The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor

Prince's Building
10 Chater Road
Central
Hong Kong

15 April 2011

The Directors
China Auto System Technologies Limited

CIMB Securities (HK) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to China Auto System Technologies Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2008, 2009 and 2010 (the "**Relevant Period**"), and the combined balance sheets of the Group as at 31 December 2008, 2009 and 2010, and the balance sheet of the Company as at 31 December 2010, together with the notes thereto (the "**Financial Information**"), for inclusion in the prospectus of the Company dated 15 April 2011 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 25 May 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 10 November 2010 as detailed in "History, Development and Reorganisation" in the Prospectus (the "Reorganization"), the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company as it is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 31 of Section C. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") or the relevant accounting rules and regulations applicable to enterprises in the PRC.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the "**Underlying Financial Statements**"). The Underlying Financial Statements for the Relevant Period were audited by us in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2008, 2009 and 2010 and the state of affairs of the Company as at 31 December 2010.

A. BASIS OF PREPARATION

Nanjing Aotecar Refrigerating Co., Ltd. ("Aotecar Nanjing") was a sino-foreign equity joint venture, which was 49.29%, 39.67% and 11.04% owned by Nanjing Lukou International Airport Limited ("**Lukou Airport**"), Fang Brothers Investments Limited ("**Fang Brothers**") and other miscellaneous investors, respectively, before December 2007. Pursuant to a loan agreement dated 19 January 2007 entered into between Fang Brothers, CITIC Capital China Fund I (parent company of CITIC Capital China Limited ("**CITIC Capital China**")) and CDH China Management Company Limited (acting on behalf of CDH Cool Limited ("**CDH Cool**")) ("**Loan Agreement**"), as supplemented and amended by the first supplemental loan agreement dated 10 December 2007 entered into between Fang Brothers, CITIC Capital China Fund I, CDH China Management Company Limited and CDH Cool and relevant agreements detailed in "History, Development and Reorganisation" in the Prospectus, Fang Brothers, CITIC Capital China Fund I and CDH Cool would set up an investment holding company to acquire the entire equity interests in Aotecar Nanjing.

Fang Brothers completed the acquisition of the remaining equity interests in Aotecar Nanjing on 29 December 2007 with loans advanced by CITIC Capital China Fund I and CDH Cool, and subsequently transferred the entire equity interests in Aotecar Nanjing to China United Air System Limited ("**CUAS**") set up in accordance with the Loan Agreement, which indirectly owned entire equity interests in Aotecar Refrigerating (Hong Kong) Limited ("**Aotecar Hong Kong**") through Aotecar International Holdings Limited ("**Aotecar International**"). After the acquisition of the equity interests in Aotecar Nanjing, the entire equity interests in Aotecar Nanjing were transferred to Aotecar Hong Kong, and CUAS issued its shares to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto Limited ("**CDH Auto**") (related party of CDH Cool) as repayment for the loans made by Fang Brothers, CITIC Capital China Fund I and CDH Cool to effect the acquisition of equity interests in Aotecar Nanjing in accordance with the Loan Agreement.

CUAS, Aotecar International and Aotecar Hong Kong do not carry out any business nor operation and they are investment holding companies set up to hold investments of the Group, including the entire equity interests in Aotecar Nanjing. Therefore, for the year ended 31 December 2008, Aotecar Nanjing is the only operating company within the Group. Further, neither Fang Brothers, CITIC Capital China, CDH Cool nor CDH Auto has obtained, directly or indirectly, more than half of the voting power or potential voting power of the board of directors of Aotecar Nanjing or any of above investment holding companies (CUAS, Aotecar International or Aotecar Hong Kong) formed to effect the business combination.

The Company was incorporated on 25 May 2010. Pursuant to a share transfer agreement dated 11 September 2008 entered into between Aotecar International, CUAS and Mr. Qian Yonggui, as supplemented by two supplemental agreements detailed in "History, Development and Reorganisation" in the Prospectus, CUAS transferred 5% equity interests in Aotecar International to Mr. Qian Yonggui on 22 June 2010. Pursuant to the group reorganisation completed on 10 November 2010, the Company acquired all of the equity interests in Aotecar International from CUAS and Mr. Qian Yonggui by issuing shares to Fang Brothers, CITIC Capital China, CDH Auto, CDH Cool and Mr. Qian Yonggui. Upon completion of the group reorganisation on 10 November 2010, the Company became the holding company of Aotecar International and the companies now comprising the Group are owned by the same equity shareholders, i.e. Fang Brothers, CITIC Capital China, CDH Auto, CDH Cool and Mr. Qian Yonggui, both before and after the group reorganisation mentioned above. The Company is an investment holding company which does not carry out any business nor operation apart from the acquisition of Aotecar International. Therefore, in substance, no business combination has occurred and consequently, the combined financial statements of the Company are considered as a continuation of the combined financial statements of Aotecar International and its subsidiaries.

The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group as set out in Section B below respectively include the results of operations of the companies now comprising the Group for the Relevant Period (or where the companies were incorporated/established at a date later than 1 January 2008, for the period from their respective dates of incorporation/establishment to 31 December 2010) as if the current group structure had been in existence throughout the entire Relevant Period. The combined balance sheets of the Group as at 31 December 2008, 2009 and 2010 as set out in Section B below have been prepared to present the state of affairs of the companies comprising the Group as at respective dates as if the current group structure had been in existence as at the respective dates.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Details of the principal subsidiaries, in which the Company has direct and indirect interests as at the date of this report, are set out in note 31 of Section C of this report.

B. COMBINED FINANCIAL INFORMATION

1. Combined income statements

	Section C Note	Years ended 31 December		
		2008	2009	2010
		RMB'000	*RMB'000*	*RMB'000*
Turnover	3	378,387	797,026	1,244,589
Cost of sales		(282,849)	(585,137)	(913,862)
Gross profit		95,538	211,889	330,727
Other revenue and net income	4	4,008	1,973	4,135
Distribution expenses		(25,179)	(42,227)	(64,819)
Administrative expenses		(25,848)	(33,639)	(63,197)
Other operating expenses		(5,749)	(5,593)	(5,863)
Profit from operations		42,770	132,403	200,983
Finance costs	5(a)	(5,078)	(6,600)	(13,223)
Profit before taxation		37,692	125,803	187,760
Income tax	6(a)	(6,723)	(23,350)	(39,089)
Profit for the year		30,969	102,453	148,671
Attributable to:				
Equity shareholders of the Company		30,969	101,699	148,272
Non-controlling interests		—	754	399
Profit for the year		30,969	102,453	148,671
Earnings per share (RMB)				
Basic earnings per share (RMB)	10	0.044	0.145	0.212

2. Combined statements of comprehensive income

	Section C Note	Years ended 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
Profit for the year		30,969	102,453	148,671
Other comprehensive income	11			
Exchange differences on translation of financial statements of subsidiaries outside mainland China		14,672	(320)	7,809
Total comprehensive income for the year		45,641	102,133	156,480
Attributable to:				
Equity shareholders of the Company		45,641	101,379	156,081
Non-controlling interests		—	754	399
Total comprehensive income for the year		45,641	102,133	156,480

3. Combined balance sheets

	Section C Note	At 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets				
Property, plant and equipment	12	132,262	227,669	299,497
Lease prepayments	13	27,447	48,774	64,980
Intangible assets	14	64,535	59,141	53,748
Goodwill	15	39,895	39,895	39,895
Non-current prepayments	16	—	—	12,107
Deferred tax assets	24(b)(ii)	—	993	1,467
		264,139	376,472	471,694
Current assets				
Inventories	17	84,008	115,940	160,550
Trade and other receivables	18	193,525	440,950	571,613
Pledged deposits	19	11,332	31,166	15,022
Cash	20	34,726	16,560	26,301
		323,591	604,616	773,486
Current liabilities				
Trade and other payables	21	103,920	283,070	349,428
Amounts due to related parties	30(c)	209,419	221,224	—
Interest-bearing borrowings	22	102,707	173,771	406,487
Income tax payables	24(a)	1,594	10,866	15,312
Provision	25	8,312	21,678	43,978
Deferred income	26	—	1,533	1,533
		425,952	712,142	816,738
Net current liabilities		(102,361)	(107,526)	(43,252)
Total assets less current liabilities		161,778	268,946	428,442
Non-current liabilities				
Deferred income	26	—	2,680	1,147
Deferred tax liabilities	24(b)(ii)	18,770	19,075	21,371
		18,770	21,755	22,518
Net assets		143,008	247,191	405,924
Capital and reserves				
Share capital	27(a)	—	—	—
Reserves		142,608	243,987	401,341
Total equity attributable to equity shareholders of the Company		142,608	243,987	401,341
Non-controlling interests		400	3,204	4,583
Total equity		143,008	247,191	405,924

