences on a monthly basis and make relevant journal adjustments accordingly	Management has put through all these cut-off adjustments in the Group's financial statements in the relevant periods and had amended the relevant operational policies and procedures to address such issues. In addition, the Group had appointed an assistant manager in the finance department to conduct a monthly review and to make appropriate adjustments if necessary

Major findings	Recommended measures	Actions taken by the Group
	• We should make monthly accruals for inventories received in the warehouse for which corresponding invoices have not been received • We should recognise the construction in progress according to the completion stage of the construction in progress • We should transfer construction in progress into fixed assets at the point when the construction in progress is substantially ready for its intended use	
Failed to adhere to the PRC laws and regulations in relation to the calculation of Social Insurance and housing provident fund contributions	• We should consult our PRC Legal Advisers or external professional advisers in respect of the provisions of Social Insurance and housing provident funds • We should adjust the contribution basis to comply with the local laws and regulations based on advice from our PRC Legal Advisers or external professional advisers	The Group had started to regulate its practice of the Social Insurance and housing provident fund contributions in accordance with the national and local regulations, including making contributions for and on behalf of all the eligible employees from September 2010 and adjusting the amount of contribution basis to the lawful level in July 2011 as the contribution basis can only be adjusted in July every year in accordance with the general practice in Nanjing as advised by the PRC Legal Advisers

We have further retained the external advisory firm to assist us in conducting two follow up reviews. A review was conducted in September 2010 to confirm that we have established proper policies and procedures in respect of the previous findings and we noted no adverse findings from such review. Another review was completed in February 2011 to check that the above-mentioned policies and procedures are properly followed and, save as the adjustment of the amount of contribution basis to the lawful level by Aotecar Nanjing to be taken in July 2011 as described above, that we noted no adverse findings from such review.

Based on the remedial actions taken by the Group as detailed above and the due diligence enquiries conducted, including discussions with the external advisory firm in respect of its findings, the Sponsor has reasonable grounds to believe that the Company has established procedures, systems

and controls (including accounting and management systems) which are adequate and effective having regard to the obligations of the Company and the Directors to comply with the Listing Rules and other relevant legal and regulatory requirements (in particular Listing Rules 13.09, 13.10, 13.46, 13.48 and 13.49, Chapters 14 and 14A and Appendix 16) and which are sufficient to enable the Directors to make a proper assessment of the financial position and prospects of our Group both before and after the Listing.

In view of the fact that (i) all Directors had attended the directors' training to familiarise themselves with the Listing Rules and the duties and responsibilities as directors of the Company; (ii) the Company has retained Chen & Co. Law Firm as the Group's PRC Legal Advisers in respect of legal and regulatory compliance matters in the PRC; (iii) all Directors had attended the training in relation to the compliance of PRC laws and regulations applicable to the Group's operations provided by the Group's PRC Legal Advisers, Chen & Co. Law Firm; (iv) a majority of the Directors have experiences as directors in other listed companies; (v) none of the Directors has any previous conviction on any offence involving fraud, dishonesty or corruption; (vi) Directors who have overlapping directorships have agreed to devote sufficient time to the Company as required; and (vii) the Directors have shown a positive attitude in enhancing the corporate governance of the Group, the Group's previous non-compliance issues have not materially affected the Sponsor's assessment of the Directors' ability to demonstrate a standard of competence commensurate with their positions as directors of a listed company.

MEASURES TO PREVENT FUTURE NON-COMPLIANCE

In order to continuously improve our corporate governance and to prevent future non-compliance, we intend to adopt or have adopted the following measures:

(i) established a new position of compliance officer, who will report to the Board directly on a monthly basis to ensure that the Group's operations are in compliance with applicable laws, rules and regulations, to strengthen the existing internal control framework and to recommend remedial plans to the Board should there be any internal control deficiencies. Mr. Chui Wing Fai, our Company Secretary has been appointed as our compliance officer. In addition to professional qualifications and solid experience in finance and accounting, Mr. Chui also possesses experience in managing, overseeing, coordinating and handling regulatory compliance, corporate governance and corporate secretarial matters of both listed and unlisted companies with operations in Hong Kong and the PRC closely commensurate with his duties and responsibilities as the compliance officer in handling the legal and regulatory compliance affairs of the Group. He will be assisted by other senior management personnel responsible for legal and regulatory compliance matters in the Group's operating subsidiaries in the PRC as well as the professional advisers described in (ii) below. The biography of Mr. Chui is set out in "Directors, Senior Management and Employees" in this prospectus;

(ii) the compliance officer will have access to external professionals retained or to be retained by the Group from time to time if applicable, including the compliance adviser, external legal counsel, auditors and other advisers as necessary. We have retained Chen & Co. Law Firm as our PRC legal advisers in respect of legal and

regulatory compliance matters in the PRC and our PRC Legal Advisers, Chen & Co. Law Firm, has provided a training to all of our Directors in relation to the compliance of PRC laws and regulations applicable to our Group's operations in March 2011;

(iii) the Company has appointed three independent non-executive directors to the Board, among them, Mr. Lai Ni Hium possesses experience in managing listed companies with operations in the PRC and Mr. Zhao Chunming has over 13 years of experience in the automobile technology industry in the PRC. Their depth of experiences could assist us to procure our compliance with laws and regulations on a continuous basis;

(iv) the appointment of Shenyin Wanguo as the Company's compliance adviser to advise the Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules; and

(v) improving our existing internal control framework by adopting a set of internal control manual and policies, including the corporate governance manual, internal control policy and finance management policy, which cover corporate governance, operations, management, legal matters, finance and audit, subject to periodic review and update, for the need of the Group.

The Company has also established an audit committee, comprising the three independent non-executive Directors, to review and supervise the financial reporting process and internal control system of the Group.

The Company undertakes to provide an update in each interim and annual results on the progress of obtaining the outstanding licences or permits, the payment of contributions of Social Insurance and housing provident funds to the lawful level and actions that had been taken in respect of those properties without title certificates.

Based on the above and the fact that the Group has retained the external advisory firm to conduct follow-up reviews, the Directors and the Sponsor is of the view that the Company has taken reasonable steps to establish a proper internal control system to prevent future non-compliance of the Group.