
FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

Please refer to the “Business – Business strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the net proceeds to our Company from the Global Offering, after deducting the underwriting commissions and estimated expenses in relation to the Global Offering payable by us, will be HK\$555.2 million before any exercise of the Over-allotment Option, assuming an Offer Price of HK\$2.09 per Share, being the midpoint of the Offer Price range set out in this prospectus. We intend to use the net proceeds for the following purposes:

- (i) HK\$183.2 million or 33.0% of the net proceeds will be used for our capacity expansion plans which include the expansion project of our New Production Base and the establishment of a new production base:
 - We plan to use HK\$137.6 million or 24.8% of the net proceeds for the expansion plan of the New Production Base, mainly for purchases and installation of machinery and equipment and/or construction of factory and office buildings and staff quarters, and we expect that the aggregate annual production capacity will increase from 2.9 million sets of compressors to 4.0 million sets of compressors by July 2011. The expected capital expenditure required for the expansion plan of the New Production Base is HK\$420.8 million. As at 28 February 2011, our Group has contributed HK\$184.3 million in relation to the expansion plan of the New Production Base. As the expected capital expenditure is larger than the fund already contributed by our Group and the net proceeds to be allocated for the expansion plan of the New Production Base, our Group will fund the difference by internal resources; and
 - We plan to use HK\$45.6 million or 8.2% of the net proceeds for the acquisition of land for the establishment of a new production base. It is intended that the new production base will be established in Nanjing or its adjacent areas for the production of automobile air-conditioning compressors. As at the Latest Practicable Date, our Group was in the course of identifying an appropriate site for the new production base and it is expected that such can be identified by the end of 2011;
- (ii) HK\$324.5 million or 58.4% of the net proceeds will be used for loan repayment. For details of the loans, please refer to “Financial Information – Indebtedness” in this prospectus:
 - HK\$241.2 million or 43.4% of the net proceeds will be used for the repayment of borrowings from BNP Paribas Hong Kong Branch which was outstanding as at the Latest Practicable Date. The loan was used to settle the indebtedness due to CUAS and Mr. Qian in June 2010. The loan facility shall be repaid within one

FUTURE PLANS AND USE OF PROCEEDS

month after the Listing or by 30 June 2011, whichever is earlier, and the applicable interest rate for any outstanding loan amount under the facility is BNP Paribas Hong Kong Branch's cost of funds (determined conclusively by BNP Paribas Hong Kong Branch at its sole discretion) plus 0.2% per annum. The Group intends to repay the amount due to BNP Paribas Hong Kong Branch immediately after Listing; and

- HK\$83.3 million or 15.0% of the net proceeds will be used for the repayment of borrowings from DBS Bank Ltd., Hong Kong Branch which was outstanding as at the Latest Practicable Date. The loan has been used for general working capital purpose. The tenure of the loan facility is 24 months from the date of the relevant loan agreement (being 11 June 2010) and the applicable interest rate for any outstanding loan amount under the facility is HIBOR plus 1.5% per annum;
- (iii) HK\$27.8 million or 5.0% of the net proceeds will be used to support and strengthen our product R&D capability in respect of our existing product portfolio and potential new products, including (i) enhancing our R&D facilities to improve the quality of our electric compressors and to produce compressors with smaller size for meeting the changing market needs; (ii) collaborating with third party institutions, such as universities in the PRC and overseas to develop new technologies and/or products; and (iii) expediting the commercialisation process of our R&D results; and
- (iv) HK\$19.7 million or 3.6% of the net proceeds will be used for working capital and other general purposes.

Although from time to time, we identify certain potential strategic investments and acquisition targets for preliminary evaluation and assessment, as at the Latest Practicable Date, we did not have any finalised understanding, commitments or agreements, and we had not engaged in any related negotiations or entered into any letter of intent (whether legally binding or not) with respect to any acquisitions, alliances, joint ventures or strategic investments. We may or may not proceed with any or all of these investment and/or acquisition projects.

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

If the Offer Price is finally determined at the lower end of the indicative Offer Price range, being HK\$1.80 per Offer Share, the net proceeds from the Global Offering will be decreased by HK\$83.3 million, as compared with the above computation (which is based on the midpoint of the indicative Offer Price range and assuming the Over-allotment Option is not exercised). In such case, our Directors intend to apply HK\$241.2 million or 51.1% and HK\$70.8 million or 15.0% of the net proceeds towards repayment of loans from BNP Paribas Hong Kong Branch and DBS Bank Ltd., Hong Kong Branch respectively and to apply HK\$45.6 million or 9.7% of the net proceeds towards acquisition of land for the establishment of a new production base. The Directors intend to apply the remaining net proceeds of the Global Offering in the same manner as mentioned above with the difference being adjusted to the other items above on a pro rata basis.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is finally determined at the higher end of the indicative Offer Price range, being HK\$2.38 per Offer Share, the net proceeds of the Global Offering will be increased by HK\$83.3 million, as compared with the above computation (which is based on the midpoint of the indicative Offer Price range and assuming the Over-allotment Option is not exercised). In such case, our Directors intend to apply HK\$241.2 million or 37.8% and HK\$93.0 million or 14.6% of the net proceeds towards repayment of loans from BNP Paribas Hong Kong Branch and DBS Bank Ltd., Hong Kong Branch respectively and to apply HK\$45.6 million or 7.1% of the net proceeds towards acquisition of land for the establishment of a new production base. The Directors intend to apply the remaining net proceeds of the Global Offering in the same manner as mentioned above with the difference being adjusted to the other items above on a pro rata basis.

If the Over-allotment Option is exercised in full, we estimate we would receive additional net proceeds of HK\$90.1 million, assuming an Offer Price of HK\$2.09 per Share, being the midpoint of the Offer Price range stated in this prospectus. The additional net proceeds received from the exercise of the Over-allotment Option will be applied to the purposes described in (i) (solely for the purposes of capacity expansion plan of the New Production Base), (iii), and (iv) above on a pro rata basis.

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