4. Balance sheet of the Company

	Section C Note	At 31 December 2010 *RMB'000*
Non-current assets		
Investment in a subsidiary		—
		—
Current assets		
Trade and other receivables	18	9,564
		9,564
Current liabilities		
Trade and other payables	21	(1,783)
Amount due to a subsidiary	30(c)	(22,626)
		(24,409)
Net current liabilities		(14,845)
Total assets less current liabilities		(14,845)
Net liabilities		(14,845)
Capital and reserves		
Share capital	27(a)	—
Accumulated loss	27(e)	(14,845)
Total equity		(14,845)

5. Combined statements of changes in equity

(*Expressed in RMB'000*)

	Attributable to equity shareholders of the Company							
	Share capital (Note 27(a))	PRC statutory reserves (Note 27(b))	Capital reserve (Note 27(c))	Translation reserve (Note 27(d))	Retained earnings (Note 27(e))	Total	Non-controlling interests	Total equity
At 1 January 2008	—	—	89,616	—	—	89,616	—	89,616
Changes in equity for 2008:								
Capital contribution by non-controlling shareholder of the subsidiary	—	—	—	—	—	—	400	400
Equity settled share-based transactions (note 5 (b)(ii))	—	—	3,163	—	—	3,163	—	3,163
Other contribution by equity shareholders (note 5 (b)(ii))	—	—	4,188	—	—	4,188	—	4,188
Total comprehensive income for the year	—	—	—	14,672	30,969	45,641	—	45,641
Appropriation to reserves	—	5,210	—	—	(5,210)	—	—	—
At 31 December 2008	—	5,210	96,967	14,672	25,759	142,608	400	143,008
Changes in equity for 2009:								
Capital contribution by non-controlling shareholder of the subsidiary	—	—	—	—	—	—	2,050	2,050
Total comprehensive income for the year	—	—	—	(320)	101,699	101,379	754	102,133
Appropriation to reserves	—	10,810	—	—	(10,810)	—	—	—
At 31 December 2009	—	16,020	96,967	14,352	116,648	243,987	3,204	247,191

(Expressed in RMB'000)

	Attributable to equity shareholders of the Company							
	Share capital	PRC statutory reserves	Capital reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	(Note 27(a))	(Note 27(b))	(Note 27(c))	(Note 27(d))	(Note 27(e))			
At 1 January 2010	—	16,020	96,967	14,352	116,648	243,987	3,204	247,191
Changes in equity for the year:								
Capital contribution by non-controlling shareholder of the subsidiary	—	—	—	—	—	—	980	980
Equity settled share-based transactions (note 5(b) (iii))	—	—	1,273	—	—	1,273	—	1,273
Total comprehensive income for the year	—	—	—	7,809	148,272	156,081	399	156,480
Appropriation to reserves	—	17,486	—	—	(17,486)	—	—	—
At 31 December 2010	**—**	**33,506**	**98,240**	**22,161**	**247,434**	**401,341**	**4,583**	**405,924**

6. Combined cash flow statements

	Section C Note	Years ended 31 December 2008 RMB'000	2009 RMB'000	2010 RMB'000
Operating activities				
Profit before taxation		37,692	125,803	187,760
Adjustments for:				
(Reversal of)/impairment losses on trade receivables	18(b)	520	1,949	(588)
Depreciation of property, plant and equipment	12	12,539	17,630	25,137
Amortisation of lease prepayments	13	598	599	1,062
Amortisation of intangible assets	14	5,393	5,394	5,393
Interest income	4	(234)	(127)	(261)
Loss on sale of property, plant and equipment	4	244	262	116
Finance costs	5(a)	5,078	6,600	13,223
Equity settled share-based payment expenses	5(b)(ii),(iii)	3,163	—	1,273
Other staff costs settled by equity shareholders	5(b)(ii)	4,188	—	—
Foreign exchange (gains)/losses		(1,221)	1	—
Profit before changes in working capital		67,960	158,111	233,115
Increase in inventories		(12,277)	(31,932)	(44,610)
Increase in trade and other receivables		(47,969)	(249,374)	(132,855)
Decrease/(increase) in pledged deposits		9,359	(19,834)	16,144
Increase in trade and other payables		7,003	165,564	69,211
Increase/(decrease) in amounts due to related parties		31	11,747	(18,081)
Increase/(decrease) in discounted bank acceptance bills		6,073	50,834	(23,551)
Increase in provision		327	13,366	22,300
Increase/(decrease) in deferred income		—	4,213	(1,533)
Cash generated from operating activities		30,507	102,695	120,140
Finance costs paid		(4,484)	(7,095)	(11,423)
Income tax paid	24(a)	(1,537)	(14,766)	(32,821)
Net cash generated from operating activities		24,486	80,834	75,896
Investing activities				
Acquisition of property, plant and equipment and lease prepayments		(40,052)	(121,222)	(128,486)
Proceeds from sale of property, plant and equipment		541	77	157
Interest received		234	127	261
Net cash used in investing activities		(39,277)	(121,018)	(128,068)
Financing activities				
Proceeds from bank loans		72,000	122,001	500,486
Repayment of bank loans		(30,000)	(101,772)	(237,000)
Repayment of amounts due to related parties		—	—	(203,143)
Capital contributions from non-controlling shareholder		400	2,050	980
Net cash generated from financing activities		42,400	22,279	61,323
Net increase/(decrease) in cash		27,609	(17,905)	9,151
Cash at the beginning of the year	20	7,116	34,726	16,560
Effect of foreign exchange rate changes		1	(261)	590
Cash at the end of the year	20	34,726	16,560	26,301

C NOTES TO COMBINED FINANCIAL INFORMATION

1. Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which collective term includes International Accounting Standards ("**IAS**") and related interpretations, promulgated by the International Accounting Standards Board (the "**IASB**"). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2010. The revised and new accounting standards and interpretations issued but not yet effective for the year ended 31 December 2010 are set out in note 35.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries (together referred to as the "**Group**") and has been prepared based on the combined financial statements of Aotecar International and its subsidiaries in accordance with IAS 27, Consolidated and Separate Financial Statements, where a parent reorganizes the structure of its group by establishing a new entity as its parent company, as further explained in Section A.

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 31 December 2008, 2009 and 2010. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the year ending 31 December 2011, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("**RMB**"), rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 34.

(e) Basis of combination

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial information of subsidiaries is included in the Financial Information from the date that control commences until the date that control ceases.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined income statements and the combined statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the combined balance sheet in accordance with notes 1 (n) or (o) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)(ii)).

(ii) Transactions eliminated on combination

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(f) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("**functional currency**"). The Financial Information is presented in RMB ("**presentation currency**").

(ii) Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated from their functional currencies to RMB at the exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to RMB at exchange rates approximating exchange rates at the dates of the transactions.

Foreign currency differences arising on translation are recognised in other comprehensive income. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item is recognised in the statement of comprehensive income.

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)(ii)).

(h) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k) (ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Plant and buildings	20 years
– Machinery and equipment	10 - 15 years
– Furniture, fixtures and other office equipment	5 - 10 years
– Motor vehicles	4 - 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k) (ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

Core technology	15 years
Customer relationships	10 years

Both the period and method of amortisation are reviewed annually.

(j) Lease prepayments

Lease prepayments represent cost of land use right paid to the PRC governmental authorities.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see note 1(k) (ii)). Amortisation is charged to profit or loss on a straight-line basis over the periods of the rights which are 50 years.

(k) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– investment in a subsidiary;

– goodwill;

– property, plant and equipment;

– lease prepayments; and

– intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(k) (i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash

Cash represents cash and cash equivalents which comprise cash at bank and on hand and demand deposits with banks and other financial institutions.

(q) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Share-based payments

The fair value of benefits in connection with the transfer of shares to employees by equity shareholders for services rendered to the Group is recognised as staff costs to the extent that the fair value of shares transferred exceeds the amounts of consideration paid and payable by the employees with a corresponding increase in a capital reserve within equity. The fair value of shares transferred is measured at grant date taking into account the terms and conditions upon which the shares were transferred. Where the employees are entitled to the benefits immediately at the grant date, the total amount of benefits is recognised immediately at that date.

The fair value of share options granted to employees is recognised as staff costs with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged / credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. Segment reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the production and sale of automotive compressors.

(a) Information about geographical area

Since over 90% of the Group's revenue and operating profit were generated from the sale of automotive compressors in mainland China and over 90% of the Group's identified assets and liabilities were located in mainland China, no geographical information is presented.

(b) Information about major customers

The Group's customer base is diversified and included only three customers with whom transactions have exceeded 10% of the Group's annual revenue during the Relevant Period. Details of concentrations of credit risk arising from the Group's largest customer and the five largest customers are set out in note 28(a).

Revenues of a customer which amounted to 10 percent or more of the Group's revenue for the year is set out below:

	Years ended 31 December		
	2008 *RMB'000*	**2009** *RMB'000*	**2010** *RMB'000*
Customer A	65,776	140,930	165,958
Customer B	38,367	N/A	N/A
Customer C	N/A	82,787	143,325

3. Turnover

The principal activities of the Group are manufacturing and sale of automotive compressors.

Turnover represents the sales value of goods supplied to customers.

4. Other revenue and net income

	Years ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Other revenue			
Interest income	234	127	261
Government grants	1,320	933	3,487
Others	1,500	810	1,398
	3,054	1,870	5,146
Other net income/(losses)			
Loss on sale of property, plant and equipment	(244)	(262)	(116)
Net foreign exchange gains/(losses)	1,198	365	(895)
	954	103	(1,011)
	4,008	1,973	4,135

5. Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank loans	3,935	5,358	9,787
Interest on discounted bills	1,143	1,242	3,436
	5,078	6,600	13,223

(b) Staff costs

		Years ended 31 December		
		2008	2009	2010
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, wages, and other benefits	(ii)	25,944	46,768	72,360
Contributions to defined contribution retirement plan	(i)	1,267	1,956	3,197
Equity settled share-based payment expenses	(ii), (iii)	3,163	—	1,273
		30,374	48,724	76,830

Note

(i) Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement benefit schemes (the "**scheme**") organised by the PRC government authorities whereby the Group is required to make contributions to the scheme at the rate of 18% to 21% of the eligible employees' salaries.

The government is responsible for the entire pension obligation payable to the retired employees. The Group has no other material obligation for the payment of pension benefits associated with the scheme referred to above beyond the annual contributions described above.

The Group also participates in a Mandatory Provident Fund Scheme (the "**MPF scheme**") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

(ii) Pursuant to the share transfer agreement dated 11 September 2008 (the "**Share Transfer Agreement**") entered into between CUAS, Aotecar International and Mr. Qian Yonggui, the general manager of Aotecar Nanjing, and the first and second supplemental share transfer agreements dated 7 June 2010 and 15 July 2010 respectively (the "**Supplemental Agreements**"), i) CUAS agreed to transfer to Mr. Qian Yonggui its 3% beneficial interest in the issued share capital of Aotecar International and its creditor's right to an amount of USD 920,212 owed by Aotecar Hong Kong for an aggregate deferred consideration of USD 1,145,485 on 11 September 2008, and ii) CUAS granted Mr. Qian Yonggui a conditional option to acquire from CUAS a further 2% beneficial interest in the issued share capital of Aotecar International and its creditor's right to an amount of USD 613,475 owed by Aotecar Hong Kong at an aggregate exercise price of USD 2 when certain performance conditions were met in 2008. There are no terms and conditions in connection with any future services of Mr. Qian Yonggui attached to the above benefit transfer.

Given the terms and conditions set out in the Share Transfer Agreement and the Supplemental Agreements, the benefits of RMB 1,281,000 in connection with the transfer of CUAS's 3% beneficial interest in the issued share capital of Aotecar International, being the difference of the fair value of the 3% beneficial interest transferred and the net consideration of USD 225,273 paid and payable by Mr. Qian Yonggui on 11 September 2008, were accounted for as an equity settled share-based payment transaction and recognised as staff costs in 2008.

The share option granted to Mr. Qian Yonggui to acquire from CUAS its 2% beneficial interest in the issued share capital of Aotecar International on 11 September 2008 was accounted for as an equity settled share-based payment transaction. The fair values of the share option as at 11 September 2008 and the option granted to Mr. Qian Yonggui to acquire CUAS's creditor's right to an amount of USD 613,475 owed by Aotecar Hong Kong as at 31 December 2008 were RMB 1,882,000 and RMB 4,188,000, respectively. These amounts were recognised as staff costs during the vesting period in 2008 when the relevant performance conditions were met. Mr. Qian Yonggui exercised these options on 22 June 2010.

(iii) The Group recognised an expense of RMB1,273,000 for the year ended 31 December 2010 in relation to share options granted to certain directors and employees of the Company or its subsidiaries under the Company's Pre-IPO Share Option Scheme detailed in Appendix VI "Statutory and General Information" to the Prospectus (the "Pre-IPO Share Option Scheme") (see note 23(b)).

(c) Other items

		Years ended 31 December		
	Note	**2008** *RMB'000*	**2009** *RMB'000*	**2010** *RMB'000*
Amortisation				
– lease prepayments	13	598	599	1,062
– intangible assets	14	5,393	5,394	5,393
Depreciation of property, plant and equipment	12	12,539	17,630	25,137
(Reversal of)/impairment losses on trade receivables	18(b)	520	1,949	(588)
Auditors' remuneration				
– audit services		566	665	1,068
– other services		20	7	72
Research and development costs		1,919	3,019	7,564
Increase in provision for product warranties	25	13,068	27,239	43,022
Cost of inventories	17(b),(i)	282,849	585,137	913,862

Note

(i) Cost of inventories includes RMB 20,379,000, RMB 39,651,000 and RMB 74,768,000 relating to staff costs, depreciation and amortisation for each of the years ended 31 December 2008, 2009 and 2010 respectively, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. Income tax

(a) Income tax in the combined income statements represents:

	Years ended 31 December		
	2008 *RMB'000*	**2009** *RMB'000*	**2010** *RMB'000*
Current tax—PRC income tax			
Adjustment for prior year	—	191	472
Provision for current year	6,378	23,847	36,795
	6,378	24,038	37,267
Deferred tax			
Origination and reversal of temporary differences	345	(688)	1,822
	6,723	23,350	39,089

(b) Reconciliation between income tax and profit before taxation at applicable tax rate:

	Years ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	37,692	125,803	187,760
Tax at the PRC's statutory income tax rate of 25%	9,423	31,451	46,940
Effect of tax rate differential (i)	(5,293)	(13,264)	(17,072)
Tax credit for purchase of domestic equipment (ii)	(553)	—	—
Adjustments for prior year's income tax	—	191	472
Effect of non-deductible expenses	1,203	7	41
Effect of non-taxable income	—	(43)	(19)
Effect of unused tax losses not recognised	—	—	622
Effect of PRC dividend withholding tax (iii)	1,943	5,008	8,105
Actual income tax	6,723	23,350	39,089

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not have any assessable profit subject to Hong Kong Profit Tax during the Relevant Period.

The PRC's statutory income tax rate, effective from 1 January 2008, is 25%.

— Aotecar Nanjing, being a foreign invested enterprise engaged in manufacturing activities in a coastal economic development zone, was granted a preferential income tax rate of 24% and was also entitled to a tax holiday of two-year full exemption from income tax followed by three-year 50% reduction of the applicable income tax rate commencing from the first profit-making year from PRC income tax perspective ("**2+3 tax holiday**") based on the then effective tax regulations prior to 1 January 2008. Aotecar Nanjing started its tax holiday in 2004.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC (the "**new CIT Law**"), which took effect on 1 January 2008. The 2+3 tax holiday is grandfathered under the new CIT Law and its relevant regulations. Further, Aotecar Nanjing is recognised as a High and New Technology Enterprise under the new CIT Law for a period of 3 years from 2008 to 2010. According to the grandfathering regulations, where the grandfathered preferential income tax policies and the preferential policies prescribed under the new CIT Law overlap, an enterprise shall choose to carry out the most preferential policy, but shall not enjoy multiple preferential policies.

Aotecar Nanjing has chosen to complete the 2+3 tax holiday until its expiry in 2008. Accordingly, Aotecar Nanjing is subject to income tax rate at 12.5% for 2008, at 15% for 2009 and 2010, and at 25% from 2011 onwards.

— The income tax rate applicable for Nanjing Aotecar Xiangyun Refrigerating Co., Ltd. ("**Aotecar Xiangyun**") and Nanjing Aotecar Changheng Casting Co., Ltd. ("**Aotecar Casting**") is 25%.

(ii) Pursuant to the then prevailing tax rules and regulations of the PRC, Aotecar Nanjing was entitled to a tax credit of 40% of the capital expenditure on purchase of domestic equipment.

(iii) Under the new CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the arrangement between the mainland China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income ("**Mainland China/HKSAR DTA**"), a qualified Hong Kong tax resident which holds 25% or more of the equity interest of a PRC resident enterprise is entitled to a reduced dividend withholding tax rate of 5%, provided that Hong Kong tax resident meets the conditions under Guo Shui Han [2009] No.601 on "How to Understand and Recognise the "Beneficial Owner" in Double Taxation Agreements" ("**Circular 601**"), issued by the State Administration of Taxation on 27 October 2009.

7. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2008						
	Directors' fees	Salaries, allowances and benefits in kind (note 5 (b) (ii))	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note 23)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director							
Mr. Qian Yonggui	—	4,423	300	41	4,764	3,163	7,927
Non-executive Directors							
Mr. Fang Kenneth Hung	—	—	—	—	—	—	—
Mr. Gao Chunhe	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
	—	4,423	300	41	4,764	3,163	7,927

	Year ended 31 December 2009						
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note 23)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director							
Mr. Qian Yonggui	—	262	1,600	—	1,862	—	1,862
Non-executive Directors							
Mr. Fang Kenneth Hung	—	—	—	—	—	—	—
Mr. Gao Chunhe	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
	—	262	1,600	—	1,862	—	1,862

	Year ended 31 December 2010						
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (note 23)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Director							
Mr. Qian Yonggui	—	268	1,980	—	2,248	—	2,248
Non-executive Directors							
Mr. Fang Kenneth Hung							
Mr. Gao Chunhe	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
Mr. Zhang Yichen	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Cheung Man Sang	25	—	—	—	25	—	25
Mr. Lai Ni Hium	25				25		25
Mr. Zhao Chunming	25	—	—	—	25	—	25
	75	268	1,980	—	2,323	—	2,323

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments, one is the director of the Company for the Relevant Period whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the other four individuals are as follows:

	Years ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other emoluments	618	684	1,183
Discretionary bonuses	440	1,420	1,523
Retirement scheme contributions	108	113	113
Equity compensation benefits	—	—	256
	1,166	2,217	3,075

The emoluments of these four individuals with the highest emoluments are within the band Nil to HKD 1 million for the Relevant Period.

9. Dividends

No dividend was declared or paid by the Company during the Relevant Period to its equity shareholders.

10. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company during the Relevant Period and on the 700,000,000 shares of the Company in issue or issuable, comprising 14,737 ordinary shares in issue as at the date of the Prospectus, 699,985,263 ordinary shares to be issued pursuant to the capitalisation issue as detailed in "Corporate reorganisation" under "Statutory and General Information" in Appendix VI to the Prospectus, as if the shares were outstanding throughout the Relevant Period.

The share options granted under the pre-IPO Share Option Scheme are subject to the successful listing of the Company's shares on the Stock Exchange and employment conditions after listing. Prior to the listing of the Company's shares, such share options would not be considered for computation of diluted earnings per share and therefore no diluted earnings per share is presented.

11. Other comprehensive income

The component of other comprehensive income does not have any significant tax effect for each of the years ended 31 December 2008, 2009 and 2010.

12. Property, plant and equipment — The Group

	Plant and buildings	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress "CIP"	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2008	12,799	121,447	1,742	2,347	5,621	143,956
Additions	—	17,600	272	1,064	21,349	40,285
Transfer from CIP	7,522	—	—	—	(7,522)	—
Disposals	—	—	—	(969)	—	(969)
At 31 December 2008	20,321	139,047	2,014	2,442	19,448	183,272
At 1 January 2009	20,321	139,047	2,014	2,442	19,448	183,272
Additions	75	85,537	896	1,426	25,442	113,376
Transfer from CIP	21,584	8,628	—	—	(30,212)	—
Disposals	—	(898)	(800)	(198)	—	(1,896)
At 31 December 2009	41,980	232,314	2,110	3,670	14,678	294,752
At 1 January 2010	41,980	232,314	2,110	3,670	14,678	294,752
Additions	647	81,487	805	570	13,729	97,238
Transfer from CIP	17,590	1,317	—	—	(18,907)	—
Disposals	—	(71)	—	(330)	—	(401)
At 31 December 2010	60,217	315,047	2,915	3,910	9,500	391,589
Accumulated depreciation:						
At 1 January 2008	(1,746)	(35,232)	(900)	(777)	—	(38,655)
Charge for the year	(582)	(11,542)	(165)	(250)	—	(12,539)
Written back on disposals	—	—	—	184	—	184
At 31 December 2008	(2,328)	(46,774)	(1,065)	(843)	—	(51,010)
At 1 January 2009	(2,328)	(46,774)	(1,065)	(843)	—	(51,010)
Charge for the year	(921)	(16,148)	(261)	(300)	—	(17,630)
Written back on disposals	—	808	720	29	—	1,557
At 31 December 2009	(3,249)	(62,114)	(606)	(1,114)	—	(67,083)
At 1 January 2010	(3,249)	(62,114)	(606)	(1,114)	—	(67,083)
Charge for the year	(1,031)	(23,361)	(375)	(370)	—	(25,137)
Written back on disposals	—	37	—	91	—	128
At 31 December 2010	(4,280)	(85,438)	(981)	(1,393)	—	(92,092)
Net book value:						
At 31 December 2010	55,937	229,609	1,934	2,517	9,500	299,497
At 31 December 2009	38,731	170,200	1,504	2,556	14,678	227,669
At 31 December 2008	17,993	92,273	949	1,599	19,448	132,262

As at 31 December 2010, the application of the property ownership certificates of certain buildings with a carrying amount of approximately RMB 50,531,000 was still in progress.

Property, plant and equipment with carrying amounts of RMB 6,106,000, RMB 5,756,000 and RMB nil were pledged as collateral for the Group's bank loans as at 31 December 2008, 2009 and 2010, respectively (see note 22).

13. Lease prepayments

	The Group
	RMB'000
Cost:	
At 1 January 2008	26,725
Additions	1,320
At 31 December 2008	28,045
At 1 January 2009	28,045
Additions	21,926
At 31 December 2009	49,971
At 1 January 2010	49,971
Additions	17,268
At 31 December 2010	67,239
Accumulated amortisation:	
At 1 January 2008	—
Charge for the year	(598)
At 31 December 2008	(598)
At 1 January 2009	(598)
Charge for the year	(599)
At 31 December 2009	(1,197)
At 1 January 2010	(1,197)
Charge for the year	(1,062)
At 31 December 2010	(2,259)
Carrying amount:	
At 31 December 2010	64,980
At 31 December 2009	48,774
At 31 December 2008	27,447

(i) Lease prepayments represented cost of land use rights in respect of land located in the PRC, on which the Group's plant and building were built. The Group was granted land use rights for a period of 50 years.

(ii) Land use rights with carrying amounts of RMB 26,127,000, RMB 25,528,000 and RMB nil were pledged as collateral for the Group's bank loans as at 31 December 2008, 2009, and 2010 respectively (see note 22).

14. Intangible assets

	The Group		
	Core technology	*Customer relationships*	*Total*
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2008, 31 December 2008, 2009 and 2010	47,984	21,944	69,928
Accumulated amortisation:			
At 1 January 2008	—	—	—
Charge for the year	(3,199)	(2,194)	(5,393)
At 31 December 2008	(3,199)	(2,194)	(5,393)
At 1 January 2009	(3,199)	(2,194)	(5,393)
Charge for the year	(3,199)	(2,195)	(5,394)
At 31 December 2009	(6,398)	(4,389)	(10,787)
At 1 January 2010	(6,398)	(4,389)	(10,787)
Charge for the year	(3,199)	(2,194)	(5,393)
At 31 December 2010	(9,597)	(6,583)	(16,180)
Net book value:			
At 31 December 2010	38,387	15,361	53,748
At 31 December 2009	41,586	17,555	59,141
At 31 December 2008	44,785	19,750	64,535

The amortisation charge for the Relevant Period is included in "Other operating expenses" in the combined income statements.

15. Goodwill

	The Group
	RMB'000
Cost:	
At 31 December 2008, 2009 and 2010	39,895
Accumulated impairment losses:	
At 31 December 2008, 2009 and 2010	—
Carrying amount:	
At 31 December 2010	39,895
At 31 December 2009	39,895
At 31 December 2008	39,895

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the group's cash-generating units (CGU) identified according to country of operation and reportable segment as follows:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Aotecar Nanjing	39,895	39,895	39,895

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The discount rates applied to the cash flow projections are 18.5%, 17% and 17.5% as at 31 December 2008, 2009 and 2010. The discount rates used are pre-tax and are determined based on the weighted average cost of capital for comparable companies, adjusted for specific risks relating to the relevant segment.

16. Non-current prepayments

As at 31 December 2010, non-current prepayments mainly represented the prepayments for procurement of machinery and equipment.

17. Inventories

(a) Inventories in the combined balance sheets comprised:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	29,255	30,987	30,924
Work in progress	5,378	21,464	37,254
Finished goods	49,375	63,489	92,372
	84,008	115,940	160,550

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group		
	Years ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	282,849	585,137	913,862

18. Trade and other receivables

	The Group			The Company
	At 31 December			At 31 December
	2008	2009	2010	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	137,406	311,259	448,533	—
Less: allowance for doubtful debts (note 18(b))	(1,293)	(2,617)	(1,643)	—
	136,113	308,642	446,890	—
Bills receivable	36,165	105,336	92,798	—
Other receivables, deposits and prepayments	9,737	7,754	14,675	9,564
Amounts due from related parties (note 30(c))	11,510	19,218	17,250	—
	193,525	440,950	571,613	9,564

All of the trade and other receivables (including amounts due from related parties) are expected to be recovered or recognised as expense within one year, or for certain expenses incurred for the proposed listing exercise, to be offset against the share premium account upon listing.

(a) Ageing analysis

Included in trade and other receivables are trade and bills receivable (net of allowance for doubtful debts) with the following ageing analysis based on the invoice date as at 31 December 2008, 2009 and 2010.

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Less than 3 months	140,694	385,829	477,374
3 to 6 months	19,869	23,288	35,869
6 to 12 months	9,835	3,020	26,240
More than 12 months	1,880	1,841	205
Total	172,278	413,978	539,688

Trade and bills receivable are due within 90 days to 120 days from the date of billing. Further details on the Group's credit policy are set out in note 28(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the Relevant Period, including both specific and collective loss components, is as follows:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	(2,187)	(1,293)	(2,617)
Impairment loss (recognised)/reversed	(520)	(1,949)	588
Uncollectible amounts written off	1,414	625	386
At the end of the year	(1,293)	(2,617)	(1,643)

At 31 December 2008, 2009 and 2010, the Group's trade debtors of RMB 2,954,000, RMB 2,738,000 and RMB 3,234,000 were individually determined to be impaired. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB 1,293,000, RMB 2,617,000 and RMB 1,643,000 were recognised at 31 December 2008, 2009 and 2010. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired:

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired	140,694	385,828	477,217
Less than 1 month past due	9,049	16,911	15,391
1 to 3 months past due	10,819	6,377	20,174
3 to 12 months past due	9,973	4,271	25,305
Over 12 months past due	82	470	10
	29,923	28,029	60,880
Total	170,617	413,857	538,097

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

19. Pledged deposits

Pledged deposits can be analysed as follows:

	The Group		
	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Guarantee deposits for issuance of commercial bills and letters of credit	11,332	31,166	15,022

20. Cash

	The Group		
	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank	34,358	16,413	25,588
Cash on hand	368	147	713
	34,726	16,560	26,301

Cash include cash at bank and on hand of RMB 34,721,000, RMB 8,736,000 and RMB 23,343,000 held in mainland China as at 31 December 2008, 2009 and 2010 respectively. The conversion of RMB denominated balance into foreign currencies and the remittance of bank balance and cash out of the mainland China is subject to the relevant rules and regulations of foreign exchange restriction imposed by the PRC government.

21. Trade and other payables

	The Group			The Company
	At 31 December			At 31 December
	2008	**2009**	**2010**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	80,503	211,122	266,253	—
Bills payable	7,120	23,959	15,000	—
Receipts in advance	1,741	973	5,826	—
Other payables	9,885	35,881	51,793	1,783
Other tax payable	4,671	11,135	10,556	—
	103,920	283,070	349,428	1,783

An ageing analysis of trade and bills payable of the Group is as follows:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	42,630	125,706	117,202
Over 1 month but less than 3 months	28,013	80,536	106,326
Over 3 months but less than 6 months	13,983	25,880	49,471
Over 6 months but less than 1 year	1,010	1,578	6,609
Over 1 year	1,987	1,381	1,645
	87,623	235,081	281,253

22. Interest-bearing borrowings

		The Group		
		At 31 December		
		2008	2009	2010
		RMB'000	*RMB'000*	*RMB'000*
Bank loans				
– Secured	(i)	40,000	40,000	205,304
– Unsecured	(ii)	49,770	70,000	160,963
Bank advances under discounted bills	(iii)	12,937	63,771	40,220
		102,707	173,771	406,487

(i) As at 31 December 2008, 2009 and 2010, secured bank loans of RMB 40,000,000, RMB 40,000,000 and RMB nil were secured by the following assets:

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	6,106	5,756	—
Lease prepayments	26,127	25,528	—

As at 31 December 2010, a bank loan of RMB 205,304,000 was secured by CUAS's pledged deposits of USD 31,000,000 (see note 30(b)).

(ii) As at 31 December 2010, bank loans of RMB 27,000,000 were personally guaranteed by Mr. Qian Yonggui (see note 30(b)).

(iii) The Group's discounted bank acceptance bills have been accounted for as collateralised bank advance, and the corresponding discounted bills receivable are included in "bills receivable" (see note 18).

23. Equity settled share-based transactions

(a) Share-based payment to Mr. Qian Yonggui

In order to recognise the contribution of Mr. Qian Yonggui to the Group, CUAS transferred its 3% beneficial interest in the issued share capital of Aotecar International on 11 September 2008 and granted a conditional option to Mr. Qian Yonggui to acquire from CUAS a further 2% beneficial interest in the issued share capital of Aotecar International on 11 September 2008 when certain performance conditions were met in 2008 (see note 5 (b) (ii)).

The estimate of the fair value of equity interest in Aotecar International was primarily determined by income approach and cross checked by market approach.

Under the income approach, the fair value depends on the present value of future economic benefits attributed to the equity shareholders at the time when they obtain the beneficial interest. Indication of that value is developed by discounting projected future net cash flows available for payment of equity shareholders' interest to its present value.

Under the market approach, the fair value was determined through a formula based on multiples for comparable companies. These multiples were applied to the performance of Aotecar International and its subsidiaries based on forecasted figures which were available at the grant date.

The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The significant inputs into the model in addition to the exercise price (see note 5(b)(ii)) are the following:

• Fair value of 2% beneficial interest in the issued share capital of Aotecar International at 11 September 2008	RMB 1,882,000
• Expected volatility	50%
• Vesting date	31 December 2008
• Dividend yield	—
• Risk-free interest rate	1.9%

The Group recorded total equity settled share-based payment expenses of RMB 3,163,000 for the year ended 31 December 2008 (see note 5(b)(ii)).

(b) Pre-IPO Share Option Scheme

Pursuant to a written resolution of the shareholders of the Company passed on 20 September 2010, the Pre-IPO Share Option Scheme was adopted by the Company.

Pursuant to the Pre-IPO Share Option Scheme, the Company may grant options to any executive, director and/or employee of any member of the Group and other individuals who have made contributions to the Group at the time when an option is granted ("Eligible Participants") to subscribe for shares of the Company. The purpose of the Pre-IPO Share Option Scheme is to recognise and acknowledge the contributions of the Eligible Participants to the growth of the Group and/or to the listing of the shares on the Stock Exchange by granting options to them as incentives or rewards.

The total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 7,500,000 shares which were granted on 20 September 2010 with the subscription price of 85% of the offer price payable on the exercise of the option. The details on the offer price are set out in "Structure and Conditions of the Global Offering – Pricing and allocation" of the Prospectus.

Each option granted under the Pre-IPO Share Option Scheme has a vesting period of one to three years commencing from the listing date of the shares on the Stock Exchange (the "Listing Date") and the options are exercisable for a period of 10 years from the date of grant. The Company has no legal or constructive obligation to repurchase or settle the option in cash.

(i) The terms and conditions of the grants are as follows:

	Number of options	Vesting conditions	Contractual life of options
Option granted to employees- on 20 September 2010 . . .	7,500,000	34% on the first anniversary of the Listing Date; 33% on each of the second and the third anniversaries of the Listing Date	10 years

(ii) The number of Pre-IPO share options granted during the year ended 31 December 2010 and outstanding at 31 December 2010 was 7,500,000. No share options were exercisable during the year ended 31 December 2010.

(iii) Fair value of share options and assumptions

The fair value of service received in return for share options granted is measured by reference to the fair value of share option granted. The estimate of the fair value of the share options granted is measured based on the binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

• Fair value at grant date	RMB7,110,000
• Underlying stock price	HKD 2.4
• Exercise price	HKD 2.125
• Expected volatility	43%
• Dividend yield	—
• Risk-free interest rate	2.231%
• Expected Option life	10 years

The expected volatility is based on the historical volatility of the stock return of certain comparable listed companies. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The Group recorded total equity settled share-based payment expenses of RMB 1,273,000 for the year ended 31 December 2010 (see note 5 (b) (iii)).

24. Income tax in the combined balance sheets — The Group

(a) Current tax in the combined balance sheets represents:

	At 31 December		
	2008 *RMB'000*	**2009** *RMB'000*	**2010** *RMB'000*
At beginning of the year	(3,247)	1,594	10,866
Adjustment for prior year	—	191	472
Provision for PRC income tax (note 6(a))	6,378	23,847	36,795
PRC income tax paid	(1,537)	(14,766)	(32,821)
At end of the year	1,594	10,866	15,312

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax assets (liabilities) recognised in the combined balance sheets and the movements during the year are as follows:

	Inventories	Lease prepayments	Allowance for bad debt	Other payables	Amortisation of intangible assets	Provision for product warranties	Deferred income	PRC dividend withholding tax	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:									
At 1 January 2008	(400)	(4,976)	273	399	(14,719)	998	—	—	(18,425)
Charged/(credited) to profit or loss	400	56	(79)	397	575	249	—	(1,943)	(345)
At 31 December 2008	—	(4,920)	194	796	(14,144)	1,247	—	(1,943)	(18,770)
At 1 January 2009	—	(4,920)	194	796	(14,144)	1,247	—	(1,943)	(18,770)
Charged/(credited) to profit or loss	—	67	199	1,703	822	2,005	900	(5,008)	688
At 31 December 2009	—	(4,853)	393	2,499	(13,322)	3,252	900	(6,951)	(18,082)
At 1 January 2010	—	(4,853)	393	2,499	(13,322)	3,252	900	(6,951)	(18,082)
Charged/(credited) to profit or loss	—	203	(146)	1,462	1,917	3,345	(498)	(8,105)	(1,822)
At 31 December 2010	—	(4,650)	247	3,961	(11,405)	6,597	402	(15,056)	(19,904)

(ii) Reconciliation to combined balance sheets

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Net deferred tax assets recognised on the combined balance sheet	—	993	1,467
Net deferred tax liabilities recognised on the combined balance sheet	(18,770)	(19,075)	(21,371)
	(18,770)	(18,082)	(19,904)

(c) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets in respect of unused losses of Aotecar Hong Kong amounting to RMB3,769,000 as at 31 December 2010 as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under current tax legislation.

25. Provision

Provision for product warranties

	The Group
	RMB'000
At 1 January 2008	7,985
Additional provision made	13,068
Provision utilised	(12,741)
At 31 December 2008	8,312
Additional provision made	27,239
Provision utilised	(13,873)
At 31 December 2009	21,678
Additional provision made	43,022
Provision utilised	(20,722)
At 31 December 2010	43,978

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within two years of the date of sale. Provision is therefore made based on the best estimate of the expected settlement under those agreements in respect of sales made within two years prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

26. Deferred income

Government grants

	The Group		
	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	—	—	4,213
Received during the year	—	4,600	—
Released to the income statement	—	(387)	(1,533)
At end of the year	—	4,213	2,680
Current	—	1,533	1,533
Non-current	—	2,680	1,147
	—	4,213	2,680

27. Capital, reserves and dividends

(a) Share capital

	Note	Number of shares	Amount
			RMB'000
Authorised			
Ordinary shares of HKD 0.01 each			
At 31 December 2010	(i),(ii)	2,000,000,000	17,019
Ordinary shares, issued and fully paid			
Share issued upon incorporation	(i)	1	—
Issuance of new shares pursuant to the Reorganization	(i),(ii)	14,736	—
At 31 December 2010		14,737	—

(i) The Company was incorporated on 25 May 2010 with an authorised share capital of HKD 100,000 comprising 10,000,000 shares of HKD 0.01 each. On 25 May 2010, one share was allotted and issued as nil paid to the initial subscriber, which was transferred to Fang Brothers on 8 June 2010. On the same date, 699, 3,600, 870 and 1,830 shares were allotted and issued to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively, as nil paid.

(ii) Pursuant to the Reorganisation, on 9 November 2010, 700, 3,600, 870 and 1,830 shares credited as fully paid were allotted and issued to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, respectively, in consideration for the acquisition by the Company of 95% equity interests in Aotecar International from CUAS. On 10 November 2010, 737 shares credited as fully paid were allotted and issued to Mr. Qian Yongui, in consideration for the acquisition by the Company of 5% equity interests in Aotecar International from Mr. Qian Yonggui.

Pursuant to the written resolution on 9 November 2010, the authorised share capital of the Company was increased from HKD 100,000 to HKD 20,000,000 by the creation of an additional 1,990,000,000 shares.

For the purpose of this report, the share capital of the Group as at 31 December 2008 and 2009 represented the capital of Aotecar International which was the then holding company of the companies now comprising the Group.

(b) PRC statutory reserves

Transfers from retained earnings to PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the PRC subsidiaries, and were approved by the board of directors.

General reserve fund

PRC subsidiaries are required to transfer 10% of the net profits, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of dividends to equity shareholders.

General reserve fund can be used to make good previous year's losses, if any, and may be converted into paid-up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of the registered capital.

(c) Capital reserve

The capital reserve comprises the following:

– contributions by Fang Brothers when the Group acquired the entire equity interests in Aotecar Nanjing (see note 32);

– transfers of CUAS's equity interests in Aotecar International and CUAS's creditor's right to amounts owed by Aotecar Hong Kong to Mr. Qian Yonggui as compensation benefits (see note 5(b)(ii)); and

– the portion of the grant date fair value of unexercised Pre-IPO Share Options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(q)(iii) (see note 23(b)).

(d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operation outside mainland China which are dealt with in accordance with the according policies set out in note 1(f).

(e) Distributable reserves

The Company was incorporated on 25 May 2010. There were no reserves available for distribution to equity shareholders as at 31 December 2010. The accumulated loss of the Company as at 31 December 2010 mainly represents certain expenses incurred for the proposed listing exercise for the year ended 31 December 2010.

On the basis set out in note 1(b) above, the aggregate amount of distributable reserves as at 31 December 2008, 2009 and 2010 of the companies now comprising the Group were RMB 25,759,000, RMB 116,648,000 and RMB 247,434,000 respectively.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the debt-to-capital ratio. Net debt is calculated as bank loans less pledged deposits and cash. Capital comprises all components of equity.

During the Relevant Period, the Group's strategy was to maintain the debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders or raise new debt financing.

The net debt-to-capital ratio at 31 December 2008, 2009 and 2010 was as follows:

		At 31 December		
		2008	**2009**	**2010**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	22	102,707	173,771	406,487
Total debt		102,707	173,771	406,487
Less: Cash	20	(34,726)	(16,560)	(26,301)
Pledged deposits	19	(11,332)	(31,166)	(15,022)
Net debt		56,649	126,045	365,164
Capital		142,608	243,987	401,341
Debt-to-capital ratio		40%	52%	91%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28. Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

Financial assets of the Group include cash, pledged deposits and trade and other receivables. Financial liabilities of the Group include interest-bearing borrowings and trade and other payables.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) ***Credit risk***

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days to 120 days from the date of billing.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The industry in which the customers operate also influences its credit risks. The amounts due from the Group's largest customer and the five largest customers are as follows:

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Largest customer	37,331	87,385	68,173
Five largest customers	90,158	241,019	310,065

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance. The Group does not provide any guarantees, which would expose the Group to credit risk.

(b) ***Liquidity risk***

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

At 31 December 2008

	Effective interest rates	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months	More than 12 months
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	5.63-7.35	40,000	41,393	1,177	40,216	—
Unsecured bank loans	6.33-7.30	49,770	51,716	31,185	20,531	—
Bank advances under discounted bills	2.93-5.83	12,937	12,937	12,937	—	—
Trade and other payables		103,920	103,920	103,920	—	—
Amounts due to related parties		209,419	209,419	209,419	—	—
		416,046	419,385	358,638	60,747	—

At 31 December 2009

	Effective interest rates	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months	More than 12 months
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	5.31	40,000	41,298	1,062	40,236	—
Unsecured bank loans	5.10-5.31	70,000	71,423	51,326	20,097	—
Bank advances under discounted bills	2.10-5.11	63,771	63,771	63,771	—	—
Trade and other payables		283,070	283,070	283,070	—	—
Amounts due to related parties		221,224	221,224	221,224	—	—
		678,065	680,786	620,453	60,333	—

At 31 December 2010

	Effective interest rates	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months	More than 12 months
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	0.82	205,304	206,145	206,145	—	—
Unsecured bank loans	1.89-6.10	160,963	163,173	137,896	25,277	—
Bank advances under discounted bills	4.43-7.26	40,220	40,220	40,220	—	—
Trade and other payables		349,428	349,428	349,428	—	—
		755,915	758,966	733,689	25,277	—

(c) Interest rate risk

The Group's interest rate risk arises primarily from cash, pledged deposits and interest-bearing borrowings, issued at variable rates and at fixed rates, exposing the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The interest rate profile of the Group's net borrowings at the balance sheet date is as follows:

	At 31 December					
	2008		2009		2010	
	Effective interest rate %	*RMB'000*	*Effective interest rate %*	*RMB'000*	*Effective interest rate %*	*RMB'000*
Fixed rate borrowings						
Bank loans	6.33-7.35	38,000	5.10-5.31	110,000	5.31-6.10	82,000
Bank advances under discounted bills	2.93-5.83	12,937	2.10-5.11	63,771	4.43-7.26	40,220
		50,937		173,771		122,220
Net variable rate borrowings						
Bank loans	5.63-7.30	51,770	—	—	0.82-1.89	284,267
Less: cash	0.36	(34,726)	0.36	(16,560)	0.36	(26,301)
pledged deposits	1.98	(11,332)	1.98	(31,166)	2.50	(15,022)
		5,712		(47,726)		242,944
Total net borrowings		56,649		126,045		365,164
Net fixed rate borrowings as a percentage of total net borrowings		90%		138%		33%

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

The following table demonstrates the sensitivity to cash flow interest rate risk arising from variable rate borrowings held by the Group at the respective balance sheet dates in respect of a reasonably possible change in interest rates, with all other variables held constant. The impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest expenses or income of such a change in interest rates. The analysis is performed on the same basis during the Relevant Period.

	Increase/(decrease) in basis points	**Increase/(decrease) profit after tax and retained profits for the year**
		RMB'000
At 31 December 2008		
Basis points	100	(453)
Basis points	(100)	453
At 31 December 2009		
Basis points	100	—
Basis points	(100)	—
At 31 December 2010		
Basis points	100	(2,843)
Basis points	(100)	2,843

This sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet and had been applied to the exposure to cash flow interest rate risk for non-derivative financial instruments.

(d) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China, that are determined largely by supply and demand.

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than Renminbi to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

(Expressed in RMB'000)

	At 31 December					
	2008		2009		2010	
	USD	*JPY*	*USD*	*JPY*	*USD*	*JPY*
Trade and other receivables	—	4,664	—	—	4,624	—
Cash	298	—	1	125	404	—
Pledged deposits	2	—	476	—	2	—
Trade and other payables	—	—	—	(6,644)	—	(1,463)
Interest-bearing borrowings	(17,770)	—	—	—	—	—
Net exposure	(17,470)	4,664	477	(6,519)	5,030	(1,463)

(ii) Sensitivity analysis

The following table indicates the change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

	Increase/(decrease) profit after tax and retained profits for the year		
	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
USD			
– 5% depreciation of RMB	(764)	20	214
– 5% appreciation of RMB	764	(20)	(214)
JPY			
– 5% depreciation of RMB	204	(277)	(62)
– 5% appreciation of RMB	(204)	277	62

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

(e) Fair values

The carrying amounts of all financial assets and liabilities approximate their respective fair values as at 31 December 2008, 2009 and 2010 due to the short maturities of those instruments.

29. Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2008, 2009 and 2010 not provided for in the Financial Information were as follows:

	The Group		
	At 31 December		
	2008 *RMB'000*	**2009** *RMB'000*	**2010** *RMB'000*
Contracted for	43,236	15,024	45,216

(b) Lease commitments

At 31 December 2008, 2009 and 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		
	At 31 December		
	2008 *RMB'000*	**2009** *RMB'000*	**2010** *RMB'000*
Within 1 year	—	—	607
After 1 year but within 5 years	—	—	1,505
After 5 years	—	—	498
	—	—	2,610

30. Material related party transactions

(a) Name and relationship with related parties

During the Relevant Period, transactions with the following parties are considered as related party transactions:

Name of related party	Relationship
China United Air Systems Limited ("**CUAS**")	The holding company of Aotecar International during the year ended 31 December 2008 and 2009 and before the group reorganisation completed on 10 November 2010. CUAS is still owned by Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto, which are also the equity shareholders of the Company after the group reorganisation completed on 10 November 2010
Nanjing Xiezhong Auto-air conditioner (Group) Co., Ltd. ("**Xiezhong Nanjing**")	Subsidiary of CUAS
Nanjing Changheng Casting Co., Ltd. ("**Changheng Casting**")	Non-controlling equity holder of Aotecar Casting
Wu Peirong	Director of Aotecar Casting
Qian Yonggui	Shareholder of the Company after the group reorganisation completed on 10 November 2010, executive director of the Company and General Manager of Aotecar Nanjing

(b) ***Transactions with related parties***

Transactions with related parties during the Relevant Period are as follows:

	Years ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Recurring transactions:			
Sales of goods			
— Xiezhong Nanjing	8,236	31,869	38,579
Non-recurring transactions:			
Purchase of raw materials and finished goods			
— Changheng Casting	—	1,359	—
Purchase of plant and equipment			
— Changheng Casting	—	473	—
Loans from related parties			
— Xiezhong Nanjing(i)	—	37,000	15,179
— Wu Peirong(ii)	—	3,370	3,260
	—	40,370	18,439
Repayment of loans from related parties			
— Xiezhong Nanjing(i)	—	37,000	15,179
— Wu Peirong(ii)	—	—	6,630
	—	37,000	21,809
Repayment of amounts due to related parties			
— CUAS and Qian Yonggui(ii)	—	—	208,319
Interest expenses paid to related parties			
— Xiezhong Nanjing(i)	—	263	110
Payment made on behalf by related parties			
— CUAS(ii)	31	5	70
— Changheng Casting(ii)	—	550	—
	31	555	70

(i) The loans borrowed from Xiezhong Nanjing during the Relevant Period were at an annual interest rate of 6.1065% for a term varying from 7 days to 2 months.

(ii) The transactions with these related parties during the Relevant Period were interest-free.

Other than notes (i) and (ii) mentioned above, the directors consider that the above related party transactions during the Relevant Period were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

Guarantee/security issued by related parties

During the year ended 31 December 2010, the Group's bank loans of RMB 205,304,000 and RMB 27,000,000 were secured and guaranteed by CUAS's pledged deposit of USD 31,000,000 and Mr. Qian Yonggui respectively (see note 22).

The pledged deposit by CUAS is to be released when the Group repays the bank loans within one month after the listing of the shares of the Company on the Stock Exchange or by 30 June 2011, whichever is earlier.

The directors have confirmed the guarantee issued by Mr. Qian Yonggui will be released and replaced by a guarantee provided by the Company upon listing of the Company's shares on the Stock Exchange.

(c) Amounts due from/(to) related parties

At 31 December 2008, 2009 and 2010, the Group had the following balances with related parties:

	The Group		
	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables from			
– Xiezhong Nanjing	8,710	19,218	17,250
– Changheng Casting	2,800	—	—
	11,510	19,218	17,250
Other payables to			
– CUAS	(203,137)	(203,199)	—
– Qian Yonggui	(6,282)	(14,105)	—
– Changheng Casting	—	(550)	—
– Wu Peirong	—	(3,370)	—
	(209,419)	(221,224)	—

Amounts due from/(to) the above related parties are unsecured and interest-free.

Amount due to a subsidiary

	The Company
	At 31 December
	2010
	RMB'000
Other payables to	
– Aotecar Hong Kong	(22,626)

Amount due to Aotecar Hong Kong mainly represents proposed listing exercise related expenses paid on behalf of the Company, which is unsecured and interest-free.

(d) ***Transactions with management***

Key management personnel remuneration

Remuneration for key management personnel of the Group, including transactions with Mr. Qian Yonggui as disclosed in note 5(b)(ii), amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

		Years ended 31 December		
	Note	**2008**	**2009**	**2010**
		RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits		6,345	5,016	7,437
Equity compensation benefits	23	3,163	—	461
Total		9,508	5,016	7,898

31. Particulars of subsidiaries

At the date of this report, the Company had direct and indirect interests in the following subsidiaries, which principally affected the results, assets and liabilities of the Group:

Name	Place of incorporation and operation	Date of incorporation	Particulars of issued share capital	Attributable equity interest	Principal activities	Auditor	Year of audit
Aotecar International	British Virgin Islands	16 January 2007	100 shares of USD 1 each	100%	Investment holding	PC Yu & C Yip KPMG KPMG	2008 2009 2010
Aotecar Hong Kong (Formerly known as "Wealth Gear Limited")	Hong Kong	30 October 2007	1 share of HKD 1 each	100%	Investment holding	PC Yu & C Yip KPMG KPMG	2008 2009 2010
Aotecar Nanjing	P.R. China	16 May 2000	USD 20.46 million	100%	Production of auto compressors	Jiangsu Xing Rui Certified Public Accountants Co., Ltd.	2008 2009 2010
Aotecar Xiangyun	P.R. China	27 June 2008	USD 12 million	100%	Production of auto compressors	Jiangsu Xing Rui Certified Public Accountants Co., Ltd.	2008 2009 2010
Aotecar Casting	P.R. China	4 December 2008	RMB 7 million	51%	Production of casting parts	Jiangsu Xing Rui Certified Public Accountants Co., Ltd.	2009 2010

32. Business combination and acquisition of a subsidiary

The Group acquired the entire equity interests in Aotecar Nanjing, through a series of transactions, on 29 December 2007.

Identifiable assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of the above acquisition as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition are as follows:

	Pre-acquisition carrying amount	**Fair value recognised on acquisition**
	RMB'000	*RMB'000*
Property, plant and equipment	105,301	105,301
Lease prepayments	6,232	26,725
Intangible assets	4,092	69,928
Deferred tax assets	2,125	—
Inventories	68,532	71,731
Trade and other receivables	146,077	146,077
Income tax refundable	3,247	3,247
Pledged deposits	20,691	20,691
Cash	7,116	7,116
Trade and other payables	(94,770)	(94,770)
Dividend payable	(7,629)	(7,629)
Interest-bearing borrowings	(55,855)	(55,855)
Deferred tax liabilities	—	(18,425)
Provision	(7,985)	(7,985)
Total net assets acquired	197,174	266,152

Fair value of the entire equity interests in Aotecar Nanjing at the acquisition date

	Note	*RMB'000*
Consideration transferred to acquire 60.33% equity interests in Aotecar Nanjing from Lukou Airport and other miscellaneous investors		184,759
Fair value of 39.67% equity interests in Aotecar Nanjing previously held by Fang Brothers	(a)	
– Initial investment costs		40,822
– Fair value adjustment to the acquisition date fair value		80,466
		121,288
		306,047

(a) The fair value of 39.67% equity interests in Aotecar Nanjing previously held by Fang Brothers represented liabilities incurred by Aotecar Hong Kong to acquire the same equity interests from Fang Brothers based on Fang Brothers' initial investment costs of RMB 40.8 million and the fair value adjustment to the acquisition-date fair value of RMB 80.5 million.

(b) The total liabilities incurred in connection with the acquisition of Aotecar Nanjing from Fang Brothers, Lukou Airport and other miscellaneous investors represent amounts of RMB 224.06 million due to CUAS, which were determined as follows:

	RMB'000
Consideration transferred to acquire 60.33% equity interests in Aotecar Nanjing from Lukou Airport and other miscellaneous investors	184,759
Initial investment costs of 39.67% equity interests in Aotecar Nanjing previously held by Fang Brothers	40,822
Exchange difference adjustment	(1,521)
	224,060

(c) The total contributions made by Fang Brothers when the entire equity interests in Aotecar Nanjing were acquired by the Group, are as follows:

	Note	*RMB'000*
Fair value adjustment of 39.67% equity interests in Aotecar Nanjing previously held by Fang Brothers to the acquisition date fair value		80,466
Aotecar Hong Kong's right to receive dividend payable to Fang Brothers		7,629
Exchange difference adjustment		1,521
	27 (c)	89,616

Goodwill

Goodwill has been recognised as a result of the acquisition as follows:

	Note	*RMB'000*
Fair value of the entire equity interests in Aotecar Nanjing		306,047
Less: fair value of the identifiable assets and liabilities of Aotecar Nanjing		(266,152)
Goodwill	15	39,895

33. Non-adjusting post balance sheet events

The following significant events took place subsequent to 31 December 2010.

Share Options

Pursuant to the written resolution of the shareholders of the Company passed on 11 April 2011, the Company has conditionally adopted a Share Option Scheme. The principal terms of the Share Option Scheme are set out in "Share Option Schemes" of Appendix VI "Statutory and General Information" to the Prospectus.

34. Significant accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the Financial Information are described as follows:

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Warranty provision

As explained in note 25, the Group makes provision under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(c) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

35. New standards and interpretations not yet adopted

Up to the date of issue of the Financial Information, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in preparing the Financial Information. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Revised IAS 24, Related party disclosures	1 January 2011
IFRS 9, Financial instruments	1 January 2013
Improvements of IFRSs 2010	1 July 2010 or 1 January 2011
Amendments to IAS 12, Income taxes	1 January 2012

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2010.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong