



Shuanghua Holdings Limited 雙樺控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1241

PLACING AND PUBLIC OFFER



Sole Sponsor

Piper Jaffray

Joint Bookrunners and Joint Lead Managers

Piper Jaffray



廣發證券(香港)經紀有限公司
GF Securities (Hong Kong) Brokerage Limited

IMPORTANT

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



Shuanghua Holdings Limited

雙樺控股有限公司

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SHARE OFFER

Number of Offer Shares	: 162,500,000 Shares (subject to adjustment)
Number of Hong Kong Offer Shares	: 16,250,000 Shares (subject to adjustment)
Number of Placing Shares	: 146,250,000 Shares (subject to adjustment)
Offer Price	: HK\$1.16 per Offer Share (payable in full on application, plus a brokerage of 1%, an SFC transaction levy of 0.003% and a Hong Kong Stock Exchange trading fee of 0.005% and subject to refund)
Nominal Value	: HK\$0.01 per Share
Stock Code	: 1241

Sole Sponsor

Piper Jaffray

Joint Bookrunners and Joint Lead Managers

Piper Jaffray



A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VII to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above. Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

The Offer Price will be HK\$1.16 per Offer Share. Investors applying for Hong Kong Offer Shares must pay, on application, the Offer Price of HK\$1.16 per Offer Share, unless otherwise announced, together with a brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%. The Joint Bookrunners (on behalf of the Underwriters), with the consent of our Company, may reduce the number of Offer Shares being offered under the Share Offer stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, a notice of the reduction in the number of Offer Shares being offered under the Share Offer will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Pursuant to the termination provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Joint Bookrunners, on behalf of the Underwriters, have the right in certain circumstances, in the sole discretion of the Joint Bookrunners, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in our Shares first commence on The Stock Exchange of Hong Kong Limited (such first dealing date is currently expected to be Thursday, 30 June 2011). Further details of the terms of the termination provisions are set out in the paragraph entitled "Grounds for termination" under the section entitled "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws.

17 June 2011

EXPECTED TIMETABLE

Our Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offer.⁽¹⁾

Latest time to complete electronic applications under the White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Wednesday, 22 June 2011
Application lists open ⁽³⁾	11:45 a.m. on Wednesday, 22 June 2011
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Wednesday, 22 June 2011
Latest time to complete payment of White Form eIPO applications effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, 22 June 2011
Application lists close ⁽³⁾	12:00 noon on Wednesday, 22 June 2011
The indication of the levels of interest in the Placing, the level of applications in respect of the Hong Kong Public Offer and the basis of allotment under the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Wednesday, 29 June 2011
Results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section entitled "How to Apply for Hong Kong Offer Shares – Results of allocations" from	Wednesday, 29 June 2011
Results of allocations in the Hong Kong Public Offer will be available at www.iporesults.com.hk with a "search by ID" function	Wednesday, 29 June 2011
Despatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offer on or before ⁽⁵⁾	Wednesday, 29 June 2011
Despatch of White Form e-Refund Payment instructions/refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer on or before ⁽⁵⁾	Wednesday, 29 June 2011
Dealings in Shares on the Hong Kong Stock Exchange to commence on	Thursday, 30 June 2011

EXPECTED TIMETABLE

- (1) All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set out in the section entitled “Structure of the Share Offer” in this prospectus. If there is any change in this expected timetable, an announcement will be published in the South China Morning Post in English and in the Hong Kong Economic Times in Chinese.
- (2) You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at, www.eipo.com.hk, after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 22 June 2011, the application lists will not open and close on that day. Please see the paragraph entitled “Effect of bad weather conditions on the opening of the application lists” under the section entitled “How to Apply for Hong Kong Offer Shares” in this prospectus. If the application lists do not open and close on Wednesday, 22 June 2011, the dates mentioned in this section entitled “Expected Timetable” may be affected. A press announcement will be made by our Company in such event.
- (4) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the paragraph entitled “How to apply by giving electronic application instructions to HKSCC” under the section entitled “How to Apply for Hong Kong Offer Shares” in this prospectus.
- (5) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have indicated in their Application Forms that they wish to collect Share certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Wednesday, 29 June 2011 or any other date notified by us in the newspapers as the date of despatch of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who opt for personal collection must not authorize any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. Applicants who have applied on **YELLOW** Application Forms may not elect to collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected Share certificates and refund cheques will be despatched by ordinary post to the addressees specified in the relevant applications at the applicants’ own risk. Further information is set out in “How to Apply for Hong Kong Offer Shares”.

Share certificates will only become valid certificates of title provided that the Hong Kong Public Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

For further details in relation to the Hong Kong Public Offer, see the sections entitled “How to Apply for Hong Kong Offer Shares” and “Structure of the Share Offer” in this prospectus.

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This prospectus is issued by Shuanghua Holdings Limited solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus and the Application Forms. Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorized by our Company, the Joint Bookrunners, the Sole Sponsor, the Underwriters, any of their respective directors, or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in our Shares. There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the section entitled “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in our Shares.

OVERVIEW

We are a leading independent automotive heating, ventilation and cooling (“HVAC”) components supplier based in China. We are principally engaged in the design, production and sales of a comprehensive range of automotive HVAC components including evaporators, condensers, heater cores and compressors. Our products are mainly sold to both domestic OEM and international aftermarket customers. According to the Frost & Sullivan Report, we were the largest independent supplier of evaporators and condensers and the second largest independent supplier of heater cores in terms of sales units in China in 2010, with market shares of 7.9%, 4.8% and 2.7%, respectively by sales units in each of the Chinese evaporator, condenser and heater core markets among all captive and independent suppliers in 2010. In the HVAC components market, captive suppliers are generally subsidiaries or affiliates of HVAC system suppliers, and their primary business is to supply such HVAC system suppliers with particular HVAC components. Independent suppliers, on the other hand, are not affiliated with HVAC system suppliers. Independent suppliers are free to manufacture HVAC components for any HVAC system suppliers. Please refer to the section headed “Industry Overview – Captive and Independent Suppliers” in this prospectus for further details.

We have two production sites both located at our production base at Fengxian District in Shanghai, the PRC, with an annual production capacity of 3,456,000 units of evaporators, condensers and heater cores, in aggregate, and 150,000 units of compressor as at 31 December 2010. Leveraging on our existing sales and marketing networks, we plan to reinforce our core competitiveness in the HVAC components market by expanding into the segment of self-manufactured compressors which is expected to become one of our major business segments and growth drivers in the future. We have limited experience in the production of compressors. Please refer to the section headed “Risk Factors – We have limited experience in the production of compressors which forms part of our business plans and we are subject to recognition process for our OEM customers” for further details. Our compressor production lines commenced trial production of consistent displacement swash plate compressors in 2010 solely for sales to the overseas aftermarket. We also plan to commence trial production of variable displacement swash plate compressors by the end of 2011. Variable displacement swash plate compressor has higher energy efficiency due to its variable displacement option and higher quality during the whole lifecycle, but it is more expensive to produce, as compared with consistent displacement swash plate compressor. Our current production lines for consistent displacement swash plate compressors were designed with variable production technologies, and therefore can be transferred to the production of variable displacement swash plate compressors for which certain technologies used in the current production lines have to be reformed to accommodate such production. We intend to apply approximately 66.7% of the net proceeds from the Share Offer to fund the construction, expansion and upgrade of our production facilities for our production of variable displacement swash plate compressors. Our Directors believe such intended use of proceeds would enable us to accustom for the needs of our target customers. Currently we are in the process of applying for the National Industrial Product Manufacture Licence (全國工業產品生產許可證) for the commercial production of our compressors. Our PRC legal advisors advised that our current trial production and sale

SUMMARY

of compressors are in compliance with the relevant PRC laws and regulations. Please refer to the section headed “Business – Overview” for further details.

Apart from selling self-manufactured compressors to the overseas aftermarket, we are in the process of exploring the domestic OEM market by applying for recognition of self-manufactured compressors from domestic OEM customers, being HVAC system suppliers and automakers. According to Frost & Sullivan Report, swash plate compressor, characterized by low cost and high efficiency, is a mature technology for all kinds of passenger vehicles. Frost & Sullivan expects that swash plate compressor will remain dominant in the Chinese passenger vehicle market towards 2014, especially for medium to high-end vehicles which are generally produced by joint venture brands in China.

Sales and marketing

Our revenue are principally generated from our sales to the domestic OEM market and overseas aftermarket which accounted for approximately 41.3%, 48.6% and 43.6%, and approximately 52.8%, 45.2% and 53.0%, respectively of our total revenue during the Track Record Period.

For the domestic OEM market, our products are ultimately used for assembly in different car models. We, as an automotive HVAC components supplier (a tier two supplier), directly sell our products to our OEM customers which are automotive HVAC system suppliers (tier one suppliers) in the supply chain on a made-to-order basis, for their assembly into their brands of automotive HVAC systems. Such assembled automotive HVAC systems are ultimately supplied to the major automakers in China including Great Wall Motor and BYD Auto, as end-users for whole-car assembly in different varieties of car models. We have been recognized as a leading independent supplier of automotive HVAC components domestically in China. Our operating subsidiary, Shanghai Shuanghua, has been recognized as an automotive HVAC components supplier for a wide portfolio of domestic or Sino-foreign joint-venture automotive HVAC system suppliers, including Macs Baoding (a 49% held associate of our Group), Wuhu Bonaire, Meibiao and Shougang Futian, as well as automaker BYD Auto, which are our direct OEM customers with an average 5 years of business relationship. Revenue contributed by sales to each of Wuhu Bonaire, Meibiao and Shougang Futian accounted for approximately 27.2%, 22.3% and 16.7%; 4.4%, 2.2% and 5.5%; and nil, 2.0% and 1.3%, respectively of our total revenue generated from domestic OEM market during the Track Record Period.

To further strengthen our cooperation with automakers, we successfully established Macs Baoding in 2004 by way of strategic cooperation with Great Wall Motor, a major integrated automaker based in China, to supply automotive HVAC systems exclusively for Great Wall Motor. Macs Baoding is a 49% held associate of our Group with the remaining 51% held by Great Wall Motor. Since 2005, Macs Baoding has been our major customer in the domestic OEM market and our revenue attributable to sales to Macs Baoding represented approximately 12.8%, 21.9% and 20.2% of our total revenue during the Track Record Period, respectively.

For the international aftermarket, our products are ultimately used as replacement parts for automobile repairing. We mainly sell our products to overseas aftermarket suppliers as replacement HVAC components for their eventual sales to their customers. Since 2006, we have expanded into the international aftermarket so as to benefit from the increasing demand for replacement auto-parts worldwide. Apart from the sales of our self-manufactured automotive HVAC components to the overseas aftermarket customers, we have also been engaging in the trading business for various types of compressors, which are mainly

SUMMARY

swash plate compressors, and other automotive HVAC parts and components mainly for export sales which we sourced from third party local suppliers. Over the years, we have developed a long-established network of overseas aftermarket customers based in more than 20 countries and regions across the United States, Canada, South America, Europe, Middle East, Asia and Australia. UAC and SPI, which are major participants in the North American HVAC components aftermarket, are our major customers in the aftermarket with more than 3 years of business relationship. According to the Frost & Sullivan Report, replacement HVAC components are distributed to end users through four major channels in the North America aftermarket, namely original equipment service, regional retailers, warehouse distributors and service chains, while our products are mainly sold to UAC and SPI which are warehouse distributors themselves.

Customers

For the Track Record Period, revenue attributable to our five largest customers represented approximately 65.4%, 75.6% and 77.9% of our total revenue, respectively. For the same periods, revenue attributable to our largest customer, UAC, represented approximately 29.1%, 30.4% and 40.5%, respectively, of our total revenue. The increase in sales to our major customers over the Track Record Period was mainly due to their business growth which led to increased demand of our products. To manage the customer concentration risk, we plan to expand our customer base by: (i) developing the sale of our self-manufactured compressor products to the domestic OEM market; (ii) continue to actively strengthen our international sales network for the overseas aftermarket and explore potential business opportunities for the overseas OEM market; and (iii) seeking possible cooperation opportunities with other automakers to set up automotive HVAC system supplier companies similar to Macs Baoding.


Suppliers

For the Track Record Period, our five largest suppliers together accounted for approximately 47.1%, 47.8% and 52.4%, respectively, and our largest supplier accounted for approximately 17.6%, 19.4% and 21.5%, respectively, of our total purchase of raw materials for our production use as well as compressors and other automotive HVAC parts and components for our trading business. The increase in the amount of our purchases attributable to the five largest suppliers over the Track Record Period was mainly due to the increase in our purchase of compressors for trading as a result of the growth in our compressors trading business. Our five largest suppliers, excluding those suppliers which supplied compressors to us, together accounted for approximately 47.1%, 25.0% and 25.1% of our total purchases during the Track Record Period.

As our purchase mainly comprises aluminium raw materials for our production and automotive HVAC parts and components, mainly compressors, for our trading sales that are not customized products and are readily available in the market, we believe that it would not be difficult for us to find alternative suppliers should existing suppliers cease business relationship with us in the future with no significant impact to our production process or trading business.

SUMMARY

Branding and recognition

Our self-manufactured products are marketed under our own brand names “Shuanghua (双桦)” and “Youshen (友申)”. Our evaporators, condensers and heaters marketed under our “Shuanghua (双桦)” brand name have been recognized as “Shanghai Famous Brand Products” by the Shanghai Famous Brand Recommendation Committee, an affiliate of the Shanghai Bureau of Quality and Technique Supervision, in 2009. Our “” trademark has also been designated as a “Shanghai Famous Trademark” by the Shanghai Administration of Industry and Commerce in 2009. In addition, our operating subsidiary Shanghai Shuanghua has been accredited as a “Brand Name Enterprise” in 2007 and a “High and New Technology Enterprise” from 2006 to 2010 by the relevant authorities in Shanghai as well as a “Foreign-Invested Advanced Technology Enterprise” by the Shanghai Municipal Commission of Commerce in 2009.

COMPETITIVE STRENGTHS

- Leading position in automotive HVAC component market in China with strong brand recognition
- One-stop solution provider for automotive HVAC components with a diversified and comprehensive product range compatible with a wide variety of domestic and international automobile models
- Established and solid customer base in both OEM market and aftermarket
- Our presence in both OEM market and aftermarket enables us to adjust and allocate our resources to accommodate prevailing demands in each market and enhances our overall growth potential
- Commitment to product innovation and quality
- Experienced and dedicated management team with significant industry expertise and international vision

BUSINESS STRATEGIES

- Reinforcing our core competitiveness in the HVAC components market by expanding into the segment of self-manufactured compressors which is expected to be our future growth driver
- Expanding and upgrading production facilities to enhance competitiveness and strengthen leading market position in the PRC
- Vertical integration by setting up HVAC system supplier companies with automakers
- Strengthening our international sales network of HVAC components
- Strengthening our research and development capabilities

SUMMARY

SUMMARY FINANCIAL INFORMATION

You should read the summary consolidated financial information below in conjunction with the audited historical combined financial statements of our Company, which have been prepared in accordance with HKFRSs and are included in the Accountants' Report as Appendix I to this prospectus. The summary historical combined statements of income information and the summary historical combined statements of cash flows information for the years ended 31 December 2008, 2009 and 2010 and the summary historical combined statements of financial position information as of 31 December 2008, 2009 and 2010 set forth below have been derived from our audited historical combined financial statements.

Summary Combined Statements of Income

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue	382,846	371,463	591,504
Cost of sales	(285,981)	(264,249)	(454,752)
Gross profit	96,865	107,214	136,752
Other income and gains	3,935	5,809	2,066
Selling and distribution costs	(20,989)	(13,588)	(21,066)
Administrative expenses	(25,401)	(26,663)	(47,350) ⁽¹⁾
Other expenses	(2,137)	(630)	(1,846)
Finance costs	(10,177)	(6,175)	(6,115)
Share of profits of an associate	9,187	22,160	27,094
Profit before tax	51,283	88,127	89,535
Income tax expense	(8,353)	(11,385)	(8,755)
Profit for the year	<u>42,930</u>	<u>76,742</u>	<u>80,780</u>
Attributable to:			
Owners of the parent	43,370	77,534	81,541
Non-controlling interests	(440)	(792)	(761)
	<u>42,930</u>	<u>76,742</u>	<u>80,780</u>

Note:

- (1) Administrative expenses for the year ended 31 December 2010 consist of professional fees incurred for the Listing of RMB10.6 million which was non-recurring in nature.

SUMMARY

Summary Combined Statements of Financial Position

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	144,941	192,355	191,640
Prepaid land lease payments	79,833	78,224	64,095
Advance payments for property, plant and equipment ..	28,669	7,040	3,744
Investment in an associate	39,411	61,572	73,966
Available-for-sale investments	262	262	262
Deferred tax assets	3,356	4,671	9,898
Total non-current assets	<u>296,472</u>	<u>344,124</u>	<u>343,605</u>
CURRENT ASSETS			
Inventories	63,064	60,152	83,845
Trade and notes receivables	87,922	95,587	107,742
Prepayments, deposits and other receivables	10,724	7,612	11,143
Due from related parties	34,119	72,719	104,020
Cash and cash equivalents	53,400	30,460	69,596
Total current assets	<u>249,229</u>	<u>266,530</u>	<u>376,346</u>
CURRENT LIABILITIES			
Trade and bills payables	48,961	65,682	85,981
Other payables and accruals	20,492	26,628	35,687
Interest-bearing bank borrowings	174,695	125,877	107,000
Due to related parties	57,607	58,726	62,452
Tax payable	174	3,604	2,745
Government grants	310	1,003	1,170
Provision	5,729	4,131	5,518
Total current liabilities	<u>307,968</u>	<u>285,651</u>	<u>300,553</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>(58,739)</u>	<u>(19,121)</u>	<u>75,793</u>
TOTAL ASSETS LESS CURRENT LIABILITIES ..	<u>237,733</u>	<u>325,003</u>	<u>419,398</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	–	–	20,000
Government grants	2,638	9,876	9,972
Deferred tax liabilities	2,141	5,433	8,559
Total non-current liabilities	<u>4,779</u>	<u>15,309</u>	<u>38,531</u>
Net assets	<u>232,954</u>	<u>309,694</u>	<u>380,867</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	–	–	–
Reserves	61,285	67,753	74,800
Retained profits	160,616	231,680	306,067
	221,901	299,433	380,867
Non-controlling interests	11,053	10,261	–
Total equity	<u>232,954</u>	<u>309,694</u>	<u>380,867</u>

SUMMARY

Summary Combined Statements of Cash Flows

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash flows from operating activities	42,418	54,178	48,018
Net cash flows used in investing activities	(150,374)	(22,105)	(12,287)
Net cash flows from/(used in) financing activities	29,506	(54,926)	3,730
Cash and cash equivalents at the beginning of the year . .	131,470	53,400	30,460
Cash and cash equivalents at the end of the year	53,400	30,460	69,596

The following table sets out an analysis of our revenue by segments for the Track Record Period:

Segments	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
OEM Market						
Domestic	158,248	41.3	180,577	48.6	257,591	43.6
International	—	0.0	—	0.0	—	—
Sub-total	<u>158,248</u>	<u>41.3</u>	<u>180,577</u>	<u>48.6</u>	<u>257,591</u>	<u>43.6</u>
Aftermarket						
Domestic	12,772	3.3	16,815	4.5	12,112	2.0
International	201,967	52.8	167,620	45.2	313,248	53.0
Sub-total	<u>214,739</u>	<u>56.1</u>	<u>184,435</u>	<u>49.7</u>	<u>325,360</u>	<u>55.0</u>
By-product	<u>9,859</u>	<u>2.6</u>	<u>6,451</u>	<u>1.7</u>	<u>8,553</u>	<u>1.4</u>
Total revenue	<u><u>382,846</u></u>	<u><u>100.0</u></u>	<u><u>371,463</u></u>	<u><u>100.0</u></u>	<u><u>591,504</u></u>	<u><u>100.0</u></u>

The following tables set forth the breakdown of our revenue and our gross profit margins by products, and the average unit selling prices for our major products during the Track Record Period:

Revenue

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Self-Manufactured			
Evaporators	145,504	120,448	162,024
Condensers	133,476	112,400	151,607
Heater Cores	12,019	24,402	33,328
Compressors	—	—	18,138
Other products	12,125	13,153	23,081
Trading			
Compressors	24,181	63,987	135,664
Other products	45,682	30,622	59,109
By-product	<u>9,859</u>	<u>6,451</u>	<u>8,553</u>
Total revenue	<u><u>382,846</u></u>	<u><u>371,463</u></u>	<u><u>591,504</u></u>

SUMMARY

Gross profit/(loss) margin

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Self-Manufactured			
Evaporators	38.4%	42.2%	40.0%
Condensers	21.6%	27.8%	23.1%
Heater Cores	(6.0)% ⁽¹⁾	26.2%	20.8%
Compressors	–	–	0.6%
Other products	6.1%	28.5%	11.3%
Overall (self-manufactured)	<u>27.9%</u>	<u>34.1%</u>	<u>28.2%</u>
Trading			
Compressors	(3.0)% ⁽²⁾	9.6%	9.6%
Other products	28.3%	29.0%	24.2%
Overall (trading)	<u>17.5%</u>	<u>15.9%</u>	<u>14.0%</u>
By-product	–	–	–
Overall	<u>25.3%</u>	<u>28.9%</u>	<u>23.1%</u>

Notes:

- (1) Sales of heater cores resulted in gross losses in 2008 mainly because the Group was in the process of refining its production process for heater cores in 2008; please refer to detailed explanation in the subsection headed “Financial Information – Year ended 31 December 2009 compared with year ended 31 December 2008 – Gross profit” in this prospectus.
- (2) Compressor trading sales resulted in gross losses in 2008 mainly due to the Group’s relatively smaller scale of operation which resulted in higher average purchase cost and lower price bargaining power with customers; please refer to detailed explanation in the subsection headed “Financial Information – Year ended 31 December 2009 compared with year ended 31 December 2008 – Gross profit” in this prospectus.

Average unit selling price

	Year ended 31 December		
	2008	2009	2010
	RMB	RMB	RMB
Self-Manufactured			
Evaporators	141.4	125.4	115.6
Condensers	178.8	176.1	181.3
Heater Cores	60.3	62.2	61.8
Compressors	–	–	618.4
Trading			
Compressors	532.8	507.7	511.1

SUMMARY

PROFIT FORECAST

We have prepared the following forecast combined profit for the six months ending 30 June 2011 on the bases and assumptions described in Appendix III to this prospectus, which you should read when you analyze our forecast combined profit for the six months ending 30 June 2011. Pursuant to Rule 11.18 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that the interim financial statements of our Group for the six months ending 30 June 2011 will be audited.

The following unaudited pro forma forecast earnings per Share for the six months ending 30 June 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 1 January 2011. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial results of our Group following the Share Offer.

For the six months ending 30 June 2011

Forecast combined profit attributable to owners of our Company (<i>notes 1, 2 and 3</i>).....	not less than RMB41.3 million (equivalent to about HK\$49.5 million)
Unaudited pro forma forecast earnings per Share (<i>note 4</i>) ..	approximately RMB0.06 (approximately HK\$0.08)

Notes:

- (1) The forecast combined profit attributable to owners of our Company for the six months ending 30 June 2011 is extracted from the section headed "Financial Information – Profit Forecast For The Six Months Ending 30 June 2011" in this prospectus. The bases and assumptions on which the above profit forecast for the six months ending 30 June 2011 has been prepared are summarized in Appendix III to this prospectus.
- (2) The forecast combined profit attributable to owners of our Company for the six months ending 30 June 2011 prepared by our Directors is based on the unaudited combined results of our Group for the three months ended 31 March 2011 and a forecast of the combined results of our Group for the remaining three months ending 30 June 2011. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Company as summarized in the Accountants' Report as set out in Appendix I to this prospectus.
- (3) If the purchase prices of aluminium processed parts differ from our forecasted prices, the forecast combined profit attributable to owners of the Company for the six months ending 30 June 2011 (the "Forecast Period") may differ from the profit forecast for the same period as set out above. The following table sets forth a sensitivity analysis of our net profit in the Forecast Period with respect to the aluminium purchase prices, assuming all other variables held constant:

<u>Change in aluminium</u>	<u>Corresponding net profit during the Forecast Period</u>	<u>Variation for the net profit during the Forecast Period</u>
(%)	RMB'000	(%)
(10)	44,019	6.7
(5)	42,639	3.3
5	39,881	(3.3)
10	38,502	(6.7)

- (4) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast combined profit attributable to owners of our Company for the six months ending 30 June 2011 and assuming a total of 650,000,000 Shares had been in issue during the entire year, as if the Share Offer had occurred on 1 January 2011 and the Reorganization had been completed on 1 January 2011.

SUMMARY

OFFERING STATISTICS

	Based on an Offer Price of HK\$1.16
Market capitalization of the Shares ⁽¹⁾	HK\$754 million
Unaudited pro forma adjusted combined net tangible assets per Share ⁽²⁾	HK\$0.97

Notes:

- (1) The calculation of market capitalization is based on 650,000,000 Shares expected to be in issue following the Share Offer and the Capitalization Issue, but takes no account of any Shares that may be allotted and issued or repurchased by our Company.
- (2) The unaudited pro forma adjusted combined net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and based on 650,000,000 Shares expected to be in issue following the Share Offer and the Capitalization Issue, taking no account of any additional income our Group may have earned from the estimated net proceeds from the Share Offer.

DIVIDENDS

We currently do not have a fixed dividend policy. The declaration, payment and amount of dividends in the future will be subject to the discretion of the Board and will depend on our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us or our operating subsidiaries in the PRC, future prospects and other factors that our Directors may consider relevant. If any dividends are declared and paid by us, holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

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

On 8 March 2011, Shanghai Shuanghua declared dividends of RMB32.4 million and RMB27.6 million to Shanghai Automart and Hong Kong Automart, respectively, which were the then shareholders of Shanghai Shuanghua. The dividends were paid up in April and May 2011.

Except for the abovementioned dividends declared and paid, our Group has not paid or declared any dividend during the Track Record Period and up to the Latest Practicable Date.

SUMMARY

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Share Offer (after deducting underwriting fees and estimated expenses payable by us in connection with the Share Offer, and assuming an Offer Price of HK\$1.16 per Offer Share will be approximately HK\$171.5 million. We currently intend to apply such net proceeds for the following purposes:

- Approximately 66.7%, which represent approximately HK\$114.4 million (approximately RMB95.5 million), to fund the construction, expansion and upgrade of our production facilities for variable displacement swash plate compressors:
 - We plan to use 66.7% of the net proceeds, or HK\$114.4 million (approximately RMB95.5 million), to progressively develop towards the production of variable displacement swash plate compressors. We expect to develop samples of variable displacement swash plate compressors in the second half of 2011 and to commence trial production by the end of 2011. The funds will mainly be used for the construction of a new compressor production workshop at our existing production plant, the acquisition and installation of production lines and production equipment. Construction of the new production workshop is expected to commence in 2011, whereas the acquisition and installation of production lines and equipment is expected to be carried out during 2011-2012. The new production workshop is expected, upon full operation in 2012, to add an annual production capacity of approximately 500,000 units of variable displacement swash plate compressors;
- Approximately 23.2%, which represents HK\$39.8 million (approximately RMB33.2 million), for research and development expenditures:
 - We plan to use 23.2% of the net proceeds, or HK\$39.8 million (approximately RMB33.2 million), for the research and development of different types of compressor and other automotive HVAC components to accustom for the needs of our target customers. The funds will mainly be used for the procurement of advanced laboratory equipment and moulds and cutting tools for new products for our production of compressors and other automotive HVAC components in 2011-2013;
- Approximately 10.1%, which represent approximately HK\$17.3 million (approximately RMB14.4 million), to fund the working capital requirement to be arisen as we plan to increase the production volume and scale of our double-sided consistent displacement swash plate compressors from 2011 onwards. We commenced trial production of our self-manufactured double-sided consistent displacement swash plate compressor in 2010 and expect that the demand for this product will increase.

To the extent that our net proceeds are not immediately used for the above purposes, we intend to invest our net proceeds in short-term, interest-bearing debt instruments or bank deposits.

SUMMARY

RISK FACTORS

Our operations, the industry in which we operate and the Share Offer involve certain risks, a summary of which is set forth in the section headed “Risk Factors” in this prospectus. These risks can be classified as follows:

Risks relating to our business

- We have limited experience in the production of compressors which forms part of our business plans and we are subject to recognition process for our OEM customers
- Fluctuations in the prices of aluminium raw materials could adversely affect our profitability
- We rely heavily on our major customers for domestic and international sales
- Our performance is reliant on the market demand, economic environment and political conditions of international market
- Our performance is reliant on the market demand for automobiles in the PRC. The PRC government may implement policies to restrict the supply of and/or reduce the demand for automobiles in the PRC which may adversely affect our business, financial condition and results of operations
- We rely on a limited number of third party suppliers for the supply of raw materials for our production and the supply of compressor and other automotive HVAC parts and components for our trading business
- We rely on the quality of compressor and other automotive HVAC parts and components sourced from third party suppliers for trading business
- We may fail to pass the recognition process for new products as supplier to our existing or potential OEM customers
- Fluctuations in the average selling prices of our products could adversely affect our profitability
- We experienced a decrease in gross profit margin for the year ended 31 December 2010
- Failure to market our existing key products, design and introduce new products and adapt to meet our customers’ demands in a timely manner or to maintain the high quality of our products may cause us to lose customers and market share
- Our business relies heavily on production techniques and processes that are subject to continuous changes and we cannot assure you that we will be able to continue to develop our own proprietary production techniques and processes that would enable us to remain competitive in the automotive HVAC components market
- We rely on third-party logistics providers to manage logistics and transportation of our products to some of our customers. If our third-party logistics providers fail to deliver our products on a timely basis or fail to deliver our products in good condition, our business could be materially and adversely affected

SUMMARY

- We had net current liabilities as at 31 December 2008 and 2009
- We may be subject to warranty and recall claims, which may increase our overhead costs and adversely affect our financial condition and liquidity
- We may be subject to product liability claims and we may not have sufficient insurance to cover such contingencies
- We rely on constant and reliable supply of electricity to support our production activities
- Our operations, performance and profitability may be adversely affected by the loss of key management personnel
- We may not be able to retain our skilled workers or obtain additional skilled workers to meet our demands
- There is no assurance that we will be able to successfully implement our business plans
- Our measures to protect our intellectual property rights against infringement may not be adequate and we may be exposed to infringement claims. Any unauthorized use of our brand or trademark may materially and adversely affect our business
- As we do not have full control over Macs Baoding, we may not have the ability to cause Macs Baoding to take all actions which our Directors believe would be most beneficial to our Group
- Our business, financial condition and results of operations may be materially and adversely affected if we fail to comply with present or future applicable environmental laws and regulations
- We may incur additional expenses if the relevant government authorities adopt more stringent policies or practices in interpreting or implementing relevant PRC labor laws and regulations
- Our sales of export products may fluctuate and may drop substantially if our export products become subject to anti-dumping measures or other trade restriction measures or tighter product quality standards

Risks relating to our industry

- Our business operations depend on the automobile industry which is characterized by rapid changes in technology and industry standards
- Reduction in the export tax refund rates applicable to our products under PRC tax laws may have a material adverse effect on our operating results
- Any recurrence of the global financial crisis and economic downturn of 2008 and 2009 could materially and adversely affect our business, financial condition, results of operation and prospects

SUMMARY

Risks relating to China

- Adverse changes in the economic, political and social conditions in China, as well as political and economic policies of the PRC government, could have a material adverse effect on our business, financial condition, results of operations and prospects
- Uncertainties with respect to the PRC legal system could have a material adverse effect on us
- Governmental control of currency conversion may affect the value of your investment
- Fluctuations in the exchange rates of the Renminbi may adversely affect our operating results and financial condition
- Failure to comply with the SAFE regulations by our future shareholders which are PRC residents may adversely affect our business operations
- Recent changes to the PRC tax laws have impact on the tax rate applicable to our business, dividends on our Shares payable to foreign investors and gains on the sales of our Shares by foreign investors and any future changes to the PRC tax laws could adversely affect our financial condition and results of operations
- The PRC Labor Contract Law and its implementing rules may adversely affect our business and results of operations
- We face risks related to health epidemics and other outbreaks
- Unexpected disruption to our production facilities may have a material adverse impact
- It may be difficult to effect service of process upon our Group, our Directors who reside in China or to enforce against our Group and/or our Directors in China any judgments obtained from non-Chinese courts

Risks relating to the Share Offer

- Current volatility in the global financial markets could cause significant fluctuations in the price of our Shares
- There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile
- Purchasers of our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future
- We cannot assure you that we will declare dividends in the future
- Our Controlling Shareholders have the ability to exercise substantial control over us, which allows them to influence our business in ways which may not be in our or our other Shareholders' best interests

SUMMARY

- You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law and, under Cayman Islands laws, protection to minority shareholders may differ from those established under the laws of Hong Kong and other jurisdictions
- Future sales by our existing shareholders of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares
- Forward-looking information may prove inaccurate
- Our forecast combined profit for the six months ending 30 June 2011 may not necessarily give any indication of, and should not be interpreted as a guidance of, our full year financial results for 2011.
- Certain facts and other statistics with respect to China, the PRC economy and our industry in this prospectus are derived from various official government sources and may not be reliable

DEFINITIONS

In this prospectus, the following words and expressions have the following meanings unless the context otherwise requires. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

“ acting in concert ”	has the meaning ascribed to it under the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC
“ affiliate(s) ”	any person(s) or entity(ies) that directly or indirectly controls, is controlled by, or is under direct or indirect common control with, another person(s) or entity(ies)
“ Application Form(s) ”	the WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or where the context so requires, any of them, relating to the Hong Kong Public Offer
“ Articles of Association ” or “ Articles ”	the articles of association of our Company as amended, supplemented or otherwise modified from time to time
“ Associates ”	has the meaning ascribed to it under the Hong Kong Listing Rules
“ Audit Committee ”	the audit committee of our Company established by the Board
“ Automart Heat-exchanger ”	Automart Heat-exchanger (Shanghai) Co., Ltd. (奧拓瑪熱交換器(上海)有限公司), a limited liability company incorporated in the PRC, which was owned as to 100% by us. We liquidated Automart Heat-exchanger in February 2008
“ Baoding Shuanghua ”	Baoding Shuanghua Autoparts Co., Ltd. (保定雙樺汽車零部件有限公司), a limited liability company incorporated in the PRC on 18 December 2007, which was owned as to 68% by Shanghai Shuanghua and 32% by Great Wall Motor. On 4 October 2010, Shanghai Shuanghua transferred its 68% equity interest to Great Wall Motor following which Baoding Shuanghua is wholly owned by Great Wall Motor
“ Board ” or “ Board of Directors ”	the board of Directors of our Company
“ business day ”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are open generally for normal banking business
“ BVI ”	the British Virgin Islands

DEFINITIONS

“BVI Automart”	Automart Holdings Limited, a limited liability company incorporated in BVI on 7 February 2002, which is wholly owned by us
“BYD”	BYD Auto Co., Ltd. (比亞迪汽車有限公司), an Independent Third Party
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of new Shares upon capitalization of certain sums standing to the credit of our share premium amount referred to the paragraph headed “Further Information about our Group – Written resolutions passed by all the Shareholders on 8 June 2011” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by the HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus only (unless otherwise indicated), Taiwan, Hong Kong or Macau
“Circular No. 75”	The Notice of the State Administration of Foreign Exchange on Concerning Foreign Exchange Administration of Financing and Inbound Investment Activities of Domestic Residents via Overseas Special-Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通告》) promulgated by the SAFE on 21 October 2005
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

DEFINITIONS

“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Shuanghua Holdings Limited 雙樺控股有限公司, an exempt company incorporated in the Cayman Islands on 19 November 2010 with limited liability
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules and, in the context of this prospectus, means the controlling shareholders of our Company, being Mr. Zheng, Mr. Dong, Youshen Group and Shuanghua International
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity executed by the Controlling Shareholders in favor of our Company on 8 June 2011
“Deed of Non-competition”	the deed of non-competition undertaking executed by the Controlling Shareholders in favor of our Company on 8 June 2011, details of which are set out in the section headed “Controlling Shareholders and Substantial Shareholders – Non-competition undertaking” of this prospectus
“Director(s)”	the director(s) of our Company
“Enterprise Income Tax” or “EIT”	the enterprise income tax of the PRC
“Enterprise Income Tax Law” or “the new EIT Law”	the Enterprise Income Tax Law of the People’s Republic of China (《中華人民共和國企業所得稅法》) as adopted at the Fifth Session of the 10th NPC on 16 March 2007
“Foreign Exchange Administration Regulations”	the Foreign Exchange Administration Regulations (《中華人民共和國外匯管理條例》) as adopted at the 20th Executive Meeting of the PRC State Council on 1 August 2008
“Frost & Sullivan Report”	a commissioned market research report in relation to, <i>inter alia</i> , the HVAC industry in China, issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. on 10 June 2011, the details of which are set out in the section headed “Industry Overview” in this prospectus

DEFINITIONS

“GDP”	gross domestic product
“GF Securities”	GF Securities (Hong Kong) Brokerage Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“Great Wall Motor”	Great Wall Motor Co., Ltd. (長城汽車股份有限公司), a large private whole vehicle automaker located in the PRC, which is an Independent Third Party
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we” or “us”	the Company and its subsidiaries or, where the context so requires in respect of period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HK dollar” or “HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and Interpretations) issued by Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Automart”	Automart Holdings Limited, a limited liability company incorporated in Hong Kong on 7 June 2002, which is wholly owned by us
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Hong Kong Offer Shares”	the 16,250,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offer (subject to adjustment as described in the section headed “Structure of the Share Offer” in this prospectus)
“Hong Kong Public Offer”	the offer by our Company of Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Share Offer” of this prospectus) for cash at the Offer Price (plus brokerage, SFC transaction levies, and Hong Kong Stock Exchange trading fees) subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Share Offer – Offer Mechanism – Basis of Allocation of Shares – The Hong Kong Public Offer” of this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Shuanghua”	Shuanghua Hong Kong Limited (雙樺香港有限公司), a limited liability company incorporated in Hong Kong on 25 March 2008, which is our non-wholly owned subsidiary owned as to 100% by Shanghai Shuanghua
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer listed in the section headed “Underwriting” of this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offer entered into by, among others, our Company and the Hong Kong Underwriters, and further described in the section headed “Underwriting” of this prospectus
“Independent Non-Executive Director(s)”	the independent non-executive Director(s) of our Company
“Independent Third Party(ies)”	a person who is not a connected person of our Company
“IPO”	initial public offering
“Issuing Mandate”	the general unconditional mandate given to our Directors by our Shareholders relating to the issue of Shares, particulars of which are set forth in the section headed “Further Information about Our Group – Written resolutions passed by all the Shareholders on 8 June 2011” in Appendix VI to this prospectus

DEFINITIONS

“Joint Bookrunners” or “Joint Lead Managers”	Piper Jaffray Asia Securities and GF Securities
“Kunshan Xiaocang”	Kunshan Xiaocang Compressors Co., Ltd. (昆山小倉壓縮機有限公司), a limited liability company incorporated in the PRC on 9 March 2004, which is owned as to 65% by Hong Kong Automart and 35% by Kunshan City Automotive Component Co., Ltd. (昆山市汽車配件有限公司). Kunshan Xiaocang is in the process of deregistration
“Latest Practicable Date”	Friday, 10 June 2011, being the latest practicable date prior to the publication of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of our Shares on the Main Board
“Listing Committee”	the listing committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or around Thursday, 30 June 2011, on which the Shares are listed and from which dealings in the Shares are permitted to take place on the Main Board
“Longcang Investment”	Shanghai Longcang Investment Co., Ltd (上海龍蒼投資有限公司), a limited liability company established in the PRC on 8 January 2007, which is owned as to 99% by Mr. Dong and 1% by Zhuang Jun, an Independent Third Party
“Macau”	the Macau Special Administrative Region of the PRC
“Macs Baoding”	Macs (Baoding) Auto A/C Systems Co., Ltd. (麥克斯(保定)汽車空調系統有限公司), a limited liability company incorporated in the PRC on 18 January 2004, which is our associated company owned as to 49% by Hong Kong Automart and as to 51% by Great Wall Motor
“Main Board”	the stock market (excluding the options market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprises Market of the Hong Kong Stock Exchange
“Meibiao”	Meibiao Automotive Air Conditioning Co. Ltd. (湖北美標汽車製冷系統有限公司), an Independent Third Party

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company as adopted on 8 June 2011 and as amended, supplemented or otherwise modified from time to time
“Ministry of Commerce” or “MOFCOM”	the Ministry of Commerce of the People’s Republic China (中華人民共和國商務部)
“Mr. Dong”	Mr. Dong Zongde, an executive Director and a Controlling Shareholder
“Mr. Zheng”	Mr. Zheng Ping, an executive Director and a Controlling Shareholder
“M&A Rules”	the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) jointly promulgated by MOFCOM, SASAC, SAT, SAIC, CSRC and SAFE on 8 August 2006
“NDRC”	the National Development and Reform Commission of the People’s Republic China (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the nomination committee of our Company established by the Board
“NPC”	the National People’s Congress of the People’s Republic of China (中華人民共和國全國人民代表大會)
“Offer Price”	the price per Offer Share (exclusive of brokerage fee, SFC transaction levy and Hong Kong Stock Exchange trading fee) of HK\$1.16, at which the Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offer, as further described in the section headed “Structure of the Share Offer” of this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the Placing Shares
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Piper Jaffray Asia Securities”	Piper Jaffray Asia Securities Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) and type 4 (advising in securities) regulated activities under the SFO

DEFINITIONS

“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters with professional, institutional and/or other investors, as further described in the section headed “Structure of the Share Offer” of this prospectus
“Placing Shares”	the 146,250,000 Shares being initially offered by the Company under the Placing, subject to reallocation as described in the section headed “Structure of the Share Offer” of this prospectus
“Placing Underwriters”	the several underwriters of the Placing, led by the Joint Bookrunners and expected to enter into the Placing Underwriting Agreement on or around Thursday, 23 June 2011
“Placing Underwriting Agreement”	the purchase agreement relating to the Placing expected to be entered into by, among others, the Company and the Placing Underwriters on or around Thursday, 23 June 2011
“PRC GAAP”	the PRC Accounting Standards for Business Enterprises, and the Application Guidance for Accounting Standard for Business Enterprise and Interpretation of Accounting Standards for Business Enterprise and other relevant regulations
“PRC government” or “state”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“PRC State Council”	the State Council of the People’s Republic of China (中華人民共和國國務院)
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of our Company established by the Board
“Reorganization”	the reorganization arrangements undertaken by our Group in preparation for the Listing, details of which are set out in the section headed “Reorganization” and the paragraph headed “Further Information about our Group – The Reorganization” in Appendix VI to this prospectus

DEFINITIONS

“Repurchase Mandate”	the general unconditional mandate given to our Directors by our Shareholders relating to the repurchase of Shares, particulars of which are set forth in the section headed “Further Information about Our Group – Written resolutions passed by all the Shareholders on 8 June 2011” in Appendix VI to this prospectus
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the People’s Republic of China (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the People’s Republic of China (中華人民共和國國家工商行政管理總局)
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	the State Administration of Taxation of the People’s Republic of China (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shanghai Automart”	Shanghai Automart Investment Co., Ltd. (上海奧拓瑪投資有限公司), a limited liability company incorporated in the PRC on 1 February 2005, which is owned 100% by Mr. Dong
“Shanghai Shuanghua”	Shanghai Shuanghua Autoparts Co., Ltd. (上海雙樺汽車零部件股份有限公司), a joint stock limited company established in the PRC on 7 December 2007 (formerly known as Shanghai Shuanghua Auto Air-conditioning Parts Co., Ltd. (上海雙樺汽車空調配件有限公司), a limited liability company incorporated in the PRC on 25 September 1997), which is our non-wholly owned subsidiary owned as to 99.999% and 0.001% by Hong Kong Automart and Shanghai Automart, respectively

DEFINITIONS

“Shanghai Youchen”	Shanghai Youchen Aluminium Materials Co., Ltd (上海友辰鋁型材有限公司), formerly known as Shanghai Bi Jian Metal Products Co., Ltd.* (上海碧劍金屬制品有限公司), a limited company established in the PRC on 16 March 2005, which since June 2010, is owned as to 50% by Xu Bijian, an Independent Third Party and 50% by Longcang Investment, which in turn is owned as to 99% by Mr. Dong
“Share(s)”	ordinary share(s) of the Company of a nominal or par value of HK\$0.01 each
“Share Offer”	the Hong Kong Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Shareholders on 8 June 2011, a summary of the principal terms of which is set out in the section headed “Statutory and General Information – Share Option Scheme” in Appendix VI to this prospectus
“Shareholder(s)”	holder(s) of our Share(s)
“Shougang Futian”	Beijing Shougang Futian Automotive Air Conditioning Co., Ltd. (北京首鋼福田汽車空調器有限公司), an Independent Third Party
“Shuanghua Auto Components”	Shanghai Shuanghua Auto Components Co., Ltd. (上海雙樺汽車配件有限公司), a limited liability company incorporated in the PRC on 7 September 2009, which is our non-wholly owned subsidiary owned as to 100% by Shanghai Shuanghua
“Shuanghua Industry and Trade”	Shanghai Shuanghua Industry and Trade Co., Ltd. (上海雙樺工貿有限公司), a limited liability company incorporated in the PRC, which was owned as to 100% by us. Our direct interests in Shuanghua Industry and Trade were disposed of in June 2008
“Shuanghua International”	Shuanghua International Limited (雙樺國際有限公司), a company incorporated in the BVI with limited liability on 27 January 2011, the entire issued share capital of which is owned by Mr. Dong
“Shuanghua Machinery”	Shanghai Shuanghua Machinery Manufacturing Co., Ltd. (上海雙樺機械製造有限責任公司), a limited liability company incorporated in the PRC on 28 September 2007, which is our non-wholly owned subsidiary owned as to 99% by Shanghai Shuanghua and 1% by Youshen Industry

* for identification purpose

DEFINITIONS

“Sole Sponsor” or “Piper Jaffray Asia”	Piper Jaffray Asia Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor of the Share Offer
“SPI”	Spectra Premium Industries Inc., an Independent Third Party
“sq.m.”	square meter(s)
“subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules, unless the context otherwise requires
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Track Record Period”	the period comprising the three years ended 31 December 2010
“UAC”	Universal Air Conditioner, Inc., an Independent Third Party
“Underwriters”	the Hong Kong Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “U.S.”	the United States of America
“US dollar” or “US\$”	United States dollar, the lawful currency of the United States of America
“U.S. Person”	has the meaning ascribed to it under Regulation S
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“VAT”	value-added tax
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“WTO”	World Trade Organization

DEFINITIONS

“Wuhu Bonaire”	Wuhu Bonaire Automotive Electrical Systems Co., Ltd. (蕪湖博耐爾汽車電氣系統有限公司), an Independent Third Party
“Youshen Group”	Youshen International Group Limited (友申國際集團有限公司), a company incorporated in the BVI with limited liability on 27 January 2011, the entire issued share capital of which is owned by Mr. Zheng
“Youshen Industry”	Shanghai Youshen Industry Co., Ltd. (上海友申實業有限公司), a limited liability company incorporated in the PRC on 27 July 2006, which is our non-wholly owned subsidiary owned as to 100% by Shanghai Shuanghua

In this prospectus, the English names of the PRC government authorities or PRC entities are translations of their Chinese names and included herein for identification purposes only. In the event of any inconsistency between such Chinese names and their English translations, the Chinese names shall prevail.

In this prospectus, all English translations of the PRC laws and regulations are unofficial translations and provided for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanation of certain terms used in this prospectus as they relate to us and as they are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions

“aftermarket”	the market where HVAC components suppliers sell HVAC components as replacement parts through either original equipment suppliers’ service network, regional retailers or various distribution channels for the ultimate vehicle owners
“automaker”	an OEM manufacturer who produces whole cars and sell them to consumers
“compressor”	a key HVAC component which is a pump that pressurizes and circulates the refrigerant in the air-conditioning system
“condenser”	a key HVAC component which is a heat exchanger that liquefies high-pressure vapor
“consistent displacement compressor”	a consistent displacement compressor adjusts its displacement according to the engine speed
“electric compressor”	an electric compressor has its own electric motor which supplies power for its running and is primarily used in electric vehicles
“evaporator”	a key HVAC component which is responsible for cooling down the interior of the vehicle
“heater core”	a key HVAC component which provides warmth to the interior of the vehicle by using heat removed from the engine
“HVAC”	heating, ventilation and cooling
“HVAC components”	key components of an HVAC system including compressor, condenser, evaporator and heater core
“HVAC components supplier”	tier two supplier who produces HVAC components and sells them to HVAC system suppliers
“HVAC system”	consists of HVAC components. It functions to maintain the comfort level of the vehicle occupants
“HVAC system supplier”	tier one supplier who produces HVAC systems and sells them to automakers

GLOSSARY OF TECHNICAL TERMS

“intercooler”	a heat-exchange device applied as an ancillary part to the vehicle engine. It functions to cool down high-temperature air emitted from a pressurizing device, to cool down the air entering the engine
“laminated evaporator”	one of evaporator which consists of a main heat exchanger, an auxiliary heat exchanger and a connecting bar integrally brazed
“laminated heater core”	one the type of heat core which consists of a main heat exchanger, an auxiliary heat exchanger and a connecting member integrally brazed
“MPV”	multi-purpose vehicle
“OEM”	an original equipment manufacturer that produces whole cars for sale
“OEM market”	the market where HVAC components produced by HVAC components suppliers are assembled into HVAC systems by HVAC system suppliers and then delivered to automakers for whole-car assembly
“oil cooler”	a heat-exchange device applied as an ancillary part to the vehicle engine to enhance its performance and reliability
“parallel-flow condenser”	one type of condenser which employs a parallel structure containing several multi-port extruded tube and wave shape metal plates
“parallel-flow evaporator”	one type of evaporator which employs a parallel structure containing several multi-port extruded tube and wave shape metal plates
“parallel-flow heater core”	one type of heater core which employs a parallel structure containing several multi-port extruded tube and wave shape metal plates
“SUV”	sport utility vehicle
“swash plate compressor”	a major type of reciprocating compressor which uses pistons driven by a swash plate mounted on a shaft
“tube-fin condenser”	one type of condenser which consists of a serial of traditional tubes and thin metal plates

GLOSSARY OF TECHNICAL TERMS

“tube-fin evaporator”	one type of evaporator which consists of a serial of traditional tubes and twin metal plates
“tube-strip condenser”	one type of condenser which applies multi-port extruded tubes to extend the surface area of heat exchange
“tube-strip evaporator”	one type of evaporator which consists of several multi-port extruded tubes and wave shape metal plates
“variable displacement compressor”	a variable displacement compressor can adjust its displacement according to the required temperature, which generally have higher energy efficiency due to variable displacement option and better performance during the whole lifecycle as compared with consistent displacement compressor

FORWARD-LOOKING STATEMENT

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures to implement such strategies;
- our dividend distribution plans;
- our relationships with our key customers;
- our plan to expand our product offerings;
- our operations and business prospects, including our development plans for our existing and new businesses;
- our ability and expected timetable to complete our research and development projects and product developments;
- our financial condition;
- our capital expenditure plans;
- the regulatory environment in the PRC; and
- future developments and the competitive environment in our industry and the markets for our products.

The words “anticipate”, “believe”, “continue”, “could”, “expect”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would” and the negatives of these terms and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance and are subject to risks, uncertainties and assumptions, including the risk factors as disclosed in this prospectus.

Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, our financial condition and results of operations may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected.

Accordingly, the statements herein are not a guarantee of our future performance and you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information set out in this prospectus before making an investment in the Offer Shares, including the risks and uncertainties described below. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that a substantial portion of our operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from those that prevail in other countries. Our business, financial condition or results of operations could be affected materially and adversely by any of these risks.

RISKS RELATING TO OUR BUSINESS

We have limited experience in the production of compressors which forms part of our business plans and we are subject to recognition process for our OEM customers.

One of our business plans is to expand our production of compressors. Before our compressor production lines commenced trial production in 2010, we have no history in production of compressor. Different from our existing aftermarket customers for self-manufactured compressors which do not require recognition process, before we can become an OEM supplier of compressors, we have to go through the recognition process to obtain the recognition from each system supplier or automaker for each particular type of compressor products which normally takes 12 to 24 months. Such recognition process can take even longer for overseas system suppliers or automakers. There can be no assurance that we will be equally successful in our production and sales of compressors as we do in our other HVAC components businesses. If we face significant and unexpected difficulty in managing and operating our production and sales of compressors, our results of operations may be adversely affected.

Fluctuations in the prices of aluminium raw materials could adversely affect our profitability.

Aluminium and aluminium processed parts including aluminium foils, aluminium plates and aluminium tubes are the principal raw materials for the production of our products. Our profitability is dependent on our ability to secure a sufficient and constant supply of such aluminium raw materials at acceptable price level. Aluminium raw materials represent our largest raw material cost. The price of aluminium is determined principally by supply and demand in the domestic commodity market and fluctuates with market conditions. During the Track Record Period and for the two months ended 28 February 2011, the average of the monthly weighted average Shanghai Changjiang aluminium price as quoted on the Shanghai Futures Exchange was RMB17,402 per tonne, RMB13,876 per tonne, RMB16,179 per tonne and RMB17,066 per tonne, respectively. Aluminium prices have experienced and may further experience significant price fluctuations. Our average purchase price of aluminium processed parts, such as aluminium tubes, aluminium foils and aluminium plates, was approximately RMB28.9, RMB23.0 and RMB24.0 per kilogram during the Track Record Period.

Since the price of aluminium products is highly correlated to the price of aluminium, which is volatile, the price of aluminium processed parts may also experience significant price fluctuations in the future. Unexpected increase in aluminium raw materials price will result in increase in our production cost, and we may not be able to increase the prices of our products to offset the increased cost and therefore our profitability, financial condition and results of operations could be materially and adversely affected.

RISK FACTORS

We rely heavily on our major customers for domestic and international sales.

We focus on the domestic OEM market and the international aftermarket for sales of our products. We rely heavily on several major automotive HVAC system suppliers in the PRC for the sales of our products in the domestic OEM market. Macs Baoding, a 49% held associate of our Group which acts as an automotive HVAC system supplier exclusively for Great Wall Motor, is our major customer in the domestic OEM market. For the Track Record Period, our revenue attributable to sales to Macs Baoding represented approximately 12.8%, 21.9% and 20.2% of our total revenue, respectively. We also sell our products to our overseas customers in the international aftermarket among which UAC and SPI are our major overseas aftermarket customers. We do not typically have direct contact with the end-users of our products. Our OEM customers and aftermarket customers directly sell and market our products as well as provide after-sales services to the end-users in the domestic and international markets. For the Track Record Period, revenue attributable to our five largest customers represented approximately 65.4%, 75.6% and 77.9% of our total revenue, respectively, and our revenue attributable to sales to UAC, SPI and Macs Baoding in aggregate represented approximately 51.8%, 61.7% and 68.2% of our total revenue, respectively. For the same periods, revenue attributable to our largest customer represented approximately 29.1%, 30.4% and 40.5%, respectively, of our total revenue.

We do not have majority control in terms of ownership or management over our domestic or international customers. We have no long-term sales contracts with our customers. Hence, there can be no assurance that we will be able to maintain our relationships with our customers. If the business relationship between our Company and our major customers were to deteriorate or if any of those customers were to substantially reduce its purchases from our Company or terminate its business relationship with our Company entirely, our business and results of operations may be adversely affected.

Our performance is reliant on the market demand, economic environment and political conditions of international market.

We currently export our products to a network of overseas aftermarket customers based in more than 20 countries and regions, among which we have derived a significant portion of our revenue from sales to United States, Canada and Asia which in aggregate accounted for 48.8%, 43.5% and 51.7% of our total revenue for the Track Record Period, respectively. Hence, our Company's performance is largely dependent on the demand for automotive HVAC parts and components in the aftermarket in United States, Canada and Asia, which is in turn significantly affected by the economic environment, consumer spending power and preferences and the government policies of United States, Canada and Asia. Any significant change in the economic or political conditions of United States, Canada and Asia markets may adversely affect our sales and profitability. Further, there is no assurance that the demand for automotive HVAC parts and components in the aftermarket in United States, Canada and Asia will continue to grow. If there is a substantial decrease in the demand for automotive HVAC parts and components in the aftermarket in United States, Canada and Asia and if we are not able to react appropriately, our business performance could be adversely affected.

RISK FACTORS

Our performance is reliant on the market demand for automobiles in the PRC. The PRC government may implement policies to restrict the supply of and/or reduce the demand for automobiles in the PRC which may adversely affect our business, financial condition and results of operations.

Our products are mostly used in automobiles and our business is highly affected by the automobile industry particularly in the PRC which is highly cyclical. Our performance is largely dependent on the supply and demand for automobiles which is in turn significantly affected by the economic environment, consumer spending power and preferences and the PRC government policies relating to the automobile industry, including but not limited to any taxes imposed on automobile consumption.

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

Pursuant to the PRC Tentative Regulations on Vehicle Purchase Tax (車輛購置稅暫行條例) promulgated by the State Council on 22 October 2000, effective on 1 January 2001, the PRC Government also adopted an automobile purchase tax at the rate of 10%. To stimulate growth in the domestic automobile industry, the PRC Government reduced the automobile purchase tax rate applicable to small-displacement vehicles from 10% to 5% for such vehicles purchased during the period from 20 January 2009 to 31 December 2009. However, pursuant to the “Notice on Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 litres” (關於減徵 1.6升及以下排量乘用車車輛購置稅的通知), this reduced automobile purchase tax rate increased from 5.0% to 7.5% for such vehicles purchased during the period from 1 January 2010 to 31 December 2010. Starting from 1 January 2011, pursuant to the “Notice on the Discontinuation of the Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 litres” (關於 1.6升及以下排量乘用車車輛購置稅減徵政策到期停止執行的通知), this reduced automobile purchase tax rate was discontinued and the automobile purchase tax rate applicable to such small-displacement vehicles has been resumed to 10%. The above changes on tax policies and any other changes in government policies applicable to the PRC automobile industry would reduce the demand for automobiles resulting in lesser demand for auto parts including HVAC components. Please refer to the section headed “Regulations – Laws and Regulations Relating to the Automotive Industry” for further details.

There is no assurance that the demand for automobiles will continue to grow in China and in other parts of the world. If there is a substantial decrease in the supply of or the demand for automobiles and if we are not able to react appropriately, our business performance could be adversely affected. There is also no assurance that the PRC Government will not implement other policies in the future which may adversely affect the automobile industry. Any implementation of government policies to restrict the supply of and/or reduce the demand for automobiles in the PRC may adversely affect the demand for our products, in which event there may be a material and adverse effect on our business, financial condition and results of operations.

RISK FACTORS

We rely on a limited number of third party suppliers for the supply of raw materials for our production and the supply of compressor and other automotive HVAC parts and components for our trading business.

We purchase raw materials for our production use as well as compressors, which are mainly swash plate compressors, and other automotive HVAC parts and components for our trading business from a limited number of third party suppliers. For the Track Record Period, our five largest suppliers accounted for approximately 47.1%, 47.8% and 52.4%, respectively, of our total purchase of raw materials and trading goods, and our largest supplier accounted for approximately 17.6%, 19.4% and 21.5%, respectively, of our total purchase of raw materials and trading goods. The ability to obtain quality raw materials and trading goods at competitive prices in a timely manner is crucial to our Company's production and trading business performance, respectively. We have no long-term fixed price supply contract with our suppliers. If we are unable to maintain a business relationship with our major suppliers or if they are unable or unwilling to continue their supplies to us, or if the quality of their supplies deteriorate or prices increase substantially, we will have to locate alternative supply, which in turn will have a material and adverse effect on our financial condition and results of operations.

We rely on the quality of compressor and other automotive HVAC parts and components sourced from third party suppliers for trading business.

We source various types of compressors, which are mainly swash plate compressors, and other automotive HVAC parts and components for our trading business from third party local suppliers. We are inherently not able to monitor or manage our suppliers' performance as directly and efficiently as compared with our own production and hence there is no assurance that such sourced goods will meet our customers' or end users' expectations or the regulatory requirements of the markets to which such sourced goods are sold. To the extent that such sourced goods are substandard or violate relevant regulatory requirements, we are susceptible to claims and lawsuits filed by our customers and/or end users and/or criminal sanctions and thus exposed to associated risks in terms of reputation, business and financial liabilities as well as loss of our customers. There is no assurance that we could be completely and adequately indemnified by the third party suppliers nor claim them for any loss so incurred.

We may fail to pass the recognition process for new products as supplier to our existing or potential OEM customers.

We, as an automotive HVAC components supplier, have to go through stringent recognition processes prescribed by each automotive HVAC system supplier before we can be recognized as a supplier of a particular product to such supplier in the OEM market. We cannot assure you that we will always succeed in obtaining recognition for new products from our existing or potential OEM customers. If we fail to pass the recognition process for new products as supplier to our existing or potential OEM customers as originally planned, our customer base, market share, profitability and financial condition could be materially and adversely affected.

RISK FACTORS

Fluctuations in the average selling prices of our products could adversely affect our profitability.

During the Track Record Period, there had been fluctuations in the average unit selling price of our evaporators, condensers, heater cores and compressors. The fluctuations were mainly due to competition in the competitive HVAC components industry and the effect of RMB appreciation against US\$ on our overseas sales. According to the Frost & Sullivan Report, the average unit selling price of each of evaporator, condenser, heater core and compressor in the OEM market in China is projected to decrease gradually and will drop 6% by 2014 as compared to that in 2010. We face increasing competition from both domestic and foreign new entrants into the rapidly evolving auto-parts manufacturing industry domestically in China as well as internationally. If there is an increase in market competition, this may increase the pricing pressure of our products and our profitability, financial condition and results of operations could be adversely affected.

We experienced a decrease in gross profit margin for the year ended 31 December 2010.

During the Track Record Period, the overall gross profit margin of our Group was 25.3%, 28.9% and 23.1%, respectively. For the same period, the gross profit margin of our evaporators was 38.4%, 42.2% and 40.0%, our condensers was 21.6%, 27.8% and 23.1%, our heater cores was (6.0)%, 26.2% and 20.8%, our trading of compressors was (3.0)%, 9.6% and 9.6% and our self-manufactured compressors was nil, nil and 0.6%, respectively. Sustainability of profit margin depends on a number of factors, including competitiveness of our products, our bargaining power over suppliers and customers market prices of raw materials and our products as well as our effective implementation of costs control measures. If there is an increase in market competition and/or in the costs of sales of our products which we are not able to pass onto our customers, this may increase the pressure on the average selling price of our products and our profit margins. There is no assurance that we will be able to maintain our profit margins at a similar level as during the Track Record Period. Our profitability, financial condition and results of operations may be adversely affected if our profit margins decrease significantly.

Failure to market our existing key products, design and introduce new products and adapt to meet our customers' demands in a timely manner or to maintain the high quality of our products may cause us to lose customers and market share.

We believe that consumer preferences and market demand for automotive HVAC components vary due to factors such as variety, quality and reliability of supply of products. In order to serve the needs of our diverse markets, we have developed and engineered numerous products of automotive HVAC components with different product specifications. If we fail to design or market new makes and models of HVAC components and adapt to meet our customers' demands in a timely manner, our customer base, market share, profitability and financial condition could be materially and adversely affected.

We believe that our position as a leading manufacturer of automotive HVAC components is directly attributable to the high quality of our products and our reputation in the marketplace as a provider of high quality products. If we fail to maintain the high quality of our products, our customers may lose confidence in our products and discontinue purchasing our products. As a result, the market demand for any of our existing automotive HVAC components may decline and our business, financial condition and results of operations may be adversely affected.

RISK FACTORS

Our business relies heavily on production techniques and processes that are subject to continuous changes and we cannot assure you that we will be able to continue to develop our own proprietary production techniques and processes that would enable us to remain competitive in the automotive HVAC components market.

Our competitiveness in the automotive HVAC components market depends in large part on our ability to develop new production processes and techniques so that we are able to continuously tailor our products to meet our customers' needs. These techniques and processes are subject to continuous evolution and changes. We have developed and employed in our production proprietary cost-saving techniques and processes.

Our proprietary techniques and processes may be critical to the continuous improvement of our product quality and performance, as well as our ability to gain market share through launching new products. If we are unable to further develop our own proprietary techniques and processes, or acquire or license technologies that would enable us to remain competitive in the automotive HVAC components market, our business, results of operations and financial condition could be materially and adversely affected.

We rely on third-party logistics providers to manage logistics and transportation of our products to some of our customers. If our third-party logistics providers fail to deliver our products on a timely basis or fail to deliver our products in good condition, our business could be materially and adversely affected.

For domestic customers located around the Zhejiang and Jiangsu Provinces in China which are in close proximity to our Shanghai production base, we normally deliver our products by our truck to places designated by our customers. For domestic customers located in other places in China and for overseas customers, we generally outsource the delivery of our products to third-party logistics providers. Title to our products do not pass to such customers until after such third-party logistics providers have delivered our products to them, and therefore, we bear the risk of loss until the products have been delivered. If our third-party logistics providers fail to timely deliver our products within the timeframe expected by such customers, regardless of the reason, or if our third-party logistics providers fail to deliver our products in good condition, our customers may reject such products and may become dissatisfied with us and decide not to purchase additional products from us, and our business could be materially and adversely affected.

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

We are potentially exposed to liquidity risk as we had net current liabilities of RMB58.7 million and RMB19.1 million as at 31 December 2008 and 2009, respectively and net current assets of RMB75.8 million and RMB66.7 million as at 31 December 2010 and 30 April 2011, respectively. Our net current liability position as at 31 December 2008 and 2009 was primarily due to the high proportion of short-term bank borrowings to our total bank borrowings, trade payables incurred for the purchase of raw materials and amounts due to related parties. For further information, please refer to the section headed "Financial Information – Liquidity and Capital Resources" in this prospectus.

RISK FACTORS

We have historically financed our operations through cash from operating activities, bank borrowings and shareholder contributions. After the Share Offer, we expect to use funds from a combination of sources to fund our operation and expansion plan, including bank loans, internally generated cash flows, and proceeds from the Share Offer. There can be no assurance that we will always be able to obtain adequate funding by bank borrowings to finance our operations and capital expenditure. In the event that the existing bank borrowings do not continue to be extended to us on similar or more favorable terms and we fail to obtain alternative bank borrowings, our business operations and financial condition could be adversely affected.

We may be subject to warranty and recall claims, which may increase our overhead costs and adversely affect our financial condition and liquidity.

As a developer and manufacturer of automotive HVAC components, we face an inherent business risk of exposure to warranty claims if our products actually or allegedly fail to perform as expected. We cannot assure you that we will not incur significant costs to defend any such claims. It is our policy to provide warranty coverage for our products. We generally provide our aftermarket customers with one-year warranty on our products under which faulty products are repaired or replaced. We will also provide product warranty to our OEM customers, the terms of which are subject to agreement on a case-by-case basis. During the Track Record Period, warranty claims amounted to RMB3.0 million, RMB3.2 million and RMB0.7 million, respectively. In addition, if any of our designed products are or are alleged to be defective, we may be required to participate in a recall of such products. During the Track Record Period, product returns amounted to RMB0.2 million, RMB0.4 million, and RMB0.3 million, respectively. In 2010, approximately 7,875 units of self-manufactured compressors amounted to approximately RMB4.9 million were recalled, which were produced in the course of our trial production. We cannot assure you that the future costs associated with providing product warranties and/or bearing the cost of repair, replacement or recall of our products will not have a material adverse effect on our financial condition and liquidity.

We may be subject to product liability claims and we may not have sufficient insurance to cover such contingencies.

We cannot assure you that we will not experience material losses arising from product liability claims in the future. We do not maintain any product liability insurance to cover such contingencies. If our products fail to meet the required specifications or quality standards, our business could be adversely affected. We may face liability claims due to possibly defective products which could result in significant costs. Such claims may be pursued by way of contractual remedy or by way of civil action if defects in our products result in damages or injuries suffered by third parties. In such event, our business reputation and our financial condition could be adversely affected.

We rely on constant and reliable supply of electricity to support our production activities.

Our production requires significant and constant supply of electricity which is currently provided by local electricity suppliers. Our reliance on such supplies will further increase as we expand our production capacity. Any disruption to and shortage of electricity supply or increase in the cost of electricity may adversely affect our production, prevent us from meeting customer orders and/or increase our cost of production and therefore adversely affect our business and operation results.

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Our operations, performance and profitability may be adversely affected by the loss of key management personnel.

Our success in expanding our business and maintaining our growth is to a large extent attributable to the vision and strategy of our management. Our daily operation is heavily reliant on our executive Directors and senior management team as disclosed in the section headed “Directors, Senior Management and Staff” of this prospectus. Our operations, performance and profitability may be adversely affected if any of our current executive Directors and any current member of our senior management ceases to serve our Group for whatever reason and a suitable replacement cannot be located in a timely manner.

We may not be able to retain our skilled workers or obtain additional skilled workers to meet our demands.

A large part of our operations is labor intensive, and we require a large number of skilled production workers. Given the skills involved in operating some of our equipment, any new hire has to go through certain training to attain the necessary skills. In addition, skilled workers are not easily replaceable. In the past, we have occasionally experienced constraints in this regard. We may have to offer better salaries and other benefits to hire and retain sufficiently skilled production workers to sustain or enhance our business operations, which will increase our costs and may adversely affect our results of operations.

There is no assurance that we will be able to successfully implement our business plans.

Details of our business plans are set out in the section headed “Future Plans and Use of Proceeds” of this prospectus. The successful implementation of our plans depends on a number of factors, including the growth of disposable income for consumers of automobiles, changes in consumer credit policy for automobile purchase financing, availability of funds, competition and government policy. There is no assurance that our plans will be successfully implemented as scheduled or at all. Any failure or delay in the implementation of our plans may have a material and adverse effect on our profitability and prospects.

Our measures to protect our intellectual property rights against infringement may not be adequate and we may be exposed to infringement claims. Any unauthorized use of our brand or trademark may materially and adversely affect our business.

We believe our brand, trademarks and other intellectual property rights are important to our success. As of the Latest Practicable Date, we had registered 4 trademarks, 16 utility model patents and 2 domain names and had applied for the registration of another 7 invention patents in China. For further information, please refer to the sections headed “Business – Research and Development” and “Business – Intellectual Property” in this prospectus.

Existing laws in China offer limited protection for our intellectual property rights. We rely upon a combination of patent, copyright and trademark laws, trade secrets, confidentiality policies, nondisclosure and other contractual arrangements to protect our intellectual property rights. We cannot assure you that we will be able to detect unauthorized use or take appropriate, adequate and timely actions to enforce our intellectual property rights. Consequently, we may not be able to effectively prevent unauthorized use of our trademarks and patents in other countries where such trademarks and patents are not registered. Historically, China has not protected intellectual property rights to the same extent as the United States or Hong Kong. The measures we take to protect our intellectual property rights may not be adequate and

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monitoring and preventing unauthorized use is difficult. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, our reputation may be harmed and our business may be materially and adversely affected.

Our competitors may have independently developed technologies or designs of automotive HVAC components that contain similarities to ours, and these competitors may have applied for registration of patents or other intellectual property rights in respect of their technologies or designs. There may be patents held by others of which we are unaware that contain claims that our products or operations may infringe. Any involvement in lawsuit or administrative proceedings resulting from allegations of infringement of intellectual property rights (regardless of their success, or whether the relevant allegation is meritless or made with improper motives) may result in substantial costs, reputational damage and diversion of resources and management attention. If we are barred from using certain material trademarks, technologies, designs or other intellectual properties and fail to develop non-infringing substitutes or replacements or to obtain licenses to such intellectual properties, our business operations may be interrupted and, should that continue, our results of operations and financial condition could be materially and adversely affected.

As we do not have full control over Macs Baoding, we may not have the ability to cause Macs Baoding to take all actions which our Directors believe would be most beneficial to our Group.

We own 49% of equity interest in Macs Baoding, which has been accounted for as an associated company of our Group since its incorporation on 18 January 2004. Our share of profits of Macs Baoding during the Track Record Period amounted to RMB9.2 million, RMB22.2 million and RMB27.1 million, respectively. Our contractual rights and ownership interests in Macs Baoding do not provide us with the ability to fully control it. As a result, our ability to influence the actions or business of Macs Baoding depends on a number of factors, including the ability to reach an agreement with Great Wall Motor, the 51% shareholder of Macs Baoding, our bargaining power and the decision making process applicable to Macs Baoding. Furthermore, there is no assurance that the best interests and business philosophy of our Group will always be shared by Great Wall Motor, which could lead to disputes with Great Wall Motor and distract management's attention from the management of the business, as well as, potentially, result in the termination of the operation of Macs Baoding.

Our business, financial condition and results of operations may be materially and adversely affected if we fail to comply with present or future applicable environmental laws and regulations.

Under relevant PRC environmental laws and regulations, the construction, expansion and operation of our production facilities are subject to certain environmental permits and other relevant PRC government environmental approvals. Please refer to the section headed "Regulations – Laws and Regulations Relating to Environmental Protection" for further details. The failure to obtain such permits or approvals may subject us to fines and penalties imposed by the relevant PRC Government and we may be required to suspend the use of production facilities or vacate the premises. In addition, as our production processes generate noise, waste water and other industrial wastes, we are also required to comply with national and local environmental regulations applicable to us. If we fail to comply with present or future applicable environmental regulations, we may be required to pay substantial fines, suspend production or cease operations. Any failure by us to control the use or to restrict adequately the discharge of hazardous substances could subject us to potentially significant monetary damages and fines or suspensions in our business operations, which would have a material adverse effect on our business and results of operations.

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In addition, we cannot assure you that future changes in PRC environmental protection laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. As China is experiencing substantial issues with environmental pollution, it is likely that the national, provincial and local governmental agencies will adopt regulations setting forth stricter pollution controls and requirements. Any such regulation applicable to the manufacture of our products may increase our operating costs.

We may incur additional expenses if the relevant government authorities adopt more stringent policies or practices in interpreting or implementing relevant PRC labor laws and regulations.

In accordance with relevant PRC labor laws and regulations, we are required to contribute to a number of employee social insurance schemes including medical, maternity, work-related injury, unemployment and pension insurance, and to the employee housing accumulation fund. Please refer to the section headed “Regulations – Laws and Regulations Relating to Labor and Social Insurance” for further details. We provide social insurance and contribute to the housing accumulation fund for our employees in accordance with the policies and practices of local government authorities’ interpretation and implementation of relevant PRC labor laws and regulations. We may incur additional expenses if the relevant government authorities adopt more stringent policies or practices in interpreting or implementing relevant PRC labor laws and regulations.

Our sales of export products may fluctuate and may drop substantially if our export products become subject to anti-dumping measures or other trade restriction measures or tighter product quality standards.

International sales as a percentage of our total revenue amounted to 52.8%, 45.2% and 53.0% in 2008, 2009 and 2010, respectively.

As far as the Directors are aware of, the Company is not subject to any trade restrictions, anti-dumping regulations and product quality standards of the U.S. government. The U.S. government may impose duties or import restrictions on products imported from China if such products are being imported into the U.S. in such quantities or under such conditions as to cause or threaten to cause market disruption to the domestic U.S. market producers of a similar product.

We cannot assure you that the U.S. and the countries to which we export our products will not initiate trade protectionist measures in the form of anti-dumping duties, taxes, trade laws, tariffs, regulatory requirement and product quality standards against Chinese-manufactured products in the future. In the event that there is an anti-dumping measure or other trade sanctions imposed on our exported products by overseas countries in the future, prices of our products exported to such countries could be increased significantly, which in turn could result in a loss of our competitive advantage. Consequently, our export sales and profitability may drop substantially, and hence materially and adversely affect our business, financial conditions, results of operations and prospects.

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RISKS RELATING TO OUR INDUSTRY

Our business operations depend on the automobile industry which is characterized by rapid changes in technology and industry standards.

Our financial performance is dependent upon the continued growth of the automobile industry and the continued growth of outsourcing the manufacture of auto-parts. There can be no assurance that growth of the industry will continue at current rates or at all. The overall PRC economy affects our revenues as production needs for automobiles are likely to decrease in a slowing economy.

In addition, the automobile industry has been characterized by a more rapid launch of new car models, continuous technological advancement, evolving industry standards and changing customer needs, leading to a trend of shorter product life cycles and competitive pressure to introduce new or enhanced products quickly into the market. There can be no assurance that our research and development efforts will be successful in responding to these industry demands or customer needs, and new technologies or alternative products available in the market may render our existing products and production technologies less competitive. Any failure by us to take timely measures to respond to technological developments and changing industry standards could adversely affect our future performance and ability to compete.

Reduction in the export tax refund rates applicable to our products under PRC tax laws may have a material adverse effect on our operating results.

For the years ended 31 December 2008, 2009 and 2010, revenue attributable to our major products, namely evaporators, condensers, heater cores and compressors, represented approximately 82.3%, 86.5% and 84.6% of our total revenue. Among our major products, an export tax refund rate of 15% has been applied on evaporators, condensers and heater cores and an export tax refund rate of 17% on compressors under the current tax rules promulgated by the PRC government. If such preferential tax treatments are eliminated or significantly reduced by the PRC government, our financial condition and results of operations could be adversely affected.

Any recurrence of the global financial crisis and economic downturn of 2008 and 2009 could materially and adversely affect our business, financial condition, results of operation and prospects.

The global market and economic conditions in 2008 and 2009 were unprecedented and led most major economies into recession during this time period. Continued concerns about the systemic impact of potential long-term and wide-spread recession, energy costs, geopolitical issues, the availability and cost of credit, and the global housing and mortgage markets contributed to increased market volatility and diminished expectations for economic growth around the world. The difficult economic outlook negatively affected business and consumer confidence and contributed to market volatility of unprecedented levels. These events also led to a slowdown in the PRC economy, with the PRC gross domestic product growth rate decreasing by 0.5% during 2009 as compared with 2008. As a result of the global financial crisis, we experienced a decrease in our sales activities at the end of 2008 till mid-2009. Any recurrence of the global financial crisis may cause a further decline in the PRC economy, which may materially and adversely affect our business, financial condition, results of operations and prospects.

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RISKS RELATING TO CHINA

Adverse changes in the economic, political and social conditions in China, as well as political and economic policies of the PRC government, could have a material adverse effect on our business, financial condition, results of operations and prospects.

A substantial portion of our business and operations are conducted in China and as such, a substantial portion of our revenues are sourced from China. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social developments in China. The economy of China differs from the economies of most developed countries in many respects, including the degree of government involvement, level of development, growth rate, allocation of resources, control of capital investment and the overall level of development. The PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse changes in the economic, political and social conditions in China, as well as political and economic policies of the PRC government may directly or indirectly affect our business, financial condition, results of operations and prospects. The significant growth of the PRC economy over the past decade has been uneven, both geographically and among various sectors of the economy, and there is no assurance that such growth will continue.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

We conduct all of our manufacturing operations through our operating subsidiaries in China. Our PRC operating subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on currency conversion between Renminbi and foreign currencies and in certain cases, the remittance of currency out of and into China. We receive a substantial portion of our revenue in Renminbi, which is not freely convertible into other foreign currencies. As a result, any restriction on currency exchange may limit the ability of our subsidiaries to use our revenue generated in Renminbi to pay dividends to us, or otherwise satisfy any of their foreign currency denominated obligations. Under existing foreign exchange regulations in the PRC, following completion of the Share Offer, we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. In addition, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict if or when these reforms will take place.

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Fluctuations in the exchange rates of the Renminbi may adversely affect our operating results and financial condition.

The value of the RMB against other foreign currencies is subject to changes in the PRC Government's policies and international economic and political developments. Under the unified floating exchange rate system, the conversion of RMB into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the PBOC, which have generally been stable. However, the PRC Government reformed the exchange rate regime on 21 July 2005 by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, the RMB appreciated against the Hong Kong and US dollars by approximately 2.0% on the same date. On 23 September 2006, the PRC Government widened the daily trading band for RMB against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system.

There has been pressure from foreign countries on the PRC recently to adopt a more flexible currency system that could lead to further appreciation of the RMB. The RMB may be revalued further against the US dollar or other currencies or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the RMB against the US dollar or other currencies. It is uncertain if the exchange rates of Hong Kong and US dollars against RMB will further fluctuate. As a substantial part of our revenue is derived from our sales to overseas markets, any appreciation of the RMB may have a negative impact on our competitiveness. Also, since our revenues and profit are denominated in RMB, any depreciation of RMB would materially and adversely affect our financial position and the value of, and any dividends payable on, our Shares in foreign currency terms, as well as our ability to service any of our foreign currency obligations.

Failure to comply with the SAFE regulations by our future shareholders which are PRC residents may adversely affect our business operations.

SAFE issued a public notice in October 2005, namely the Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration on Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Vehicles ("Circular No.75"), requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an offshore special purpose vehicle ("SPV"). PRC residents that are shareholders of offshore SPVs established before 1 November 2005 which had completed roundtrip investments were required to register with the local SAFE branch before 31 March 2006. In addition, any PRC resident who is a shareholder of an offshore SPV is required to amend its SAFE registration within 30 days after any major change in the share capital of the offshore SPV without any roundtrip investment being made, such as any increase or decrease of capital, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guaranty to a foreign party etc.

On 16 February 2011, Mr. Dong obtained the Domestic Residents Personal Offshore Investment Foreign Exchange Registration Certificate (境內居民個人境外投資外匯登記表) from the SAFE Shanghai Branch. On the above basis, as advised by our PRC legal advisors, the domestic natural person shareholder of our Group, who is required to go through the registration procedures set forth under Circular No.75, has registered with the competent authority for foreign exchange registration of overseas investments in accordance with the requirements of Circular No.75 and the SAFE Shanghai Branch. However, we may not be fully informed of the identities of all our future shareholders who are PRC residents. Moreover, we do

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not have control over our future shareholders and cannot assure you that all of our future PRC resident beneficial owners will comply with Circular No.75 for registration or amendment. The failure of our future beneficial shareholders who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to Circular No.75 or the failure of future Shareholders who are PRC residents to comply with the registration requirements set out in Circular No.75 may subject such beneficial owners and/or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to contribute additional capital to our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute dividends to our Company or otherwise materially and adversely affect our business.

Recent changes to the PRC tax laws have impact on the tax rate applicable to our business, dividends on our Shares payable to foreign investors and gains on the sales of our Shares by foreign investors and any future changes to the PRC tax laws could adversely affect our financial condition and results of operations.

The new EIT Law imposes a uniform tax rate of 25% on all enterprises (including foreign-invested enterprises) and terminates most of the current tax exemption, reduction and preferential tax treatments available under current tax laws and regulations. Companies that previously enjoyed preferential tax treatments were afforded a transition period by the implementation regulations. During the Track Record Period, we realized tax savings of RMB6.6 million, RMB8.9 million and RMB10.1 million as our PRC subsidiary, Shanghai Shuanghua, being registered as a foreign-invested enterprise, was in its third, fourth and fifth profit making years in 2008, 2009 and 2010 and therefore was subject to a preferential EIT rate of 12.5% for the period. The preferential tax treatment of “two-year exemption and three-year half rate” enjoyed by Shanghai Shuanghua had expired on 31 December 2010. Shanghai Shuanghua was accredited as a “Shanghai High and New Technology Enterprise” in December 2008 and such qualification will expire on 24 December 2011. Shanghai Shuanghua is in the process of applying for re-assessment of this “hi-tech enterprise” qualification in order to enjoy the preferential EIT rate of 15.0% applicable to “hi-tech enterprise” for the years ending 31 December 2011, 2012 and 2013. According to the “Announcement of the State Administration of Taxation on Prepayment of Enterprise Income Tax” issued by State Administration of Taxation in January 2011, any enterprise that is applying for re-assessment of its “hi-tech enterprise” qualification can temporarily prepay enterprise income tax at a rate of 15% during the transition period before passing the re-assessment while its hi-tech enterprise qualification remains valid. As such, Shanghai Shuanghua is temporarily prepaying enterprise income tax in 2011 at a rate of 15%. Reduction or elimination of the preferential tax treatments we enjoy or imposition of additional taxes on our PRC subsidiaries may significantly increase our income tax expenses and materially reduce our net income, which could have a material adverse effect on our business, financial condition and results of operations.

Under the new EIT Law, the exemption from the withholding tax on dividends distributed by foreign-invested enterprises to their foreign investors under the previous tax laws is no longer available. A withholding tax at the rate of 10% will be applicable to any dividends paid by foreign investors who are considered non-resident enterprises by the PRC tax authority. In addition, the new EIT Law deems an enterprise established offshore but with “de facto management bodies” in the PRC as a “resident enterprise” which is subject to the PRC enterprise income tax on its global income excluding dividends received from its PRC subsidiaries. All members of our management are currently located in the PRC, and we expect them to continue to be located in the PRC in the foreseeable future. If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, our global income, excluding dividends received from our PRC subsidiaries, will be subject to PRC income tax at a tax rate of 25%. According to practices, PRC tax authorities in different districts may be inconsistent in classifying resident

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enterprises and non-resident enterprises. Any imposition of withholding tax on dividends payable from our PRC subsidiaries to us, any imposition of PRC tax on our global income as a “resident enterprise” under the new law and any further changes to the PRC tax laws could have a material adverse effect on our financial condition and results of operations.

Similarly, the Circular of State Administration of Taxation on Strengthening Corporate Income Tax Management on Non-resident Enterprises Equity Transfer Income (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (the “Circular 698”), which issued by the SAT and became effective on 10 December 2009, provides that except for the purchase and sale of equity through a public securities market, where a foreign corporate investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (“Indirect Transfer”) located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5%; or (ii) does not tax its residents on their foreign income, the foreign corporate investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. In this case, the PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the Indirect Transfer without reasonable commercial purpose and in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purpose and re-characterize the Indirect Transfer. As a result, gains derived from such Indirect Transfer by the foreign investor may be subject to EIT. According to Circular 698, using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax only. The Group disposed of or transferred its indirect equity interests in PRC resident enterprises through an overseas holding company, Hong Kong Automart. Hong Kong Automart is engaged in substantive operating activities of marketing and management and such disposals or transfers were conducted with a reasonable commercial purpose of streamlining the corporate structure. According to the consultation with Shanghai Fengxian District State Administration of Taxation, the local supervising tax authority of Shanghai Shuanghua, they considered that (i) such disposals or transfers will not be deemed as Indirect Transfer, defined in Circular 698; and (ii) the Group will be required to pay the enterprise income tax subject to Circular 698 is remote. Yet, as advised by our PRC legal advisors, it is still possible that the State Administration of Taxation or other PRC tax authorities may take a different view since no detailed operating instructions on Circular 698 has been issued as of the Latest Practicable Date. In the event that the State Administration of Taxation or other PRC tax authorities take a different view or issues any detailed operating instruction in the future that has retrospective effect of making our Group liable to pay enterprise income tax under Circular 698 as a result of our Group’s reorganization, the Controlling Shareholders would indemnify our Group in respect of any tax payable under Circular 698 resulting therefrom.

The PRC Labor Contract Law and its implementing rules may adversely affect our business and results of operations.

The PRC Labor Contract Law (中華人民共和國勞動合同法) became effective and was implemented on 1 January 2008. This new labor law and its implementing rules have reinforced the protection for employees, who, under the existing PRC Labor Law, have certain rights, such as the right to have written labor contracts, the right to enter into labor contracts with no fixed terms under specific circumstances, the right to receive overtime wages when working overtime and the right to terminate or alter terms in the labor contracts. In addition, the Labor Contract Law and its implementing rules have amended the previous PRC Labor Law and added some clauses that could increase labor costs. As the Labor Contract Law and its

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implementing rules are relatively new, there remains significant uncertainty as to their interpretation and application by the PRC Government. In the event that we decide to significantly reduce our workforce, the Labor Contract Law and its implementing rules could adversely affect our ability to effect these changes cost-effectively or in the manner we desire, which could lead to a negative impact on our business and results of operations.

We face risks related to health epidemics and other outbreaks.

Our business could be materially and adversely affected by the effects of Severe Acute Respiratory Syndrome (or SARS), avian influenza, influenza A (H1N1, commonly known as swine influenza) or another epidemic or outbreak on the economic and business climate. China reported a number of cases of SARS in April 2003, avian influenza was reported in western China and several countries in Southeast Asia in 2005 and swine influenza has resulted in numerous human deaths in several provinces in China and certain regions of the world in 2009.

An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may in turn adversely affect our business. Moreover, China has experienced natural disasters like earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn our business. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 flu or other epidemics, will not seriously interrupt our operations or those of our customers, which may have a material and adverse effect on our results of operations.

Unexpected disruption to our production facilities may have a material adverse impact.

Our production activities are mainly conducted at our production base located in Shanghai, China. If disastrous incidents beyond our control occur at our production base, including but not limited to public disorder, fire, power supply failure, earthquakes, typhoon, flood or otherwise, it could result in a temporary disruption to our production activities. In addition, if either Shanghai or its surrounding areas suffers persistently unfavorable weather conditions, our production may come to a halt as a result of serious interruption to the transportation network and suspension of water and electricity supplies. In the event of such incidents happening, our business, operating results and financial condition could be adversely affected.

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

Most of our Directors reside within China and our operating subsidiaries are mainly established in China. Consequently, substantially all of the assets of the aforesaid persons are located within China. Therefore, it may not be possible for investors to effect service of process upon those members of our Group established in China or those Directors residing in China or to enforce against them in China any judgments obtained from non-Chinese courts.

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Furthermore, PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States, the United Kingdom, Japan, Singapore and many other countries. As a result, recognition and enforcement in the PRC of judgments of a court in any of these and other jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Our Shareholders may not be able to bring actions on the basis of violations of the Hong Kong Listing Rules and may have to rely on the Hong Kong Stock Exchange to enforce its rules. Furthermore, the Hong Kong Takeovers Code does not have the force of law and provides only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under this arrangement, which has been in effect since 1 August 2008, where any designated PRC Court of the Mainland or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a written choice-of-court agreement between the parties, any party concerned may apply to the relevant PRC Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. However, as rights under this arrangement are limited and the interpretation of and cases under this arrangement have not been fully developed, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

RISKS RELATING TO THE SHARE OFFER

Current volatility in the global financial markets could cause significant fluctuations in the price of our Shares.

Financial markets around the world have been experiencing heightened volatility and turmoil since late 2007. Upon Listing, the price and trading volume of our Shares will likely be subject to similar market fluctuations which may be unrelated to our operating performance or prospects. Factors that may significantly impact the volatility of our Share price include, among other things:

- developments in our business sector or in the financial sector generally, including the effect of direct governmental action in the financial markets;
- the operating and securities price performance of companies that investors consider to be comparable to us; and
- changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

As a result of these market fluctuations, the price of our Shares may decline significantly, and you may lose significant value on your investment.

There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile.

Prior to the Share Offer, there has been no public market for our Shares. The Offer Price for our Shares has been the result of negotiations between the Joint Bookrunners (on behalf of the Underwriters)

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and us, and may differ from the market prices for our Shares after the Share Offer. We have applied to the Hong Kong Stock Exchange for the listing of, and permission to deal in, our Shares. However, there is no assurance that the Share Offer will result in the development of an active and liquid public trading market for our Shares. The market price, liquidity and trading volume of our Shares may be volatile.

We cannot assure you that shareholders will be able to sell their Shares or achieve their desired price. As a result, shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares under the Share Offer. Factors that may affect the volume and price at which our Shares will be traded include, among other things, variations in our sales, earnings, cash flows and costs, announcements of new investments and changes in laws and regulations in China. We cannot assure you that these developments will not occur in the future. In addition, shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

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

The Offer Price of our Shares is higher than our net tangible asset value per Share immediately prior to the Share Offer. Therefore, purchasers of our Shares in the Share Offer will experience an immediate dilution in pro forma net tangible asset value per Share. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience dilution in the net tangible asset value per Share if we issue additional Shares in the future at a price which is lower than our net tangible asset value per Share.

We cannot assure you that we will declare dividends in the future.

We currently do not have a fixed dividend policy. The declaration, payment and amount of dividends in the future will be subject to the discretion of the Board and will depend on our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us or our operating subsidiaries in the PRC, future prospects and other factors that our Directors may consider relevant. There can be no assurance that our Company will be able to or will declare or distribute any dividend in the amount set out in any plan of the Board or at all.

Our Controlling Shareholders have the ability to exercise substantial control over us, which allows them to influence our business in ways which may not be in our or our other Shareholders' best interests.

Our Controlling Shareholders will hold 75.0% of our issued share capital upon completion of the Share Offer. Accordingly, subject to our Articles of Association and applicable laws and regulations, our Controlling Shareholders will, through their representatives on our Board, be able to influence our major policy decisions, including those relating to:

- issuances of securities and adjustments to our capital structure;
- our management, business strategies and policies;

RISK FACTORS

- the timing and distribution of dividends;
- any plans relating to mergers, acquisitions, joint ventures, investments or divestitures;
- the election of our Directors; and
- other actions that require the approval of our Directors or Shareholders.

The interests of our Controlling Shareholders may not always coincide with our or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, those other Shareholders may be disadvantaged as a result.

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law and, under Cayman Islands laws, protection to minority shareholders may differ from those established under the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by our Memorandum of Association and the Articles and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and judicial precedents in existence in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed “Summary of the Constitution of our Company and the Companies Law” in Appendix V to this prospectus.

Future sales by our existing shareholders of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.

Future sales of a substantial number of our Shares by our existing shareholders, or the possibility of such sales, could negatively impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate. Shares held by our Controlling Shareholders are subject to certain lock-up undertakings after the date on which trading in our Shares commences on the Hong Kong Stock Exchange, details of which are set out in the section headed “Underwriting” in this prospectus. We cannot assure you that our Controlling Shareholders will not dispose of any Shares they may own now or in the future.

Forward-looking information may prove inaccurate.

This prospectus contains forward-looking statements and information relating to our business, operations and prospects that are based on our current beliefs and assumptions as well as information currently available to us. When used in this prospectus, the words “anticipate,” “believe,” “could,” “expect,” “intend,” “may,” “plan,” “prospects,” “seek,” “will,” “would” and similar expressions, as they relate to our business, are intended to identify forward-looking statements. Such statements reflect our current beliefs with respect to future events and are subject to various assumptions, risks and uncertainties including the risk factors described in this prospectus. Should any of the underlying assumptions or information prove incorrect, or should one or more of these risks or uncertainties materialize, actual results

RISK FACTORS

may diverge significantly from the forward-looking statements in this prospectus. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement. We do not intend to update these forward-looking statements in addition to on-going disclosure obligations pursuant to the Hong Kong Listing Rules or other requirements of the Hong Kong Stock Exchange.

Our forecast combined profit for the six months ending 30 June 2011 may not necessarily give any indication of, and should not be interpreted as a guidance of, our full year financial results for 2011.

Our Directors forecast that for the six months ending 30 June 2011, our combined profit attributable to owners of our Company is expected to be not less than RMB41.3 million.

The results of our operations have been, and are expected to continue to be, affected by various factors as set out in the section headed “Risk Factors” and the section headed “Financial Information – Significant factors affecting our results of operations” in this prospectus. These factors could vary materially between the conditions expected in the first half of 2011 and the second half of 2011.

Due to the factors referred to above, many of which are beyond our control, our forecast combined profit attributable to owners of our Company for the six months ending 30 June 2011 may not necessarily give any indication of, and should not be interpreted as a guidance of, our full year financial results for 2011.

Certain facts and other statistics with respect to China, the PRC economy and our industry in this prospectus are derived from various official government sources and may not be reliable.

Certain facts and other statistics in this prospectus relating to China, the PRC economy and our industry and related markets have been derived from various official government publications. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, or any of our affiliates, directors, or advisors, nor by the Sole Sponsor, any of the Underwriters or any of their affiliates, directors or advisors, or any other persons or parties involved in the Share Offer, and no representation is given as to its accuracy. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Joint Bookrunners, the Underwriters or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

WAIVER FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE HONG KONG LISTING RULES RELATING TO MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Hong Kong Listing Rules, an issuer must have a sufficient management presence in Hong Kong and in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong.

Our core business and operations are substantially based in the PRC. It would be practically difficult and commercially unnecessary for us to relocate our executive directors to Hong Kong. Therefore, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Hong Kong Listing Rules on the following conditions:

- (1) We will appoint two authorized representatives pursuant to Rule 3.05 of the Hong Kong Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that they comply with the Hong Kong Listing Rules at all times. The two authorized representatives to be appointed are Mr. Zheng, our executive Director and Ms. Tang Lo Nar, our joint company secretary. Both of Mr. Zheng and Ms. Tang are ordinarily residents in Hong Kong. Each of the authorized representatives will be available to meet with the Hong Kong Stock Exchange within a reasonable time frame upon the request of the Hong Kong Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the two authorized representatives will be authorized to communicate on our behalf with the Hong Kong Stock Exchange.
- (2) Both the authorized representatives have means to contact all of our Directors (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors for any matters. Our Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange within a reasonable period of time, when required. To enhance communication between the Hong Kong Stock Exchange, the authorized representatives and our Directors, we will implement a policy that (a) each Director will have to provide his/her mobile telephone number, fax number and email address to the authorized representatives; (b) in the event that a Director expects to travel, he/she will endeavor to provide the telephone number of the place of his/her accommodation to the authorized representatives or maintain an open line of communication via his/her mobile telephone; and (c) all our Directors will provide their respective mobile telephone numbers, office telephone numbers, fax numbers and email addresses to the Hong Kong Stock Exchange.
- (3) We will appoint Piper Jaffray Asia as compliance adviser, pursuant to Rule 3A.19 of the Hong Kong Listing Rules, which will have access at all times to the authorized representatives, our directors and the senior management of our Company, and will act as an additional channel of communication between the Hong Kong Stock Exchange and us.
- (4) Meetings between the Hong Kong Stock Exchange and our Directors could be arranged through the authorized representatives or the compliance adviser, or directly with our Directors within a reasonable time frame. We will inform the Hong Kong Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the compliance adviser.

WAIVER FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

COMPANY SECRETARY

Rule 8.17 of the Hong Kong Listing Rules provides that the secretary of the issuer must be a person who is ordinarily resident in Hong Kong and has the requisite knowledge and experience to discharge the functions of secretary of the issuer and is an individual who is an ordinary member of the Hong Kong Institute of Chartered Secretaries, a solicitor or barrister as defined in the Legal Practitioners Ordinance or a professional accountant or who, by virtue of the academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock exchange, capable of discharging those functions.

Our Company will appoint Mr. Dong Hanyou and Ms. Tang Lo Nar as joint secretaries.

Ms. Tang is a fellow member of the Association of Chartered Certified Accountants and a member of Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Accordingly, Ms. Tang meets the requirements under Rule 8.17 of the Hong Kong Listing Rules.

Although Mr. Dong's experience enables him to fulfil the functions as a secretary to the Board, Mr. Dong does not possess a qualification as stipulated in Rule 8.17(2) of the Hong Kong Listing Rules and is ordinarily resident in the PRC and may not be able to solely fulfil the requirements as a company secretary of a listed issuer stipulated under Rule 8.17 of the Hong Kong Listing Rules.

In order to provide support to Mr. Dong, our Company proposes to appoint Ms. Tang to act as a joint company secretary and to provide assistance to Mr. Dong for a period of three years from the date of Listing so as to enable him to acquire the relevant experience (as required under Rule 8.17(3) of the Hong Kong Listing Rules) and to duly discharge the functions of a company secretary of a listed issuer. By virtue of Ms. Tang's experience in corporate secretarial services, our Directors consider that Ms. Tang is a suitably qualified person to render assistance to Mr. Dong so as to enable him to acquire the "relevant experience" as is required as a company secretary under Rule 8.17(3) of the Hong Kong Listing Rules. In order to enable Mr. Dong to have good understanding of the Hong Kong Listing Rules and other applicable Hong Kong law, Mr. Dong will enrol on relevant courses to enable him to acquire the relevant knowledge for the discharge of his duties as joint company secretary of our Company.

Ms. Tang will act as a joint company secretary and provide assistance to Mr. Dong, as described above, on an ongoing basis, subject to her resignation or the termination of the agreement between the Company and Ms. Tang. It is expected that she will assist Mr. Dong for a minimum of three-year period from the date of Listing and will provide adequate training and guidance to Mr. Dong up to and after three years from the date of Listing of the shares of the Company on the Main Board of the Hong Kong Stock Exchange. Upon the expiry of such three-year period, the Company will assess the then experience of Mr. Dong in order to determine whether the requirements stipulated in Rule 8.17 of the Hong Kong Listing Rules can be satisfied. At the end of the three-year period, our Company will liaise with the Hong Kong Stock Exchange and the Hong Kong Stock Exchange will revisit the situation in the expectation that our Company will thus be able to demonstrate to the Hong Kong Stock Exchange's satisfaction that Mr. Dong, having the benefit of Ms. Tang's assistance for three years, will have acquired the relevant experience under Rule 8.17(3) of the Hong Kong Listing Rules, such that a further waiver will not be necessary.

WAIVER FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

Our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 8.17 of the Hong Kong Listing Rules in respect of the qualifications of our company secretary and the Hong Kong ordinary residence requirement for an initial period of three years from the date of Listing.

CHAPTER 14A OF THE HONG KONG LISTING RULES

Our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver in relation to certain continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the section headed “Connected Transactions” of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (Chapter 571V of the Laws of Hong Kong) and the Hong Kong Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Share Offer or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by the Company, the Sole Sponsor, the Underwriters, or any of their respective directors, agents, employees, advisors or any other party involved in the Share Offer. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably unlikely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure of the Share Offer" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Share Offer. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offer.

The listing of our Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters. The Placing is managed by the Joint Bookrunners. The Placing Underwriting Agreement is expected to be entered into on or about Thursday, 23 June 2011. For further details of the Underwriters and the underwriting arrangements, please see the section entitled "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

RESTRICTIONS ON SALE OF THE OFFER SHARES

No action has been taken in any jurisdiction other than Hong Kong to permit any public offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such offer or invitation.

Each person acquiring the Offer Shares will be required, and is deemed by its, his or her acquisition of the Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that its, his or her is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and prohibitions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered or sold, directly or indirectly, in the PRC.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to (i) the Share Offer, (ii) the Capitalization Issue and (iii) any Shares which may fall to be issued pursuant to the exercise of the Share Option Scheme. Save as disclosed in this prospectus, no part of our Shares or loan capital is listed on or dealt in on any other Hong Kong Stock Exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange.

HONG KONG SHARE REGISTER AND STAMP DUTY

All of our Shares issued and sold pursuant to applications made in the Hong Kong Public Offer will be registered on our register of members in Hong Kong.

No stamp duty is payable by applicants in the Share Offer.

Dealings in the Shares will be subject to stamp duty in Hong Kong.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

OUR SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Main Board of the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbrokers or other professional advisors for details of the settlement arrangements that may affect their rights and interests. All necessary arrangements have been made for our Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or exercising any rights in relation to, our Shares. None of our Company, the Sole Sponsor, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, our Shares.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section entitled “How to Apply for Hong Kong Offer Shares” and on the relevant Applications Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section entitled “Structure of the Share Offer” in this prospectus.

ROUNDING

Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB and US Dollar have been translated, for the purpose of illustration only, into Hong Kong Dollars in this prospectus at the following rates:

HK\$1.0000: RMB0.8351

HK\$7.7876: US\$1.0000

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

WEBSITE

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

LANGUAGE TRANSLATION

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

The English language version of this prospectus has been translated into the Chinese language and English and Chinese versions of this prospectus are being published separately. If there should be any inconsistency between the English and Chinese versions, the English version shall govern.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Zheng Ping (鄭平)	Flat B, 5th Floor, 38 Tai Yuen Street, Wanchai, Hong Kong	Chinese
Dong Zongde (董宗德)	Room 3002, Block 12, 99 Pu Cheng Road, Shanghai City, PRC	Chinese
<i>Non-executive Directors</i>		
Kong Xiaoling (孔小玲)	Flat B, 5th Floor, 38 Tai Yuen Street, Wanchai, Hong Kong	Chinese
Jia Weiren (賈衛人)	Room 404, 3rd Lane No. 11, 335 Lane, Wei Fang Road, Shanghai, PRC	Chinese
<i>Independent non-executive Directors</i>		
Zhao Fenggao (趙鳳高)	Room 1702, Jumen Road 620, Shanghai, PRC	Chinese
He Binhui (何斌輝)	Room 1507, Building 1, Cui Wei Zhong Li, Haidian District, Beijing, PRC	Chinese
Chen Lifan (陳禮璠)	Room 1006, No. 1, Lane 968, Tianyaoqiao Road, Xuhui District, Shanghai, PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sole Sponsor

Piper Jaffray Asia Limited

Suite 1308, 13/F
Two Pacific Place
88 Queensway
Hong Kong

Joint Bookrunners and Joint Lead Managers

Piper Jaffray Asia Securities Limited

Suite 1308, 13/F
Two Pacific Place
88 Queensway
Hong Kong

GF Securities (Hong Kong) Brokerage Limited

Room 2301-5 & 2313
COSCO Tower
183 Queen's Road Central
Hong Kong

Legal Advisors to the Company

As to Hong Kong law

Sidley Austin

Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to PRC law

Jingtian & Gongcheng

Suite 3505, K. Wah Centre
1010 Huai Hai Road (M)
Shanghai, 200031
PRC

As to the Cayman Islands law

Conyers Dill & Pearman

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

**Legal Advisors to the Sole Sponsor
and the Underwriters**

As to Hong Kong law
Morrison & Foerster
33/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law
King & Wood
28-30F, Huai Hai Plaza
1045 Huai Hai Road (M)
Shanghai, 200031
PRC

Auditors and Reporting Accountants

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Property Valuer

DTZ Debenham Tie Leung Limited
16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

Receiving Bank

The Bank of East Asia, Limited
10 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office	Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY-1111, Cayman Islands
Headquarters	9th Floor Tongsheng Building No.458 Fushan Road Pudong district Shanghai PRC
Principal Place of Business in Hong Kong	2nd Floor Eton Tower 8 Hysan Avenue Causeway Bay Hong Kong
Company Website	www.shuanghua.sh.cn www.shshuanghua.com <i>(information contained in this website does not form part of this prospectus)</i>
Joint Company Secretaries	Dong Hanyou (董漢有) Tang Lo Nar (鄧露娜)
Authorized Representatives	Zheng Ping (鄭平) Flat B, 5th Floor 38 Tai Yuen Street Wanchai Hong Kong Tang Lo Nar (鄧露娜) BLK A, 2/F 186 Fuk Hing Tsuen Wang Chau Yuen Long Hong Kong
Audit Committee	He Binhui (何斌輝) (<i>Chairman</i>) Zhao Fenggao (趙鳳高) Chen Lifan (陳禮璠)

CORPORATE INFORMATION

Remuneration Committee	Zhao Fenggao (趙鳳高) (<i>Chairman</i>) He Binhui (何斌輝) Chen Lifan (陳禮璠)
Nomination Committee	Chen Lifan (陳禮璠) (<i>Chairman</i>) He Binhui (何斌輝) Zhao Fenggao (趙鳳高)
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Banker	China Construction Bank Shanghai Branch Fengxian Sub-branch No. 332 Jiefang Zhong Road Nanqiao Town Fengxian District Shanghai PRC
Compliance Advisor	Piper Jaffray Asia Limited Suite 1308, 13/F Two Pacific Place 88 Queensway Hong Kong

INDUSTRY OVERVIEW

This section contains certain information which is derived from official government publications and industry sources as well as a report we commissioned from Frost & Sullivan, an Independent Third Party. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. While we have exercised reasonable care in compiling and reproducing such information from official government publications, it has not been independently verified by us, or any of our affiliates, directors or advisors, nor by the Sole Sponsor, any of the Underwriters or any of their affiliates, directors or advisors, or any other persons or parties involved in the Share Offer. The information from official government publications may not be consistent with information available from other sources within or outside the PRC. Our Group, its affiliates or advisors, the Underwriters or their affiliates, directors or advisors, or any other persons or parties involved in the Share Offer do not make any representation as to the accuracy, completeness or fairness of such information from official government publications and, accordingly, you should not unduly rely on such information from official government publications.

The information extracted from the Frost & Sullivan Report reflects estimates of market conditions based on samples, and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as Frost & Sullivan's opinion as to the value of any security or the advisability of investing in our Group. The Directors believe that the sources of the information extracted from the Frost & Sullivan Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information extracted from the Frost & Sullivan Report has not been independently verified by us, the Sole Sponsor, the Underwriters or any other party involved in the Share Offer and no representation is given as to its accuracy.

INTRODUCTION

We are a leading independent automotive HVAC components supplier based in China. We are principally engaged in the design, production and marketing of a comprehensive range of automotive HVAC components including evaporators, condensers, heater cores and compressors.

The following sets forth an overview of the automotive industry in China which is followed by an analysis of the HVAC components industry in China and North America and other growth opportunities for HVAC components, all of which drive the demand for our HVAC component products.

FROST & SULLIVAN REPORT

Frost & Sullivan is a global consulting firm founded in 1961 in New York to engage in publication of market consulting information and intelligence on emerging high-technology and industrial markets. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemical material and food, energy and power supply, environment and building technologies, automation and electronics, healthcare, and information, communication and technology.

INDUSTRY OVERVIEW

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the research and consulting team of Frost & Sullivan in China and an Independent Third Party, was commissioned by us in October 2010 to produce the Frost & Sullivan Report, in relation to, *inter alia*, the HVAC industry in China at a fee of RMB860,000. Our payment of such fee is not contingent on the results of Frost & Sullivan's analysis.

Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various sources within the PRC. Primary research involved interview with leading industry participants from vehicle manufacturers, HVAC system suppliers, HVAC components suppliers and related industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database.

Projected total market size information in the PRC was obtained from historical data analysis plotted against macroeconomic data as well as specific related industry drivers such as increasing disposable income, rise of passenger vehicle sales and increasing product diversification mapped against available projected drivers obtained through interviews with industry experts and participants.

As for the market forecasting, Frost & Sullivan's calculation were based on two key factors, the projected passenger vehicle sales and the projected passenger vehicle population. The forecasting methodology of Frost & Sullivan has integrated several forecasting techniques with the market engineering measurement-based system. The forecasting methodology is a seven-step system shown as follows that maximizes the credibility and accuracy of the forecasts:

1. Market Engineering Research Process

The market engineering research process provides the navigational measurements of current market position and trends, which are the basis of the forecast.

2. Measurements and Challenges Analyzed over Time

Measurements and challenges are analyzed over time to provide additional insights into their potential impact on the market size and development.

3. Identification of Market Drivers and Restraints

The analyst specifies the factors that drive the market forward in terms of revenue and determines the elements that inhibit growth.

4. Expert-Opinion Integration with Analyst Team

The interview process includes a variety of industry experts, competitors and key customers. These experts' opinions on the direction of the market are integrated with the data and analysis already created.

5. Forecasts

Analysts collect the market data which are required and needed to create the initial forecast scenarios. Each scenario is assessed to determine the most probable outcome for the market size. For example, the forecasts are matched to the leading economic indicators and drivers for each specific industry.

INDUSTRY OVERVIEW

6. Delphi Technique Integration (if necessary)

If the data collected contradicts the forecast scenarios, it is necessary to discuss again the market forecasts with the industry experts who have already been interviewed in the research process.

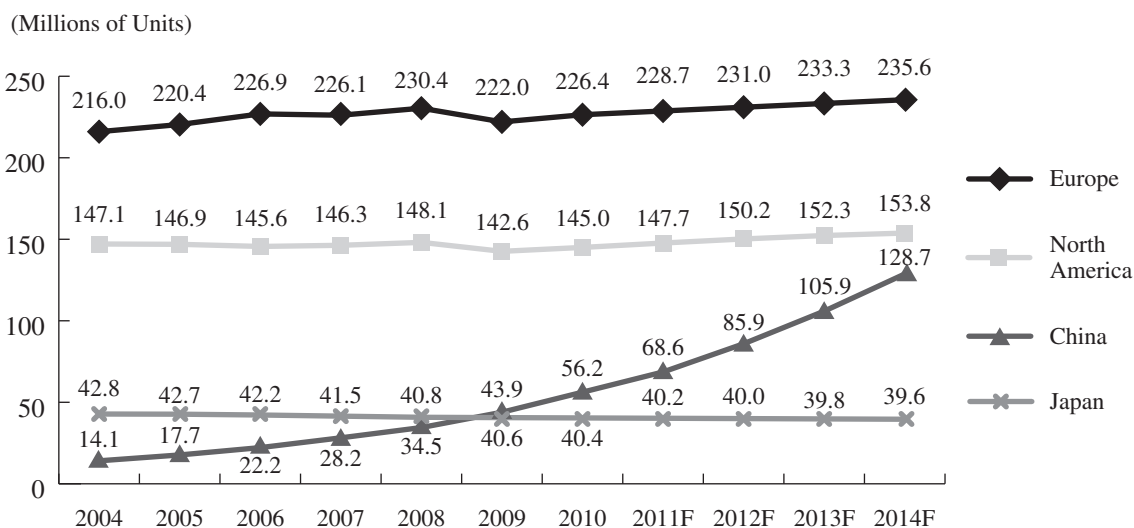
7. Quality Control within Research Department

Once the forecasts are integrated into the market section, they are verified by other team members in the industry research group, and the research director. The forecasts are also ensured for mathematical accuracy and internal consistency by the final review preparation department and the editing department.

OVERVIEW OF CHINA AUTOMOTIVE MARKET

According to the Frost & Sullivan Report, the number of vehicles on road (PARC) of passenger vehicle in China is expected to experience a strong growth from 2010 to 2014 while that in North America, Europe and Japan, the three traditional automotive markets, will remain at a stable level in the same period. The diagram below illustrates the passenger vehicle PARC in China, North America, Europe and Japan during the period from 2004 to 2014.

Passenger Vehicle PARC (World), 2004-2014



Sources: Ministry of Land, Infrastructure, Transport and Tourism of Japan; European Automobile Manufacturers' Association; US Bureau of Transit Statistics; Frost & Sullivan analysis

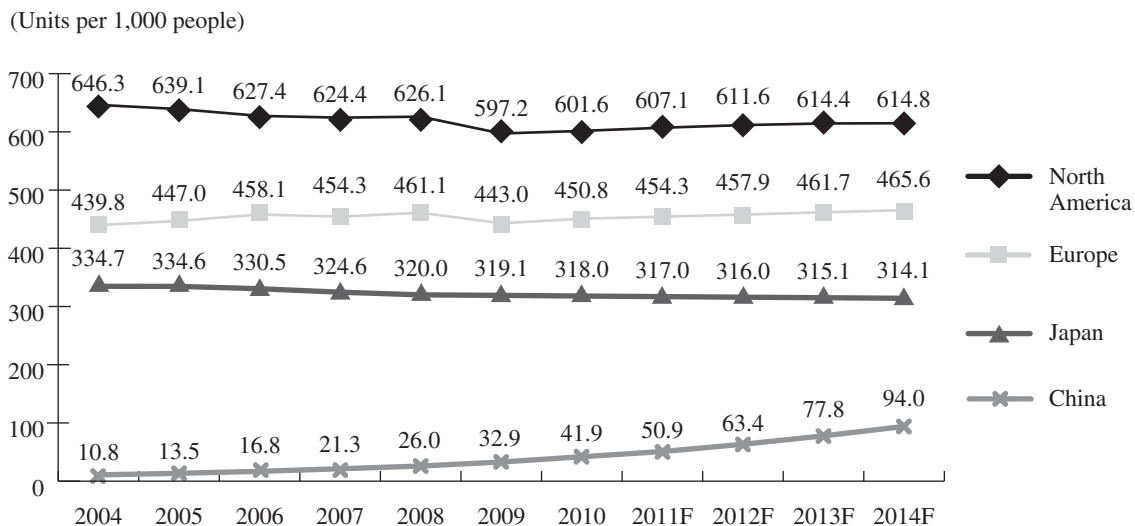
Notes:

- (1) North America includes the United States and Canada.
- (2) Europe includes Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

INDUSTRY OVERVIEW

PARC per capital ratio in China is much lower as compared with North America, Europe or Japan, indicating a huge potential for passenger vehicle sales in China towards 2014. The diagram below illustrates the passenger vehicle PARC per capital ratio in China, North America, Europe and Japan during the period from 2004 to 2014.

Passenger Vehicle PARC per Capital Ratio (World), 2004-2014

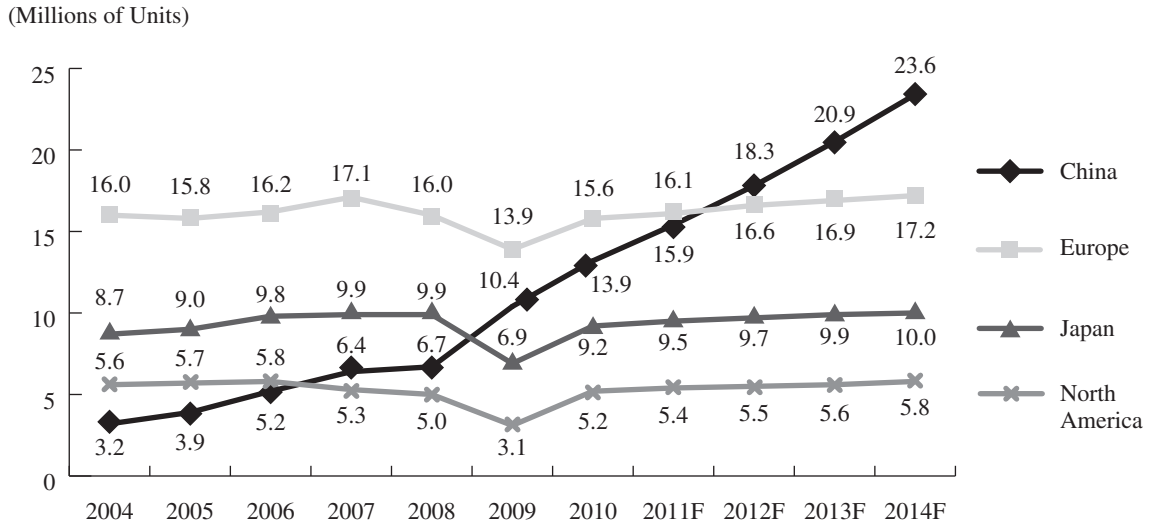


Sources: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2008 Revision*; Eurostat – Statistical Office of the European Commission; The National Bureau of Statistics of the People’s Republic of China; Frost & Sullivan analysis

INDUSTRY OVERVIEW

China is the only major passenger vehicle producing country which presented a positive growth in 2009 with the passenger vehicle production exceeding 10 million units. Production volume in China is expected to achieve a solid and rapid growth and is projected to exceed 20 million units by 2014, while the passenger vehicle production in North America, Europe and Japan is estimated to grow slightly after the drop in 2008 and 2009. The diagram below illustrates the passenger vehicle production in China, North America, Europe and Japan during the period from 2004 to 2014.

Passenger Vehicle Production (World), 2004-2014

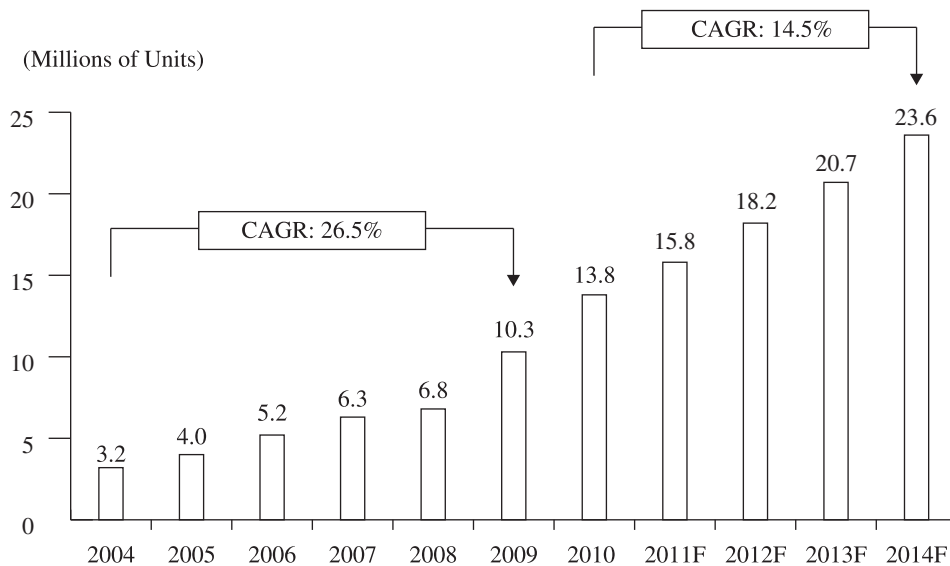


Sources: China Association of Automobile Manufacturers, Frost & Sullivan analysis

INDUSTRY OVERVIEW

The passenger vehicle sales in China have experienced a blooming growth with a CAGR of 26.5% from 2004 to 2009. The passenger vehicle market in China is expected to maintain its rapid growth and annual sales is projected to reach 23.6 million units in 2014 with a CAGR of 14.5% from 2010 to 2014. The diagram below illustrates the passenger vehicle sales in China during the period from 2004 to 2014.

Passenger Vehicle Sales (China), 2004-2014



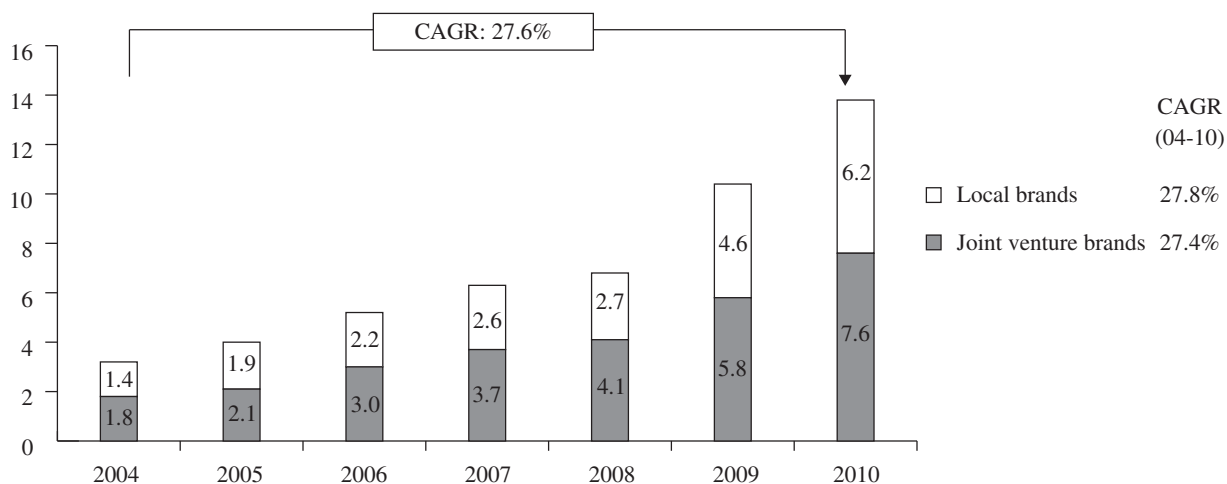
Sources: China Association of Automobile Manufacturers, Frost & Sullivan analysis

INDUSTRY OVERVIEW

The passenger vehicle sales growth of Chinese local brands was slightly lower as compared with that of joint venture brands such as Volkswagen, General Motors, Toyota, Honda, Nissan and Hyundai from 2004 to 2009 in China. Chinese local brands contributed 45.1% of passenger vehicle sales while the rest was contributed by joint venture brands in 2010. Propelled by government incentives including a purchase tax cut from 10% to 5% for passenger cars with engines of 1.6L or smaller and one-off cash rebates totaling RMB5 billion to owners of older vehicles who trade them in for newer and more fuel-efficient vehicles, passenger vehicle sales in China reached 13.8 million units in 2010. Minibus contributed approximately 40% in the total passenger vehicle sales by Chinese local brands. The sales of minibus and other passenger vehicles by Chinese local brands were approximately 2.5 million units and 3.7 million units in 2010, respectively. The diagram below illustrates the passenger vehicle sales breakdowns in China during the period from 2004 to 2010.

Passenger Vehicle Sales Breakdown (China), 2004-2010

(Millions of Units)



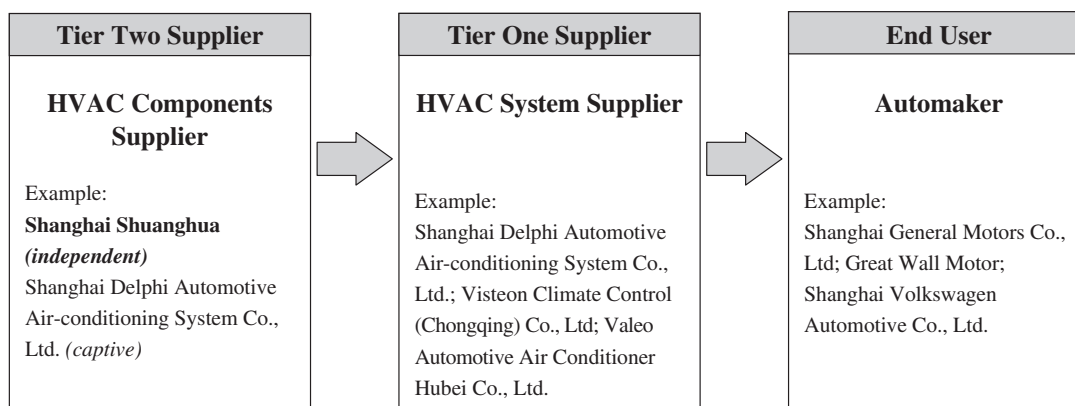
Sources: China Association of Automobile Manufacturers, Frost & Sullivan analysis

INDUSTRY OVERVIEW

OVERVIEW OF CHINA HVAC COMPONENTS MARKET

Value Chain of HVAC Components OEM Market

In the OEM market, HVAC components produced by HVAC components suppliers are assembled into HVAC systems by HVAC system suppliers and then delivered to automakers for whole-car assembly. The diagram below demonstrates the value chain of OEM HVAC components market in China:



Captive and Independent Suppliers

Captive suppliers are either subsidiaries or affiliates of automakers or tier one suppliers with the primary purpose of supplying such automakers or tier one suppliers with particular automobile components. These suppliers generally focus on providing the automobile components and system to their affiliated automakers or tier one suppliers.

Independent suppliers are not affiliated with or subsidiaries of automakers, and are free to sell their products to whomever they choose.

In the HVAC components market, captive suppliers are generally subsidiaries or affiliates of HVAC system suppliers, and their primary business is to supply such HVAC system suppliers with particular HVAC components. Independent suppliers, on the other hand, are not affiliated with HVAC system suppliers. Independent suppliers are free to manufacture HVAC components for any HVAC system suppliers.

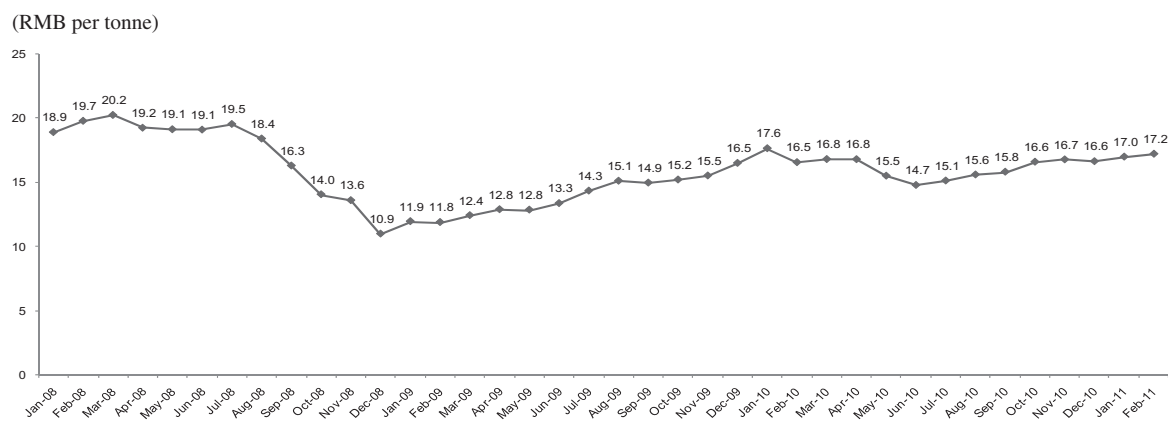
The HVAC system suppliers normally outsource part of the demand for HVAC components to independent suppliers to avoid the downtime caused by internal capacity shortage or quality problem. On the other hand, with the rapid growth of the Chinese automotive market, the HVAC system suppliers have to turn to the independent suppliers to ensure or enhance the production capacity for HVAC systems. As a result, the independent suppliers held a solid and rising share in the Chinese passenger vehicle market from 2004 to 2010. The market share of the independent suppliers in the Chinese evaporator, condenser, heater core and compressor markets by sales units jumped from 6.4%, 7.6%, 8.7% and 12.1% in 2004 to 9.7%, 9.3%, 10.4% and 27.0% in 2010, respectively.

INDUSTRY OVERVIEW

Aluminium Market Price

Aluminium accounts for approximately 25% in the cost of compressor, and presents an even higher share ranging from 50% to 70% in the cost of evaporator, condenser and heater core. The monthly weighted average price of aluminium, namely the Shanghai Changjiang aluminium price, quoted on the Shanghai Futures Exchange reached a record high of RMB20,208 per tonne in March 2008, and dropped to RMB10,942 per tonne in December 2008 mainly due to the global financial crisis. The price of aluminium presented a continuous growth during 2009 to 2010, and rose to RMB16,596 per tonne at 2010 year end. The chart below illustrates the monthly Shanghai Changjiang aluminium price in China during the period from 2008 to 2010.

Monthly Shanghai Changjiang Aluminium Price (China), 2008-2010



Sources: Shanghai Futures Exchange

INDUSTRY OVERVIEW

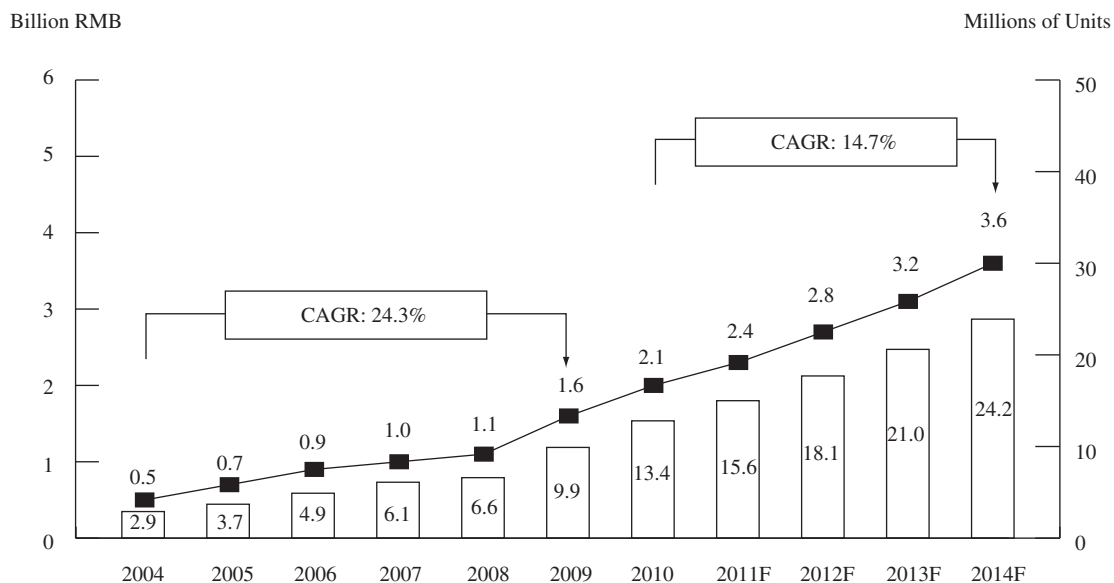
Market Size and Share of Key HVAC Components in China

The original equipment market size is based on the annual sales of passenger vehicles, average equipment unit per vehicle and average price in original equipment market.

Evaporator

The market size for evaporator in China was RMB2.1 billion in 2010. It is projected to experience a solid growth and is estimated to reach RMB3.6 billion in 2014. The diagram below illustrates the market size for evaporator in China during the period from 2004 to 2014.

Market Size for Evaporator (China), 2004-2014

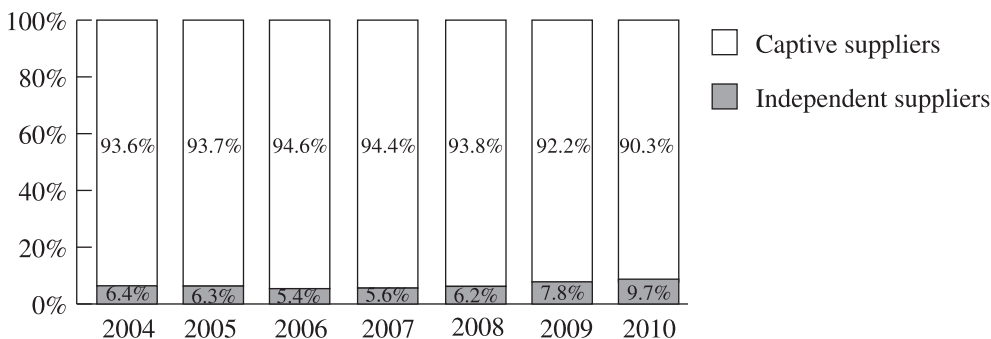


Sources: Frost & Sullivan analysis

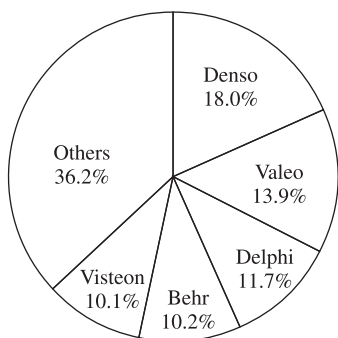
INDUSTRY OVERVIEW

Captive suppliers dominated with a share of over 90% share in the evaporator market in China. In the Chinese evaporator market, Denso led with a share of 18.0% by sales units among captive suppliers in 2010 whereas we led with a share of 80.6% by sales units among independent suppliers in 2010, respectively. The diagram below illustrates the market share by sales units for evaporator in China during the period from 2004 to 2010.

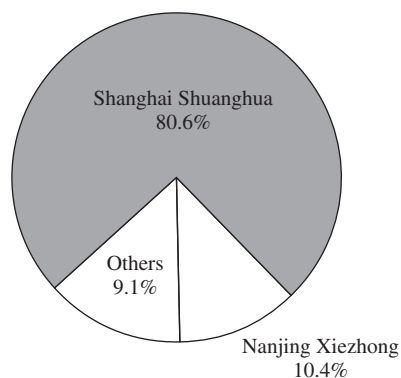
Market Share by Sales Units for Evaporator (China), 2004-2010



Share of Captive Suppliers by Sales Units (China), 2010



Share of Independent Suppliers by Sales Units (China), 2010



Market Share of Major Suppliers by Sales Units for Evaporator (China), 2010

Segment	Supplier	Share
Captive supplier	Denso	16.2%
	Valeo	12.6%
	Delphi	10.5%
	Behr	9.2%
	Visteon	9.1%
Independent supplier	Shanghai Shuanghua	7.9%
	Nanjing Xiezhong Auto A/C Factory	0.9%

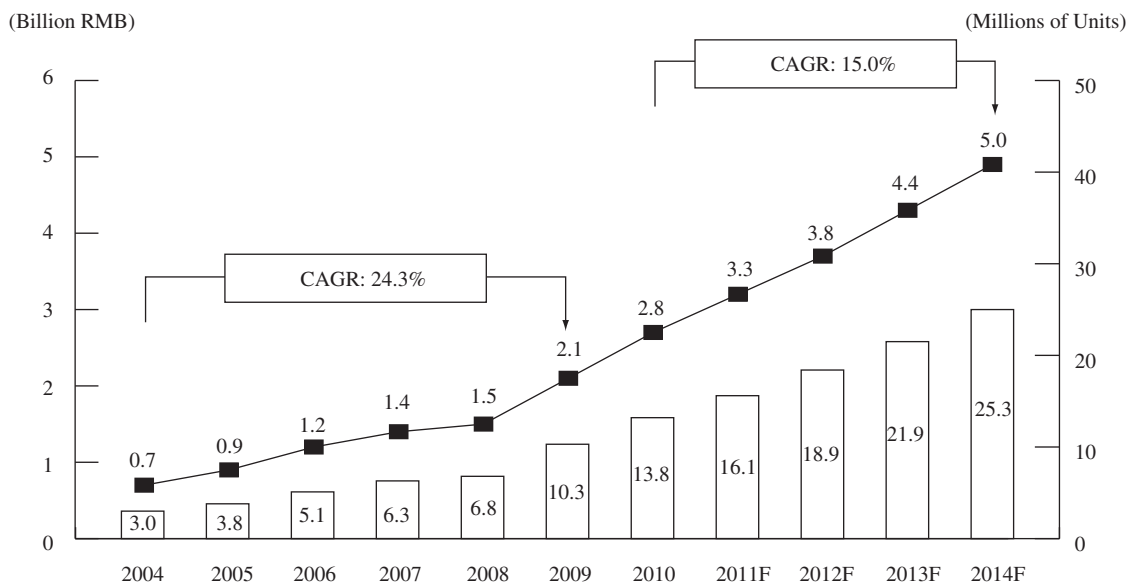
Sources: Frost & Sullivan analysis

INDUSTRY OVERVIEW

Condenser

The market size for condenser in China was RMB2.8 billion in 2010. It is expected to achieve double-digit growth and is estimated to reach RMB5.0 billion in 2014. The diagram below illustrates the market sizes for condenser in China during the period from 2004 to 2014.

Market Size for Condenser (China), 2004-2014

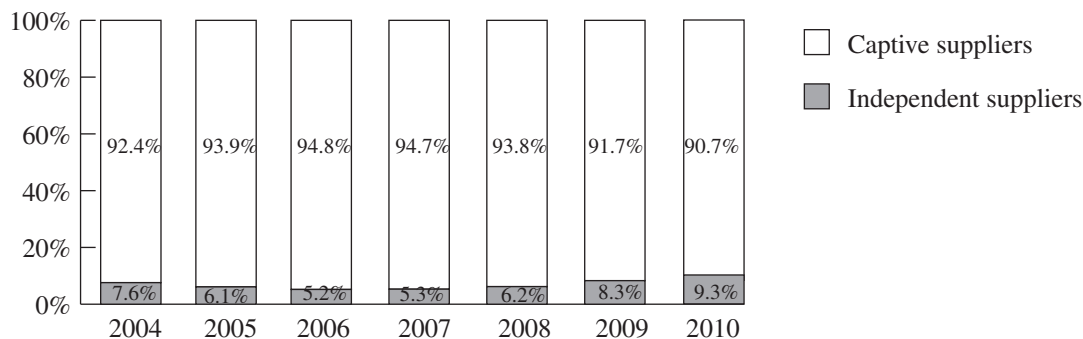


Sources: Frost & Sullivan analysis

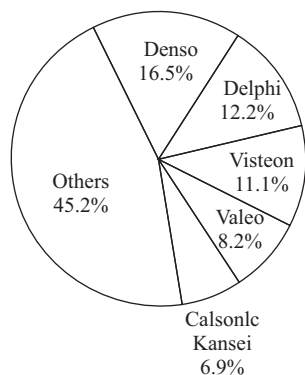
INDUSTRY OVERVIEW

Captive suppliers have dominated with over 90% of the share in the condenser market in China. Denso and we led with a share of 16.5% and 51.8% by sales units in the Chinese condenser market among captive and independent suppliers in 2010, respectively. The diagram below illustrates the market share by sales units for condenser in China during the period from 2004 to 2010.

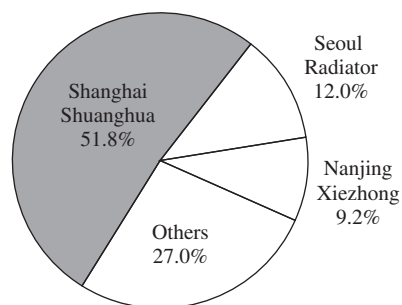
Market Share by Sales Units for Condenser (China), 2004-2010



Share of Captive Suppliers by Sales Units (China), 2010



Share of Independent Suppliers by Sales Units (China), 2010



Market Share of Major Suppliers by Sales Units for Condenser (China), 2010

Segment	Supplier	Share
Captive supplier	Denso	14.9%
	Delphi	11.1%
	Visteon	10.1%
	Valeo	7.4%
	Calsonic Kansei	6.3%
Independent supplier	Shanghai Shuanghua	4.8%
	Seoul Radiator	1.1%
	Nanjing Xiezhong Auto A/C Factory	0.9%

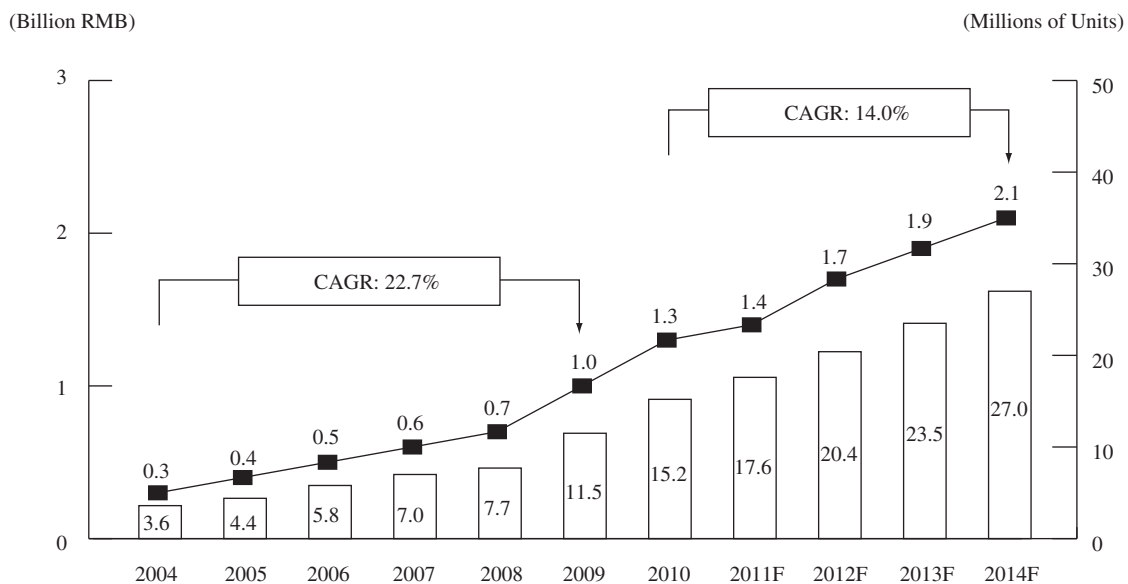
Sources: Frost & Sullivan analysis

INDUSTRY OVERVIEW

Heater Core

The market size for heater core in China was RMB1.3 billion in 2010. It is expected to experience a solid growth and is estimated to reach RMB2.1 billion in 2014. The diagram below illustrates the market sizes for heater core in China during the period from 2004 to 2014.

Market Size for Heater Core (China), 2004-2014

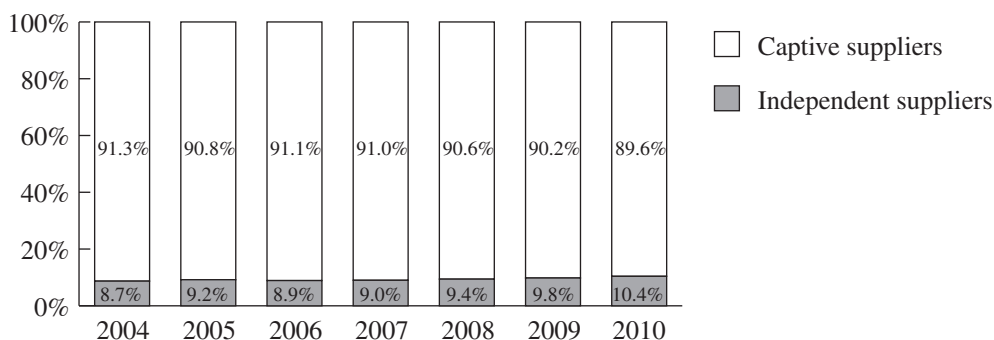


Sources: Frost & Sullivan analysis

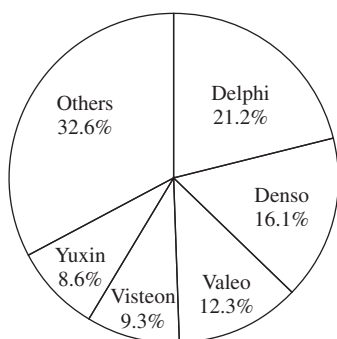
INDUSTRY OVERVIEW

Captive suppliers dominated with a share of over 90% share in the heater core market in China since 2004. Delphi and Tianjin Yaxing Radiator Co., Ltd. (“**Tianjin Yaxing**”) led with a share of 21.2% and 25.8% among captive and independent suppliers in 2010, respectively. The diagram below illustrates the market share by sales units for heater core in China during the period from 2004 to 2010.

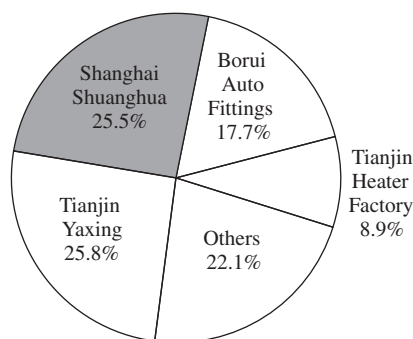
Market Share by Sales Units for Heater Core (China), 2004-2010



Share of Captive Suppliers by Sales Units (China), 2010



Share of Independent Suppliers by Sales Units (China), 2010



Market Share of Major Suppliers by Sales Units for Heater Core (China), 2010

Segment	Supplier	Share
Captive supplier	Delphi	19.0%
	Denso	14.4%
	Valeo	11.0%
	Visteon	8.3%
	Yuxin	7.7%
Independent supplier	Tianjin Yaxing	2.7%
	Shanghai Shuanghua	2.7%
	Borui Auto Fittings	1.8%

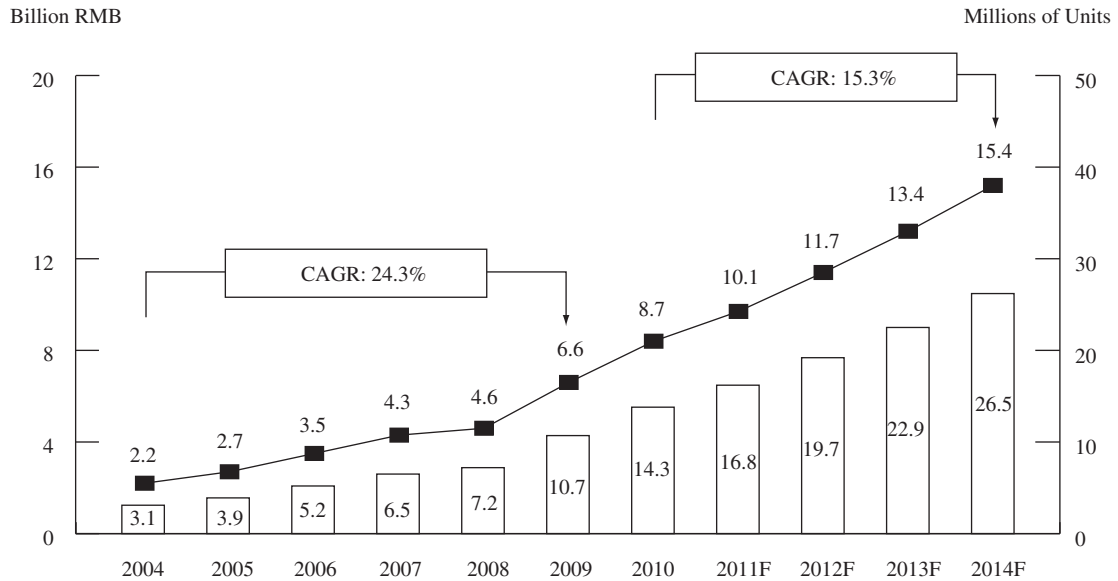
Sources: Frost & Sullivan analysis

INDUSTRY OVERVIEW

Compressor

The market size for compressor in China was RMB8.7 billion in 2010. It is estimated to experience a steady growth and reach RMB15.4 billion in 2014. The diagram below illustrates the market sizes for compressor in China during the period from 2004 to 2014.

Market Size for Compressor (China), 2004-2014

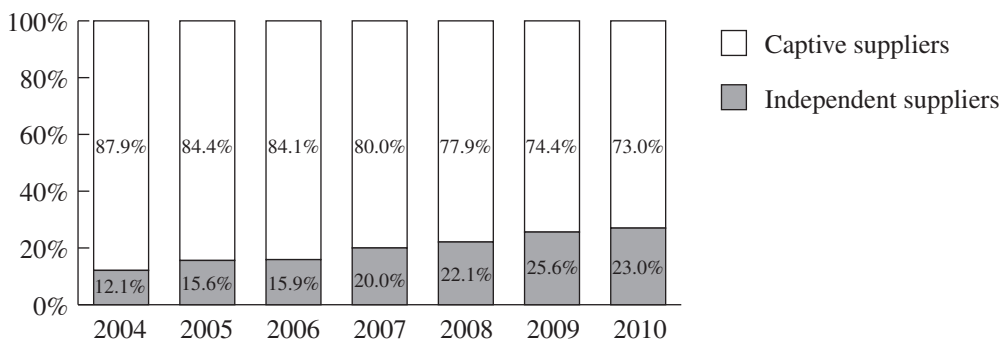


Sources: Frost & Sullivan analysis

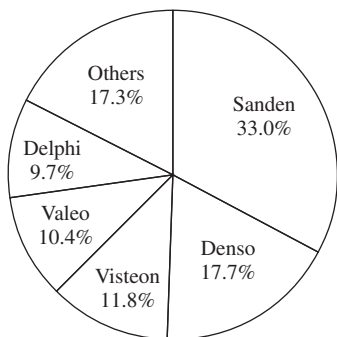
INDUSTRY OVERVIEW

Although captive suppliers have held a majority share in the Chinese compressor market, their market share had decreased from 2004 to 2010. Sanden and Nanjing Aotecar Refrigerating Co., Ltd. (“**Nanjing Aotecar**”) led with a share of 33.0% and 63.4% by sales units in the Chinese compressor market among captive and independent suppliers in 2010, respectively. The diagram below illustrates the market share by sales units for compressor in China during the period from 2004 to 2010.

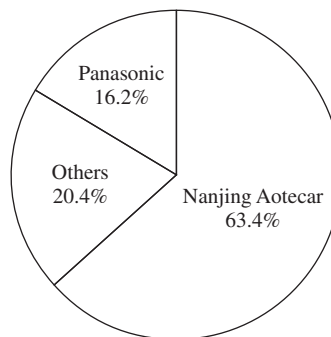
Market Share by Sales Units for Compressor (China), 2004-2010



Share of Captive Suppliers by Sales Units (China), 2010



Share of Independent Suppliers by Sales Units (China), 2010



Market Share of Major Suppliers by Sales Units for Compressor (China), 2010

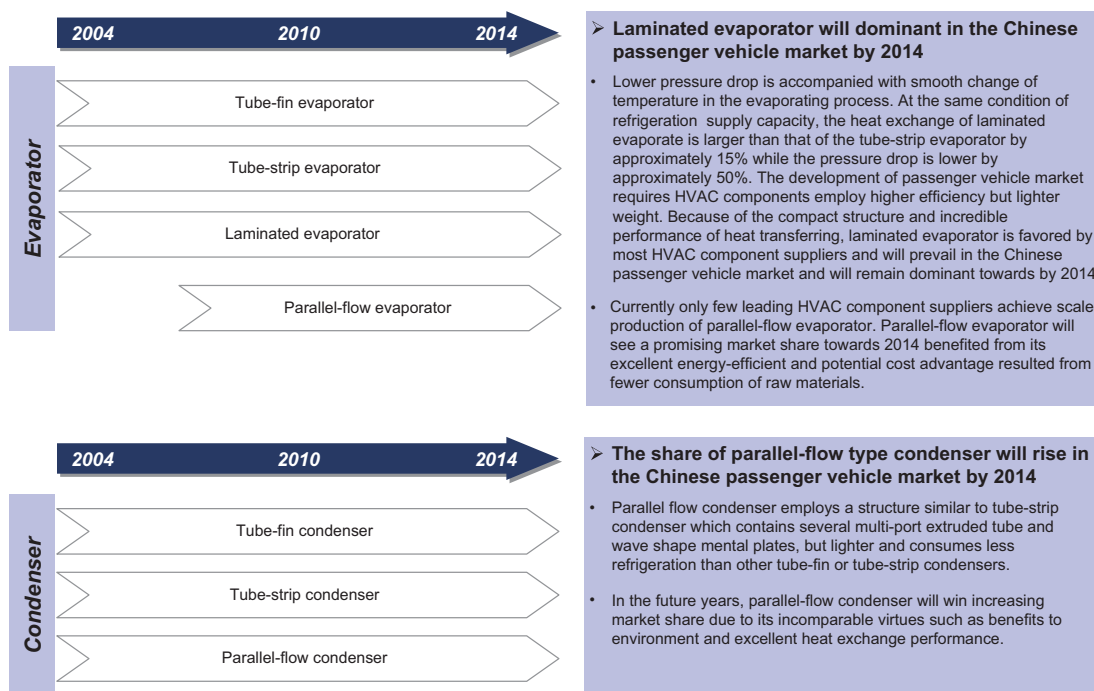
Segment	Supplier	Share
Captive supplier	Sanden	24.1%
	Denso	13.0%
	Visteon	8.6%
	Valeo	7.6%
	Delphi	7.1%
Independent supplier	Nanjing Aotecar	17.1%
	Panasonic	4.4%

Sources: Frost & Sullivan analysis

Technology Trend

Evaporator & Condenser

Laminated evaporator and parallel flow type condenser are expected to remain a dominated share in the passenger vehicle evaporator and condenser market in China by 2014, respectively. The diagram below illustrates the market trend of the passenger vehicle evaporator and condenser market in China by 2014.



Sources: Frost & Sullivan analysis

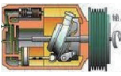


Compressor

Compressor by operation way

Compressor can be classified into two segments by its way of operation: reciprocating compressor and rotary type compressor. A reciprocating compressor is a positive-displacement compressor that uses pistons driven by a crankshaft to deliver gases at high pressure. Swash plate compressor is a key kind of reciprocating compressor while rotary vane compressor and scroll compressor are two major types of rotary type compressor.

Swash plate compressor is available across all kinds of passenger vehicles and is favored by most HVAC system suppliers in China due to its stable and reliable performance, while rotary vane or scroll compressor is mainly used in small displacement vehicles with a much lower market share than swash plate compressor. Generally, compared with rotary vane and scroll compressors, the mature technology and the compatibility are the key advantages of swash plate compressor which make this type of compressors enjoy a preference from the HVAC system suppliers in China. The diagram below illustrates the details of each of swash plate compressor, rotary vane compressor and scroll compressor.

INDUSTRY OVERVIEW

Classification	Swash plate compressor 	Rotary vane compressor 	Scroll compressor 
Introduction	<ul style="list-style-type: none"> A swash plate compressor uses pistons which are moved by a swash plate mounted on a shaft. A swash plate compressor includes a housing that has a cylinder bore and rotatable supports a drive shaft. It is operatively coupled to the drive shaft for rotation therewith. 	<ul style="list-style-type: none"> A rotary vane compressor consists of a rotor with a number of blades. The rotor is mounted offset in a larger housing which can be circular or a more complex shape. As the rotor turns, blades slide in and out of the slots keeping contact with the outer wall of the housing. 	<ul style="list-style-type: none"> A scroll compressor uses two interleaved spiral-like vanes to pump or compress fluids such as liquids and gases. Often, one of the scrolls is fixed, while the other orbits eccentrically without rotating, thereby trapping and pumping or compressing pockets of fluid or gas between the scroll.
Advantage	<ul style="list-style-type: none"> Mature technology for all kinds of passenger vehicles Balance of cost and efficiency Favored by most HVAC system suppliers in China 	<ul style="list-style-type: none"> Higher efficiency as compared with swash plate compressor 	<ul style="list-style-type: none"> Higher efficiency as compared with either swash plate or rotary vane compressor Cost advantage as compared with the other two types of compressors
Disadvantage	<ul style="list-style-type: none"> Higher cost as compared with scroll compressor Require excellent manufacturing precision 	<ul style="list-style-type: none"> Not suitable for medium or premium cars Favored by few HVAC system suppliers in China 	<ul style="list-style-type: none"> Poor performance at red light, idle and low speed conditions Require high rotation speed
Key Suppliers	<ul style="list-style-type: none"> Denso Visteon Valeo Delphi 	<ul style="list-style-type: none"> Chongqing Jianshe Panasonic 	<ul style="list-style-type: none"> Nanjing Aotecar Keihin Panasonic Sanden

Sources: Frost & Sullivan analysis

The diagram below illustrates the application and market performance of each of swash plate compressor, rotary vane compressor and scroll compressor from 2007 to 2010 and towards 2014, respectively.

	2007-2010	Trend-2014
Swash plate compressor	<p>Application</p> <ul style="list-style-type: none"> Across all niche segments of passenger vehicles, including sedan which is further segmented into mini, small, compact, medium and luxury sedan, SUV, MPV and minibus <p>Market Performance</p> <ul style="list-style-type: none"> Dominates approximately 70% share in the Chinese passenger vehicle market 	<p>Application</p> <ul style="list-style-type: none"> Focus on compact, medium and luxury sedans, SUV and MPV, especially for medium to high end vehicles from those segments mentioned above <p>Market Performance</p> <ul style="list-style-type: none"> Remain dominant in the Chinese passenger vehicle market, especially for medium to high-end vehicles which are generally produced by joint venture brands in China
Rotary vane compressor	<p>Application</p> <ul style="list-style-type: none"> Mainly used in small engine sedans including mini, small and compact sedans, MPV and minibus <p>Market Performance</p> <ul style="list-style-type: none"> Hold approximately 10% share as only applied by few automakers and suppliers 	<p>Application</p> <ul style="list-style-type: none"> Focus on small engine sedans, including mini, small and compact sedans <p>Market Performance</p> <ul style="list-style-type: none"> Face with intensive competition from scroll compressor in minibus and small sedans. The share might see a slight drop in 2014
Scroll compressor	<p>Application</p> <ul style="list-style-type: none"> Primarily used in small engine sedans and minibus, while also penetrate in medium sedans <p>Market Performance</p> <ul style="list-style-type: none"> Hold approximately 20% share, which is chiefly contributed by the favors of minibus manufacturers in China 	<p>Application</p> <ul style="list-style-type: none"> Focus mainly on minibus and small engine sedans and also gain considerable share in medium sedan of native brands <p>Market Performance</p> <ul style="list-style-type: none"> Present a rising share in this decade. Projected to hold a majority share in minibus and low end sedans in 2014

Sources: Frost & Sullivan analysis

INDUSTRY OVERVIEW

Swash plate compressor, characterized by low cost and high efficiency, is a mature technology for all kinds of passenger vehicles. Swash plate compressor can be further segmented into consistent displacement swash plate compressor and variable displacement swash plate compressor. High energy efficiency and quality are the main advantages of variable displacement swash plate compressor as compared with traditional consistent displacement swash plate compressor. Swash plate compressor, favored by most HVAC system suppliers in China, dominated approximately 70% share in the Chinese passenger vehicle market during 2007 to 2010. Frost & Sullivan expects that swash plate compressor will remain dominant in the Chinese passenger vehicle market towards 2014, especially for medium to high-end vehicles which are generally produced by joint venture brands in China.

Rotary vane compressor is mainly employed by small engine sedans, including mini, small and compact sedans, MPV and minibus. Rotary vane compressor presents higher efficiency as compared with swash plate compressor but it is not suitable for medium or premium vehicles. Rotary vane compressor, favored by few HVAC system suppliers in China, held approximately 10% share in the Chinese passenger vehicle market during 2007 to 2010. Rotary vane compressor may face intensive competition from scroll compressor in small sedan and minibus market. The share of rotary vane compressor is expected to experience a slight drop towards 2014.

Scroll compressor is mainly adopted by small engine sedans and minibus and also used by some medium sedans of local OEMs. Scroll compressor presents higher efficiency and lower cost as compared with either swash plate or rotary vane compressor but it has poor performance at idle or low speed conditions. Scroll compressor held approximately 20% share in the Chinese passenger vehicle market during 2007 to 2010 which was mainly contributed by the minibus manufacturers in China. The share of scroll compressor is likely to achieve a growth in the coming years and is expected to hold a majority share in minibus and low end sedans in 2014.

Compressor by displacement or motive power

Compressor can also be classified into two segments by displacement: constant displacement compressor and variable displacement compressor. A constant displacement compressor adjusts its displacement according to the engine speed. A variable displacement compressor can adjust its displacement according to the required temperature. It has a control valve that is mounted in the compressor and controls the displacement. Variable displacement compressor has higher energy efficiency due to its variable displacement option and higher quality during the whole lifecycle, but it is more expensive to produce, as compared to consistent displacement compressor.

Compressor can also be classified into two segments by its motive power: traditional compressor and electric compressor. A traditional compressor is the most common one which obtains power by burning a liquid fuel inside the engine cylinder. In comparison, an electric compressor has its own electric motor which supplies power for the running of compressor.

Entry Barriers Analysis

According to the Frost & Sullivan Report, new entrants to the HVAC components market in China will face the following four key barriers:

Technology Requirement

Thermal system including condenser, heater and evaporators is the key component of the automotive HVAC system. HVAC and component suppliers are required to have a strong research and development capability to enhance the products and technologies in terms of enhancing the thermal efficiency, balancing the thermal coverage.

Equipment Requirement

The manufacturers of the HVAC systems and components are required to introduce both the equipment for production and product testing. During the research and development period, these manufacturers should conduct around 120 types of product testing for the HVAC systems and components.

Capital Requirement

Automotive market is highly capital-intensive. A large amount of initial investment is indispensable to build the manufacturing plant and afford the huge cost for the daily operation and production, such as the raw material procurement and logistics. Furthermore, the payment period of the OEMs and the tier one suppliers is long such that the tier two suppliers are required to have sufficient cash flow.

Quality Certification Requirement

The OEMs usually require the automotive component suppliers to pass the quality certification such as QS9000, VDA6.1, TS16949 and ISO14000, which are awarded by third parties. Besides, the automotive component suppliers should also pass the quality test set by the OEMs or tier one suppliers. The suppliers would be listed in the vendor list of the OEMs or tier one suppliers only upon passing such certifications and tests.

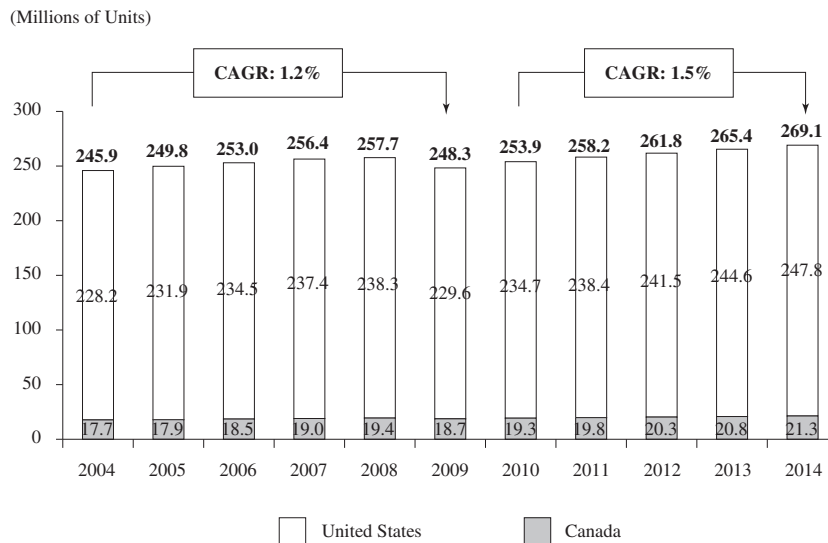
Besides, an HVAC components supplier acting as a tier two supplier has to go through stringent recognition process prescribed by each HVAC system supplier before it can become supplier of a particular product to such tier one supplier.

INDUSTRY OVERVIEW

OVERVIEW OF NORTH AMERICA AUTOMOTIVE MARKET

Volume of the registered light vehicle in North America increased from 245.9 million units in 2004 to 248.3 million units in 2008. After the first reduction in volume of light vehicles in 2009, such volume is projected to reach 269.1 million units in 2014. The diagram below illustrates the volume of light vehicle in use in North America during the period from 2004 to 2014.

Volume of Light Vehicle in use (North America), 2004-2014



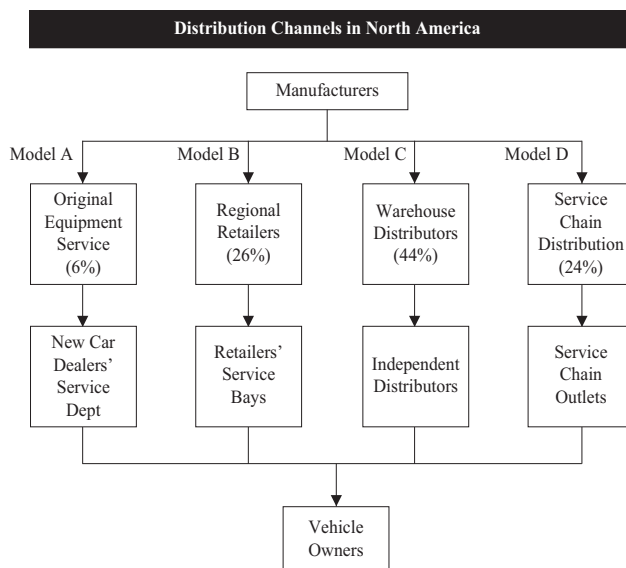
Sources: the U.S. Department of Transportation, the Canada Department of Transportation, Frost & Sullivan analysis

INDUSTRY OVERVIEW

OVERVIEW OF NORTH AMERICA HVAC COMPONENTS AFTERMARKET

Distribution Channels in North America HVAC Components Aftermarket

Replacement HVAC components are distributed to end users through four major channels in the North America aftermarket, namely original equipment service, regional retailers, warehouse distributors and service chains.



The original equipment service channel is the supply chain partnership between the original HVAC components suppliers and the original HVAC system manufacturers, such as Delphi and Denso, through which the original HVAC components are integrated in the original HVAC system and enter the replacement service system of the automakers.

Regional retailers are generally independent retailers of automotive spare parts and mainly focus on the independent automotive workshop and service stations to deliver automotive spare parts for replacement market.

Warehouse distributors are the key players in the North America automotive aftermarket responsible for purchasing spare parts from offshore suppliers and delivering to the local and overseas replacement markets. They provide a stable and diversified distribution channel for offshore automotive parts suppliers from low cost market, especially the Chinese suppliers, to enter the automotive aftermarket in North America.

Service chain distribution refers to the channel that a large number of small-scale and decentralized service chain outlets operate under the same brand and leadership of the headquarter. These service chain outlets are either directly-owned by or franchise of the headquarter.

Aftermarket Size

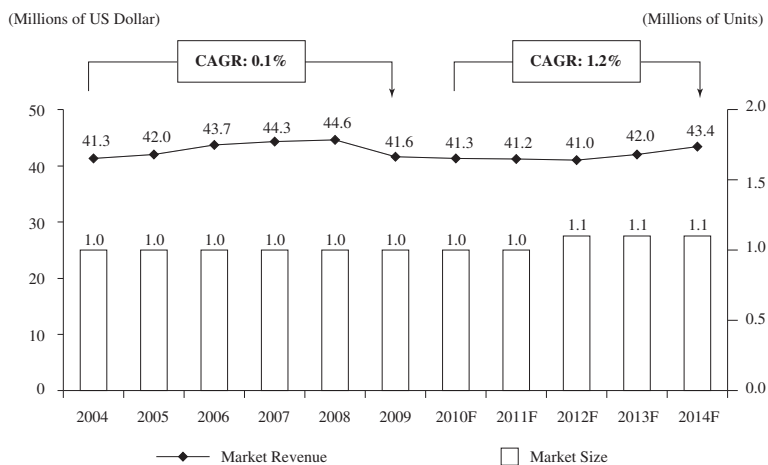
The aftermarket size is based on the volume of passenger vehicles in use, average equipment unit per vehicle, replacement frequency and average price in aftermarket.

INDUSTRY OVERVIEW

Evaporator

The aftermarket size for evaporator in North America was US\$41.6 million in 2009 and is estimated to increase slightly to US\$43.4 million in 2014. The diagram below illustrates the market size and revenue forecast for evaporator aftermarket in North America during the period from 2004 to 2014.

Size and Revenue Forecast for Evaporator Aftermarket (North America), 2004-2014

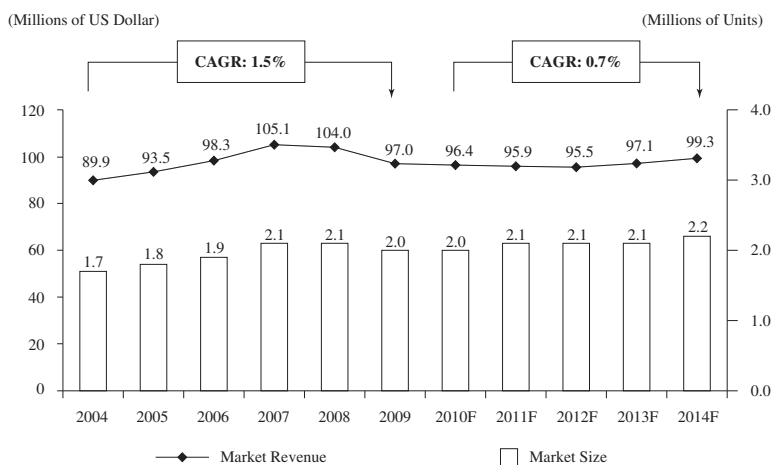


Sources: Frost & Sullivan analysis

Condenser

The aftermarket size for condenser in North America was US\$97.0 million in 2009 and is estimated to increase slightly to US\$99.3 million in 2014. The diagram below illustrates the market size and revenue forecast for condenser aftermarket in North America during the period from 2004 to 2014.

Size and Revenue Forecast for Condenser Aftermarket (North America), 2004-2014



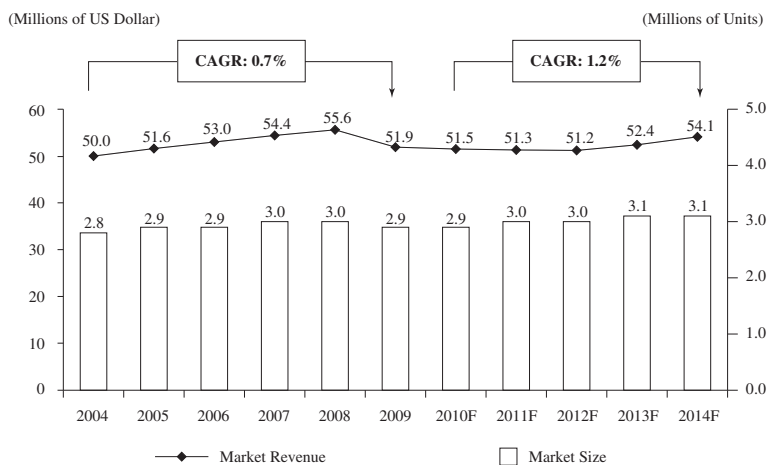
Sources: Frost & Sullivan analysis

INDUSTRY OVERVIEW

Heater Core

The aftermarket size for heater core in North America was US\$51.9 million in 2009 and is estimated to reduce to US\$54.1 million in 2014. The diagram below illustrates the market size and revenue forecast for heater aftermarket in North America during the period from 2004 to 2014.

Size and Revenue Forecast for Heater Core Aftermarket (North America), 2004-2014

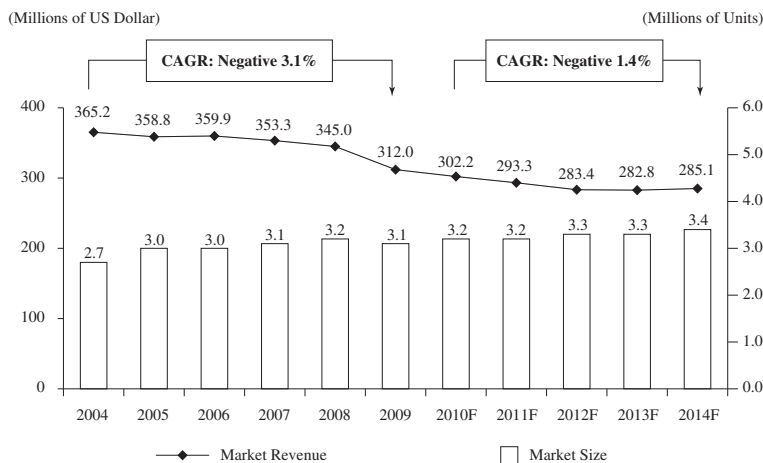


Sources: Frost & Sullivan analysis

Compressor

The aftermarket size for compressor in North America was US\$312.0 million in 2009 and is estimated to reduce to US\$285.1 million in 2014. The diagram below illustrates the market size and revenue forecast for compressor aftermarket in North America during the period from 2004 to 2014.

Size and Revenue Forecast for Compressor Aftermarket (North America), 2004-2014



Sources: Frost & Sullivan analysis

REGULATIONS

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We are principally engaged in the automotive HVAC components industry which is subject to various regulations in the PRC. The regulations focus on various aspects including production, quality control, and environment protection. Below is a summary of some regulations which are important to our Group.

LAWS AND REGULATIONS RELATING TO THE AUTOMOTIVE COMPONENTS INDUSTRY

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

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

Each of the above government agencies has a different mandate to regulate the PRC automotive components industry. NDRC is in charge of making the overall policy and mid-term to long-term development plan of the automotive components industry in China; the State Administration on Quality Supervision, Inspection and Quarantine focuses on product quality control; and the Ministry of Environmental Protection regulates environmental protection affairs relating to the investment in and construction of automotive manufacturing facilities and the manufacturing processes.

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

The Automotive Industry Development Policy sets forth some guidelines regarding the automotive components industry, including:

- to make a special development plan for automotive components, to guide and support production of automotive components through classification of products, to guide public funds to invest into the production of automotive components, and to impel enterprises with comparative advantages in producing automotive components to form the ability of specialization, mass production and the modularization of the supply of products;
- to give priority to automotive components enterprises which are able to supply parts and components to several independent enterprises that produce whole cars, and which is integrated into the international system of procurement of automotive components, in aspects of technology introduction, technological transformation, financing and mergers and reorganization;

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- to encourage manufacturers of whole cars to further specialize in production and gradually change their internal parts manufacturing units into independent and specialized parts and components manufacturing enterprises;
- to encourage enterprises that produce whole cars to procure parts and components from third parties via electronic commerce or net procurement, on a step-by-step basis;
- to support automotive parts and components manufacturers in establishing product research institutions to form innovative and self-development capabilities. Investment amount in the construction of research facilities of self-developed products shall be tax-deductible as long as such investment complies with the relevant tax provisions on promotion of enterprise technological progress; to support large automobile parts and components manufacturers to develop parts and components assembly with proprietary intellectual property and at an advanced level; and
- to subject the investment projects of automotive parts and components to the filing procedures with the investment administration departments of the provincial governments.

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

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

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LAWS AND REGULATIONS RELATING TO THE AUTOMOTIVE INDUSTRY

Consumption Tax and Purchase Tax on Vehicles

The PRC Government has implemented the following tax policies applicable to the PRC automobile industry:

Consumption Tax on Vehicles

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

Purchase Tax on Vehicles

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

To stimulate growth in the domestic automobile industry, according to the Program, the automobile purchase tax rate applicable to passenger vehicles with emission on or below 1.6 litres is reduced to 5% for vehicles purchased during the period from 20 January 2009 to 31 December 2009.

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

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

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LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Foreign investors shall abide by *Guidance Catalogue of Industries for Foreign Investment* (外商投資產業指導目錄) (the “**Catalogue**”). The Catalogue was promulgated on 28 June 1995 and was revised from time to time. The currently effective Catalogue was promulgated by MOFCOM and NDRC on 31 October 2007. The Catalogue classifies industries into three categories: Encouraged, Restricted and Prohibited. Except otherwise stipulated by other laws and regulations, foreign investors are permitted to invest in industries not listed in the Restricted or Prohibited categories. Part of industries in the Restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese shareholder as the controlling shareholder. Foreign investors shall not invest in industries in Prohibited category.

MOFCOM or the local authorities are responsible for approving the relevant joint venture contracts, articles of association of foreign invested enterprises and other substantial changes to foreign invested enterprises, including changes to capital, equity transfer and consolidation. As advised by our PRC legal advisors, the industries in which the Company engages did not fall within any of the 3 categories in the Catalogue and are permitted for foreign investment.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal law governing foreign currency exchange in the PRC is the *Foreign Exchange Administration Regulations*. The Foreign Exchange Administration Regulations was enacted by PRC State Council on 29 January 1996 and implemented on 1 April 1996. On 14 January 1997 and 1 August 2008, PRC State Council amended the Foreign Exchange Administration Regulations. According to the currently effective Foreign Exchange Administration Regulations, international payment in foreign exchange and transfer of foreign exchange under current items shall not be restricted. Foreign exchange income of a domestic institution or an individual may be transferred back into the PRC or deposited overseas, specific conditions and/or term requirements of which shall be determined by the Foreign Exchange Administrative Department of PRC State Council in light of the balance of the payments and the administrative requirements. An overseas institution or individual that makes direct investments in the PRC shall handle the registration formalities at a foreign exchange administrative organ upon the approval of the competent department. A domestic institution or individual that makes direct investment or issues or trades negotiable securities or derivative products overseas shall handle the registration formalities at the foreign exchange administrative department of PRC State Council. If the relevant state provisions require the approval or registration of the competent department, such approval or registration shall be obtained before handling the registration formalities.

The dividends paid by the subsidiary in the PRC to its overseas shareholders are deemed income of the shareholders and are taxable in China. Pursuant to the *Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996)* (結匯、付匯及售匯管理規定), foreign-invested enterprises in China may purchase or remit foreign currency, subject to a cap approved by SAFE, for settlement of current account transactions without the approval of SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities.

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Under Foreign Exchange Administration Regulations promulgated by PRC State Council in 1997 and various regulations issued by SAFE, and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, require prior approval from SAFE or its local branch. Payments for transactions which take place in the PRC may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local branch. Unless otherwise approved, domestic enterprises must convert all of their foreign currency proceeds into Renminbi.

On 29 August 2008, SAFE promulgated the *Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises* (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) (“SAFE Circular 142”), regulating the conversion by a foreign-invested enterprise with registered capital in foreign currency in Renminbi by restricting how the converted Renminbi may be used. The SAFE Circular 142 provides that the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its control of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise. The use of such Renminbi capital may not be altered without SAFE’s approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of the SAFE Circular 142 could result in severe monetary penalties.

LAWS AND REGULATIONS RELATING TO TAXATION

EIT

Prior to 1 January 2008, EIT payable by foreign-invested enterprises in the PRC was governed by the *Foreign-Invested Enterprise and Foreign Enterprise EIT Law of the PRC* (中華人民共和國外商投資企業和外國企業所得稅法) (“FIE Tax Law”) promulgated on 9 April 1991 and became effective on 1 July 1991. According to the FIE Tax Law and the its implementation rules, foreign-invested enterprises (engaging in the production of goods/services with an expected business life of over 10 years) from the year beginning to make profit were to enjoy full exemption from EIT in the first and second years and a 50% reduction in the third to fifth years. Foreign-invested enterprises operating in special economic development zones, especially those involving areas such as energy, transportation, port infrastructure and other State encouraged projects, were subject to EIT rate of 15% (before any exemption).

However, under the *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法) (“new EIT Law”), which was promulgated on 16 March 2007, EIT rates applicable to both domestic and foreign-invested enterprises were unified at 25% effective from 1 January 2008. Enterprises which enjoyed EIT rates of lower than the standard rate of 33% are given a five-year transitional period. Such enterprises will continue to enjoy the lower tax rate before they are gradually subject to the tax rate of 25% within the transitional period. In particular, enterprises which were subject to an EIT rate of 15% would be subject to an EIT rate of 18% in 2008, increasing to 20% in 2009, 22% in 2010, 24% in 2011, and 25% in 2012. Enterprises which are enjoying two years of 100% exemption and three years of 50% reduction on tax payments may continue to enjoy such exemption and reduction until the term of such privilege expires.

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VAT

Pursuant to the *Provisional Regulations on Value-Added Tax of the PRC* (中華人民共和國增值稅暫行條例) and its implementation rules, both of which were amended in late 2008 and became effective from 1 January 2009, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the import of goods are required to pay VAT. VAT payable is calculated as “output VAT” minus “input VAT”.

According to the Circular of the State Administration of Taxation on Printing and Distributing the Measures for the Administration of Tax Refund (Exemption) for Export Goods (For Trial Implementation) (Exemption) of Exported Goods (For Trial Implementation) (國家稅務總局關於印發《出口貨物退(免)稅管理辦法(試行)》的通知) promulgated on 16 March 2005 and became effective on 1 May 2005, unless otherwise provided by law, for the goods as exported either directly by an exporter or via an export agency, the exporter may, after the export declaration and the conclusion of financial settlement for sales, file a report to the competent State Taxation Bureau for the approval of refund or exemption of VAT or consumption tax on the strength of the relevant certificates. The scope of tax refund (exemption) for export goods, the tax refund rate and the measures of tax refund (exemption) shall be governed by the relevant provisions of the State.

Pursuant to the PRC Tariff of Custom Imports and Exports (中華人民共和國海關進出口稅則), our major products, namely, evaporators, condensers and heater cores are classified as others of air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated, and an export tax refund rate of 15% has been applied. Compressors, our another major product, is classified as compressors for auto air conditioners, and an export tax refund rate of 17% has been applied.

LAWS AND REGULATIONS RELATING TO PATENT

Protection under patent law

According to the *PRC Patent Law* (中華人民共和國專利法) promulgated on 12 March 1984 and amended on 25 August 2000 and 27 December 2008 and the *PRC Implementing Regulations* (中華人民共和國專利法實施細則) promulgated on 15 June 2001 and amended on 28 December 2002 and 9 January 2010, patent protection is divided into three categories: invention patent, utility patent and design patent. Invention patent is intended to protect new technology or measures for a product, method or its improvement. Utility patent is intended to protect new technology or measures to increase the utility of a product shape, structure or its combination. Design patent is intended to protect new designs by combination of product shape, graphic or color with aesthetic and industrial application value.

- **Invention patent**

The products seeking invention patent protection must possess such characteristics as novelty and innovation and the grant of invention patent is subject to disclosure and publication requirement. Normally, the patent administrative authority publishes the application 18 months after application is filed, which may be shortened upon request by the applicant. The patent administrative authority conducts a substantive review as required by applicant within three years from publication or, if necessary, at its discretion to grant the invention patent, issue the certificate of invention patent and

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announce and register it if there is no cause of rejection of the application of the invention patent after substantive review. The term of protection is 20 years from the date of application.

Once an invention patent is granted, unless otherwise provided by law, no individuals or entities are permitted to engage in the manufacture, use, sale or import of the product protected by such patent or otherwise engage in the manufacture, use, sale or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder.

- **Utility patent**

The products seeking utility patent protection must also possess such characteristics as novelty and innovation. Utility patent is granted and registered upon application unless there are reasons for the patent administrative authority to reject the application after its preliminary review. The utility patent is also subject to the disclosure and publication requirement upon application. The term of protection is ten years from the date of application.

Once an utility patent is granted, unless otherwise provided by law, no individuals or entities are permitted to engage in the manufacture, use, sale or import of the product protected by such patent or otherwise engage in the manufacture, use, sale or import of the product directly derived from applying the production technology or method protected by such patent, without consent of the patent holder.

- **Design patent**

The products seeking design patent protection must not be the same as or similar to those previously released in domestic or overseas publications, publicly used in the country or infringing upon third parties' legal rights. The application procedure and term of protection is the same as for utility patent.

Once a design patent is granted, no individuals or entities are permitted to engage in the manufacture, use, sale or import of the product protected by such patent without consent of the patent holder.

LAWS AND REGULATIONS RELATING TO TRADEMARKS

The *PRC Trademark Law* (中華人民共和國商標法) was promulgated in 1982 and amended on 27 October 2001 and the *PRC Trademark Implementing Regulations* (中華人民共和國商標法實施條例) was promulgated on 3 August 2002. These laws provide the basic legal framework for the regulation of trademarks in China. The Trademark Office of SAIC (“**Trademark Office**”) is responsible for the registration and administration of trademarks throughout the country.

PRC law provides that the following acts constitute infringement of the exclusive right to use a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark in respect of the same kind of or similar commodities without the authorization of the trademark registrant;

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- sale of commodities infringing upon the exclusive right to use the registered trademark;
- counterfeiting or making, without authorization, representations of a registered trademark of another person, or sale of such representations of a registered trademark;
- changing a registered trademark and selling products on which the changed registered trademark is used without the consent of the trademark registrant; and
- otherwise infringing upon the exclusive right of another person to use a registered trademark.

LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY

On 22 February 1993, the Standing Committee of NPC enacted the *Product Quality Law of the PRC* (中華人民共和國產品質量法), which was revised on 8 July 2000 by the Standing Committee of NPC. The said law stipulates that producers shall be responsible for compensating for damages to the person or property except the defective products themselves due to the defects of products. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

On 31 October 1993, the Standing Committee of NPC enacted the *Law on Protection of Consumer Rights and Interests of the PRC* (中華人民共和國消費者權益保護法), which became effective on 1 January 1994. The rights and interests of consumers in purchasing and using commodities or receiving services for daily consumption shall be under the protection of the said law. Business operators shall guarantee that commodities and services supplied conform to the requirements of personal and property safety. Where damages occur, business operators shall make compensations. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

All the products produced and sold in the PRC shall abide by these laws and regulations.

As confirmed by the local authorities supervising product quality, all of our subsidiaries in the PRC have complied with the relevant laws, regulations and administrative rules on product quality without any penalties imposed by the relevant regulatory authorities in the PRC during the Track Record Period.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法) promulgated and effective on 26 December 1989, the environmental protection department of PRC State Council is in charge of promulgating national standards for environmental protection. The local governments of provinces, autonomous regions and municipalities may also promulgate local standards for environmental protection on matters not specified under national standards and the local governments must report such standards to the administrative authority of environmental protection under PRC State Council for record.

Pursuant to the *Law on Environmental Impact Studies of the PRC* (中華人民共和國環境影響評價法) promulgated on 28 October 2002 and effective on 1 September 2003, manufacturers must prepare environmental impact study report setting forth the impact the proposed construction project may have on the environment and the measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant project. New facilities built pursuant to this approval are not permitted to operate until the relevant environmental bureau has performed an inspection and is satisfied that the facilities are in compliance with environmental standards.

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Pursuant to the *Administrative Regulations on Environmental Protection for Construction Project* (建設項目環境保護管理條例) promulgated and effective on 29 November 1998 by the PRC State Council construction projects shall conduct assessment of environmental impact, obtain approval on such assessment and be examined and considered up to the environmental protection standard. Prior to the construction of new facilities or expansion or transformation of existing facilities that may cause a significant impact on the environment, a report on the environmental impact of the construction project shall be submitted to the relevant environmental protection authority. The newly constructed production facilities cannot operate until the relevant department is satisfied that such facilities are in compliance with all relevant environmental protection standards. Environmental protection facilities shall be designed, constructed and put into use simultaneously with the main project construction.

As confirmed by the local authorities supervising environmental protection, all of our subsidiaries in the PRC have complied with the relevant laws, regulations and administrative rules on environmental protection without any penalties imposed by the relevant regulatory authorities in the PRC during the Track Record Period.

LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

On 5 July 1994, the Standing Committee of NPC promulgated the *Labor Law of the PRC* (中華人民共和國勞動法), which became effective on 1 January 1995. On 29 June 2007, the Standing Committee of NPC promulgated the *Employment Contract Law of the PRC* (中華人民共和國勞動合同法), which became effective on 1 January 2008. Pursuant to the said law, a written labor contract shall be concluded within one month from the date when the employee commences working; otherwise the employer shall pay twice of the monthly wage. Labor contract is divided into two types, namely labor contract with fixed term and labor contract without fixed term. Where the employee has already worked for the employer for 10 full years consecutively or the labor contract is to be renewed after two fixed-term labor contracts have been concluded consecutively, a labor contract without fixed term shall be concluded.

The *PRC Law for Promotion of Employment* (中華人民共和國就業促進法), promulgated by NPC Standing Committee on 30 August 2007 and effective as of 1 January 2008, provides that no employee can be discriminated in employment by reason of race, ethnic, gender, or religion. The employer should neither refuse nor request higher conditions for, the employment of any woman, because of their gender; and no provision limiting any woman employee in marriage and child-bearing is allowed in the labor contract. The employer should not refuse the employment of anyone for the reason that the individual is a pathogen carrier, unless regulated otherwise. Moreover, enterprises should allocate the employee education fund for occupational training and further education of employees, violation of which may result in punishment imposed by the labor administration.

Pursuant to the *Interim Regulations Concerning the Levy of Social Insurance Fees* (社會保險費徵繳暫行條例) promulgated and implemented on 22 January 1999 by PRC State Council, the *Interim Measures Concerning the Maternity Insurance of Enterprise Employees* (企業職工生育保險試行辦法) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labor, the *Regulation Concerning the Administration of Housing Fund* (住房公積金管理條例) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by PRC State Council, the *Regulation on Occupational Injury Insurance* (工傷保險條例) promulgated on 27 April 2003 by PRC State Council and implemented on 1 January 2004 and amended on 20 December 2010 by PRC State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, the

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employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing fund for the employees.

As confirmed by the local authorities supervising labor and social insurance, all of our subsidiaries in the PRC have complied with the relevant laws, regulations and administrative rules on labor and social insurance without any penalties imposed by the relevant regulatory authorities in the PRC during the Track Record Period.

LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

On 29 June 2002, the Standing Committee of NPC promulgated the *Production Safety Law of the PRC* (中華人民共和國安全生產法), which became effective on 1 November 2002. The production and business operation entities shall observe the said law and other relevant laws, regulations concerning the production safety, strengthen the administration of production safety, establish and perfect the system of responsibility for production safety, perfect the conditions for safe production, and ensure the safety in production. The major person-in-charge of the production and business operation of the entities shall take charge of the overall work of the production safety of the entity concerned.

Pursuant to the *Regulations of the PRC on the Administration of Production Licence for Industrial Products* (中華人民共和國工業產品生產許可證管理條例) which were promulgated by PRC State Council and came into effect on 1 September 2005, and the *Measures for the Implementation of the Regulations of the PRC on the Administration of Production Licence for Industrial Products* (中華人民共和國工業產品生產許可證管理條例實施辦法) which were promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) and came into effect on 1 November 2005 and amended on 21 April 2010, enterprises producing industrial products that may affect production safety and public safety are subject to the requirements of production licences.

The Catalogue of Industrial Products which is subject to the system of production licence by PRC State Council shall be formulated, evaluated and adjusted from time to time by the competent department of production licence for industrial products of PRC State Council together with the relevant departments of PRC State Council, and be promulgated to the public after an approval is granted by PRC State Council. Any enterprise that fails to obtain the production licence shall not produce the products listed in the Catalogue of Industrial Products, and no unit or individual is allowed to sell or use such products which do not obtain the production permits in operating activities.

As confirmed by the local authorities supervising production, all of our subsidiaries in the PRC have complied with the relevant laws, regulations and administrative rules on production without any penalties imposed by the relevant regulatory authorities in the PRC during the Track Record Period.

LAWS AND REGULATIONS RELATING TO OVERSEAS LISTING

On 8 August 2006, MOFCOM, SASAC, SAT, SAIC, CSRC, and SAFE, jointly adopted the *Provisions on Mergers and Acquisition of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (“**M&A Rules**”), which was effective on 8 September 2006 and amended by MOFCOM on 22 June 2009. This regulation provides that an offshore special purpose vehicle established for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

REGULATIONS

As advised by our PRC legal advisors, the reorganization related with PRC subsidiaries of our Group and Macs Baoding is not subject to the requirements under M&A Rules, for the following reasons: (1) Shanghai Shuanghua has become a joint venture in September 2005 and obtained all necessary governmental authorizations before 8 September 2006, the effective date of M&A Rules and such governmental authorizations remain legal and valid; (2) the acquisition by Hong Kong Automart of 54.769% equity interest in Shanghai Shuanghua from Shanghai Automart does not fall into the circumstance prescribed under M&A Rules and such acquisition has been approved by Shanghai Municipal Commission of Commerce in accordance with Provisions for the Alteration of Investors' Equities in Foreign-invested Enterprises (《外商投資企業投資者股權變更的若干規定》), (3) CSRC currently has not issued any definitive rules or interpretations concerning such offerings as ours shall be subject to the requirements under M&A Rules.

Pursuant to the *Notice of the State Administration of Foreign Exchange on Concerning Foreign Exchange Administration of Financing and Inbound Investment Activities of Domestic Residents via Overseas Special-Purpose Vehicles* (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“**Circular No.75**”) promulgated on 21 October 2005 by the SAFE and implemented since 1 November 2005, domestic residents engaged in stock right financing and roundtrip investment via overseas special purpose companies shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Where a special purpose company experiences a “major capital modification event” such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guarantee to another party, etc., and is not involved in any roundtrip investment, the domestic resident shall, within 30 days of the major event, apply to the foreign exchange office for modification or archival filing of the foreign exchange registration of the overseas investments.

On 16 February 2011, Mr. Dong obtained the Domestic Residents Personal Offshore Investment Foreign Exchange Registration Certificate (境內居民個人境外投資外匯登記表) issued by the SAFE Shanghai Branch. On the above basis, as advised by our PRC legal advisors, the domestic natural person shareholder of our Group, who is required to go through the registration procedures set forth under Circular No.75, has registered with the competent authority for foreign exchange registration of overseas investments in accordance with the requirements of Circular No.75 and the SAFE Shanghai Branch.

OUR CORPORATE HISTORY

BUSINESS DEVELOPMENT

Introduction

Our Group commenced business operations in 1997 when Shanghai Shuanghua was established in Shanghai, the PRC, with an initial registered capital of RMB500,000. In preparation for the Listing, our Group commenced the Reorganization in 2010 and as part of the Reorganization, our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 November 2010.

Our Company is a holding company and conducts substantially all of our business through our indirectly wholly owned operating subsidiaries in the PRC and Hong Kong. Currently, we have seven subsidiaries and an associated company in the PRC, Hong Kong and BVI.

Business Milestones

The following events are our major milestones since establishment:

- | | |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1997 | Shanghai Shuanghua was established. |
| 2004 | We established Macs Baoding in 2004 with Great Wall Motor, a major integrated automaker based in China, to supply automotive HVAC systems exclusively for Great Wall Motor. |
| 2005 | Shanghai Shuanghua became a Sino-foreign joint venture company with limited liability, 38.37% equity interest of which was acquired by Hong Kong Automart.

We received the certification of ISO9001:2000 and ISO/TS16949:2002 for our evaporators and condensers. |
| 2006 | Shanghai Shuanghua was accredited as a High and New Technology Enterprise of Fengxian District, Shanghai (上海市奉賢區高新技術企業).

We expanded into the international aftermarket so as to benefit from the increasing demand for replacement auto-parts worldwide. |
| 2007 | We established business relationships with UAC and SPI, two major overseas customers of our Group.

Our laminated (CC) evaporators, KG intercoolers and LP type parallel-flow cooling systems were recognized as Shanghai Projects Converting High and New Technology into Productivity (上海市高新技術成果轉化項目).

Shanghai Shuanghua was accredited as a Shanghai High and New Technology Enterprise (上海市高新技術企業) by Shanghai Municipal Science and Technology Commission. |

OUR CORPORATE HISTORY

Shanghai Shuanghua was accredited as a Brand Name Enterprise (品牌企業) by the relevant authorities in Shanghai.


Shanghai Shuanghua became a Sino-foreign joint stock limited company by way of a conversion as approved by Ministry of Commerce of the PRC.

2008 Our ZPA-001 type parallel-flow evaporators were recognized as Shanghai Projects Converting High and New Technology into Productivity (上海市高新技術成果轉化項目).

Shanghai Shuanghua was recognized as a Shanghai High and New Technology Enterprise (上海市高新技術企業) by Shanghai Municipal Science and Technology Commission, Shanghai Municipal Finance Bureau, Shanghai Administration of State Taxation and Shanghai Administration of Local Taxation for 2008, 2009 and 2010.

Our technology center was accredited as a Shanghai Authenticated Enterprise Technology Center (上海市認定企業技術中心).

2009 Our evaporators, condensers and heaters marketed under our “Shuanghua (双桦)” brand name were recognized as Shanghai Famous Brand Products (上海名牌產品).

Our “” trademark was recognized as a Shanghai Famous Trademark (上海著名商標).

Our laminated (CC) evaporators were recognized as Shanghai Key and New Products (上海市重點新產品).

Our parallel-flow evaporators marketed under our “Shuanghua (双桦)” brand name were recognized as Shanghai Independent Innovation Products (上海市自主創新產品).

Shanghai Shuanghua was accredited as a Shanghai Foreign-Invested Advanced Technology Enterprise (上海市外商投資先進技術企業).

We received the renewal certification of ISO9001:2000 for our evaporators and condensers.

2010 Our production lines for double-sided consistent displacement swash plate compressors commenced trial production.

Our self-manufactured double-sided consistent displacement swash plate compressors commenced sales to the overseas aftermarket.

We received the certification of ISO14001:2004 for our environmental management system.

OUR CORPORATE HISTORY

CORPORATE HISTORY

The following sets forth the corporate development of each member of our Group since their respective dates of establishment or incorporation. Our principal operating entities are Shanghai Shuanghua, Hong Kong Shuanghua, Shuanghua Auto Components, Youshen Industry and Shuanghua Machinery. Shanghai Shuanghua is our subsidiary owned as to 99.999% by Hong Kong Automart and 0.001% by Shanghai Automart, which in turn is owned by our Controlling Shareholders. Shanghai Shuanghua is principally engaged in manufacture and sale of key components of automotive air-conditioners and heaters, including evaporators, condensers, compressors, heater cores and intercoolers. Hong Kong Shuanghua is our subsidiary owned by Shanghai Shuanghua for sale of the products manufactured by our Group and ancillary components. Shuanghua Auto Components is our subsidiary owned by Shanghai Shuanghua for automotive components and wholesale and retail of metals, among other things. Youshen Industry is our subsidiary owned by Shanghai Shuanghua for export and import of goods and technical services including the sale of the products manufactured by our Group. Shuanghua Machinery is our subsidiary owned by Shanghai Shuanghua as to 99% and Youshen Industry as to 1% principally engaged in the manufacture of compressor for automotive air-conditioners. In addition, we underwent certain reorganization steps for the purpose of the Share Offer, particulars of which are set forth in the section headed “Reorganization” in this prospectus.

SHANGHAI SHUANGHUA

Shanghai Shuanghua is a member of our Group engaging in the manufacture and sale of key components of automotive air-conditioners and heaters, including evaporators, condensers, compressors, heater cores and intercoolers. The business scope of Shanghai Shuanghua is the manufacture of automotive air-conditioner components including evaporators, condensers, compressors, clutches, heater cores, liquid accumulators, connecting tubes, expansion valve and thermostat; manufacture of heat exchangers such as intercoolers, radiators, oil coolers; sale of self-produced products; and manufacture of heat exchangers for domestic and commercial air-conditioners. Shanghai Shuanghua has unlimited term of operation.

Shanghai Shuanghua was established on 25 September 1997 with an initial registered capital of RMB500,000 and was owned by Shanghai Yaocheng Trading Company Limited* (上海耀成貿易有限公司) and Shanghai Xinglian Packaging and Delivery Service Department* (上海興聯打包託運服務部), currently Independent Third Parties, as to approximately 90% and 10%, respectively. The term of operation of Shanghai Shuanghua was from 25 September 1997 to 22 June 2004. As confirmed by Shanghai Huangpu People’s Government and General Office of the Shanghai Municipal People’s Government, the initial capital contribution of Shanghai Shuanghua was made by Mr. Dong, Shanghai Yaocheng Trading Company Limited and Shanghai Xinglian Packaging and Delivery Service Department were the nominees of Mr. Dong in acting as the equity holders of Shanghai Shuanghua at the instructions of Mr. Dong (the “**Nominee Arrangement**”) and Mr. Dong was the beneficial owner of the equity interest in Shanghai Shuanghua.

On 1 June 1999, the business scope of Shanghai Shuanghua was registered to include auto air-conditioning parts assembly.

On 10 August 2000, the business scope of Shanghai Shuanghua was registered to include chemical raw materials (excluding hazardous materials) and the term of operation of Shanghai Shuanghua was extended to 24 September 2007.

OUR CORPORATE HISTORY

On 8 June 2002, Mr. Dong, Wu Gang, who is the wife of Mr. Dong, Shanghai Yaocheng Trading Company Limited and Shanghai Xingcheng Gongmao Industry Company* (上海興盛工貿實業有限公司), which had undertaken the rights and liabilities of Shanghai Xinglian Packaging and Delivery Service Department which had been deregistered in 1998, entered into an equity transfer agreement, pursuant to which Shanghai Yaocheng Trading Company Limited and Shanghai Xingcheng Gongmao Industry Company transferred their respective 90% and 10% equity interests in Shanghai Shuanghua to Mr. Dong and Wu Gang respectively at considerations of RMB450,000 and RMB50,000. The total consideration of RMB500,000 was based on the value of the capital contributions of Shanghai Shuanghua initially made by Mr. Dong. Such equity transfer was undertaken to terminate the Nominee Arrangement to settle the issue relating to the initial capital contributions of Shanghai Shuanghua. The transfer was registered with the Shanghai Administration for Industry and Commerce, Huang Pu Branch in July 2002. Upon completion of the transfer, Shanghai Shuanghua was owned as to approximately 90% and 10% by Mr. Dong and Wu Gang.

On 19 June 2004, upon approval of the shareholders of Shanghai Shuanghua, the term of operation of Shanghai Shuanghua was extended to 24 September 2014. A new business licence reflecting the extended term of operation was issued by Administration Bureau of Industry and Commerce of Shanghai, Fengxian Branch on 23 June 2004.

Pursuant to an equity transfer agreement dated 6 August 2004 entered into between Wu Gang and Mr. Dong, Wu Gang transferred her 10% equity interest in Shanghai Shuanghua to Mr. Dong at nil consideration. On the same date, Mr. Dong, Mr. Zheng and Zhang Zhenhuan, currently an Independent Third Party, contributed RMB500,000, RMB1,000,000 and RMB1,000,000 respectively to the registered capital of Shanghai Shuanghua. Upon completion of the transfer and the increase in registered capital, Shanghai Shuanghua was owned as to 33.33%, 33.34% and 33.33% by Mr. Dong, Zhang Zhenhuan and Mr. Zheng, and its registered capital became RMB3,000,000. A new business licence reflecting the increased registered capital was issued by Shanghai Administration for Industry and Commerce, Fengxian Branch on 12 August 2004. Zhang Zhenhuan became acquainted with Mr. Dong since 1972 when both Zhang Zhenhuan and Mr. Dong worked together at Shanghai Xinxin Machinery Factory (上海新新機器廠). Zhang Zhenhuan was introduced by Mr. Dong to invest in Shanghai Shuanghua in August 2004. Save as being an acquaintance of Mr. Dong, Zhang Zhenhuan has no past or present relationship with our Group, its shareholders, directors, senior management, or any of their respective associates.

On 19 August 2004, upon approval of the shareholders of Shanghai Shuanghua, the registered capital of Shanghai Shuanghua was increased from RMB3,000,000 to RMB10,000,000. The capital increase was contributed by Zhang Zhenhuan, Mr. Dong and Mr. Zheng by cash proportional to their respective holding of equity interests. A new business licence reflecting the increased registered capital was issued by Administration Bureau of Industry and Commerce of Shanghai, Fengxian Branch on 9 September 2004. Upon completion of the capital increase, Shanghai Shuanghua was owned as to 33.34% by Zhang Zhenhuan, 33.33% by Mr. Dong and 33.33% by Mr. Zheng.

On 6 February 2005, Zhang Zhenhuan and Shanghai Automart entered into an equity transfer agreement pursuant to which Zhang Zhenhuan transferred 33.4% equity interest in Shanghai Shuanghua to Shanghai Automart at a consideration of approximately RMB3.34 million. The consideration was based on the capital injection contributed by Zhang Zhenhuan to Shanghai Shuanghua. Zhang Zhenhuan disposed of his equity interest in Shanghai Shuanghua due to personal reason. In the meantime, the registered capital of Shanghai Shuanghua was increased from RMB10,000,000 to RMB26,660,000. The capital increase was

OUR CORPORATE HISTORY

contributed by Shanghai Automart by cash. A new business licence reflecting the increased registered capital was issued by Shanghai Administration for Industry and Commerce, Fengxian Branch on 8 March 2005. Upon completion of the transfer, Shanghai Shuanghua was owned as to approximately 75%, 12.5% and 12.5% by Shanghai Automart, Mr. Dong and Mr. Zheng. On 30 August 2005, Commission of Foreign Investment of Shanghai City (上海市外國投資工作委員會) approved Shanghai Shuanghua to change to sino-foreign equity joint venture. Hong Kong Automart was authorized to acquire 38.37% of equity interest in Shanghai Shuanghua by US\$2 million (approximately RMB16,600,000), which was then contributed to increase the registered capital of Shanghai Shuanghua. Upon completion of the acquisition, the registered capital of Shanghai Shuanghua was increased from RMB26,660,000 to RMB43,260,000 and the total investment was RMB61,800,000. Shanghai Shuanghua was owned as to approximately 38.37% by Hong Kong Automart, 46.23% by Shanghai Automart, 7.7% by Mr. Dong and 7.7% by Mr. Zheng. On 15 September 2005, Shanghai Shuanghua received the certificate of approval in relation to corporate investment by citizens in Hong Kong, Taiwan and Macau (中華人民共和國台港澳僑投資企業批准證書) from the People's Government of Shanghai. The term of operation of Shanghai Shuanghua was approved to be extended to a period from 25 September 1997 to 15 September 2025. A new business licence reflecting the above mentioned changes was issued by Shanghai Administration for Industry and Commerce, Fengxian Branch on 30 December 2005.

On 1 June 2007, Mr. Dong, Mr. Zheng, Hong Kong Automart and Shanghai Automart entered into equity transfer agreement pursuant to which Mr. Dong and Mr. Zheng transferred 7.7% and 7.7% equity interests in Shanghai Shuanghua to Hong Kong Automart and Shanghai Automart at considerations of RMB6.94 million and RMB6.94 million, based on the then audited book value respectively. In addition, Shanghai Automart and Hong Kong Automart contributed RMB10,786,000 and RMB9,214,000 respectively to the registered capital of Shanghai Shuanghua. On 29 June 2007, the transfer of equity interest and increase in registered capital was approved by Commission of Foreign Investment of Shanghai. Upon completion of the transfer and the capital increase, the registered capital of Shanghai Shuanghua was increased from RMB43,260,000 to RMB63,260,000 and was owned as to approximately 53.93% by Shanghai Automart and 46.07% by Hong Kong Automart, and its total investment was RMB103,260,000. A new business licence reflecting the abovementioned changes was issued by Shanghai Administration for Industry and Commerce on 10 August 2007.

On 15 November 2007, Shanghai Shuanghua was approved by the Ministry of Commerce of the PRC (i) to be changed from sino-foreign equity joint venture to joint stock company; (ii) to change its name to Shanghai Shuanghua Autoparts Co., Ltd 上海雙樺汽車零部件股份有限公司; and (iii) to have unlimited term of operation. Upon becoming a joint stock company, the registered capital of Shanghai Shuanghua was increased to RMB178,000,000 divided into 178,000,000 shares of RMB1 each, based on the then audited net asset value. Shanghai Automart owned 95,995,068 shares, representing approximately 53.93% of the registered capital of Shanghai Shuanghua while Hong Kong Automart owned 82,004,932 shares, representing approximately 46.07% of the registered capital of Shanghai Shuanghua. On 16 November 2007, Shanghai Shuanghua received the certificate of approval in relation to corporate investment by citizens in Hong Kong, Taiwan and Macau from the People's Government of Shanghai. A new business licence reflecting the abovementioned changes was issued by Shanghai Administration for Industry and Commerce on 7 December 2007.

OUR CORPORATE HISTORY

SHUANGHUA AUTO COMPONENTS

Shuanghua Auto Components is our subsidiary wholly owned by Shanghai Shuanghua. The business scope of Shuanghua Auto Components is automotive components, electronic equipment and components, chemical ingredients (except for dangerous chemicals, chemicals under supervision, fireworks and firecrackers, explosive materials for domestic use and precursor chemical), plastics products, construction materials, grocery, woven cloth, computers, software and ancillary facilities (except for products for information system safety), telecommunication facilities (except for satellite television reception system), wholesale and retail of metals, interior decoration and business consultation (any business requiring administrative approval shall be operated with licence). The term of operation of Shuanghua Auto Components is for the period from 7 September 2009 to 6 September 2019.

Shuanghua Auto Components was established on 7 September 2009 with a registered capital of RMB2,000,000, and was wholly owned by Shanghai Shuanghua.

YOSHEN INDUSTRY

Youshen Industry is our subsidiary wholly owned by Shanghai Shuanghua for export and import of goods and technical services including the sale of the products manufactured by our Group. The business scope of Youshen Industry is operation of import and export of goods and services, sale of products manufactured by Shanghai Shuanghua, business consultation (except for agent), interior decoration (any business requiring administrative approval shall be operated with licence). The term of operation of Youshen Industry is for a period from 27 July 2006 to 26 July 2026.

Youshen Industry was established on 27 July 2006 with registered capital of RMB10,000,000 and was owned by Shanghai Automart and Mr. Dong as to approximately 51% and 49%, respectively.

On 30 July 2007, Shanghai Automart, Mr. Dong and Shanghai Shuanghua entered into equity transfer agreement pursuant to which Shanghai Automart and Mr. Dong transferred 51% and 49% equity interests in Youshen Industry to Shanghai Shuanghua at considerations of RMB5,087,700 and RMB4,888,200, based on the then book net asset value respectively. Upon completion of the acquisition, Youshen Industry was wholly owned by Shanghai Shuanghua. A new business licence was issued by Shanghai Administration for Industry and Commerce, Pudong Branch on 24 August 2007.

SHUANGHUA MACHINERY

Shuanghua Machinery is our subsidiary owned by Shanghai Shuanghua and Youshen Industry as to 99% and 1%, principally engaged in the manufacture of compressors for automotive air-conditioners. The business scope of Shuanghua Machinery is the development, manufacture and storage of automotive components and electronic facilities; technical consultation relating to automotive; import and export of goods and services (any of the above requiring approval shall be operated with licence). The term of operation is for the period from 28 September 2007 to 27 September 2027. Shuanghua Machinery was established on 28 September 2007 with an initial registered capital of RMB150,000,000, and was owned by Shanghai Shuanghua and Shanghai Automart as to approximately 99% and 1% respectively.

OUR CORPORATE HISTORY

On 15 December 2008, Shanghai Automart and Youshen Industry entered into equity transfer agreement pursuant to which Shanghai Automart transferred 1% equity interest in Shuanghua Machinery to Youshen Industry at consideration of RMB597,179 based on the then book net asset value and Youshen Industry shall pay the remaining RMB900,000 registered capital that was originally to be paid up by Shanghai Automart. Upon completion of the transfer, Shuanghua Machinery was owned by Shanghai Shuanghua and Youshen Industry as to approximately 99% and 1%. The transfer had been registered with the Shanghai Administration for Industry and Commerce, Fengxian Branch and a new business licence was issued to Shuanghua Machinery on 26 December 2008.

On 19 November 2009, the registered capital of Shuanghua Machinery was authorized to be reduced from RMB150,000,000 to RMB60,000,000. The equity holding of its then equity holders remained unchanged.

BAODING SHUANGHUA

Baoding Shuanghua, which was incorporated in 2007 and owned as to 68% by Shanghai Shuanghua and 32% by Great Wall Motor, was principally engaged in the manufacture of automotive radiators, a type of heat-exchanger, for sales to Great Wall Motor. At that time, our Group intended to develop the business of manufacture of automotive radiator, therefore collaborated with Great Wall Motor and established Baoding Shuanghua in 2007 to principally engage in the manufacture of automotive radiator.

Pursuant to an equity share agreement dated 4 October 2010, Shanghai Shuanghua disposed of its 68% equity interest in Baoding Shuanghua to Great Wall Motor at a consideration of RMB19.4 million which was based on the then registered share capital of Baoding Shuanghua. Our Group disposed of the equity interest in Baoding Shuanghua to Great Wall Motor in 2010 as our Group considered that the manufacture of radiator is not closely in line with the major business engaged by us and Great Wall Motor was interested in acquiring the entire equity interest of Baoding Shuanghua. After the disposal, Baoding Shuanghua ceased to be a member of our Group.

During the Track Record Period, the revenue generated by Baoding Shuanghua amounted to nil, RMB1.0 million, and RMB11.0 million, respectively, and its loss incurred amounted to RMB1.3 million, RMB2.5 million and RMB2.4 million, respectively. Our Group did not conduct any transactions with Baoding Shuanghua before and/or after the disposal of Baoding Shuanghua to Great Wall Motor.

KUNSHAN XIAOCANG

Kunshan Xiaocang was established in 2004 by our Group and Kunshan City Automotive Component Co., Ltd to manufacture and sell compressors. Kunshan Xiaocang is owned as to 65% by our Group and did not have any business after 2007. It has been in the process of deregistration and is expected to cease to be a member of our Group as the financial performance of Kunshan Xiaocang did not meet the initial expectation of the joint venture parties.

As advised by our PRC legal advisors, based on the liquidation balance sheet of Kunshan Xiaocang, we had no outstanding commitments, liabilities, litigation, claims or penalties in relation to Kunshan Xiaocang as of the Latest Practicable Date.

OUR CORPORATE HISTORY

SHUANGHUA INDUSTRY AND TRADE

Shuanghua Industry and Trade was established in 1997 and wholly owned by us before its disposal in June 2008. Before its disposal, Shuanghua Industry and Trade was principally engaged in the sale of automotive parts and components in the PRC. As our another subsidiary, Youshen Industry, was also engaged in the sale of automotive parts and components in the PRC, in order to eliminate the duplication of business roles within our Group and to streamline the then corporate structure of our Group, we disposed of the entire equity interest in Shuanghua Industry and Trade in June 2008 to Shanghai Zhenxin Information Consultancy Co., Ltd (上海真欣信息諮詢有限公司), an Independent Third Party, at a consideration of approximately RMB13.0 million, which is based on the then net asset value minus the distributable profit of Shuanghua Industry and Trade.

AUTOMART HEAT-EXCHANGER

Automart Heat-exchanger was established in 2002 and wholly owned by us before its liquidation. At that time, the Group intended to establish Automart Heat-exchanger for the purpose of setting up production facilities for the manufacture of heater core. However, Automart Heat-exchanger eventually could not acquire the desired parcel of land for the construction of production facilities. Our Group therefore liquidated Automart Heat-exchanger in February 2008 to streamline the corporate structure of the Group. On 2 February 2008, shareholder's resolution was passed to liquidate Automart Heat-exchanger. On 11 June 2010, Shanghai Administration of Industry and Commerce approved the registration for the liquidation of Automart Heat-exchanger.

HONG KONG SHUANGHUA

Hong Kong Shuanghua is our subsidiary wholly owned by Shanghai Shuanghua for sale of the products manufactured by our Group and ancillary components.

Hong Kong Shuanghua was incorporated on 25 March 2008 in Hong Kong. Upon its incorporation, Hong Kong Shuanghua had an authorized share capital of USD200,000.00 divided into 200,000 shares of USD1.00 each.

The incorporation of Hong Kong Shuanghua as a wholly owned subsidiary of Shanghai Shuanghua was approved by Shanghai MOFCOM on 4 March 2008.

On 25 March 2008, 200,000 shares were issued and allotted to Shanghai Shuanghua. Upon the issue and allotment, all the ordinary shares of Hong Kong Shuanghua were wholly owned by Shanghai Shuanghua.

BVI AUTOMART

BVI Automart was incorporated on 7 February 2002 in BVI. Upon its incorporation, BVI Automart had an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1 each and was owned as to 42% by Mr. Dong and 58% by Mr. Zheng.

OUR CORPORATE HISTORY

On 6 June 2008, Mr. Zheng and Mr. Dong entered into an acquisition agreement pursuant to which Mr. Zheng transferred 5,250 shares to Mr. Dong at a consideration of US\$5,250 which was determined based on the par value of the shares. Upon completion of the acquisition, BVI Automart was owned as to 52.5% by Mr. Dong and 47.5% by Mr. Zheng.

HONG KONG AUTOMART

Hong Kong Automart was incorporated on 7 June 2002 in Hong Kong. Upon its incorporation, Hong Kong Automart had an authorized share capital of HK\$1,000,000 divided into 1,000,000 shares of HK\$1 each and was owned as to approximately 85%, 8.7% and 6.3% by BVI Automart, Mr. Zheng and Mr. Dong.

On 6 June 2008, BVI Automart, Mr. Zheng and Mr. Dong entered into acquisition agreement pursuant to which BVI Automart and Mr. Dong transferred 5% and 6.3% of shareholding of Hong Kong Automart to Mr. Zheng at considerations of HK\$50,000 and HK\$63,000, respectively. The considerations were determined based on the par value of the shares. Prior to the Reorganization, Hong Kong Automart was owned as to approximately 80% by BVI Automart and 20% by Mr. Zheng.

OUR COMPANY

Our Company was incorporated on 19 November 2010 in the Cayman Islands as an exempted company with limited liability. At the time of incorporation, our Company had an authorized share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each.

On 19 November 2010, one subscriber Share, which was nil paid, was allotted and issued to Mr. Zheng.

On 28 March 2011, Mr. Zheng transferred the said one Share to Youshen Group. On the same date, 5,799 Shares and 4,200 Shares were allotted and issued nil paid to Youshen Group and Shuanghua International respectively.

MACS BAODING

Macs Baoding was established in 2004 with Great Wall Motor to supply automotive HVAC systems for Great Wall Motor pursuant to a joint venture agreement of January 2004. Macs Baoding is a 49% held associate of our Group with the remaining 51% held by Great Wall Motor.

OUR CORPORATE HISTORY

The major terms of the joint venture agreement governing the relationship between Great Wall Motor and our Group in Macs Baoding are as follows:

Duration	18 January 2004 to 17 January 2019
Business scope	manufacture and sale of automotive air-conditioning system and automotive components
Total investment amount, capital injection and respective contributions	total investment amount: RMB23.1 million capital injection: RMB16.5 million with RMB8.42 million contributed by Great Wall Motor and US\$0.98 million contributed by our Group
Bases of the consideration	in accordance with the then market condition and the initial scale of production
Board representation	Our Group is entitled to appoint three out of the seven directors to the board of Macs Baoding.
Voting rights	A quorum requires a simple majority of the board members whereas board resolutions relating to the registered capital of Macs Baoding, the transfer and mortgage of the equity interest of Macs Baoding and merger and acquisition require unanimous votes by all directors present at board meeting voting for the resolution.
Daily management	Our Group is entitled to nominate the general manager responsible for daily management while Great Wall Motor is entitled to nominate the chief financial officer.
Obligations	Great Wall Motor was responsible for applying for the relevant permits, licences, approvals for the establishment of Macs Baoding; applying for the land use right approval; assisting Macs Baoding to acquire or lease equipment, raw materials and other facilities within the PRC. Our Group was responsible for assisting Macs Baoding to acquire or lease equipment, raw materials and other facilities within the PRC and overseas; facilitating the installment, testing of equipment and trial production; providing production techniques and upgrading.
Profit sharing ratio	in accordance with the respective equity interests of our Group and Great Wall Motor.

We generally enter into a framework sales agreement with Macs Baoding with a one-year term renewable on a yearly basis, pursuant to which Macs Baoding will place monthly orders for our products with us.

REORGANIZATION

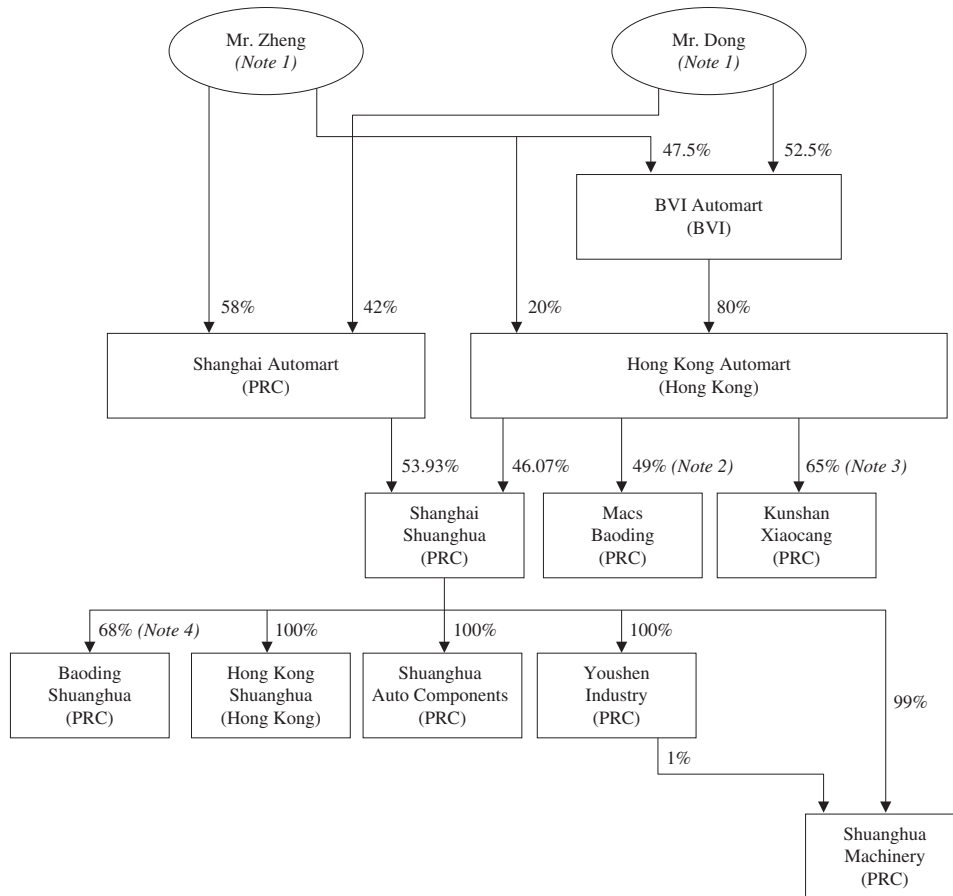
INTRODUCTION

In contemplation of the Listing, members of our Group have undergone certain restructuring steps whereby a coherent corporate structure of our Group has been established which is suitable for the Listing. The Reorganization involved the following principal steps:

- establishment of the Company;
- transfer of 52.5% shareholding interest in BVI Automart from Mr. Dong to Mr. Zheng;
- transfer of 20% shareholding interest in Hong Kong Automart from Mr. Zheng to BVI Automart;
- increase of authorized share capitals of BVI Automart and Hong Kong Automart;
- transfer of 58% shareholding interest in Shanghai Automart from Mr. Zheng to Mr. Dong;
- capital increase of Shanghai Shuanghua and acquisition of approximately 54.769% equity interest in Shanghai Shuanghua from Shanghai Automart;
- disposal of Baoding Shuanghua;
- deregistration of Kunshan Xiaocang; and
- acquisition of BVI Automart.

REORGANIZATION

The following diagram illustrates our shareholding and corporate structure prior to the Reorganization:



Notes:

1. Mr. Zheng and Mr. Dong are persons acting in concert.
2. Macs Baoding is owned as to approximately 49% by Hong Kong Automart and approximately 51% by Great Wall Motor.
3. Kunshan Xiaocang is owned by Hong Kong Automart and Kunshan City Automotive Component Co., Ltd (昆山小倉汽車配件有限公司), as to 65% and 35%, respectively. Kunshan Xiaocang is in the process of deregistration.
4. Baoding Shuanghua is owned as to approximately 68% and 32% by Shanghai Shuanghua and Great Wall Motor, respectively.

REORGANIZATION

DETAILED PROCEDURES

For the purpose of the Listing, the following Reorganization steps have been implemented:

Establishment of the Company

On 19 November 2010, our Company was incorporated in the Cayman Islands to act as the holding company of our Group. The initial authorized share capital of our Company was HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. On 19 November 2010, one subscriber Share, which was nil paid, was allotted and issued to Mr. Zheng. On 28 March 2011, Mr. Zheng transferred the said one Share to Youshen Group. On the same date, 5,799 Shares and 4,200 Shares were allotted and issued nil paid to Youshen Group and Shuanghua International, respectively.

On 27 January 2011, Youshen Group was incorporated with an authorized capital of US\$50,000 divided into 50,000 shares of US\$1 each. Youshen Group was incorporated as the holding company for the interests of Mr. Zheng in our Group.

On 27 January 2011, Shuanghua International was incorporated with an authorized capital of US\$50,000 divided into 50,000 shares of US\$1 each. Shuanghua International was incorporated as the holding company for the interests of Mr. Dong in our Group.

Transfer of 52.5% shareholding interest in BVI Automart from Mr. Dong to Mr. Zheng

On 14 January 2011, Mr. Dong transferred his 52.5% shareholding interests in BVI Automart to Mr. Zheng at a consideration of HK\$295,953 which is determined based on the net asset value of BVI Automart as at 31 December 2010.

Following completion of the transfer, BVI Automart was wholly owned by Mr. Zheng.

Transfer of 20% shareholding interest in Hong Kong Automart from Mr. Zheng to BVI Automart

On 24 February 2011, Mr. Zheng transferred his 20% shareholding interests in Hong Kong Automart to BVI Automart at a nominal consideration of HK\$1.

Following completion of the transfer, Hong Kong Automart was wholly owned by BVI Automart while BVI Automart was wholly owned by Mr. Zheng.

REORGANIZATION

Increase of authorized share capitals of BVI Automart and Hong Kong Automart

On 18 March 2011, resolutions were passed, and the relevant memorandum and articles of associations were amended, to increase the authorized share capital of BVI Automart from US\$50,000 divided into 50,000 shares of US\$1 each to US\$100,000 divided into 100,000 shares of US\$1 each.

On 18 March 2011, 8,000 and 42,000 shares of BVI Automart were issued and allotted to Mr. Zheng and Shuanghua International at considerations of HK\$81,200,000 and HK\$58,800,000, respectively. Upon the issue and allotment, BVI Automart was owned as to 58% and 42% by Mr. Zheng and Shuanghua International, respectively.

On 1 June 2011, the authorized share capital of Hong Kong Automart increased from HK\$1,000,000 divided into 1,000,000 shares of HK\$1 each to HK\$2,000,000 divided into 2,000,000 shares of HK\$1 each.

On 1 June 2011, 200,000 shares of Hong Kong Automart were issued and allotted to BVI Automart at a consideration of HK\$140,000,000.

Transfer of 58% shareholding interest in Shanghai Automart from Mr. Zheng to Mr. Dong

On 1 January 2011, Mr. Zheng and Mr. Dong entered into equity transfer agreement pursuant to which, Mr. Zheng transferred his 58% shareholding interests in Shanghai Automart to Mr. Dong, at a consideration of RMB29,000,000, which was determined based on the initial amount invested by Mr. Zheng.

Following completion of the transfer, Shanghai Automart was wholly owned by Mr. Dong.

Capital Increase of Shanghai Shuanghua and acquisition of approximately 54.769% equity interest in Shanghai Shuanghua from Shanghai Automart

On 21 February 2011, resolutions were passed, and the relevant memorandum and articles of associations were amended, to increase the registered capital of Shanghai Shuanghua from RMB178,000,000 to RMB263,415,456. The capital increase was contributed by Shanghai Automart and Hong Kong Automart by undistributed profits of Shanghai Shuanghua. Immediately after the capital increase, Shanghai Shuanghua was owned as to approximately 54.77% and 45.23% by Shanghai Automart and Hong Kong Automart, respectively.

On 21 February 2011, Shanghai Automart and Hong Kong Automart entered into an equity transfer agreement pursuant to which Shanghai Automart transferred its approximately 54.769% equity interest in Shanghai Shuanghua to Hong Kong Automart at a consideration of RMB157,726,155, which was determined with reference to the valuation of Shanghai Shuanghua conducted by an independent valuer. The acquisition was approved by the Shanghai Municipal Commission of Commerce on 9 March 2011 and the new business licence of Shanghai Shuanghua was issued on 10 May 2011. Following the completion of the transfer, Shanghai Shuanghua was owned as to approximately 99.999% by Hong Kong Automart and approximately 0.001% by Shanghai Automart.

REORGANIZATION

Disposal of Baoding Shuanghua

Pursuant to an equity share agreement dated 4 October 2010, Shanghai Shuanghua transferred its approximately 68% equity interest to Great Wall Motor at a consideration of RMB19,380,000, which was determined at arm's length negotiation between the parties. Upon completion of the transfer and the grant of the business operation licence by Administration Bureau of industry and Commerce in Baoding on 18 October 2010, Baoding Shuanghua was wholly owned by Great Wall Motor and ceased to be member of our Group.

Deregistration of Kunshan Xiaocang

Kunshan Xiaocang did not have any business since 2007. Kunshan Xiaocang is in the process of deregistration and is expected to cease to be a member in the corporate structure of our Group after the deregistration.

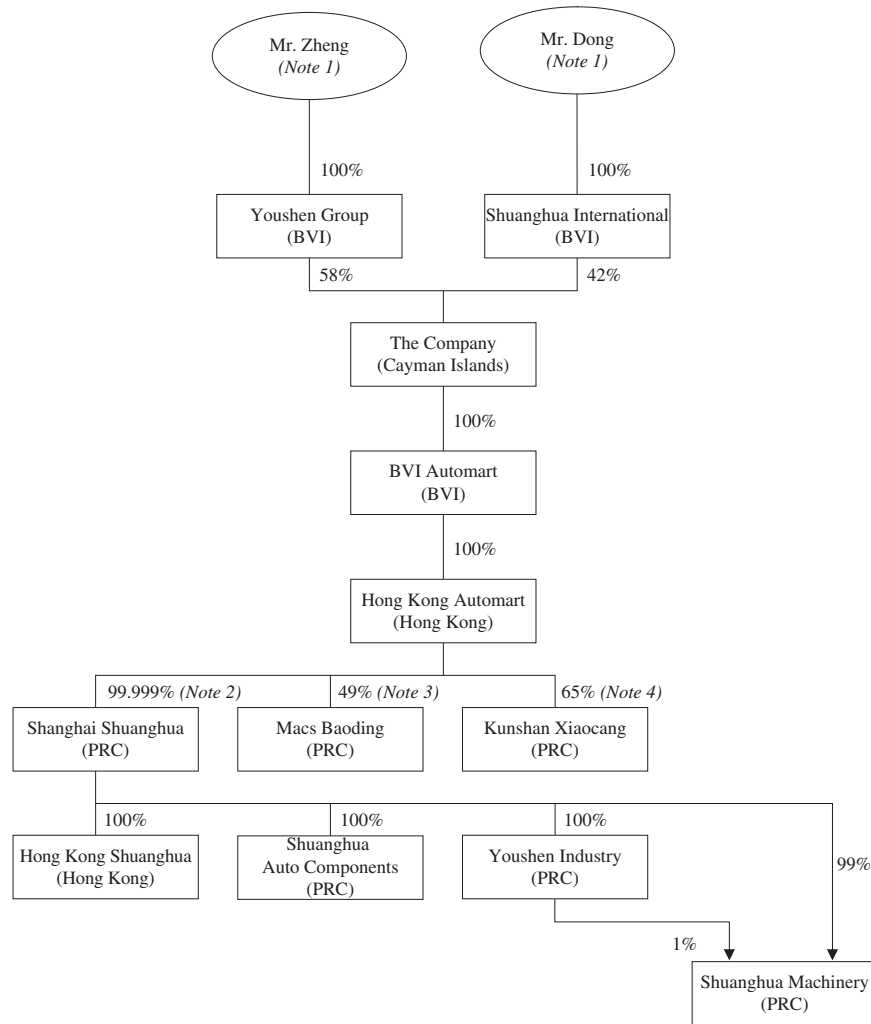
Acquisition of BVI Automart

On 8 June 2011, our Company acquired the entire issued share capital of BVI Automart from Mr. Zheng and Shuanghua International in consideration of the crediting as fully paid the 5,800 and 4,200 nil paid Shares in the share capital of our Company held by Youshen Group and Shuanghua International, respectively. As a result of the acquisition, our Company became the ultimate holding company of our Group.

REORGANIZATION

OUR SHAREHOLDING AND CORPORATE STRUCTURE AS OF THE LATEST PRACTICABLE DATE AND IMMEDIATELY AFTER COMPLETION OF THE SHARE OFFER

The diagram below illustrates our shareholding and corporate structure as of the Latest Practicable Date:

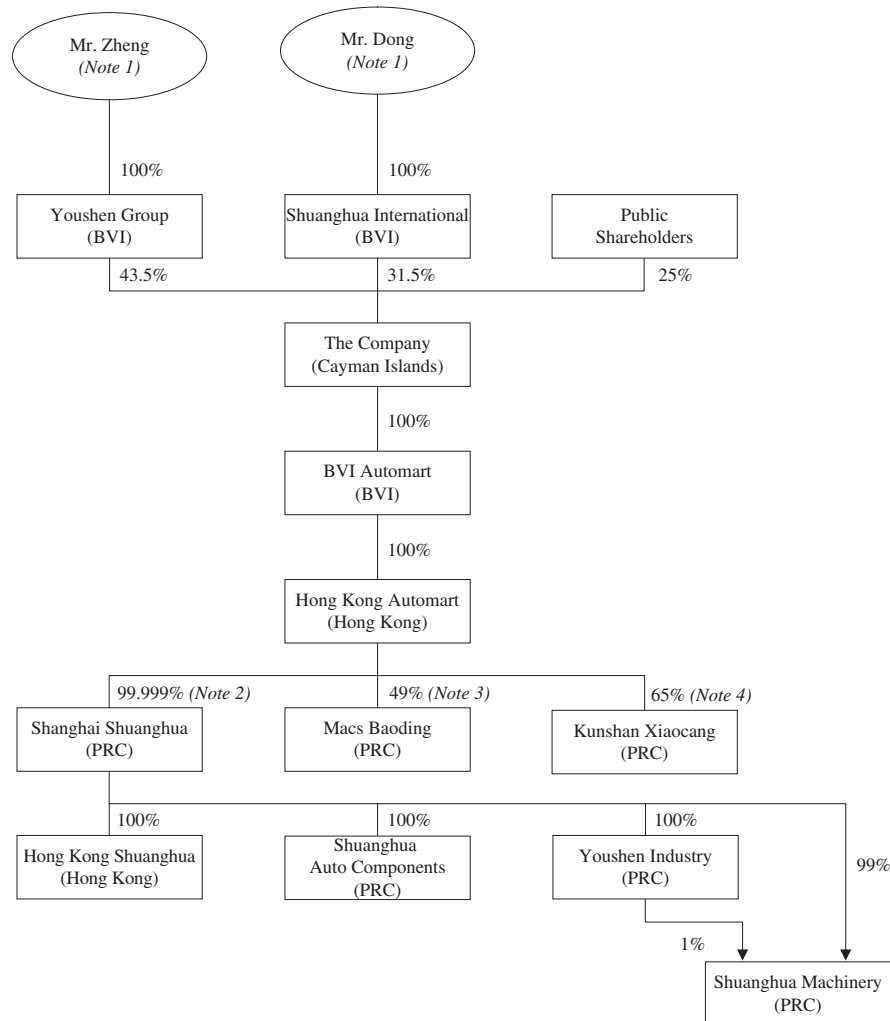


Notes:

1. Mr. Zheng and Mr. Dong are persons acting in concert.
2. The registered capital of Shanghai Shuanghua is RMB263,415,456 divided into 263,415,456 shares of RMB1 each and is owned as to approximately 99.999% and 0.001% by Hong Kong Automart and Shanghai Automart, respectively.
3. Macs Baoding is owned as to approximately 49% and 51% by Hong Kong Automart and Great Wall Motor, respectively.
4. Kunshan Xiaocang is owned as to 65% by Hong Kong Automart and 35% by Kunshan City Automotive Component Co., Ltd.. Kunshan Xiaocang is in the process of deregistration.

REORGANIZATION

The diagram below illustrates our shareholding and corporate structure following completion of the Capitalization Issue and the Share Offer, assuming that no Shares have been issued pursuant to the exercise of any option which may be granted under the Share Option Scheme:



Notes:

1. Mr. Zheng and Mr. Dong are persons acting in concert and accordingly, Mr. Zheng is deemed to be interested in equity interest in our Company held by Mr. Dong, whereas Mr. Dong is deemed to be interested in equity interest in our Company held by Mr. Zheng.
2. The registered capital of Shanghai Shuanghua is RMB263,415,456 divided into 263,415,456 shares of RMB1 each and is owned as to approximately 99.999% and 0.001% by Hong Kong Automart and Shanghai Automart, respectively.
3. Macs Baoding is owned as to approximately 49% and 51% by Hong Kong Automart and Great Wall Motor, respectively.
4. Kunshan Xiaocang is owned as to 65% by Hong Kong Automart and 35% by Kunshan City Automotive Component Co., Ltd., respectively. Kunshan Xiaocang is in the process of deregistration.

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OVERVIEW

We are a leading independent automotive HVAC components supplier based in China. We are principally engaged in the design, production and sales of a comprehensive range of automotive HVAC components including evaporators, condensers, heater cores and compressors. Our products are mainly sold to both domestic OEM and international aftermarket customers. According to the Frost & Sullivan Report, we were the largest independent supplier of evaporators and condensers and the second largest independent supplier of heater cores in terms of sales units in China in 2010, with market shares of 7.9%, 4.8% and 2.7%, respectively by sales units in each of the Chinese evaporator, condenser and heater core markets among all captive and independent suppliers in 2010. In the HVAC components market, captive suppliers are generally subsidiaries or affiliates of HVAC system suppliers, and their primary business is to supply such HVAC system suppliers with particular HVAC components. Independent suppliers, on the other hand, are not affiliated with HVAC system suppliers. Independent suppliers are free to manufacture HVAC components for any HVAC system suppliers.

We have two production sites both located at our production base at Fengxian District in Shanghai, the PRC, with an annual production capacity of 3,456,000 units of evaporators, condensers and heater cores, in aggregate, and 150,000 units of compressor as at 31 December 2010. Leveraging on our existing sales and marketing networks, we plan to reinforce our core competitiveness in the HVAC components market by expanding into the segment of self-manufactured compressors which is expected to become one of our major business segments and growth drivers in the future. We have limited experience in the production of compressors. Our compressor production lines comprised of advanced production facilities acquired from Visteon Inc., one of the world's largest suppliers of automotive components and an Independent Third Party, which commenced trial production of consistent displacement swash plate compressors in 2010 solely for sales to the overseas aftermarket. We also plan to commence trial production of variable displacement swash plate compressors by the end of 2011. Our current production lines for consistent displacement swash plate compressors were designed with variable production technologies, and therefore can be transferred to the production of variable displacement swash plate compressors for which certain technologies used in the current production lines have to be reformed to accommodate such production.

Currently we are in the process of applying for the National Industrial Product Manufacture Licence (全國工業產品生產許可證) for the commercial production of our compressors and Shanghai Municipal Bureau of Quality and Technical Supervision (上海市質量技術監督局) issued the Letter of Determination on the Acceptance of Application for Administrative License (行政許可申請受理決定書) (the “**Application Acceptance**”) on 27 August 2010 to accept our licence application. Based on the Application Acceptance and the confirmation issued by Shanghai Fengxian District Bureau of Quality and Technical Supervision that upon receiving the Application Acceptance, our operating subsidiary, Shuanghua Machinery, may carry out trial production and sale of compressors, our PRC legal advisors advised that (1) Shanghai Municipal Bureau of Quality and Technical Supervision and Shanghai Fengxian District Bureau of Quality and Technical Supervision are competent authorities for issuance and confirmation of the Application Acceptance; (2) our current trial production and sale of compressors are in compliance with the relevant PRC laws and regulations; (3) there is no specific stipulation regarding the expiry date of the Letter of Determination on the Acceptance of Application for Administrative License, or the production capacity limit on the quantity of compressors to be produced during trial production provided in relevant laws and regulations; (4) the salient difference between trial production and commercial production is that when an enterprise obtains the Letter of Determination on the Acceptance of Application for Administrative

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License, the enterprise may commence trial production, and when an enterprise obtains the National Industrial Product Manufacture Licence, the enterprise may commence commercial production, the trial production is the necessary pre-requisite phase before commercial production; and (5) subject to Shuanghua Machinery passing the examination and inspection of the competent quality and technical supervision bureau for license issuance, there is no actual legal impediment for Shuanghua Machinery to obtain the National Industrial Product Manufacture License. The Company expects to obtain the aforesaid license and commence the commercial production of compressors by or around end of 2011.

Apart from selling self-manufactured compressors to the overseas aftermarket, we are in the process of exploring the domestic OEM market by applying for recognition of self-manufactured compressors from domestic OEM customers, being HVAC system suppliers and automakers. According to the Frost & Sullivan Report, swash plate compressor, characterized by low cost and high efficiency, is a mature technology for all kinds of passenger vehicles. Frost & Sullivan expects that swash plate compressor will remain dominant in the Chinese passenger vehicle market towards the year 2014, especially for medium to high-end vehicles which are generally produced by joint venture brands in China.

Our revenue are principally generated from our sales to the domestic OEM market and overseas aftermarket which accounted for approximately 41.3%, 48.6% and 43.6%, and approximately 52.8%, 45.2% and 53.0%, respectively of our total revenue during the Track Record Period.

For the domestic OEM market, our products are ultimately used for assembly of different car models. We, as an automotive HVAC components supplier (a tier two supplier), directly sell our products to our OEM customers which are automotive HVAC system suppliers (tier one suppliers) in the supply chain on a made-to-order basis, for their assembly into their brands of automotive HVAC systems. Such assembled automotive HVAC systems are ultimately supplied to the major automakers in China including Great Wall Motor and BYD Auto, as end-users for whole-car assembly in different varieties of car models. We have been recognized as a leading independent supplier of automotive HVAC components domestically in China. Our operating subsidiary, Shanghai Shuanghua, has been recognized as an automotive HVAC components supplier for a wide portfolio of domestic or Sino-foreign joint-venture automotive HVAC system suppliers, including Macs Baoding (a 49% held associate of our Group), Wuhu Bonaire, Meibiao and Shougang Futian, as well as automaker BYD Auto, which are our direct OEM customers with an average 5 years of business relationship. Revenue contributed by sales to each of Wuhu Bonaire, Meibiao and Shougang Futian accounted for approximately 27.2%, 22.3% and 16.7%; 4.4%, 2.2% and 5.5%; and nil, 2.0% and 1.3%, respectively of our total revenue generated from domestic OEM market during the Track Record Period.


To further strengthen our cooperation with automakers, we successfully established Macs Baoding in 2004 with Great Wall Motor, a major integrated automaker based in China, to supply automotive HVAC systems exclusively for Great Wall Motor. Macs Baoding is held as to 49% and 51% by our Group and Great Wall Motor, respectively. Since 2005, Macs Baoding has been our major customer in the domestic OEM market and our revenue attributable to sales to Macs Baoding represented approximately 12.8%, 21.9% and 20.2% of our total revenue during the Track Record Period, respectively.

For the international aftermarket, our products are used as replacement parts for automobile repairing. We mainly sell our products to overseas aftermarket suppliers as replacement HVAC components for their eventual sales to their customers. Since 2006, we have expanded into the international aftermarket so as to benefit from the increasing demand for replacement auto-parts worldwide. Apart from the sales of our

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self-manufactured automotive HVAC components to the overseas aftermarket customers, we have also been engaging in the trading business for various types of compressors, which are mainly swash plate compressors, and other automotive HVAC parts and components mainly for export sales which we sourced from third party local suppliers. Over the years, we have developed a long-established network of overseas aftermarket customers based in more than 20 countries and regions across the United States, Canada, South America, Europe, Middle East, Asia and Australia. UAC and SPI, which are major participants in the North American HVAC components aftermarket, are our major customers in the aftermarket with more than 3 years of business relationship. According to the Frost & Sullivan Report, replacement HVAC components are distributed to end users through four major channels in the North America aftermarket, namely original equipment service, regional retailers, warehouse distributors and service chains, while our products are mainly sold to UAC and SPI which are warehouse distributors themselves.

For the Track Record Period, revenue attributable to our five largest customers represented approximately 65.4%, 75.6% and 77.9% of our total revenue, respectively. For the same periods, revenue attributable to our largest customer represented approximately 29.1%, 30.4% and 40.5%, respectively, of our total revenue. The increase in sales to our major customers over the Track Record Period was mainly due to their business growth which led to increased demand of our products. To manage the customer concentration risk, we plan to expand our customer base by: (i) developing the sale of our self-manufactured compressor products to the domestic OEM market; (ii) continue to actively strengthen our international sales network for the overseas aftermarket and explore potential business opportunities for the overseas OEM market; and (iii) seeking possible cooperation opportunities with other automakers to set up automotive HVAC system supplier joint ventures similar to Macs Baoding.

Our self-manufactured products are marketed under our own brand names “Shuanghua (双桦)” and “Youshen (友申)”. Our evaporators, condensers and heaters marketed under our “Shuanghua (双桦)” brand name have been recognized as “Shanghai Famous Brand Products” by the Shanghai Famous Brand Recommendation Committee, an affiliate of the Shanghai Bureau of Quality and Technique Supervision, in 2009. Our “” trademark has also been designated as a “Shanghai Famous Trademark” by the Shanghai Administration of Industry and Commerce in 2009. In addition, our operating subsidiary Shanghai Shuanghua has been accredited as a “Brand Name Enterprise” in 2007 and a “High and New Technology Enterprise” from 2006 to 2010 by the relevant authorities in Shanghai as well as a “Foreign-Invested Advanced Technology Enterprise” by the Shanghai Municipal Commission of Commerce in 2009.

OUR COMPETITIVE STRENGTHS


We believe our success to date and potential for future growth are attributable to our competitive strengths which include the following:

Leading position in automotive HVAC component market in China with strong brand recognition

According to the Frost & Sullivan Report, in terms of sales units, we were the largest independent supplier of evaporators and condensers and the second largest independent supplier of heater cores in China in 2010. According to the same report, we had market shares of 7.9%, 4.8% and 2.7%, respectively by sales units in each of the Chinese evaporator, condenser and heater core markets among all captive and independent suppliers in 2010. Our large-scale production brings economies of scale by enhancing our bargaining position with our suppliers and lowering unit fixed cost. Our customers also favor large

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suppliers of HVAC components which can ensure stable and sizable supplies of HVAC components at competitive prices. As such, we believe our leading market position and our large-scale production will enable us to compete favorably with smaller competitors and gain market shares in the fast growing automotive HVAC components market in China.

Our self-manufactured products are marketed under our own brand names “Shuanghua (双桦)” and “Youshen (友申)” which are highly recognized in the PRC automotive industry. In 2009, our evaporators, condensers and heaters marketed under our “Shuanghua (双桦)” brand name have been recognized as “Shanghai Famous Brand Products” by the Shanghai Famous Brand Recommendation Committee, and our “” trademark has been designated as a “Shanghai Famous Trademark” by the Shanghai Administration of Industry and Commerce. In addition, our operating subsidiary Shanghai Shuanghua has been accredited as a “Brand Name Enterprise” by the relevant authority in Shanghai in 2007. With our leading market position and strong brand recognition, we believe we are well-positioned to benefit from further growth in both domestic and international automotive HVAC components industry.

One-stop solution provider for automotive HVAC components with a diversified and comprehensive product range compatible with a wide variety of domestic and international automobile models

With our commencement of compressors production in 2010, we believe we are now a one-stop solution provider for automotive HVAC components in China. We believe our current market status as a one-stop solution provider helps us compete favorably with our competitors domestically.

Our comprehensive product portfolio helps us fit different standards and specifications from different automakers both in China and internationally, and thereby helps us become one of the key HVAC components suppliers to our customers. Currently, we offer 1,500, 2,000, 350 and 260 types of evaporator, condenser, heater core and compressor, respectively. Our ability to constantly launch new products to fit the specifications and requirements of different automakers in China further strengthens our leading market position in the domestic HVAC components OEM market.

Established and solid customer base in both OEM market and aftermarket

We have built up a diverse and solid customer base domestically in China as well as internationally. With the domestic OEM market being one of the two areas of our primary focus, our operating subsidiary, Shanghai Shuanghua, has been recognized as an automotive HVAC components supplier for a wide portfolio of domestic and Sino-foreign joint-venture automotive HVAC system suppliers, including Macs Baoding (a 49% held associate of our Group), Wuhu Bonaire, Meibiao and Shougang Futian, as well as automaker BYD Auto, which are our direct OEM customers with an average 5 years of business relationship. Revenue contributed by sales to each of Wuhu Bonaire, Meibiao and Shougang Futian accounted for approximately 27.2%, 22.3% and 16.7%; 4.4%, 2.2% and 5.5%; and nil, 2.0% and 1.3%, respectively of our total revenue generated from domestic OEM market during the Track Record Period. Our products are directly supplied to our OEM customers for their assembly into their brands of automotive HVAC systems. Such assembled automotive HVAC systems are ultimately supplied to the major automakers in China, including Great Wall Motor and BYD Auto, for their use in different varieties of car models. In OEM market, HVAC components suppliers acting as a tier two supplier (such as our subsidiary Shanghai Shuanghua) have to go through stringent recognition process prescribed by each HVAC system supplier before they can become suppliers of a particular product to such tier one supplier. Based on our experience in the domestic OEM market, the process of obtaining recognition from a system supplier as

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its HVAC components supplier is stringent and will normally take around six months for each particular type of evaporators, condensers and heater cores and usually as long as 12 to 24 months for compressors. We believe such recognition process poses a significant barrier of entry to any potential competitor. As a leading HVAC components supplier being recognized by a wide portfolio of domestic and Sino-foreign joint-venture HVAC system suppliers, we believe we have a distinct advantage over any new market entrants in the domestic OEM market.

To further strengthen our cooperation with automakers, we successfully established Macs Baoding in 2004 with Great Wall Motor, a major integrated automaker based in China. Macs Baoding, a 49% held associate of our Group, acts as an automotive HVAC system supplier exclusively for Great Wall Motor. Since 2005, Macs Baoding has been our major customer in the domestic OEM market. During the Track Record Period, our revenue attributable to sales to Macs Baoding represented approximately 12.8%, 21.9% and 20.2% of our total revenue, respectively.

For the aftermarket, we have developed a broad network of overseas aftermarket customers in more than 20 countries and regions, among which UAC and SPI, being major participants in the North American HVAC components aftermarket, are our major customers in the aftermarket with more than 3 years of business relationship.

We believe our established and solid customer base in both domestic and international markets provides us with extensive market coverage and customer reach, and at the same time the recognition process prescribed by HVAC system suppliers creates an entry barrier for other industry players.

Our presence in both OEM market and aftermarket enables us to adjust and allocate our resources to accommodate prevailing demands in each market and enhances our overall growth potential

Our presence in both OEM market and aftermarket for HVAC components provides us with the competitive advantage of having the ability to adjust and allocate our production resources and raw materials to accommodate prevailing demands in each market, thus enabling us to maximize our sales and profit while effectively controlling our production costs. We sell most of our products in the two markets which have different customer bases and demand for different HVAC components product types. We believe that our presence in both markets will enhance our overall growth potential without exposing us to the greater operational risk of only serving a single market, and we are well positioned to capture opportunities in both OEM market and aftermarket.

Commitment to product innovation and quality

Our strong research and development capabilities and commitment to product innovation and quality allow us to constantly broaden our product portfolio and swiftly meet the new requirements of our customers, thus distinguishing us from many of our competitors. Our research and development team has a proven record of independent research and development experience on automotive HVAC components as well as related production techniques. As of the Latest Practicable Date, we had registered 16 utility model patents and had applied for the registration of another 7 invention patents in China. Our operating subsidiary, Shanghai Shuanghua, has been accredited as a “Brand Name Enterprise” in 2007 and a “High and New Technology Enterprise” from 2006 to 2010 by the relevant authorities in Shanghai as well as a “Foreign-Invested Advanced Technology Enterprise” by the Shanghai Municipal Commission of Commerce in 2009. Our research and development projects are mainly conducted in the integrated

laboratory at our Shanghai production base which has been accredited as a “Shanghai Authenticated Enterprise Technology Center” by the Shanghai Municipal Commission of Economy and Informatization in 2008 and in 2010.

We also place strong emphasis on the quality of our products through the implementation of stringent quality control measures at every stage of our production process. We have proven our capability to meet product specifications and quality requirements of our local and international customers, and we believe our product quality is comparable to international manufacturers in the automotive HVAC components industry.

Experienced and dedicated management team with significant industry expertise and international vision

Our continued success in expanding our business and maintaining our growth is to a large extent attributable to the significant industry expertise, strong customer relationships and international vision of our management. The majority of our senior management team and key operational personnel possesses an average of ten years or more of relevant industry, engineering, financial and/or strategic planning experience. We believe our experienced and dedicated management team will continue to lead our Group in seizing market opportunities and to develop and implement our business strategies.

OUR STRATEGIES

Our goal is to become a leader in the automotive HVAC components market in China. Our primary focus will remain on the domestic OEM market as well as the international aftermarket to reinforce our current leading position. It is our long term strategy to develop and strengthen our presence in the international OEM market and the domestic aftermarket. We will continue to strive to achieve sustainable growth of our business and ensure that we remain competitive. We aim to achieve these objectives by implementing the following strategies:

Reinforcing our core competitiveness in the HVAC components market by expanding into the segment of self-manufactured compressors which is expected to be our future growth driver

Since 2007, we have been engaging in the trading of compressors, which are mainly swash plate compressors, sourced from third party suppliers to the international aftermarket. Through our compressor trading activities, we have established an extensive customer base through which we are able to sell our compressor products directly to the international aftermarket with the benefit of market synergy effect. In 2010, our advanced production lines for double-sided consistent displacement swash plate compressors commenced trial production for sales to the international aftermarket. According to the Frost & Sullivan Report, swash plate compressor, characterized by low cost and high efficiency, is a mature technology for all kinds of passenger vehicles. Frost & Sullivan expects that swash plate compressor will remain dominant in the Chinese passenger vehicle market towards the year 2014, especially for medium to high-end vehicles which are generally produced by joint venture brands in China. Leveraging on our existing sales and marketing networks, we plan to reinforce our core competitiveness in the HVAC components market by expanding into the segment of self-manufactured compressors which is expected to become one of our major business segments and growth drivers in the future.

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Going forward, along with the increasing contribution from the segment of self-manufactured compressors, we expect our gross margin from sales of compressor to improve in the future.

On top of aftermarket, we also plan to directly sell our compressor products to automotive HVAC system suppliers and automakers in the domestic OEM market. We expect to start selling our self-manufactured compressors in the domestic OEM market by end of 2011 while we will continue sourcing different types of compressors from third party suppliers mainly for export to the international aftermarket.

Expanding and upgrading production facilities to enhance competitiveness and strengthen leading market position in the PRC

Over the years, we have continuously expanded our production capacity by upgrading our production facilities and acquiring new production lines. We currently have two production sites both located at our production base in Shanghai with a total site area of 188,282 sq.m. In order to strengthen our leading market position in the PRC, we intend to use part of the proceeds from the Share Offer to upgrade our facilities to progressively develop towards the production of variable displacement smash plate compressors. In addition, we will continue to seek to acquire, invest in, or form joint ventures or strategic alliances with companies which we believe can facilitate our expansion strategy vertically or horizontally. As of the Latest Practicable Date, we did not have any specific acquisition target in respect of which we have entered into any legally binding agreement.

Vertical integration by setting up HVAC system supplier companies with automakers

As part of our expansion strategy into the domestic OEM market, we successfully established Macs Baoding in 2004 as a strategic HVAC system supplier company with Great Wall Motor to secure a long-term cooperation with this major integrated automaker based in China for the supply of our automotive HVAC component products. We believe that the strengthened relationship with Great Wall Motor helps us better understand its products development plan which in turn helps us quickly respond to the needs of this ultimate customer from time to time and hence generate more demand for our products. Since 2005, Macs Baoding has been our major customer in the domestic OEM market. As of the Latest Practicable Date, Macs Baoding was held as to 49% by our subsidiary Hong Kong Automart and as to 51% by Great Wall Motor, and was accounted for as our associated company.

We are also seeking possible cooperation opportunities with other automakers to replicate our success in Macs Baoding with Great Wall Motor. These existing and potential collaborations with automakers complement our strategy of achieving a leading supplier position in the OEM market, while expanding our customer base and furthering in-market vertical integration through access to the end-user customers.

Strengthening our international sales network of HVAC components

Apart from selling our self-manufactured HVAC parts and components to the overseas aftermarket customers, we are also engaged in the trading business for various types of compressors, which are mainly swash plate compressors, and other automotive HVAC parts and components mainly for export sales, which we sourced from third party local suppliers. During the Track Record Period, our international sales of HVAC parts and components amounted to approximately RMB202.0 million, RMB167.6 million and RMB313.2 million, respectively, representing approximately 52.8%, 45.2% and 53.0% of our total sales.

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As at the Latest Practicable Date, our HVAC component products were sold to our customers in more than 20 countries and regions across the United States, Canada, South America, Europe, Middle East, Asia and Australia. Our major international customers include UAC and SPI. We will continue to actively strengthen our international sales network for the aftermarket and explore potential business opportunities for the overseas OEM market.

Strengthening our research and development capabilities

We believe our strong research and development capabilities is one of the key reasons for our success. We intend to strengthen our research and development of existing products through recruiting additional expertise and increase our annual budget to research and development. Specifically, as part of our strategy to quickly open up both the aftermarket and OEM markets for compressor, we intend to allocate more resources to the research and development of different types of compressor, namely variable displacement compressor and electric compressor, to accustom for the needs of our target customers.

PRODUCTS

Our principal products are automotive HVAC components, namely, evaporators, condensers, heater cores and compressors. Our other products mainly comprise of oil coolers and intercoolers which are automotive heat-exchange devices. We also engage in the trading of compressors, which are mainly swash plate compressors, and other automotive HVAC parts and components, such as liquid-gas separators, sourced from third party local suppliers as well as the sales of aluminium waste which is a by-product generated during our production process, albeit on a relatively small scale.

All our self-manufactured products, which are compatible with and used in a wide variety of domestic and international automobile models, are marketed under our own brand names “Shuanghua (双桦)” and “Youshen (友申)” and our corresponding trademarks.

The following table sets forth the breakdown of our sales revenue by products during the Track Record Period:

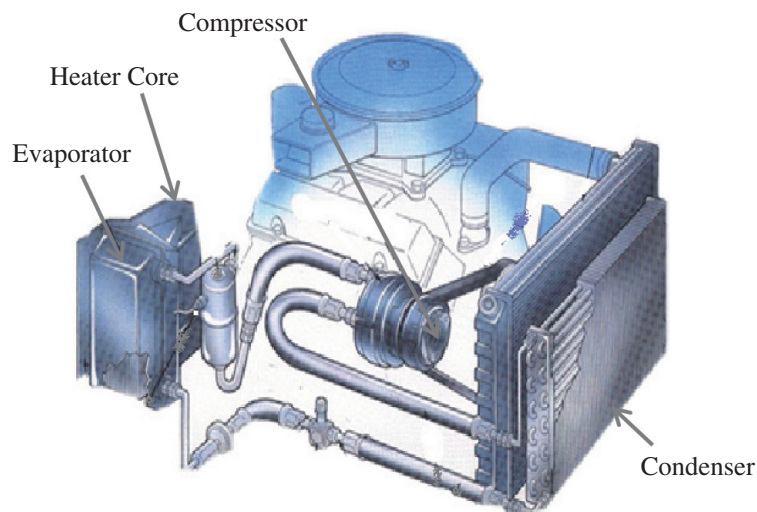
Products	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Self-Manufacture						
Evaporators	145,504	38.0%	120,448	32.4%	162,024	27.4%
Condensers	133,476	34.9%	112,400	30.3%	151,607	25.6%
Heater Cores	12,019	3.1%	24,402	6.6%	33,328	5.6%
Compressor ⁽¹⁾	–	–	–	–	18,138	3.1%
Other products ⁽²⁾	12,125	3.2%	13,153	3.5%	23,081	4.0%
Trading						
Compressors	24,181	6.3%	63,987	17.2%	135,664	22.9%
Other products ⁽³⁾	45,682	11.9%	30,622	8.3%	59,109	10.0%
By-product⁽⁴⁾	<u>9,859</u>	<u>2.6%</u>	<u>6,451</u>	<u>1.7%</u>	<u>8,553</u>	<u>1.4%</u>
Total revenue	<u>382,846</u>	<u>100.0%</u>	<u>371,463</u>	<u>100.0%</u>	<u>591,504</u>	<u>100.0%</u>

Notes:

- (1) We commenced the trial production and sales of our self-manufactured compressor products during 2010.
- (2) Other products mainly comprised of self-manufactured oil coolers and intercoolers.
- (3) Other products mainly comprised of other automotive HVAC parts and components (e.g. liquid-gas separators) which we sourced from third party local suppliers.
- (4) Aluminium waste generated during our production process is considered as a by-product.

An automotive HVAC system consists of evaporator, condenser, heater core and compressor as its key components. Evaporator, condenser and heater core account for approximately 15% in aggregate of the total cost of an HVAC system. Compressor accounts for approximately 20% of the total cost of an HVAC system.

The following diagram shows the schematic layout of an automotive HVAC system:



Evaporators

Evaporator is where the refrigerant evaporates from liquid form back into gaseous form. Its primary function is to cool down the interior of the vehicle.

All of our evaporators products are self-manufactured and we have production capacity for a diversified portfolio of evaporators. As of the Latest Practicable Date, we have produced more than 1,500 varieties of evaporators including laminated, tube-fin, tube-strip and parallel-flow type evaporators. Laminated evaporator is currently the major type of our evaporator products.

Under the same condition of refrigerant supply capacity, the heat exchange performance of laminated evaporator is better than that of tube-strip evaporator. According to the Frost & Sullivan Report, laminated evaporator will remain dominant in the Chinese passenger vehicle market towards 2014 due to its compact structure and heat exchange efficiency. According to the same report, currently only us and a few HVAC components suppliers have achieved scale production of parallel-flow evaporator. Market share of laminated evaporator in the Chinese passenger vehicle market is expected to increase towards 2014 due to its higher energy efficiency and potential cost advantage resulting from less consumption of raw materials.

Condensers

Condenser is a heat exchanger that liquefies the high-pressure vapor discharged from compressor. Condenser consists of a series of tubes surrounded by thin fins which provide a large surface area for heat dissipation.

All of our condensers products are self-manufactured. As of the Latest Practicable Date, we have produced more than 2,000 varieties of condensers including parallel-flow, tube-fin and tube-strip type condensers with different specifications. Parallel-flow condenser is currently the major type of our condenser products.

Parallel-flow condenser is lighter in weight and consumes less refrigerant than tube-strip or tube-fin condensers. With its higher energy efficiency and better heat exchange performance, the share of parallel-flow condenser in the Chinese passenger vehicle market is expected to increase by 2014 according to the Frost & Sullivan Report.

Heater Cores

Heater core provides warmth to the interior of the vehicle by circulating coolant from the engine, and then air blows through the heater core into the passenger compartment of the vehicle.

All of our heater cores products are self-manufactured. As of the Latest Practicable Date, we have produced more than 350 varieties of heater cores including laminated and parallel-flow type heater cores with different specifications. Laminated heater core is currently the major type of our heater core products.

Compressors

Compressor is a key component of the automotive HVAC system. Compressor is a pump that pressurizes and circulates the refrigerant in the air-conditioning system. The operation of the compressor plays a large part in determining the effectiveness and efficiency of the air-conditioning system as a whole.

For the year ended 31 December 2008 and 2009, we were engaged in the trading of compressors, which are mainly swash plate compressors, sourced from third party suppliers mainly for export sales. In 2010, apart from trading sales, we have commenced trial production and sales of our self-manufactured consistent displacement swash plate compressors.

As of the Latest Practicable Date, we have produced more than 260 varieties of consistent displacement swash plate compressors. According to the Frost & Sullivan Report, swash plate compressor, characterized by low cost and high efficiency, is a mature technology for all kinds of passenger vehicles. Frost & Sullivan expects that swash plate compressor will remain dominant in the Chinese passenger vehicle market towards 2014, especially for medium to high-end vehicles which are generally produced by joint venture brands in China.

BUSINESS

Other products

We also produce, albeit on a relatively small scale, other automotive heat-exchange devices, such as oil coolers and intercoolers. Oil coolers and intercoolers are applied as an ancillary part to the vehicle engine to enhance its performance and reliability. As of the Latest Practicable Date, we have produced 30 varieties of oil coolers and more than 50 varieties of intercoolers. In addition, we also source from third party suppliers other automotive HVAC parts and components, such as liquid-gas separators, mainly for our export trading business.

PRODUCTION FACILITIES AND PRODUCTION CAPACITIES

According to the Frost & Sullivan Report, we were the largest independent supplier of evaporators and condensers and the second largest independent supplier of heater cores in terms of sales units in China in 2010. We currently have two production sites both located at our production base at Fengxian District in Shanghai, the PRC and managed by our operating subsidiary Shanghai Shuanghua. Our Shanghai production base has a total site area of 188,282 sq.m. with an annual production capacity of 3,456,000 units of evaporators, condensers and heater cores, in aggregate, as at 31 December 2010.

Two of the production lines comprised of advanced production facilities for compressors we acquired from Visteon Inc. The two compressor production lines commenced trial production in 2010. These newly installed compressor production lines have enabled our production of double-sided consistent displacement swash plate compressors.

Production capacity and utilization rate

We have improved our production process technology through continuous research and development efforts, which have enabled us to achieve relatively high production efficiency and utilization rate for our production facilities.

The following table sets forth the production capacity, the production volume and the average utilization rate of our production lines for each of our product types during the Track Record Period:

Products	Year ended 31 December								
	2008			2009			2010		
	Production capacity	Production volume	Utilization rate ⁽⁴⁾	Production capacity	Production volume	Utilization rate ⁽⁴⁾	Production capacity	Production volume	Utilization rate ⁽⁴⁾
(thousand units)	(thousand units)	(%)	(thousand units)	(thousand units)	(%)	(thousand units)	(thousand units)	(%)	
Evaporators, condensers and heater cores ⁽¹⁾	2,451	1,894	77.2	2,582	1,959	75.9	3,456	2,842	82.2
Compressors ⁽²⁾	–	–	–	–	–	–	150	39	26.0
Other products ⁽³⁾	115	73	63.9	164	107	65.2	220	104	47.6 ⁽⁵⁾

BUSINESS

Notes:

- (1) Our evaporator, condenser and heater core products undergo similar production process and our production lines are shared among these products. The production capacity and the production volume are the combined production capacity and production volume of our evaporator, condenser and heater core products calculated on an aggregate basis. Our annual production capacity for evaporator, condenser and heater core are calculated by multiplying the actual production volume of the highest output month in the relevant year by twelve. As the production volume of the highest output month was primarily driven by operator shifts and over-time operations as a result of high demand, the annual production capacity was generally higher than the actual production capacity available during the year. The production capacity as set out in the above table is an estimation calculated on the aforesaid basis and hence may not truly reflect the capacity of our production facilities in reality. The production capacity for evaporators, condensers and heater cores increased in 2010, mainly because of purchase of new equipments and upgrade of existing facilities, as well as further increase in the number of working hours per day and the number of working days per month.
- (2) Our annual production capacity for compressor in 2010 is calculated based on a projected annual capacity of 150,000 units as set out in a feasibility study report prepared by an Independent Third Party, Shanghai Investment Consulting Corporation (上海投資諮詢公司), which is an investment consulting firm with project consulting qualification granted by NDRC, and is qualified to formulate feasibility study reports and project proposals.
- (3) Other products mainly comprised of oil coolers and intercoolers. Our annual production capacity for other products are calculated by multiplying the actual production volume of the highest output month in the relevant year by twelve. The production capacity as set out in the above table is an estimation calculated on the aforesaid basis and hence may not truly reflect the capacity of our production facilities in reality.
- (4) The average utilization rate is derived on the basis of the actual production volume divided by the production capacity of the production facility during the same period of time.
- (5) Utilization rate of other products decreased in 2010 due to reduced purchase orders in 2010 for our self-manufactured oil coolers and intercoolers, as they were not our primary products and our sales and marketing efforts were more focused on other products. The sales revenue from our self-manufactured oil coolers and intercoolers accounted for only 4% of our total revenue in 2010.

Production capacity expansion plan

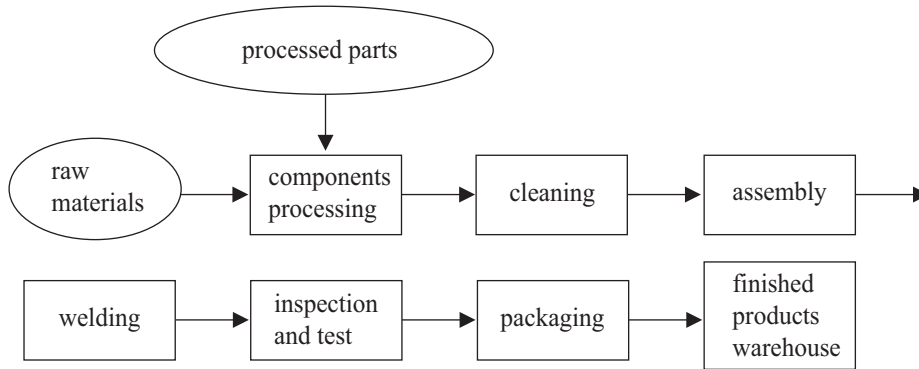
We intend to leverage our leading position in the automotive HVAC components market in China and our product research and development capability to capture further business opportunities. We plan to expand our production capacity to cater for the growing demand from our customers and to realize potential economies of scale.

We plan to progressively develop towards the production of variable displacement swash plate compressors. Variable displacement swash plate compressor can adjust its displacement according to the required temperature and has higher energy efficiency due to its variable displacement option and higher quality during the whole lifecycle but it is more expensive to produce, as compared with consistent displacement swash plate compressors. Our current production lines for consistent displacement swash plate compressors were designed with variable production technologies, and therefore can be transferred to the production of variable displacement swash plate compressors for which certain technologies used in the current production lines have to be reformed to accommodate such production. We expect to develop samples of variable displacement swash plate compressors in the second half of 2011 and to commence trial production by the end of 2011. We plan to construct a new production workshop for the production of variable displacement swash plate compressors at our Shanghai production base which is expected, upon full operation in 2012, to add an additional annual production capacity of approximately 500,000 units of variable displacement swash plate compressors. Construction of the new production workshop is expected to commence in 2011, whereas the acquisition and installation of production lines and equipment are expected to be carried out during 2011-2012. As at the Latest Practicable Date, we had not entered into any contract in relation to the construction of such new production workshop.

PRODUCTION PROCESS

Set forth below are the major steps of the production process of our principal products:

Evaporators, Condensers and Heater Cores

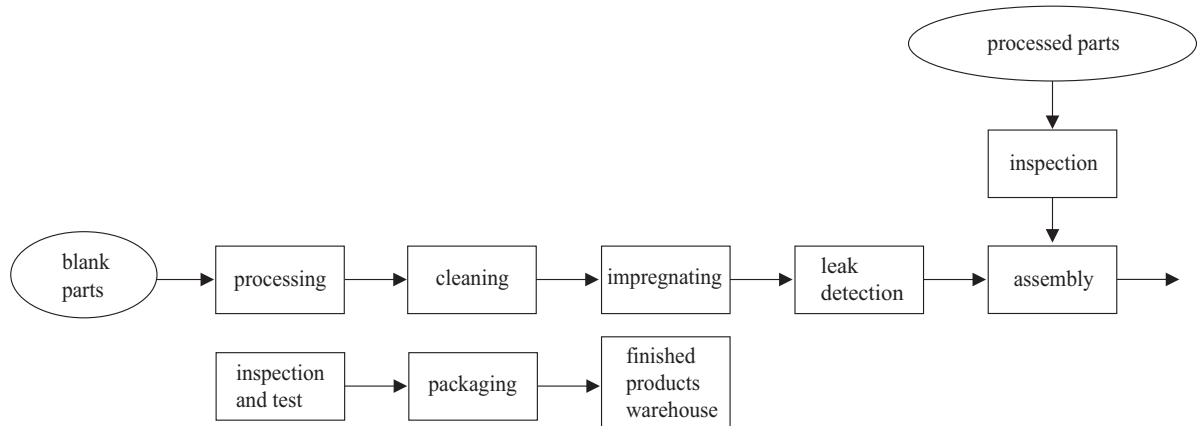


Our evaporator, condenser and heater core products undergo similar production process and hence our production lines are shared among these products with certain adjustments. This further enables us to shift production focus promptly in response to any possible change in production configuration or in market demands. The general production process for evaporators, condensers and heater cores includes the following principal steps:

1. Incoming aluminium raw materials are subject to on-site inspection on a sampling basis and substandard materials will be returned to suppliers.
2. Aluminium raw materials are stamped and processed with aluminium processed parts to form different production parts and components such as heat dissipation plates, water tanks and pipes. Aluminium wastes are generated as a by-product in the course of stamping of the raw materials.
3. The processed parts are cleaned by aqueous solution or ultrasound cleaner to remove oil and dirt from their surface before passing to assembly.
4. The assembled parts undergo the welding process in a nitrogen-shielded welding furnace. Nitrogen gas provides a protective atmosphere to prevent oxidation of our products.
5. The finished products are inspected and tested with relevant quality control criteria (e.g. product size, gas-tightness and performance) before packaging and sending to our warehouses. Substandard products will be removed and sold as aluminium wastes.

The average production lead time for our evaporator, condenser, and heater core products as illustrated in the workflow diagram above is approximately 50 hours.

Compressors



The general production process for compressors includes the following principal steps:

1. Incoming raw materials (i.e. blank parts) are subject to on-site inspection on a sampling basis and substandard materials will be returned to suppliers.
2. Blank parts (i.e. pistons, swash plates, principal axes, front end covers, back end covers and cylinders) undergo a series of processing such as cutting with numerical control machines.
3. The processed parts are cleaned by aqueous solution or ultrasound cleaner to remove oil and dirt from their surface.
4. Conduct leak-detection on cylinders, front end covers and back end covers
5. The processed parts and other processed parts purchased from third party suppliers are assembled into the finished products.
6. The finished products are inspected and tested with relevant quality control criteria (e.g. product size, gas-tightness and performance) before packaging and sending to our warehouses. Substandard products will be removed.

The average production lead time for our compressor products as illustrated in the workflow diagram above is approximately 23 hours.

RAW MATERIALS AND SUPPLIERS

Raw materials

The primary raw materials for our production are aluminium, which includes aluminium processed parts such as aluminium tubes, aluminium foils and aluminium plates with various specifications. For the Track Record Period, the total cost of raw materials accounted for approximately 63.2%, 54.4% and 49.0%, respectively, of our total cost of sales.

BUSINESS

Currently, we purchase all our aluminium raw materials from suppliers in China and all our purchases are paid for in Renminbi. We have established an average 3 years of business relationships with our major suppliers. Instead of having long-term fixed price supply contracts, we place orders with our suppliers according to our production needs on a monthly basis pursuant to framework supply agreements entered into with our suppliers which normally have a one-year term. Under such framework supply agreement, our purchase cost of aluminium raw materials is based on the market price of aluminium at the time of purchase plus a per-unit processing fee which was fixed when the framework supply agreement was entered into. Our suppliers bear the transportation costs for delivery to our production facilities. Credit terms generally offered by our major suppliers range from 30 to 90 days.

The price of aluminium is primarily determined by supply and demand of aluminium in the domestic commodity market. During the Track Record Period and for the two months ended 28 February 2011, the average of the monthly weighted average Shanghai Changjiang aluminium price as quoted on the Shanghai Futures Exchange was RMB17,402 per tonne, RMB13,876 per tonne, RMB16,179 per tonne and RMB17,066 per tonne, respectively. We have not adopted any policy to hedge against the fluctuation in aluminium price. We seek to minimize any adverse effect which may arise from any significant fluctuation in the supply or price of aluminium primarily through inventory control and by negotiating the processing fees charged by our suppliers that are generally determined annually. Based on our current production requirements, we have a policy of maintaining around one-month stock of raw materials. We closely monitor movements in the market price of aluminium and will adjust our stock level should we anticipate any significant fluctuation in price or supply. During the Track Record Period, we have not experienced any material disruption in the supply of any of the raw materials required for our production.

Electricity and nitrogen gas

Electricity and nitrogen gas are the principal utilities used in our production process. During the Track Record Period, we spent approximately RMB9.2 million, RMB8.3 million and RMB11.7 million, respectively, on electricity and approximately RMB5.6 million, RMB5.9 million and RMB6.4 million, respectively, on nitrogen gas supply. During the Track Record Period, we did not encounter any material interruption in the supply of electricity and nitrogen gas to our production facilities.

Suppliers

We purchase raw materials for our production use as well as compressors, which are mainly swash plate compressors, and other automotive HVAC parts and components for our trading business.

For the Track Record Period, our five largest suppliers together accounted for approximately 47.1%, 47.8% and 52.4%, respectively, and our largest supplier accounted for approximately 17.6%, 19.4% and 21.5%, respectively, of our total purchase of raw materials and automotive HVAC parts and components for our trading business. The increase in the amount of our purchases attributable to the five largest suppliers over the Track Record Period was mainly due to the increase in our purchase of compressors for trading as a result of the growth in our compressors trading business. Our five largest suppliers, excluding those suppliers which supplied compressors to us, together accounted for approximately 47.1%, 25.0% and 25.1% of our total purchases during the Track Record Period.

BUSINESS

As our purchase mainly comprises aluminium raw materials for our production and automotive HVAC parts and components, mainly compressors, for our trading sales that are not customized products and are readily available in the market, we believe that it would not be difficult for us to find alternative suppliers should existing suppliers cease business relationship with us in the future with no significant impact to our production process or trading business.

Except for Mr. Dong, our Director and Controlling Shareholder holding 50% interest in Shanghai Youchen, none of our other Directors or their associates or any person who, to the knowledge of our Directors, owned 5% or more of our issued share capital as at the Latest Practicable Date had any interest in any of our five largest suppliers for the Track Record Period.

MACS BAODING

As part of our expansion strategy, we cooperated with Great Wall Motor, one of the major integrated automakers based in China the shares of which are listed on the Main Board of the Hong Kong Stock Exchange, to jointly establish Macs Baoding in 2004 in Baoding, Hebei Province to engage in the production, sales and export of automotive HVAC systems and other parts and components for automobiles. As of the Latest Practicable Date, Macs Baoding was held as to 49% by our subsidiary, Hong Kong Automart, and 51% by Great Wall Motor. Macs Baoding is accounted for as our associated company in the Accountants' Report set forth in Appendix I to this prospectus.

Macs Baoding currently operates a production site in Baoding, Hebei Province with a total site area of 25,569 sq.m. with an annual designed production capacity of 300,000 sets of HVAC systems.

Macs Baoding was established with Great Wall Motor to secure a long-term cooperation with this major integrated automaker based in China for the supply of our automotive HVAC component products. Macs Baoding acts as an HVAC system supplier exclusively for Great Wall Motor. Our products are currently sold to Macs Baoding for its assembly into automotive HVAC systems which are ultimately supplied to Great Wall Motor for use in different car models. Our Directors believe that the strengthened relationship with Great Wall Motor is conducive to providing us a better understanding of its products development plan which helps us quickly respond to the needs of this ultimate customer from time to time.

We generally enter into a framework sales agreement with Macs Baoding with a one-year term renewable on a yearly basis, pursuant to which Macs Baoding will place monthly orders with us. Since 2005, Macs Baoding has been our major customer in the domestic OEM market. For the Track Record Period, our revenue attributable to sales to Macs Baoding represented approximately 12.8%, 21.9% and 20.2% of our total revenue, respectively. We expect that sales to Macs Baoding will continue to contribute significantly to our result of operation in the future.

SALES AND MARKETING

We have been recognized as a leading independent supplier for automotive HVAC components domestically in China. Our sales of products can be principally divided into two segments: (1) sales to automotive HVAC system suppliers and automakers in the OEM market in China; and (2) sales to overseas customers of automotive HVAC components in the international aftermarket. For the Track Record Period, we supplied 41.3%, 48.6% and 43.6%, respectively, of our products to the OEM market and 56.1%, 49.7% and 55.0%, respectively, of our products to the aftermarket.

BUSINESS

The following table sets out an analysis of our revenue by segments for the Track Record Period:

Segments	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
OEM Market						
Domestic	158,248	41.3	180,577	48.6	257,591	43.6
International	–	0.0	–	0.0	–	–
Sub-total	<u>158,248</u>	<u>41.3</u>	<u>180,577</u>	<u>48.6</u>	<u>257,591</u>	<u>43.6</u>
Aftermarket						
Domestic	12,772	3.3	16,815	4.5	12,112	2.0
International	201,967	52.8	167,620	45.2	313,248	53.0
Sub-total	<u>214,739</u>	<u>56.1</u>	<u>184,435</u>	<u>49.7</u>	<u>325,360</u>	<u>55.0</u>
By-product⁽¹⁾	<u>9,859</u>	<u>2.6</u>	<u>6,451</u>	<u>1.7</u>	<u>8,553</u>	<u>1.4</u>
Total revenue	<u><u>382,846</u></u>	<u><u>100.0</u></u>	<u><u>371,463</u></u>	<u><u>100.0</u></u>	<u><u>591,504</u></u>	<u><u>100.0</u></u>

Revenue

	Year ended 31 December 2008										
	Domestic		International						Total		
	RMB'000	%	United States	Canada	Asia	Others	Sub-total	RMB'000	%	RMB'000	%
Self-Manufacture											
Evaporators	75,890	42.0%	32,319	3,129	24,587	9,579	69,614	34.5%	145,504	38.0%	
Condensers	81,420	45.0%	10,533	24,547	14,959	2,017	52,056	25.8%	133,476	34.9%	
Heater Cores	10,280	5.7%	–	1,739	–	–	1,739	0.9%	12,019	3.1%	
Other products	3,430	1.8%	–	7,505	893	297	8,695	4.3%	12,125	3.2%	
Sub-total	<u>171,020</u>	<u>94.5%</u>	<u>42,852</u>	<u>36,920</u>	<u>40,439</u>	<u>11,893</u>	<u>132,104</u>	<u>65.5%</u>	<u>303,124</u>	<u>79.2%</u>	
Trading											
Compressors	–	–	21,510	764	–	1,907	24,181	12.0%	24,181	6.3%	
Other products	–	–	43,241	739	449	1,253	45,682	22.5%	45,682	11.9%	
Sub-total	<u>–</u>	<u>–</u>	<u>64,751</u>	<u>1,503</u>	<u>449</u>	<u>3,160</u>	<u>69,863</u>	<u>34.5%</u>	<u>69,863</u>	<u>18.2%</u>	
By-product	<u>9,859</u>	<u>5.5%</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>9,859</u>	<u>2.6%</u>	
	<u><u>180,879</u></u>	<u><u>100.0%</u></u>	<u><u>107,603</u></u>	<u><u>38,423</u></u>	<u><u>40,888</u></u>	<u><u>15,053</u></u>	<u><u>201,967</u></u>	<u><u>100.0%</u></u>	<u><u>382,846</u></u>	<u><u>100.0%</u></u>	

BUSINESS

Year ended 31 December 2009

	Domestic		International					Total		
	RMB'000	%	United States	Canada	Asia	Others	Sub-total	RMB'000	%	
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
Self-Manufacture										
Evaporators	85,950	42.2%	18,054	1,581	10,684	4,179	34,498	20.6%	120,448	32.4%
Condensers	85,876	42.1%	6,075	17,250	2,544	655	26,524	15.8%	112,400	30.3%
Heater Cores	16,308	8.0%	–	8,094	–	–	8,094	4.8%	24,402	6.6%
Other products	4,783	2.3%	–	7,780	456	134	8,370	5.0%	13,153	3.5%
Sub-total	<u>192,917</u>	<u>94.6%</u>	<u>24,129</u>	<u>34,705</u>	<u>13,684</u>	<u>4,968</u>	<u>77,486</u>	<u>46.2%</u>	<u>270,403</u>	<u>72.8%</u>
Trading										
Compressors	–	–	60,903	2,016	34	1,034	63,987	38.2%	63,987	17.2%
Other products	4,475	2.2%	25,299	372	296	180	26,147	15.6%	30,622	8.3%
Sub-total	<u>4,475</u>	<u>2.2%</u>	<u>86,202</u>	<u>2,388</u>	<u>330</u>	<u>1,214</u>	<u>90,134</u>	<u>53.8%</u>	<u>94,609</u>	<u>25.5%</u>
By-product⁽¹⁾	<u>6,451</u>	<u>3.2%</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,451</u>	<u>1.7%</u>
	<u>203,843</u>	<u>100.0%</u>	<u>110,331</u>	<u>37,093</u>	<u>14,014</u>	<u>6,182</u>	<u>167,620</u>	<u>100.0%</u>	<u>371,463</u>	<u>100.0%</u>

Year ended 31 December 2010

	Domestic		International					Total		
	RMB'000	%	United States	Canada	Asia	Others	Sub-total	RMB'000	%	
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
Self-Manufacture										
Evaporators	113,442	40.8%	30,214	542	15,521	2,305	48,582	15.5%	162,024	27.4%
Condensers	113,986	41.0%	8,862	24,069	4,182	508	37,621	12.0%	151,607	25.6%
Heater Cores	25,070	9.0%	180	8,078	–	–	8,258	2.6%	33,328	5.6%
Compressor	–	–	18,138	–	–	–	18,138	5.8%	18,138	3.1%
Other products	14,490	5.1%	–	8,285	–	306	8,591	2.8%	23,081	4.0%
Sub-total	<u>266,988</u>	<u>95.9%</u>	<u>57,394</u>	<u>40,974</u>	<u>19,703</u>	<u>3,119</u>	<u>121,190</u>	<u>38.7%</u>	<u>388,178</u>	<u>65.7%</u>
Trading										
Compressors	–	–	129,823	2,984	6	2,851	135,664	43.3%	135,664	22.9%
Other products	2,715	1.0%	53,603	614	484	1,693	56,394	18.0%	59,109	10.0%
Sub-total	<u>2,715</u>	<u>1.0%</u>	<u>183,426</u>	<u>3,598</u>	<u>490</u>	<u>4,544</u>	<u>192,058</u>	<u>61.3%</u>	<u>194,773</u>	<u>32.9%</u>
By-product⁽¹⁾	<u>8,553</u>	<u>3.1%</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>8,553</u>	<u>1.4%</u>
	<u>278,256</u>	<u>100.0%</u>	<u>240,820</u>	<u>44,572</u>	<u>20,193</u>	<u>7,663</u>	<u>313,248</u>	<u>100.0%</u>	<u>591,504</u>	<u>100.0%</u>

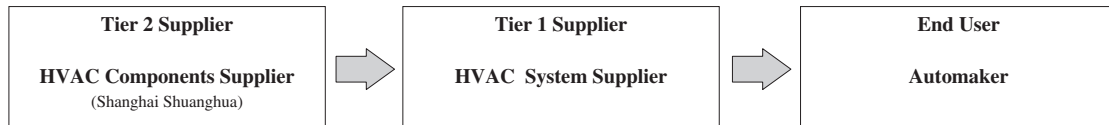
Note:

(1) Aluminium wastes generated as a by-product during our manufacturing process were all sold to the domestic market.

BUSINESS

Sales and marketing to OEM market

Our sales and marketing channel in the domestic OEM market are illustrated below:



For the domestic OEM market, our products are ultimately used for assembly of different car models. We, as an HVAC components supplier (a tier two supplier), directly sell our products to our OEMs customers which are HVAC system suppliers (tier one suppliers) in the supply chain on a made-to-order basis, for their assembly into their brands of HVAC systems. Such assembled automotive HVAC systems are ultimately supplied to the major automakers in China including Great Wall Motor and BYD Auto, as end-users for whole-car assembly in different varieties of car models.

Our operating subsidiary, Shanghai Shuanghua, has been recognized as an HVAC components supplier for a wide portfolio of domestic or Sino-foreign joint-venture HVAC system suppliers, including Macs Baoding (a 49% held associate of our Group), Wuhu Bonaire, Meibiao and Shougang Futian, as well as automaker BYD Auto, which are our direct OEM customers with an average 5 years of business relationship. Revenue contributed by sales to each of Wuhu Bonaire, Meibiao and Shougang Futian accounted for approximately 27.2%, 22.3% and 16.7%; 4.4%, 2.2% and 5.5%; and nil, 2.0% and 1.3%, respectively of our total revenue generated from domestic OEM market during the Track Record Period.

We primarily sell our products on a made-to-order basis to match the specification requirements of our domestic OEM customers. We have been working closely with our domestic OEM customers in developing and producing a wide variety of automotive HVAC components which are used in different vehicle models. We will continue to develop our products according to our customers' specifications to consolidate our leading position in the domestic OEM market. Meanwhile, we are also exploring potential business opportunities with automotive HVAC system supplier for the overseas OEM market.

We normally enter into framework sales agreements with our OEM customers for a term of one year which are renewable on a yearly basis, pursuant to which our OEM customers will place monthly orders with us. Our OEM sales activities are mainly conducted by our marketing team managed by our operating subsidiary Shuanghua Auto Components.

As our customers are specialized industry players, we have focused on developing customer relationships through direct marketing activities including maintaining regular management visits, providing close customer care through our sales representatives and offering after-sales technological support and upgrades.

Recognition as an HVAC components supplier

An HVAC components supplier acting as a tier two supplier has to go through stringent approval process prescribed by each HVAC system supplier before it can become supplier of a particular product to such tier one supplier.

Based on our experience in the domestic OEM market, the recognition process of each system supplier will normally take around six months for each particular type of evaporators, condensers and

heater cores and usually as long as 12 to 24 months for compressors. Such recognition process can take even longer for overseas system suppliers. Our research and development team, with the assistance of our production and marketing teams, works closely with the HVAC system suppliers during the whole recognition process which normally involves the preparation of samples by our research and development team in accordance with the product specifications of the HVAC system suppliers, laboratory tests and pilot application of the products. On some occasions, representatives of certain system suppliers may also visit our production facilities to assess our production line setting, testing and quality control procedures.

Upon satisfactory fulfillment of the recognition requirements set by a particular system supplier, we will be recognized as its supplier in respect of the specified type of automotive HVAC component for the product lifetime.

Sales and marketing to aftermarket

For the international aftermarket, our products are used as replacement parts for automobile repairing. We mainly sell our products to overseas aftermarket suppliers as replacement HVAC components for their eventual sales to their customers.

Since 2006, we have expanded into the international aftermarket so as to benefit from the increasing demand for replacement auto-parts worldwide. Apart from sales of our self-manufactured HVAC components to the overseas aftermarket customers, we have also been engaging in the export trading business for various types of compressors, which are mainly swash plate compressors, and other automotive HVAC parts and components which we sourced from third party local suppliers. We currently export our products to a network of overseas aftermarket customers based in more than 20 countries and regions across the United States, Canada, South America, Europe, Middle East, Asia and Australia. UAC and SPI, our two major overseas aftermarket customers, are the main warehouse distributors and suppliers of automotive HVAC components and auto-parts in the North American aftermarket with more than 3 years of business relationship with us. UAC is currently one of the major participants in the North American HVAC components aftermarket which provides an extensive range of HVAC components including evaporators and compressors in the North America aftermarket. SPI is currently one of the major aftermarket manufacturers and distributors of condensers, heater cores, radiators and other HVAC components in North America. It is regarded as a leading supplier of radiators in North America which accounted for approximately 6% of total revenues of radiators in the North American aftermarket and captured approximately 10% of total revenues of radiators in the North American commercial vehicle market in 2009. For the Track Record Period, approximately 29.1%, 30.4% and 40.5% of our revenue were attributed to sales through UAC and approximately 9.9%, 9.4% and 7.5% of our revenue were attributed to sales through SPI. According to the Frost & Sullivan Report, replacement HVAC components are distributed to end users through four major channels in the North America aftermarket, namely original equipment service, regional retailers, warehouse distributors and service chains, while our products are mainly sold to UAC and SPI which are warehouse distributors themselves.

We have leveraged our widely recognized brand names and our existing sales networks to execute our product launch plans for compressors. Since 2007, we have been trading various types of compressors, which are mainly swash plate compressors, sourced from third party local suppliers mainly for export to the overseas aftermarket. We will continue to develop our trading business for compressor to meet the increasing demand of our customers. Since 2010, we started selling our self-manufactured compressor products to the North American aftermarket, which is expected to be followed by future sales efforts in the

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domestic OEM market. Sales of our self-manufactured compressors amounted to RMB18.1 million in 2010, accounted for approximately 3.1% of our total revenue for the year.

Among our major products sold to the international markets, an export tax refund rate of 15% has been applied on evaporators, condensers and heater cores and an export tax refund rate of 17% on compressors under the current tax rules promulgated by the PRC government. For further details of the relevant regulations, please refer to the section headed “Regulations – VAT” in this prospectus. The excess, if any, of the VAT tax rate of 17% which the Group is subjected to over the export tax refund rate would be recognised as cost of sales of the Group. Hence, If such preferential tax treatments are eliminated or significantly reduced by the PRC government which resulted in the elimination or reduction of our export tax refund rate for our products, our cost of sales will be increased.

We also generate revenue from the sales of HVAC components to the domestic aftermarket at a relatively small scale, which accounted for approximately 3.3%, 4.5% and 2.0% of our total revenue during the Track Record Period.

While we do not have exclusive sales arrangements with any of our aftermarket customers, we maintain close relationships with key aftermarket customers.

Customers

Over the years, we have built up a diverse customer base. While we have well-established customer relationships, we have not entered into any long-term sales agreement with our customers in either the OEM market or the aftermarket, which we believe is consistent with the market practice.

For the Track Record Period, revenue attributable to our five largest customers represented approximately 65.4%, 75.6% and 77.9% of our total revenue, respectively. For the same periods, revenue attributable to our largest customer represented approximately 29.1%, 30.4% and 40.5%, respectively, of our total revenue. Our major overseas aftermarket customers, UAC and SPI, and our associated company, Macs Baoding, were among our five largest customers during the Track Record Period with aggregate revenue generated thereon accounted for approximately 51.8%, 61.7% and 68.2% of our total revenue, respectively during the Track Record Period. We have more than 3 years of business relationship with UAC and SPI whereas our sales to Macs Baoding commenced since it started operation in 2004. Macs Baoding is a 49% held associate of our Group established by way of strategic cooperation with Great Wall Motor with daily management responsible by a general manager nominated by us. The increase in sales to each of Macs Baoding, UAC and SPI over the Track Record Period was mainly due to their business growth which led to increased demand of our products.

To manage the customer concentration risk, we plan to expand our customer base by:

- developing the sale of our self-manufactured compressor products to the domestic OEM market. We are in the process of applying for recognition by domestic OEM customers (i.e. HVAC system suppliers and automakers) to become a recognized supplier of self-manufactured compressor products to them. We expect to start selling our self-manufactured compressors in the domestic OEM market by end of 2011;
- continue to actively strengthen our international sales network for the overseas aftermarket and explore potential business opportunities for the overseas OEM market; and

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- seeking possible cooperation opportunities with other automakers to set up HVAC system supplier companies similar to Macs Baoding.

For sales to our major overseas aftermarket customers, as our products sold are neither customized nor tailor-made products and are expected to be able to sold to other customers with no significant product modification required, we believe that it would not be difficult for us to find alternative customers should existing overseas aftermarket customers cease business relationship with the Group in the future.

Except for Macs Baoding which is a 49% held associate of our Group, none of our Directors or their associates or any person who to the knowledge of our Directors owned 5% or more of our issued share capital as of the Latest Practicable Date had any interest in any of our five largest customers for the Track Record Period.

Pricing and credit policy

Our products are not subject to any price control by the PRC government. We set prices for each type of our products by taking into account the costs of raw materials and processed parts, level of complexity of products, market competition and demand and with reference to a reasonable profit margin.

We offer credit to our customers on a case-by-case basis, depending on our relationship with, and the location, credibility and volume of purchases of, each customer and the industry practices and conditions in different markets (ie: domestic or overseas market, OEM market or aftermarket). We generally offer a credit period ranging from 30 to 90 days to our domestic OEM customers. For domestic aftermarket customers, our products are mainly delivered upon payment. For overseas sales, we offer our major overseas aftermarket customers credit periods ranging from 45 days to 60 days. All of our domestic sales are denominated in Renminbi and payments are settled by prepayment, notes receivables, or through bank transfers or by bank bills. Our overseas sales are mostly denominated in US dollars and payments are settled through telegraphic transfers or by letters of credit.

Transportation

We generally bear the cost of transporting products to our customers. For domestic customers located around the Zhejiang and Jiangsu Provinces in China which are in close proximity to our Shanghai production base, we normally deliver our products by our truck to places designated by our customers. For domestic customers located in other places in China and for overseas customers, we generally outsource the delivery of our products to third-party logistics providers. We use Shanghai port as the main domestic port in China for handling shipping for our exports to the overseas markets.

Branding and recognition

We consider brand awareness and customer loyalty as the key to our future success in both OEM market and aftermarket. Our self-manufactured products are marketed under our own brand names “Shuanghua (双桦)” and “Youshen (友申)” and our Shuanghua trademark . Our evaporators, condensers and heaters marketed under our “Shuanghua (双桦)” brand name have been recognized as “Shanghai Famous Brand Products” by the Shanghai Famous Brand Recommendation Committee, an affiliate of the Shanghai Bureau of Quality and Technique Supervision, in 2009. Our  trademark has also been designated as a “Shanghai Famous Trademark” by the Shanghai Administration of Industry and Commerce in 2009.

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In addition, our operating subsidiary, Shanghai Shuanghua, has been accredited as a “Brand Name Enterprise” in 2007 and a “High and New Technology Enterprise” from 2006 to 2010 by the relevant authorities in Shanghai as well as a “Foreign-Invested Advanced Technology Enterprise” by the Shanghai Municipal Commission of Commerce in 2009.

AWARDS AND RECOGNITIONS

<u>Awards/Honors/Certificates</u>	<u>Time of Granting/ Identifying</u>	<u>Granted/Identified by</u>	<u>Products/Entities</u>
Technology			
High and New Technology Enterprise in Year 2006, Fengxian District, Shanghai	December 2006 (valid for year 2006)	Science and Technology Commission of Fengxian District, Shanghai Municipality High and New Technology Enterprise (Product) Authentication Office of Fengxian District, Shanghai Municipality	Shanghai Shuanghua
Shanghai Project Converting High and New Technology Into Productivity	August 2007 (no expiry date)	Shanghai Authentication Office for Project Converting High and New Technology Into Productivity	Laminated (CC) evaporators
Shanghai Project Converting High and New Technology Into Productivity	August 2007 (no expiry date)	Shanghai Authentication Office for Project Converting High and New Technology Into Productivity	KG intercoolers
Shanghai Project Converting High and New Technology Into Productivity	September 2007 (no expiry date)	Shanghai Authentication Office for Project Converting High and New Technology Into Productivity	LP type parallel-flow cooling systems
Shanghai High and New Technology Enterprise	December 2007 (valid for year 2007)	Shanghai Municipal Science and Technology Commission	Shanghai Shuanghua
Shanghai Project converting High and New Technology Into Productivity	September 2008 (no expiry date)	Shanghai Authentication Office for Project Converting High and New Technology Into Productivity	ZPA-001 type parallel-flow evaporators

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<u>Awards/Honors/Certificates</u>	<u>Time of Granting/ Identifying</u>	<u>Granted/Identified by</u>	<u>Products/Entities</u>
Shanghai Authenticated Enterprise Technology Center	December 2008 (no expiry date)	Shanghai Municipal Economic and Information Commission Shanghai Municipal Finance Bureau Shanghai Administration of State Taxation Shanghai Administration of Local Taxation Shanghai Customs	Shanghai Shuanghua
Shanghai High and New Technology Enterprise	December 2008 valid for three years	Shanghai Municipal Science and Technology Commission Shanghai Municipal Finance Bureau Shanghai Administration of State Taxation Shanghai Administration of Local Taxation	Shanghai Shuanghua
Authenticated Enterprise Technology Center, Shanghai Municipality	February 2010 (no expiry date)	Shanghai Municipal Economic and Information Commission Shanghai Municipal Finance Bureau Shanghai Administration of State Taxation Shanghai Administration of Local Taxation Shanghai Customs	Shanghai Shuanghua

<u>Awards/Honors/Certificates</u>	<u>Time of Granting/ Identifying</u>	<u>Granted/Identified by</u>	<u>Products/Entities</u>
Quality			
ISO9001:2000	January 2005 (valid for three years)	International Automotive Task Force	Quality management system of Shanghai Shuanghua applicable to the design, manufacture and sales of evaporators and condensers for the automotive industry

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<u>Awards/Honors/Certificates</u>	<u>Time of Granting/ Identifying</u>	<u>Granted/Identified by</u>	<u>Products/Entities</u>
ISO/TS 16949:2002	February 2005 (valid for three years)	International Automotive Task Force	Quality management system of Shanghai Shuanghua applicable to the design, manufacture and sales of evaporators and condensers for the automotive industry
ISO/TS 16949:2002	July 2009 (valid for three years)	International Automotive Task Force	Quality management system of Shanghai Shuanghua applicable to the design and manufacture of cores for evaporators, condensers, heaters, and intercoolers for air conditioners for the automotive industry
ISO14001:2004	April 2010 (valid for three years)	International Automotive Task Force	Environmental management system of Shanghai Shuanghua applicable to environment management of activities and sites related to design and manufacture of auto air condition parts (evaporator, condensers, heater unit, intercoolers and oil cooler)

<u>Awards/Honors/Certificates</u>	<u>Time of Granting/ Identifying</u>	<u>Granted/Identified by</u>	<u>Products/Entities</u>
Brand			
Foreign-invested Advanced Technology Enterprise in Year 2006	September 2006 (valid for year 2006)	Shanghai Municipal Foreign Investment Commission Shanghai Municipal Foreign Economic and Trade Commission	Shanghai Shuanghua

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<u>Awards/Honors/Certificates</u>	<u>Time of Granting/ Identifying</u>	<u>Granted/Identified by</u>	<u>Products/Entities</u>
Brand Name Product in Year 2006	November 2006 (valid for year 2006)	Commission for Promotion of Brand Name of Small and Medium Sized Commission, Shanghai Municipality	Automotive heat exchangers
Brand Name Enterprise in Year 2007	November 2007 (valid for two years)	Commission for Promotion of Brand Name of Small and Medium Sized Enterprise, Shanghai Municipality	Shanghai Shuanghua
Brand Name Product in Year 2007	November 2007 (valid for two years)	Commission for Promotion of Brand Name of Small and Medium Sized Enterprise, Shanghai Municipality	Automotive air conditioners
Shanghai Famous Trademark	January 2009 (valid till year 2011)	Shanghai Administration for Industry and Commerce	Shanghai Shuanghua
Shanghai Famous Brand Products	January 2009 (no expiry date)	Shanghai Famous Brand Recommendation Committee (an affiliate of the Shanghai Bureau of Quality and Technique Supervision)	Evaporators, condensers and heaters
Shanghai Key and New Products	April 2009 (valid for three years)	Shanghai Municipal Science and Technology Commission	Laminated (CC) evaporators
Shanghai Independent Innovation Products	August 2009 (valid for four years)	Shanghai Municipal Science and Technology Commission Shanghai Municipal Development and Reform Commission Shanghai Finance Bureau	Parallel-flow evaporators (brand name: Shuanghua)
Foreign-invested Advanced Technology Enterprise in Year 2009	July 2010 (valid for year 2009)	Shanghai Commission of Commerce	Shanghai Shuanghua

RESEARCH AND DEVELOPMENT

As a “Shanghai High-Tech Enterprise”, we have more than 6 years of independent research and development experience on automotive HVAC components as well as related production techniques. Our research and development projects are mainly conducted in the integrated laboratory at our Shanghai production base. Our integrated laboratory has been accredited as a “Shanghai Authenticated Enterprise Technology Center” by the Shanghai Municipal Commission of Economy and Informatization in 2008 and in 2010. We have also conducted research & development for our compressors production in which we have limited experience as our compressor production employs advanced technologies we acquired and newly installed at our Shanghai production base.

Over the years, we have developed and engineered our automotive HVAC component products by application of our self-developed production technologies and knowhow. We will conduct laboratory tests and pilot application of our products to seek our customers’ recognition before new products are launched. We place a strong emphasis on research and development which allows us to work closely with our customers in the initial design of the HVAC components they require for use in their new products to meet with their specifications and requirements, in the course of which we continuously enhance our product design, production technologies and knowhow. More specifically, we have adopted the following research and development (“**R&D**”) strategies:

(i) to develop our own proprietary technologies by our own R&D team

Our research and development team has a proven record of independent research and development experience on automotive HVAC components as well as related production techniques. As of the Latest Practicable Date, we had registered 16 utility model patents and had applied for the registration of another 7 invention patents in China, all of which were developed by our own R&D team. Please refer to “Further information about our business – intellectual property rights” in Appendix VI in this prospectus for further details on our patents and other intellectual property rights.

(ii) to convert our technologies into productivity

Further to our research and development activities, we have actively applied our self-developed technologies in our production process, several of our products were granted as “Shanghai Project Converting High and New Technology Into Productivity”, including our Laminated (CC) evaporators, KG intercoolers, LP type parallel-flow cooling systems, and ZPA-001 type parallel-flow evaporators. For details of the awards and recognitions we have received, please refer to “Business – Awards and recognitions” in this prospectus.

(iii) to strengthen R&D cooperation with universities and leading automakers

While we perform most of our research and development activities independently to develop our own products and technologies, we also leverage our research and development capability to undertake projects for certain automaker and academic institution. In September 2008, we entered into a cooperative agreement with Zhejiang University to develop parallel-flow heat exchange devices for split type air-conditioners for home use under a national high technology research and development program. Pursuant to the cooperative agreement, Zhejiang University allocated RMB250,000 to this project and paid for the laboratory fees. This project has lasted for approximately

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two years. There has been no patentable or copyrightable works developed or published resulting from such project. In December 2008, we entered into an agreement with SAIC Motor to assist SAIC Motor to develop heat control system for electric cars. During the term of this agreement, we developed for and sold to SAIC Motor various automotive HVAC parts and components for two sample sets of heat control system for electric cars for its demonstration use during the Shanghai World Expo 2010 at a consideration of RMB314,670. This project lasted for over a year. SAIC Motor obtained the exclusive rights to intellectual property developed by us or on our behalf resulting from such project.

Going forward, we intend to strengthen our research and development of existing products through recruiting additional expertise and increase our annual budget to research and development. Specifically, as part of our strategy to quickly open up both the aftermarket and OEM markets for compressor, we intend to allocate more resources to the research and development of different types of compressor, namely variable displacement compressor and electric compressor, to accustom for the needs of our target customers.

We place strong emphasis on our research and development capabilities, as our Directors believe it is one of the key factors to our success. Our research and development expenses during the Track Record Period amounted to approximately RMB2.7 million, RMB3.1 million and RMB6.9 million, respectively. We estimate our capital expenditure for strengthening our research and development capabilities to be approximately RMB10.4 million, RMB11.2 million and RMB11.6 million for each of the three years ending 31 December 2013 respectively, which will mainly be used for the procurement of advanced laboratory equipment, and procurement of moulds and cutting tools to support our research and development of new products for our production of compressors and other automotive HVAC components. The following table sets forth the breakdown of the capital expenditure for our research and development of the three years ending 31 December 2013:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
	RMB'000	RMB'000	RMB'000
Procurement of lab equipment for evaporators, condensers and heater cores	2,000	1,300	–
Procurement of moulds and cutting tools to support the research and development of new products for our production of evaporators, condensers and heater cores	2,000	2,900	4,400
Procurement of lab equipment for compressors ..	2,500	2,400	–
Procurement of moulds and cutting tools to support the research and development of new products for our production of compressors ...	<u>3,900</u>	<u>4,600</u>	<u>7,200</u>
Sub-total:	<u>10,400</u>	<u>11,200</u>	<u>11,600</u>

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As of the Latest Practicable Date, our research and development team comprised over 30 staff. We will continue to focus on product research and development to launch new products such as variable displacement compressors and electric compressors and to enhance our product quality and operation efficiency.

INTELLECTUAL PROPERTY

Our intellectual property rights are of fundamental importance to our businesses since we rely to a significant extent on customer recognition of our brand names. We actively take steps to protect our intellectual property rights and implement a set of internal intellectual property management rules. Our intellectual property is uniformly managed by our employees in charge of new product development. Matters related to trademarks and patents are required to comply strictly with procedures as set out in our internal intellectual property management rules.

As of the Latest Practicable Date, we had registered 4 trademarks, 16 utility model patents and 2 domain names and had applied for the registration of another 7 invention patents in China. Details of our registered intellectual property portfolio are provided in the section headed “Further Information about our Business – Intellectual property rights” in Appendix VI to this prospectus. There was no infringement or disputes in respect of our intellectual property rights against or by any third parties during the Track Record Period.

QUALITY CONTROL

We adhere to a stringent quality control system throughout our operation, extending from raw materials procurement, production and processing, product delivery to warehouse, to sales and distribution of our products to customers. Our quality control team monitors every stage of our production process and ensures consistent product quality that meets our internal quality standards and our customers’ stringent quality requirements. In July 2009, our operating subsidiary, Shanghai Shuanghua, obtained ISO/TS16949:2002 certification for its quality management system applicable to the design and manufacture of cores for evaporators, condensers, heaters and intercoolers for automotive air-conditioners, which will remain valid until July 2012. We have not received any material complaint on our product quality during the Track Record Period.

To control our product liability risk, we place significant emphasis on quality assurance and have set aside provision for product warranties for any product liability claims from our customers. It is our policy to provide warranty coverage for our products. We generally provide our aftermarket customers with a one-year product warranty under which faulty products are repaired or replaced. We will also provide product warranty to our OEM customers, the terms of which are subject to agreement on a case-by-case basis. During the Track Record Period, warranty claims amounted to RMB3.0 million, RMB3.2 million and RMB0.7 million, and product returns amounted to RMB0.2 million, RMB0.4 million and RMB0.3 million, respectively. In 2010, approximately 7,875 units of self-manufactured compressors of various models amounted to approximately RMB4.9 million were recalled, which were produced in accordance with certain replacement samples initially provided by an overseas aftermarket customer in the course of our trial production. We subsequently revised specifications for such products per such customer’s amended request with samples of the original model, which were accepted by the customer with no further recall. Our Directors have confirmed that such product recall was a one-off incident with respect to each compressor model so recalled and that there is no difference in any product liability arising out of our trial

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production or commercial production. Since our products for the aftermarket are made pursuant to specifications of samples provided by our customers, to avoid reoccurrence of such incident in the future, we require all of our aftermarket customers to provide samples of the original model instead of the replacement model (which may be subject to variations), and we seek customers' confirmation on the specification requirements before we start to manufacture. Except for the above incident, our Directors have confirmed that we had not made any significant product recall, warranty claims or product liability claims for defective products during the Track Record Period.

INVENTORY MANAGEMENT

Our inventories mainly consist of raw materials, work-in-progress and finished products. Our marketing team reviews and monitors our inventory level on a periodical basis. This involves the maintenance of an appropriate level of inventory as well as any write-down or provision for any obsolete and slow-moving inventory items. During the Track Record Period, there was a write-down of inventories to net realizable value and provision for slow-moving inventory items of RMB1.9 million, a reversal of RMB1.6 million, and a provision of RMB0.4 million, respectively.

COMPETITION

Our products are sold in the domestic market in China as well as exported to overseas markets across the world. We face increasing competition from both domestic and foreign new entrants into the rapidly evolving auto-parts manufacturing industry domestically in China as well as internationally.

For the domestic market, although there are a number of auto-parts manufacturers in China, we focus on the production of automotive HVAC components and we have an annual production capacity of 3,456,000 units of evaporators, condensers and heater cores, in aggregate, and 150,000 units of compressors as at 31 December 2010. Given our production capacity and the quality and variety of our products, our Directors believe our leading position in the domestic OEM market is not easily overtaken.

For international markets, by reference to the Frost & Sullivan Report, our Directors believe we are one of the leading independent HVAC components manufacturers in the PRC in terms of export sales volume to the overseas market and are capable of producing high quality products demanded by overseas customers. It is our long term strategy to develop our presence in the international OEM market and strengthen our coverage in the international aftermarket. Since 2010, while we continue sourcing compressors for our export trading business, we have started selling our self-manufactured compressor products to the overseas aftermarket, which will be followed by future sales efforts in the domestic OEM market. Going forward, in addition to selling through automotive HVAC system suppliers, we also plan to directly sell our compressor products to automakers in the domestic OEM market. However, before we can become an OEM supplier of compressors, we have to first go through the recognition process to obtain the recognition from each system supplier or automaker for each particular type of compressor products which normally takes 12 to 24 months. Such recognition process can take even longer for overseas system suppliers or automakers. Before obtaining the relevant recognition from OEM customers, we will continue to sell our self-manufactured compressors to overseas aftermarket customers. In view of the anticipated rapid growth of automobile production and sales in China in the next decade, our Directors believe our progressive launch of new products, namely variable displacement compressor and electric compressor, to meet the increasing market demand will serve as a profit driver for our future sustainable growth.

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We will continue to face competition in China as well as in overseas markets. With China's accession to the WTO, it has committed to gradually lower its tariff on imported auto-parts and such policy is likely to intensify the foreign competition in the domestic industry. That said, our Directors believe we will remain competitive given our experience and leading market positions as well as our competitive strengths as set forth under the paragraph headed "Our Competitive Strengths" under this section to this prospectus.

ENVIRONMENTAL AND OCCUPATIONAL HEALTH AND SAFETY

Environmental Protection

We recognize the importance of environmental protection and strictly adhere to all relevant environmental laws, rules and regulations promulgated by the PRC government concerning, among other things, the discharge of waste water and solid waste resulting from our production. To ensure compliance with these environmental measures, we carry out regular inspections at our production site. During the Track Record Period, we have not committed any material breach of any environmental laws and regulations in China and were not subject to any material claim and penalty in relation to environmental protection during the same period. In April 2010, our operating subsidiary, Shanghai Shuanghua, was accredited ISO14001:2004 certification in relation to its environmental management systems, which will remain valid until April 2013.

During the Track Record Period, our annual cost of compliance with the applicable environmental protection laws and regulations was approximately RMB1,000, RMB11,000 and RMB2,280, respectively. We expect to incur approximately RMB7,000 and RMB7,500 on compliance with the applicable environmental protection laws and regulations for the years ending 31 December 2011 and 2012, respectively.

Occupational Health and Safety

We have taken necessary measures to protect our employees' health and safety at work, including providing our employees with protective clothing and accessories, such as gloves, goggles and masks, and providing occupational safety training for all of our employees and special training for operators of certain equipment. We have also arranged for insurance to cover our employees against work-related injury or casualty.

During the Track Record Period, we have not encountered any material claims or incidents in relation to occupational health and safety issues or been involved in any accident causing death or serious bodily injury in the course of our business operations.

INSURANCE

We maintain insurance policies covering our production facilities, equipment, properties, buildings and vehicles. We also provide social insurance coverage to our employees in accordance with the PRC social security regulations, covering areas such as pension, medical, unemployment, maternity and work-related injury. In line with our understanding of the usual industry practice, we do not maintain product liability insurance as it is not compulsorily required under the PRC laws and regulations.

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PROPERTIES

As of the Latest Valuation Date, we operated our business through nine properties in the PRC for our production facilities, offices and other places of operation. These properties comprised (i) the land use rights to 3 parcels of land with a total site area of approximately 141,616.80 sq.m.; (ii) 13 properties and structures with a total gross floor area of approximately 52,733.74 sq.m.; (iii) a parcel of land contracted to be acquired with a total site area of approximately 46,666.90 sq.m.; (iv) 9 buildings and structures contracted to be acquired with a total gross floor area of approximately 21,883.99 sq.m.; and (v) 8 leased properties with a total gross floor area of approximately 1,059.56 sq.m. and land use rights and building ownership certificates.

Save for the Certificates of Real Estate Ownership for the property referred to in (iii) above (property No. 5 in the Property Valuation Report) which is intended for the partial production of our products and for a laboratory building with a gross floor area of 1,582 sq.m. (a portion of property No. 1 in the Property Valuation Report) which was initially built for temporary use for research and development of new products and the Company currently intends to retain as a permanent property, both of which are under application process, we have obtained other required land use rights and building ownership certificates for our owned properties.

According to two confirmation letters issued by Shanghai Fengxian District Planning and Land Management Bureau (the “**Fengxian Land Bureau**”) on 27 January 2011 and 1 February 2011, respectively, the authority confirmed that it is processing the application for the Certificates of Real Estate Ownership for property No. 5 in the Property Valuation Report and the laboratory building and that there is no actual legal impediment for Shanghai Shuanghua to obtain the same. Based on the aforesaid authority confirmations, our PRC legal advisors advised that, (1) Fengxian Land Bureau is the competent authority issuing confirmation regarding the ownership certificates of Property 5 in the Property Valuation Report and the laboratory building; and (2) subject to Shanghai Shuanghua passing the examinations and completing the administrative procedures with the Fengxian Land Bureau, there is no actual legal impediment for Shanghai Shuanghua to obtain the relevant certificates. The Company expects to obtain the relevant Certificates of Real Estate Ownership by or around end of 2011.

Regarding property No. 5 in the Property Valuation Report, the Fengxian Land Bureau also confirmed in its confirmation letter dated 27 January 2011 that it would not impose any penalty on Shanghai Shuanghua for its occupation and use of the parcel of land and the property thereon. Regarding the laboratory building, as advised by our PRC legal advisors, the maximum fines or penalties that may be imposed on the Company include discontinuance of construction work, rectification within a stipulated time, demolition of structures, confiscation of properties or any income derived therefrom and fines up to RMB300,000. As of the Latest Practicable Date, our Company did not receive any notice of fine or penalty in this regard from the relevant governmental authorities, and our Controlling Shareholders have executed the Deed of Indemnity in favor of our Company to indemnify us for any costs, penalties, losses and damages in connection with Shanghai Shuanghua not having obtained the relevant property certificates.

Our Directors consider that we would be able to relocate the laboratory to alternative premises without incurring significant costs or time and that the impact of such relocation, if any, on our operations or financial position would be minimal.

BUSINESS

We have entered into valid lease agreements with lessors (including Shanghai Automart and Independent Third Parties) for all the leased properties. As advised by our PRC legal advisers, the lessors have obtained all the necessary title certificates for such leased properties and the lease agreements with Shanghai Automart have been properly registered with the PRC authorities.

Please refer to the Property Valuation Report set forth in Appendix IV to this prospectus for further details of our properties.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

As of the Latest Practicable Date, we were not a party to any material arbitration, litigation or administrative proceedings which could be expected to have a material adverse effect on our business or results of operations. We are not aware of any pending or threatened arbitration, litigation or administrative proceedings against us.

We have obtained all necessary licenses and approvals from the relevant authorities to carry out our business except for certain permits under application process as disclosed under the paragraph headed “Properties” under this section of this prospectus and the National Industrial Product Manufacture Licence (全國工業產品生產許可證) for the commercial production of compressors and Shanghai Municipal Bureau of Quality and Technical Supervision (上海市質量技術監督局) issued the Letter of Determination on the Acceptance of Application for Administrative License (行政許可申請受理決定書) (the “**Application Acceptance**”) on 27 August 2010 to accept our licence application. Based on the Application Acceptance and the confirmation issued by Shanghai Fengxian District Bureau of Quality and Technical Supervision that upon receiving the Application Acceptance, our operating subsidiary, Shuanghua Machinery, may carry out trial production and sale of compressors, our PRC legal advisers advised that: (1) our current trial production and sale of compressors are in compliance with the relevant PRC laws and regulations; (2) there is no specific stipulation regarding the expiry date of the Letter of Determination on the Acceptance of Application for Administrative License provided in relevant laws and regulations; and (3) subject to Shuanghua Machinery passing the examination and inspection of the competent quality and technical supervision bureau for license issuance, there is no actual legal impediment for Shuanghua Machinery to obtain the National Industrial Product Manufacture License. The Company expects to obtain the aforesaid license and commence the commercial production of compressors by or around end of 2011.

During the Track Record Period, we have not been subject to any material fines, penalties or sanctions by national or local authorities for violations of PRC laws and regulations.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer and the Capitalization Issue, without taking into account any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme, the following persons will have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

<u>Name</u>	<u>Nature of Interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding interest immediately after the Share Offer and the Capitalization Issue</u>
Youshen Group	Beneficial owner	282,750,000 Long position	43.5%
Shuanghua International	Beneficial owner	204,750,000 Long position	31.5%
Mr. Zheng ⁽¹⁾	Corporate interest ⁽²⁾	282,750,000 Long position	43.5%
	Interest in persons acting in concert ⁽³⁾	204,750,000 Long position	31.5%
Mr. Dong ⁽¹⁾	Corporate interest ⁽⁴⁾	204,750,000 Long position	31.5%
	Interest in persons acting in concert ⁽³⁾	282,750,000 Long position	43.5%

Notes:

1. Mr. Zheng and Mr. Dong are executive Directors.
2. Mr. Zheng holds 100% interest in Youshen Group and he is deemed to be interested in the 282,750,000 Shares held by Youshen Group.
3. Mr. Zheng and Mr. Dong are persons acting in concert and accordingly, Mr. Zheng is deemed to be interested in the 204,750,000 Shares held by Shuanghua International (which is wholly owned by Mr. Dong), whereas Mr. Dong is deemed to be interested in the 282,750,000 Shares held by Youshen Group (which is wholly owned by Mr. Zheng). Pursuant to an agreement dated 13 February 2011, Mr. Zheng and Mr. Dong have agreed to, among other things, discuss and reach mutual consent before voting on any material issues in relation to the financial and operation matters of our Group and they will vote as concerted parties in relation to such matters.
4. Mr. Dong holds 100% interest in Shuanghua International and he is deemed to be interested in the 204,750,000 Shares held by Shuanghua International.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Share Offer and the Capitalization Issue, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group and are therefore regarded as substantial Shareholders under the Hong Kong Listing Rules.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

COMPETITION

No competing business

We are automotive HVAC components supplier based in China. We are principally engaged in the design, production and sales of a comprehensive range of automotive HVAC components including evaporators, condensers, heater cores and compressors. Our Directors have confirmed that currently there is no direct or indirect competition between our business and that of our Controlling Shareholders. The principal activities of our Controlling Shareholders or their respective associates and their subsidiaries are clearly delineated and different from ours in either nature of business, customer segment or service. Our Directors have further confirmed that none of our Controlling Shareholders is interested in any business which competes either directly or indirectly with, or is it otherwise materially relevant to, our business.

NON-COMPETITION UNDERTAKING

To better safeguard our Group from any potential competition, each of our Controlling Shareholders, Youshen Group, Shuanghua International and executive Directors (collectively, the “**Covenantors**”) has entered into the deed of non-competition with our Company to the effect that each of them jointly and severally, irrevocably and unconditionally, undertakes with our Company (on behalf of itself and our Group) that with effect from the Listing Date and for as long as our Shares remain listed on the Hong Kong Stock Exchange and our Controlling Shareholders individually or collectively with their associates are, directly or indirectly, interested in not less than 30% of our Shares in issue, or are otherwise regarded as Controlling Shareholders, or remain as an executive Director, each of the relevant Covenantors shall, and shall procure that their respective associates shall:

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of our Group or be in competition with our Group in any business activities which our Group may undertake in the future save for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any company listed on the Hong Kong Stock Exchange or any other stock exchange;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff of our Group; and
- (c) keep our Directors informed of any matter of potential conflicts of interests between the Covenantors (including their associates) and our Group, in particular, a transaction between any of the Covenantors (including its associates) and our Group.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

In addition, each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with our Company (on behalf of itself and our Group) that if any new business opportunity relating to any products and/or services of our Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of our Group), he or she or it will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity. The relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to enable our Group to secure the Business Opportunity.

None of the Covenantors and their respective associates (other than members of our Group) will pursue the Business Opportunity until we decide not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by the independent non-executive Directors taking into consideration our prevailing business and financial resources, the financial resources required for the Business Opportunity and any expert opinion on the commercial viability of the Business Opportunity.

None of the Covenantors is interested in any business apart from the business operated by members of our Group which competes or is likely to compete, directly or indirectly, with our Group’s business under Rule 8.10 of the Hong Kong Listing Rules.

Each of the Covenantors further jointly and severally, irrevocably and unconditionally, undertakes that it or he or she will (i) provide to us all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to our Company on an annual basis as to whether it or he or she has complied with such undertakings.

The deed of non-competition will cease to have any effect on the earliest of the date on which:

- (a) our Company becomes wholly-owned by the Covenantors and/or their associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Controlling Shareholders and/or their associates in our Shares falls below 30% of the number of Shares in issue or the relevant Covenantor shall cease to be a controlling shareholder (as defined in the Hong Kong Listing Rules) of our Company;
- (c) in the case of any executive Director who is not a Controlling Shareholder, ninety (90) days from the date of resignation or termination of his or her service contract with our Company as a result of his or her breach of the relevant service contract, provided that if the relevant service contract is terminated by our Company without any breach on the part of the relevant executive Director, the date of termination of the relevant service contract; or
- (d) our Shares cease to be listed on the Hong Kong Stock Exchange.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage the conflict of interests arising from competing businesses and to safeguard the interests of our Shareholders, including:

- (a) review by our independent non-executive Directors on an annual basis on the compliance with the deed of non-competition by the Covenantors, the options, the pre-emptive rights or first rights of refusals provided by our Controlling Shareholders on their existing or future competing businesses;
- (b) undertakings by the Covenantors that they will provide to us all information necessary for the enforcement of the deed of non-competition, and confirm to us on an annual basis as to whether he or she or it has complied with the above non-competition undertakings;
- (c) disclosure by us on decisions on matters reviewed by our Independent Non-Executive Directors relating to the compliance and enforcement of the deed of non-competition in our annual report; and
- (d) the Covenantors making an annual statement on compliance with the deed of non-competition in our annual report, including the disclosure on how the deed of non-competition was complied with and enforced, which is consistent with the principles of making voluntary disclosure in the corporate governance report of the annual report.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, our Directors believe that we can carry on our business independent of and without reliance on our Controlling Shareholders (and their associates) following the Listing, and that we satisfy the relevant requirements under the Hong Kong Listing Rules.

Management Independence

Our Board consists of seven Directors, comprising two executive Directors, two non-executive Directors and three Independent Non-executive Directors. Our two executive Directors are also our Controlling Shareholders.

Each of our Directors is fully aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefit and in our best interests and does not allow any conflict between his duties as a Director and his personal interest to exist. In the event that there is a potential conflict of interests arising out of any transaction to be entered into between us and our Directors or their respective associates, the interested Director(s) will abstain from voting at the relevant meeting of our Board in respect of such transactions and shall not be counted in the quorum.

In addition, members of our senior management are also independent from our Controlling Shareholders and their respective associates.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Operational independence

Our operations are independent of and not connected with any of our Controlling Shareholders. Our organization structure is made of various departments and divisions, each with specific areas of responsibility. Our management team is also independent from our Controlling Shareholders.

Financial independence

We have an independent financial system and make financial decisions according to our own business needs. Our Group is capable of obtaining external financing without reliance on our Controlling Shareholders. Our Directors confirm that as of the Latest Practicable Date, save as disclosed in the paragraphs under “Financial Information – Indebtedness – Bank Borrowing”, our Controlling Shareholders have not provided any guarantee or loan to us. Our Directors confirm that any amount due to/ from our Controlling Shareholders and any guarantee provided by our Controlling Shareholders will be settled or released prior to the Listing. On this basis, our Directors believe that we are financially independent from our Controlling Shareholders.

NON-DISPOSAL UNDERTAKINGS GIVEN BY OUR CONTROLLING SHAREHOLDERS

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, each of our Controlling Shareholders has, jointly and severally, undertaken with our Company and the Hong Kong Stock Exchange that each of them shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “First Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which it/he/she is shown by this prospectus to be the beneficial owner(s); and
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “Second Six-Month Period”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be the controlling shareholders of our Company, i.e., they cease to control 30% or more of the voting power at general meetings of our Company.

Further, each of our Controlling Shareholders has, jointly and severally, undertaken with our Company and the Hong Kong Stock Exchange that within a period commencing from the Listing Date and ending on the date on which is the first anniversary of the Listing Date, he or she or it shall:

- (a) when he or she or it pledges or charges any securities beneficially owned by him or her or it in favor of an authorized institution (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he or she or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company of such indications.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

OUR SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the Share Offer (without taking into consideration any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), except for our Controlling Shareholders, our Company has no other Substantial Shareholders.

Further information on the interests of our Substantial Shareholders is set forth in the section headed “Further Information about our Directors, Substantial Shareholders and Experts” in Appendix VI to this prospectus.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

The following connected transactions have been, and will be, carried out by our Group in the ordinary and usual course of business, on either normal commercial terms or terms no less favorable to our Group than those available from Independent Third Parties, and are expected to continue in the foreseeable future.

Non-exempt Continuing Connected Transactions

Continuing connected transactions exempt from the independent Shareholder's approval requirement

1. Office Lease Agreements

On 1 January 2011, an office lease agreement (the "Shanghai Shuanghua Office Lease Agreement") was entered into between Shanghai Automart as landlord and Shanghai Shuanghua as tenant in respect of the premises located at Units 901, 909, 910, 911 and 912, Level 9, Tongsheng Building, No. 458, Fushan Road, Pudong District, Shanghai, the PRC (the "Office Premises I"), being property numbered 6 as referred to in the Property Valuation Report as set out in Appendix IV to this prospectus, with a gross floor area of approximately 745.35 square meters for a term of three years commencing from 1 January 2011. The property is currently occupied by our Group for office use.

On 1 January 2011, an office lease agreement (the "Youshen Industry Office Lease Agreement") was entered into between Shanghai Automart as landlord and Youshen Industry as tenant in respect of the premises located at Unit 908, Level 9, Tongsheng Building, No. 458, Fushan Road, Pudong District, Shanghai, the PRC (the "Office Premises II"), being property numbered 7 as referred to in the Property Valuation Report as set out in Appendix IV to this prospectus, with a gross floor area of approximately 149.7 square meters for a term of three years commencing from 1 January 2011. The property is currently occupied by our Group for office use.

On 1 January 2011, an office lease agreement (the "Shuanghua Auto Components Office Lease Agreement") was entered into between Shanghai Automart as landlord and Shuanghua Auto Components as tenant in respect of the premises located at Unit 902, Level 9, Tongsheng Building, No. 458, Fushan Road, Pudong District, Shanghai, the PRC (the "Office Premises III"), being property numbered 8 as referred to in the Property Valuation Report as set out in Appendix IV to this prospectus, with a gross floor area of approximately 114.51 square meters for a term of three years commencing from 1 January 2011. The property is currently occupied by our Group for office use.

Shanghai Automart is wholly owned by Mr. Dong, our Director and one of our Controlling Shareholders. According to the Hong Kong Listing Rules, Shanghai Automart is an associate of Mr. Dong and thus a connected person.

As Shanghai Automart is a connected person, the Shanghai Shuanghua Office Lease Agreement, the Youshen Industry Office Lease Agreement and the Shuanghua Auto Components Office Lease Agreement (together referred to as the "Office Lease Agreements") will constitute continuing connected transactions of our Company under Rule 14A.14 of the Hong Kong Listing Rules.

CONNECTED TRANSACTIONS

Historical transaction value

For the three years ended 31 December 2010, the rent paid by our Group in respect of the Office Premises I amounted to RMB1,224,237, RMB1,224,237 and RMB1,191,910, respectively.

For the three years ended 31 December 2010, the rent paid by our Group in respect of the Office Premises II amounted to RMB245,882, RMB245,882 and RMB245,882, respectively.

For the three years ended 31 December 2010, the rent paid by our Group in respect of the Office Premises III amounted to RMB188,083, RMB188,083 and RMB188,083, respectively.

Annual caps

Pursuant to the Shanghai Shuanghua Office Lease Agreement, the annual rental for the Office Premises I for each of the three years ending 31 December 2013 is approximately RMB1,207,464, RMB1,207,464 and RMB1,207,464, respectively. Hence, the proposed cap amounts of the rental fees to be payable by our Group to Shanghai Automart under the Shanghai Shuanghua Office Lease Agreement in each of the three years ending 31 December 2013 is RMB1,207,464, RMB1,207,464 and RMB1,207,464, respectively. The annual rent payable to Shanghai Automart was determined at arm's length negotiation between the parties to the Shanghai Shuanghua Office Lease Agreement. The independent property valuer of our Company, DTZ, has also confirmed that the terms of the Shanghai Shuanghua Office Lease Agreement are fair and reasonable and the rental payment under the Shanghai Shuanghua Office Lease Agreement reflects the current market rate. Our Directors consider that the Shanghai Shuanghua Office Lease Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of our Group.

Pursuant to the Youshen Industry Office Lease Agreement, the annual rental for the Office Premises II for each of the three years ending 31 December 2013 is approximately RMB242,520, RMB242,520 and RMB242,520, respectively. Hence, the proposed cap amounts of the rental fees to be payable by our Group to Shanghai Automart under the Youshen Industry Office Lease Agreement in each of the three years ending 31 December 2013 is RMB242,520, RMB242,520 and RMB242,520, respectively. The annual rent payable to Shanghai Automart was determined at arm's length negotiation between the parties to the Youshen Industry Office Lease Agreement. The independent property valuer of our Company, DTZ, has also confirmed that the terms of the Youshen Industry Office Lease Agreement are fair and reasonable and the rental payment under the Youshen Industry Office Lease Agreement reflects the current market rate. Our Directors consider that the Youshen Industry Office Lease Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of our Group.

Pursuant to the Shuanghua Auto Components Office Lease Agreement, the annual rental for the Office Premises III for each of the three years ending 31 December 2013 is approximately RMB185,508, RMB185,508 and RMB185,508, respectively. Hence, the proposed cap amounts of the rental fees to be payable by our Group to Shanghai Automart under the Shuanghua Auto Components Office Lease Agreement in each of the three years ending 31 December 2013 is RMB185,508, RMB185,508 and RMB185,508, respectively. The annual rent payable to Shanghai Automart was determined at arm's length negotiation between the parties to the Shuanghua Auto Components Office Lease Agreement. The independent property valuer of our Company, DTZ, has also confirmed that the terms of the Shuanghua Auto Components Office Lease Agreement are fair and reasonable and the rental payment under the

CONNECTED TRANSACTIONS

Shuanghua Auto Components Office Lease Agreement reflects the current market rate. Our Directors consider that the Shuanghua Auto Components Office Lease Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of our Group.

Waiver from announcement requirement

Pursuant to Rules 14A.25 and 14A.26 of the Hong Kong Listing Rules, the transactions under each of the Office Lease Agreements have been aggregated. The expected aggregate cap amounts of the transactions under the Office Lease Agreements for each of the three years ending 31 December 2013 does not exceed HK\$10,000,000 and each of the percentage ratios (other than the profit ratio) under Chapter 14 of the Hong Kong Listing Rules, where applicable, and on an annual basis is expected to be less than 25%. As such, such transactions under the Office Lease Agreements will require satisfaction of reporting and announcement requirements under the Hong Kong Listing Rules.

In addition, our Directors (including our Independent Non-executive Directors) confirm that it is in the interests of our Group to continue with these transactions after the Listing and that such transactions have been and shall be conducted on normal commercial terms or terms that are not less favorable to our Group than those available from other Independent Third Parties in the ordinary and usual course of business and are fair and reasonable and in the interests of the Shareholders as a whole. Our Directors (including our Independent Non-executive Directors) are also of the view that the annual caps of the continuing connected transactions above are fair and reasonable and in the interests of our Shareholders as a whole.

On the above basis, our Company has applied to the Hong Kong Stock Exchange for a waiver pursuant to Rule 14A.42(3) of the Hong Kong Listing Rules to exempt the above continuing connected transactions from strict compliance with the announcement requirement subject to (i) our Directors' undertaking that our Company would comply with the applicable requirements under Chapter 14A of the Hong Kong Listing Rules; and (ii) the aggregate value of the continuing connected transactions described above for each financial year not exceeding the relevant cap as set out above.

Continuing connected transactions subject to the announcement, reporting and independent shareholder's approval requirements

2. Supply Agreement

On 23 May 2011, Shanghai Shuanghua and Shanghai Youchen entered into a supply agreement (the "Supply Agreement") pursuant to which Shanghai Youchen agreed to sell pipes to Shanghai Shuanghua. The term of the Supply Agreement is for the period from 1 January 2011 to 31 December 2013.

Prior to 15 June 2010, Shanghai Youchen was an Independent Third Party. On 2 June 2010, Mr. Dong, our executive Director and one of our Controlling Shareholders, through Longcang Investment entered into an acquisition agreement to acquire 50% equity interest of Shanghai Youchen. On 15 June 2010, being the date on which the revised business licence of Shanghai Youchen was issued, Shanghai Youchen became an associate of Mr. Dong and thus a connected person. As Shanghai Youchen is a connected person of our Company, the Supply Agreement will constitute a continuing connected transaction of our Company under Rule 14A.14 of the Hong Kong Listing Rules. The principal business of Shanghai Youchen is the sale and processing of aluminium materials, aluminium products and metallic products.

CONNECTED TRANSACTIONS

Before 15 June 2010, Shanghai Youchen mainly supplied aluminium pipes to our Group. In addition to aluminium pipes, Shanghai Youchen has also supplied zinc coated flat pipes to our Group since the fourth quarter of the year 2010.

For the three years ended 31 December 2010, the fees paid by our Group to Shanghai Youchen for the products provided are principally determined in accordance with (i) the quantity of aluminium ingot processed by Shanghai Youchen for Shanghai Shuanghua, (ii) the price of acquiring aluminium ingot from raw materials suppliers; and (iii) the processing fee charged by Shanghai Youchen. Our Directors confirm that the terms of the Supply Agreement are no less favourable than those of the agreements entered into with other independent Third Parties in the ordinary course of business.

Our Directors (including our Independent Non-executive Directors) confirm that fee payable under the Supply Agreement are agreed in arm's length terms and on the market price and they are of the view that the Supply Agreement has been entered into in the usual and ordinary course of business of our Group and are in the interest of our Group and our Shareholders as a whole.

Historical transaction value

For the three years ended 31 December 2010, the fees paid by our Group to Shanghai Youchen for the supply amounted to approximately RMB8.8 million (equivalent to approximately HK\$10.5 million), approximately RMB6.0 million (equivalent to approximately HK\$7.2 million) and approximately RMB9.7 million (equivalent to approximately HK\$11.6 million), respectively.

For the four months ended 30 April 2011, according to our management account, the fees paid by our Group to Shanghai Youchen for the supply amounted to approximately RMB5.6 million (equivalent to approximately HK\$6.7 million).

Annual caps

The proposed cap amounts of the fees to be payable by our Group to Shanghai Youchen for the provision of products under the Supply Agreement for each of the three years ending 31 December 2013 are approximately RMB20,000,000 (equivalent to approximately HK\$23,949,228), RMB22,000,000 (equivalent to approximately HK\$26,344,150) and RMB24,200,000 (equivalent to approximately HK\$28,978,565), respectively. Such proposed cap amounts are determined based on (i) the actual purchase amount from Shanghai Youchen during the Track Record Period; (ii) the actual purchase amount from Shanghai Youchen for the four months ended 30 April 2011; (iii) the expected growth in purchase amount from Shanghai Youchen as a result of the expected continuous increase in the scale of production for the compressors manufactured by the Group, the trial operation of which only commenced during 2010, and the expected growth of the overall operation of the Group for the three years ending 31 December 2013.

CONNECTED TRANSACTIONS

Waiver from announcement and independent Shareholders' approval requirement

The transaction under the Supply Agreement described above will constitute our Company's continuing connected transactions under the Hong Kong Listing Rules after the Listing. The expected cap amount of the transactions under the Supply Agreement for each of the three years ending 31 December 2013 exceeds HK\$10,000,000 and each of the percentage ratios (other than the profit ratio) under Chapter 14 of the Hong Kong Listing Rules, where applicable and on an annual basis is expected to be higher than 5%. As such, the transactions under the Supply Agreement will constitute non-exempt continuing connected transactions of our Company under Rule 14A.35 of the Hong Kong Listing Rules and are subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In addition, our Directors (including our Independent Non-executive Directors) confirm that it is in the interests of our Company to continue with these transactions after the Listing and that such transactions have been and shall be conducted on normal commercial terms or terms that are not less favourable to our Company than those available from other Independent Third Parties in the ordinary and usual course of business and are fair and reasonable and in the interests of our Shareholders as a whole. Our Directors (including our Independent Non-executive Directors) are also of the view that the annual caps of the continuing connected transactions above are fair and reasonable and in the interests of our Shareholders as a whole.

On the above basis, our Company has applied to the Hong Kong Stock Exchange for waiver pursuant to Rule 14A.42(3) of the Hong Kong Listing Rules to exempt the above non-exempt continuing connected transactions under the Supply Agreement from strict compliance with the announcement requirement and the independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules subject to (i) our Directors' undertaking that our Company would comply with the applicable requirements under Chapter 14A of the Hong Kong Listing Rules; and (ii) the aggregate value of the continuing connected transactions described above for each financial year not exceeding the relevant cap as set out above.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that the continuing connected transactions described above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms that are fair and reasonable and in the interests of our Shareholders taken as a whole, and that the terms of the continuing connected transactions and the proposed annual caps set out above are fair and reasonable and in the interests of our Company and our Shareholders taken as a whole.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

The Board is responsible and has general powers for the management and the conduct of our business. The table below shows certain information in respect of members of the Board.

Name	Age	Position in our Group	Date of appointment	Responsibilities in our Group
Mr. Zheng Ping	53	executive Director	19 November 2010	reviewing and implementing our Group's overall development strategy in global market
Mr. Dong Zongde	57	executive Director	19 November 2010	our Group's PRC operations and in the development strategy of our Group
Ms. Kong Xiaoling	51	non-executive Director	8 June 2011	supervising and providing advice to the Board
Mr. Jia Weiren	54	non-executive Director	8 June 2011	supervising and providing advice to the Board
Mr. Zhao Fenggao	61	independent non-executive Director	8 June 2011	supervising and providing independent judgement to the Board, the audit committee, the remuneration committee and the nomination committee
Mr. He Binhui	43	independent non-executive Director	8 June 2011	supervising and providing independent judgement to the Board, the audit committee, the remuneration committee and the nomination committee
Mr. Chen Lifan	72	independent non-executive Director	8 June 2011	supervising and providing independent judgement to the Board, the audit committee, the remuneration committee and the nomination committee

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Executive Directors

Mr. Zheng Ping (鄭平), aged 53, is our executive Director, the chairman and the chief executive officer of our Company. He is the founder of our Group and joined our Group in 2002. He was appointed to the Board on 19 November 2010. He is primarily responsible for reviewing and implementing our Group's overall development strategy. From 1983 to 1990, he was the teacher of power plant department of the Navy Engineering University of the People's Liberation Army of China (中國人民解放軍海軍工程大學). From 1990 to 1993, he worked in Fuzhou Far East Auto Parts Company Limited (福州遠東汽車配件有限公司), the business scope of which is mainly manufacture of auto parts, as vice general manager. From 1994 to 2001, he was a director and the general manager of Shanghai Youshen International Trade Company Limited (上海友申國際貿易有限公司), the business scope of which is mainly international trade and trade consultancy. From 2002 to 2008, Mr. Zheng served as the director of BVI Automart. In 2005, Mr. Zheng was appointed as the chairman of Shanghai Automart and the chairman and general manager of Shanghai Shuanghua. Since 2007, Mr. Zheng has been serving as the chairman of the board of directors and general manager of Shanghai Shuanghua. From 1979, he studied on a full-time basis in the Navy Engineering University of the People's Liberation Army of China (中國人民解放軍海軍工程大學) and has obtained his bachelor's degree majoring in Electrical Combustion Management in 1983. Mr. Zheng is the spouse of Ms. Kong Xiaoling. Mr. Zheng did not hold any directorship in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years preceding the date of this prospectus.

Mr. Dong Zongde (董宗德), aged 57, is our executive Director. He was appointed to the Board on 19 November 2010 and is primarily responsible for our Group's PRC operations and in the development strategy of our Group. From 1972 to 1990, Mr. Dong worked as worker in Shanghai Xinxin Machinery Factory (上海新新機器廠), the business scope of which is mainly manufacture of auto parts, construction materials, etc. From 1990 to 1994, Mr. Dong worked in Shanghai Automobile Air Conditioner Factory (上海汽車空調器廠) as the manager of the sales department responsible for sales and marketing. From 1994 to 1997, Mr. Dong was the legal representative in Shanghai Shuanghua Trade Firm (上海雙樺貿易商行), a collective-owned enterprise, the business scope of which is mainly distribution and trade of auto parts. Since 1997, Mr. Dong had served in Shanghai Shuanghua as the director. Since 2007, Mr. Dong has been serving as the vice chairman of the board of directors of Shanghai Shuanghua. Mr. Dong does not hold any directorships in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years preceding the date or this prospectus.

Non-executive Directors

Ms. Kong Xiaoling (孔小玲), aged 51, is our non-executive Director. Ms. Kong was appointed to the Board on 8 June 2011. She is primarily responsible for supervising and providing advice to the Board. From 1983 to 1996, she worked in Wuhan City Automation Meter Factory (武漢市自動化儀錶廠) as technician of technology introduction office. From 1997 to 2004, Ms. Kong worked in Shanghai Youshen International Trade Company Limited (上海友申國際貿易有限公司), the business scope of which is mainly international trade and trade consultancy as director. From 2000 to 2007, she worked in Shanghai Zhong Zhi Trade Development Co., Ltd. (上海眾智貿易發展有限公司) as vice general manager. From 2007 to now, she has been appointed as the director of Shanghai Shuanghua. From 1980, Ms. Kong studied on a full-time basis in Huazhong College of Technology (華中工學院) (currently known as Huazhong University of Science and Technology (華中科技大學)) and obtained her diploma majoring in Detection Technology and Automatic Meter in 1983. She is the wife of Mr. Zheng, our executive Director. Ms. Kong does not hold any directorships in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years preceding the date of this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Jia Weiren (賈衛人), aged 54, was appointed as our non-executive Director on 8 June 2011. Mr. Jia is primarily responsible for supervising and providing advice to the Board. From 1995 to 1999, he was appointed as the vice general manager of Shanghai Huang Pu Foreign Economic Technology Cooperation Co., Ltd. (上海黃浦對外經濟技術合作公司) and has been serving as the vice general manager responsible for finance and human resources since 2001. Mr. Jia has been serving as the general manager of Shanghai Bright Shine International Trade Company Limited (上海祺晟國際貿易有限公司) from 2000 to 2010 and has been serving as the general manager of that company since 2011. In 2007, he joined Shanghai Shuanghua as independent director. In 1992, he studied on a part-time basis in the Shanghai University of Finance (上海財經大學) and obtained his master's degree majoring in Economics. In 1994, he obtained the qualification as a senior accountant, granted by the Shanghai Senior Professional and Technical Position Review Committee of Accounting Series (上海市會計系列高級專業技術職務任職資格評審委員會). Mr. Jia does not hold any directorships in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years preceding the date of this prospectus.

Independent non-executive Directors

Mr. Zhao Fenggao (趙鳳高), aged 61, was appointed as our Independent Non-executive Director on 8 June 2011. Mr. Zhao is also a member of the audit committee and the nomination committee, and the chairman of the remuneration committee of the Board. Mr. Zhao worked in the Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd. (上海三電貝洱汽車空調有限公司) as vice general manager during 1990 to 1994 and as general manager during 1994 to 2001, primarily responsible for its overall management. From 2001 to 2007, he served as the director and general manager of SAIC Motor Corporation, Ltd. (上海汽車股份有限公司), mainly responsible for its overall management. In 2007, he joined Shanghai Shuanghua as independent director. From 1978 to 1982, he studied on a part-time basis in the Shanghai South District Workers Sparetime University (上海市南市區職工業餘大學) (currently known as Shanghai Huangpu Sparetime University (上海市黃浦區業餘大學)) and has obtained his diploma majoring in Automation Control in 1982. He was accredited as senior economist by the Shanghai Senior Professional and Technical Position Review Committee of Economics Series (Manufacture Industry) (上海市經濟系列(生產領域)高級專業技術職務任職資格審定委員會) in 2002. In 1989, he was qualified as an engineer by Intermediate Professional and Technical Position Review Committee of Shanghai Automotive Industry Corporation (Group) (上海汽車工業(集團)總公司中級專業技術職務任職資格評審委員會). Mr. Zhao has been awarded the National Major Management Innovation Achievement Award (Class 2) (國家重大管理創新成果二等獎) in 2001, the title of China Machinery Enterprise Management Masters (中國機械工業企業經營管理大師) in 2003, and the title of Leading Talent of the Shanghai State-owned System (上海市國資系統領軍人材) in 2005. Mr. Zhao does not hold any directorships in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years preceding the date of this prospectus.

Mr. He Binhui (何斌輝), aged 43, was appointed as our Independent Non-executive Director on 8 June 2011. Mr. He is also a member of the remuneration committee and the nomination committee, and the chairman of the audit committee of the Board. During 2000 to 2009, he has been serving as the head of capital market department and the general manager of the investment banking department of Shanghai office of China Galaxy Securities Co., Ltd. (中國銀河證券有限責任公司). In 2007, he joined Shanghai Shuanghua as independent director. Since December 2009, he has been serving as the general manager assistant and the general manager of investment banking department of Cai Tong Securities Co. (財通證券有限公司). From 1987 to 1991, he studied Mathematics on a full-time basis in the Ningbo University (寧波大學) and has obtained his bachelor's degree majoring in Science in 1991. From 1993 to 1996, he studied on a full-time basis in the Hangzhou Electronic Industry University (杭州電子工業學院) (currently known as

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Hangzhou Dianzi University (杭州電子科技大學)) and has obtained his master's degree of Economics majoring in Accounting in 1996. He was qualified as auditor in 1997 by Beijing Institute of Chartered Accountants (“北京註冊會計師協會”). Mr. He Binhui does not hold any directorships in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years preceding the date of this prospectus.

Mr. Chen Lifan (陳禮璠), aged 72, was appointed as our Independent Non-executive Director on 8 June 2011. Mr. Chen is also a member of the audit committee and remuneration committee, and the chairman of the audit committee of the Board. Mr. Chen does not hold any directorships in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years preceding the date of this prospectus. The working experience and the educational background of Mr. Chen are as following:

Educational background

From 1957 to 1962 studied on a full-time basis in the Jilin University of Technology and has obtained his bachelor's degree majoring in automobile application engineering in 1962

In 2008 attended and completed the training programme for independent executive directors hosted by Shenzhen Securities Company (深圳證券公司)

Working Experience

From 1962 to 1983 worked in the automobile application engineering department of Jilin University of Technology (吉林工業大學) (currently known as Jilin University (吉林大學)):

- as teaching assistant (1962 to 1978); and
- as lecturer (1978 to 1983)

From 1983 to 1985 studied and worked in the institute of automobile engineering of Technical University of Berlin and the German Volkswagen Research Centre, mainly focusing on the research of automobile emissions control, the new energy, automotive safety etc.

From 1985 to 1993 worked in the faculty of automobile engineering of Jilin University of Technology:

- as associate professor (1985 to 1990); and
- as professor (1991 to 1993)

Since 1993 joined the faculty of communication of Jilin University of Technology as professor and obtained qualification as tutor of doctoral degree from the Academic Degrees Committee of the State Council of China (國務院學位委員會)

DIRECTORS, SENIOR MANAGEMENT AND STAFF

- From 1995 to 2006 worked Tongji University (同濟大學):
- as professor, tutor of doctoral degree and the dean of the automobile department (1995 to 2000);
 - as the professor (2000 to 2004);
 - as the responsible professor of the establishment of the automobile engineering subject (2001 to 2002);
 - as the professor, the Chinese coordinator and responsible person of the major of automobile service project design in Sino-German Engineering (中德工程學院) of the Tongji University (2003 to 2006)
- Since 2000 He was one of the founders of TJ Innova Engineering & Technology Co., Ltd. (上海同濟同捷科技股份有限公司) and worked thereafter:
- as director (2000 to 2007); and
 - as consultant (since December 2007)
- From 2003 to 2009 served as the independent director of Ningbo Huaxiang Electronic Co., Ltd. (寧波華翔電子股份有限公司)
- From 2003 to 2010 served as the legal representative of Shanghai Spring Mechanical & Electrical Technology Co., Ltd. (上海同春機電技術有限公司)
- From 2004 to 2005 worked in the Shanghai Office of IAV GmbH (德國汽車與交通工程有限公司) as consultant, and the person in charge of the automobile services engineering guiding the direction of development

SENIOR MANAGEMENT

Dong Hanyou (董漢有), aged 48, was appointed as the joint company secretary of our Company on 1 May 2011. He obtained his master's degree in Business and Administration from the Shanghai University of Finance (上海財經大學) in 2007 and was accredited as economist and statistician in 2000 and 1995 respectively by Ministry of Personnel of PRC and National Bureau of Statistics of China. Mr. Dong joined our Group in June 2007 as the vice general manager and secretary to board of directors of Shanghai Shuanghua. He was then appointed as the director of Shanghai Shuanghua in November 2007. Prior to joining our Group, he worked for Shanghai Pudong Road and Bridges Construction Co., Ltd (上海浦東路橋建設股份有限公司) as the secretary to the board of directors, manager of investment and finance department, head of office of board of directors and vice-manager of administrative department from 1997 to 2007.

Tang Lo Nar (鄧露娜), aged 38, was appointed as the chief financial officer and a joint company secretary of the Company on 1 May 2011. Ms. Tang was the company secretary of two Hong Kong main board listing companies, namely Asia Resources Holdings Limited (stock code: 899) and Karce International Holdings Company Limited (stock code: 1159), for the periods from 31 December 2008 to 1 April 2010 and from 12 January 2009 to 1 April 2010, respectively. She is a Fellow of the Association of Chartered Certified Accountants and a member of Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Tang obtained a master's degree in Applied Finance from University of Western Sydney in 2004, a master's degree in English for Professions from The Hong Kong Polytechnic University in 2002, and a bachelor's degree in Accountancy from The Hong Kong Polytechnic University in 1995. Ms. Tang has over 15 years of experience in accounting, tax, audit, company secretarial and finance. From 1995 to 2004, Ms. Tang

DIRECTORS, SENIOR MANAGEMENT AND STAFF

worked in leading accounting firms, handling various matters of accounting, tax and audit matters. Since 2005, Ms. Tang began the own business by establishing a private company in Hong Kong to provide accounting, management consultancy, tax planning and company secretarial services.

Jung Hwan Ki (鄭煥基), aged 53, is the chief engineer of our Company. He obtained his bachelor's degree in Japanese Studies from Seoul Digital University in 2010. Mr. Jung joined our Group in January 2007 as the general manager of Shanghai Shuanghua. He has been serving in Macs Baoding as the general manager from 2007 to now. Prior to joining our group, he worked for a Korean automotive components company as the leader of the general procurement team and later worked as a general manager in this Korean company's subsidiary in China.

Yu Haiyun (喻海雲), aged 49, is the director of the administration and human resources department of our Company. She obtained her diploma in Machinery Manufacturing from Shanghai Mechanical and Electrical No. 1 Bureau Staff University (上海市機電一局職工大學) in 1985. Ms. Yu joined our Group in November 2007 as the director of the administration and human resources department of Shanghai Shuanghua. Prior to joining our Group, She worked for Shanghai Heavy Machine Tools Factory (上海重型機械廠) as the teacher from 1980 to 1989. From 1989 to 1992, She worked for Shanghai Zijiang (Holdings) Company Limited as the secretary to chief executive officer and the executive. From 2002 to 2007, she worked for Shanghai Peace Enterprise (Holdings) Company Limited (上海和平企業(集團)有限公司) as the assistant of chief executive officer and the manager of the administration and human resource department.

Save as disclosed above, there is no other information relating to our Directors and senior management members which needs to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

JOINT COMPANY SECRETARIES

Mr. Dong Hanyou (董漢有), aged 48, is our joint company secretary – Biographical details of Mr. Dong are set out in the paragraph headed “Senior Management” under this section to this prospectus.

Ms. Tang Lo Nar, aged 38, is our joint company secretary – Biographical details of Ms. Tang are set out in the paragraph headed “Senior Management” under this section to this prospectus.

CORPORATE GOVERNANCE

The Directors recognize the importance of incorporating elements of good corporate governance in management and internal control procedures so as to achieve effective accountability.

In accordance with the requirements of the Hong Kong Listing Rules, the Company has established the Audit Committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Hong Kong Listing Rules and appointed a qualified accountant to oversee the Company's financial reporting procedures and internal controls so as to ensure compliance with the Hong Kong Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Corporate Governance

The Company has adopted a system of corporate governance.

The Company is committed to the view that the Board should include a balanced composition of executive and non-executive Directors (including Independent Non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgments. The Company is also committed to the view that the independent non-executive Directors should be of sufficient caliber and number for their views to carry weight. The Independent Non-executive Directors, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement.

Mr. Zheng is the chairman and the chief executive officer of the Company and is responsible for overseeing the overall policy and the strategic development of the Group as well as undertaking the main decision-making role in the management of the Company's overall operations. The Board will meet regularly to consider, discuss and review the major and appropriate issues affecting the operations of the Company. As such, the Board considers that sufficient measures have been taken and the vesting of the roles of chairman and the chief executive officer of the Company in Mr. Zheng will not impair the balance of power and authority between the Board and the management. The Board considers that the structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long term business strategies.

AUDIT COMMITTEE

An audit committee was established by our Company on 8 June 2011 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Hong Kong Listing Rules. The primary duties of the audit committee are to review and approve our Group's financial reporting process and internal control system. The members of the audit committee are the Independent Non-executive Directors, Mr. He Binhui, Mr. Zhao Fenggao and Mr. Chen Lifan. Mr. He Binhui is the chairman of the audit committee.

REMUNERATION COMMITTEE

A remuneration committee was established by our Company on 8 June 2011 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Hong Kong Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of our Group. The members of the remuneration committee are the Independent Non-executive Directors, Mr. He Binhui, Mr. Zhao Fenggao and Mr. Chen Lifan. Mr. Zhao Fenggao is the chairman of the remuneration committee.

NOMINATION COMMITTEE

A nomination committee was established by our Company on 8 June 2011 with written terms of reference. The primary duties of the nomination committee are to make recommendations to the Board on the appointment of Directors and the management of the Board succession. The members of the nomination committee are the Independent Non-executive Directors, Mr. He Binhui, Mr. Zhao Fenggao and Mr. Chen Lifan. Mr. Chen Lifan is the chairman of the nomination committee.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS AND SENIOR MANAGEMENT'S REMUNERATION

The remuneration received by our Directors (including fees, salaries, discretionary bonus, contributions to defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind) for the years ended 31 December 2008, 2009 and 2010 was approximately RMB171,248, RMB172,795 and RMB1,858,564, respectively. The remuneration received by our Directors are Directors' fees paid to the Directors during the Track Record Period representing their emolument for serving as the directors of the PRC subsidiary of the Group, Shanghai Shuanghua.

The aggregate amount of fees, salaries, discretionary bonus, defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind paid to the five highest paid individuals of the Company, excluding Directors, for the years ended 31 December 2008, 2009 and 2010 was approximately RMB1,984,208, RMB2,136,688 and RMB1,992,414, respectively.

Our Group has not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended 31 December 2008, 2009 and 2010. Further, none of our Directors had waived any remuneration during the same period.

Except as disclosed above, no other payments have been paid or are payable, in respect of the years ended 31 December 2008, 2009 and 2010, by our Group to our Directors.

STAFF

As at the Latest Practicable Date, had 947 employees. The table below set forth the number of our Group's employees by their functions.

Department	Number of employee
Management	126
Research and development	31
Sales and marketing	27
Production and operation	700
Finance	15
Human resources and administration	22
Others	26

Our Directors are of the view that our Group has maintained a good relationship with its staff. Our Group has not, in the past, experienced any disruption of its operations due to labor disputes.

EMPLOYEES' BENEFITS PROVIDED BY OUR GROUP

Our Group complies in all material aspects with all statutory requirements on retirement contribution in the jurisdictions where our Group operates.

Our Group has established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

SHARE OPTION SCHEME

Our Company has conditionally adopted a Share Option Scheme pursuant to which selected participants may be granted options to subscribe for shares as incentives or rewards for their service rendered to our Group and any entity in which any member of our Group holds any equity interest. Our Director believes that the implementation of the Share Option Scheme enable our Group to recruit and retain high calibre executives and employees. The principal terms of the Share Option Scheme are summarized under the section headed “Share Option Scheme” in Appendix VI to this prospectus.

COMPLIANCE ADVISER

Our Company intends to appoint Piper Jaffray Asia as its compliance advisor pursuant to Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the compliance advisor will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) if our Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or if our Company’s business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (iv) if the Hong Kong Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

In addition, the compliance advisor will also provide, inter alia, the following services to us:

- (i) if required by the Hong Kong Stock Exchange, deal with the Hong Kong Stock Exchange in respect of any or all matters listed in paragraphs (i) to (iv) above;
- (ii) in relation to an application by us for a waiver from any of the requirements in Chapter 14A of the Hong Kong Listing Rules, advise us on the Company’s obligations and in particular the requirement to appoint an independent financial advisor; and
- (iii) assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, to the extent our Directors form an opinion that the new appointees’ understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps, such as training.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the Company's first full financial year commencing after the Listing Date, and such appointment may be subject to extension by mutual agreement.

In addition, after the Listing Date, our Company will retain legal advisors to advise on ongoing compliance and the Hong Kong Listing Rules issues and other applicable laws and regulations in Hong Kong.

SHARE CAPITAL

SHARE CAPITAL

The following table is prepared on the basis that the Share Offer and the Capitalization Issue were effected. This table does not take into account any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased pursuant to the Issuing Mandate and the Repurchase Mandate.

	HK\$
<i>Authorized share capital</i>	
<u>10,000,000,000</u> Shares	<u>100,000,000</u>
<i>Issued and to be issued, fully paid or credited</i>	
<i>As fully paid upon completion of the Share Offer:</i>	
10,000 Shares in issue as of the date to this prospectus	100
162,500,000 Shares to be issued under the Share Offer	1,625,000
<u>487,490,000</u> Shares to be issued under the Capitalization Issue	<u>4,874,900</u>
<u>650,000,000</u>	<u>6,500,000</u>

The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

Assumptions

The above tables assume that the Share Offer and the Capitalization Issue become unconditional and is completed in accordance with the relevant terms and conditions. It takes no account of any Shares which may be issued pursuant to exercise of options that may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.

Ranking

The Offer Shares will rank pari passu in all respects with all Shares in issue and/or to be allotted and issued as mentioned in this prospectus and will qualify for all dividends or other distributions hereafter declared, paid or made on the Shares save with respect to the Capitalization Issue.

SHARE CAPITAL

ISSUING MANDATE

Our Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

- 20% of the total nominal amount of Shares in issue and to be issued (as set out in the above table, and
- the total amount of share capital of our Company repurchased by the Company (if any) pursuant to the Repurchase Mandate.

Our Directors may, in addition to the Shares which they are authorized to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of the options granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

This mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or
- upon the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or reviewing such mandate,

whichever is the earliest.

For further details of the Issuing Mandate, please refer to the section headed “Written resolutions passed by all the Shareholders on 8 June 2011” in Appendix VI to this prospectus.

REPURCHASE MANDATE

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the share capital of our Company in issue and to be issued (as set out in the table above).

This mandate only relates to repurchases made on the Hong Kong Stock Exchange, and/or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and which are in accordance with the Hong Kong Listing Rules. A summary of the relevant requirements of the Hong Kong Listing Rules on the Repurchase Mandate is set forth in the section headed “Repurchase by our Company of its own securities” in Appendix VI to this prospectus.

SHARE CAPITAL

This mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or
- upon the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate,

whichever is the earliest.

For further information about the Repurchase Mandate, please refer to the section headed “Written resolutions passed by all the Shareholders on 8 June 2011” in Appendix VI to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our audited combined financial information together with the accompanying notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. Our audited combined financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. Please see the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a leading independent automotive HVAC components supplier based in China. We are principally engaged in the design, production and sales of a comprehensive range of automotive HVAC components including evaporators, condensers, heater cores and compressors. Our products are mainly sold to both domestic OEM and international aftermarket customers. According to the Frost & Sullivan Report, we were the largest independent supplier of evaporators and condensers and the second largest independent supplier of heater cores in terms of sales units in China in 2010, with market shares of 7.9%, 4.8% and 2.7%, respectively by sales units in each of the Chinese evaporator, condenser and heater core markets among all captive and independent suppliers in 2010.

We operate production lines with an annual production capacity of 3,456,000 units of evaporators, condensers and heater cores, in aggregate, and 150,000 units of compressors as at 31 December 2010. Our production lines commenced trial production of consistent displacement swash plate compressors in 2010 solely for sales to the overseas aftermarket. We also plan to commence trial production of variable displacement swash plate compressors by the end of 2011. Apart from selling self-manufactured compressors to the overseas aftermarket, we are in the process of exploring the domestic OEM market by applying for recognition of self-manufactured compressors from domestic OEM customers, being HVAC system suppliers and automakers.

Our revenue are principally generated from our sales to the domestic OEM market and overseas aftermarket which accounted for approximately 41.3%, 48.6% and 43.6%, and approximately 52.8%, 45.2% and 53.0%, respectively of our total revenue during the Track Record Period.

For the domestic OEM market, our products are ultimately used for assembly in different car models. We, as an HVAC components supplier (a tier two supplier), directly sell our products to our OEMs customers which are HVAC system suppliers (tier one suppliers) in the supply chain on a made-to-order basis, for their assembly into their brands of HVAC systems. Such assembled automotive HVAC systems are ultimately supplied to the major automakers in China. We have been recognized as a leading independent supplier of automotive HVAC components domestically in China. Our operating subsidiary, Shanghai Shuanghua, has been qualified as an HVAC components supplier for a wide portfolio of domestic or Sino-foreign joint-venture HVAC system suppliers which are our direct OEM customers with an average 5 years of business relationship.

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To further strengthen our cooperation with automakers, we successfully established Macs Baoding in 2004 with Great Wall Motor, a major integrated automaker based in China, to supply automotive HVAC systems exclusively for Great Wall Motor. Macs Baoding is held as to 49% and 51% by our Group and Great Wall Motor, respectively. Since 2005, Macs Baoding has been our major customers in the domestic OEM market.

For the international aftermarket, our products are used as replacement parts for automobile repairing. We mainly sell our products to overseas aftermarket suppliers as replacement HVAC components for their eventual sales to their customers. Since 2006, we have expanded into the international aftermarket so as to benefit from the increasing demand for replacement auto-parts worldwide. Apart from the sales of our self-manufactured HVAC components to the overseas aftermarket customers, we have also been engaging in the trading business for various types of compressors, which are mainly swash plate compressors, and other automotive HVAC parts and components mainly for export which we sourced from third party local suppliers. Over the years, we have developed a long-established network of overseas aftermarket customers based in more than 20 countries and regions across the United States, Canada, South America, Europe, Middle East, Asia and Australia. UAC and SPI, which are major participants in the North American HVAC components aftermarket, are our major customers in the aftermarket with more than 3 years of business relationship. According to the Frost & Sullivan Report, replacement HVAC components are distributed to end users through four major channels in the North America aftermarket, namely original equipment service, regional retailers, warehouse distributors and service chains, while our products are mainly sold to UAC and SPI which are warehouse distributors themselves.

Our evaporators, condensers and heaters marketed under our “Shuanghua (双桦)” brand name have been recognized as “Shanghai Famous Brand Products” by the Shanghai Famous Brand Recommendation Committee, an affiliate of the Shanghai Bureau of Quality and Technique Supervision, in 2009. Our  trademark has also been designated as a “Shanghai Famous Trademark” by the Shanghai Administration of Industry and Commerce in 2009. In addition, our operating subsidiary Shanghai Shuanghua has been accredited as a “Brand Name Enterprise” in 2007 and a “High and New Technology Enterprise” from 2006 to 2010 by the relevant authorities in Shanghai as well as a “Foreign-Invested Advanced Technology Enterprise” by the Shanghai Municipal Commission of Commerce in 2009.

For the years ended 31 December 2008, 2009 and 2010, our revenue was RMB382.8 million, RMB371.5 million and RMB591.5 million, respectively, and our profit attributable to owners of the parent was RMB43.4 million, RMB77.5 million and RMB81.5 million, respectively.

BASIS OF PRESENTATION

The combined financial statements of our Group in the Accountants’ Report as set out in Appendix I to this prospectus have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirement of the Companies Ordinance.

Pursuant to the Reorganisation, our Company became the holding company of the companies now comprising the Group on 8 June 2011 by acquiring the entire issued share capital of BVI Automart, a company incorporated in the BVI, which was the then holding company of the other subsidiaries comprising the Group. Since the shareholders group, Mr. Zheng and Mr. Dong, is acting in concert and

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ultimately controlled our Group before and after the Reorganisation and that control is not transitory, the business combination in Reorganisation is accounted for as business combination under common control using the principles of merger accounting in accordance with the Accounting Guidance 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA.

The Financial Information includes the combined statements of income, comprehensive income, changes in equity, cash flows and financial position of the companies now comprising the Group, as if the current group structure resulted from the Reorganisation had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, whichever is a shorter period.

All significant intra-group transactions and balances have been eliminated on consolidation.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial position and results of operations have been and will be significantly affected by a number of factors, many of which may not be within our control. The principal factors affecting our results of operations are set out below.

Cost of raw materials

The primary raw materials for our production are aluminium, which includes aluminium processed parts such as aluminium tubes, aluminium foils and aluminium plates with various specifications. For the Track Record Period, the total cost of raw materials accounted for 63.2%, 54.4% and 49.0%, respectively of our total cost of sales. The price of aluminium is subject to fluctuations in the domestic commodity market and changes in aluminium prices will affect our cost of aluminium raw materials and results of operations. As we increase our production in accordance with our capacity expansion plans, we expect that our demand for raw materials will increase. Although we believe that we benefit from economies of scale in our procurement efforts and can obtain favorable pricing terms from our suppliers, fluctuations in the prices of raw materials will continue to have an impact on our results of operations.

Market competition

During the Track Record Period, there had been fluctuations of the average unit selling price of our evaporators, condensers, heater cores and compressors. The fluctuations were mainly due to competition in the competitive HVAC components industry and the effect of RMB appreciation against US\$ on our overseas sales. We face increasing competition from both domestic and foreign new entrants into the rapidly evolving auto-parts manufacturing industry domestically in China as well as internationally. We believe that we have enjoyed certain competitive advantages as a result of our diversified and comprehensive product portfolio, leading production capacity, established and solid customer base, presence in both the aftermarket and the OEM market, strong brand recognition, commitment to product innovation and quality and strong cost competitiveness and experienced and dedicated management team. Please refer to the section headed “Business – Our Competitive Strengths” in this prospectus for additional details. Increased competition or our inability to sustain our competitive advantages could adversely affect our results of operations. We, as the leading independent automotive HVAC components supplier based in China, were able to maintain a stable gross margin through the benefits of economies of scale and stringent cost control. During the Track Record Period, the gross profit margins of our Group were 25.3%, 28.9% and 23.1% respectively. If there is an increase in market competition, this may increase the pressure on the average selling price of our products and our profit margins.

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General economic conditions and the conditions of the markets for our products

We derive substantially all of our revenue from the sale of automotive HVAC components in both domestic and international markets. Domestic and global economic growth and in particular the growth of the domestic and global automobile industry have a significant impact on all aspects of our operations, including but not limited to the demand for and pricing of our products. For example, during the Track Record Period, our business and results of operations were affected by the global economic crisis that started in the fourth quarter of 2008 and also the subsequent slowdown in the domestic and automobile industry.

Production capacity

Our results of operations have been and are expected to continue to be affected by our production capacity. We have expanded our production capacity by improving our production process technology and acquiring new production lines. We currently have two production sites both located at our production base at Fengxian District in Shanghai, the PRC, with a total site area of 188,282 sq.m. We have improved our production process technology through continuous research and development efforts, which have enabled us to achieve relatively high production efficiency and utilization rate for our production facilities. In order to strengthen our leading market position in the PRC, we intend to further expand our production capacity as set out in the section headed “Business – Production Facilities and Production Capacities” in this prospectus. We believe that increasing our production capacity will help us to gain market share and increase our revenue. However, if we over-expand our production capacity beyond the demand for our products, our results of operations may be adversely affected.

Taxation

Our subsidiaries operating in the PRC are subject to EIT on their taxable income in accordance with the relevant PRC tax laws and regulations. Effective on 1 January 2008, the new PRC Enterprise Income Tax Law introduces the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In this connection, Shanghai Shuanghua, Shuanghua Auto Components, Shuanghua Machinery, Youshen Industry and Baoding Shuanghua are subject to an EIT rate of 25%.

Shanghai Shuanghua, being registered as a foreign-invested enterprise, was in its third, fourth and fifth profit making years in 2008, 2009 and 2010 and therefore was subject to a preferential EIT rate of 12.5% for the period. The preferential tax treatment of “two-year exemption and three-year half rate” enjoyed by Shanghai Shuanghua had expired on 31 December 2010. Shanghai Shuanghua was accredited as a “Shanghai High and New Technology Enterprise” in December 2008 and such qualification will expire on 24 December 2011. Shanghai Shuanghua is in the process of applying for re-assessment of this “hi-tech enterprise” qualification in order to enjoy the preferential EIT rate of 15.0% applicable to “hi-tech enterprise” for the years ending 31 December 2011, 2012 and 2013. According to the “Announcement of the State Administration of Taxation on Prepayment of Enterprise Income Tax” issued by State Administration of Taxation in January 2011, any enterprise that is applying for re-assessment of its “hi-tech enterprise” qualification can temporarily prepay enterprise income tax at a rate of 15% during the transition period before passing the re-assessment while its hi-tech enterprise qualification remains valid. As such, Shanghai Shuanghua is temporarily prepaying enterprise income tax in 2011 at a rate of 15%. Youshen Industry is located in Pudong New Area and was subject to a preferential EIT rate of 18%, 20% and 22% respectively for the Track Record Period.

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Any changes in the EIT rate applicable to us would have a significant impact on our financial condition and results of operations.

CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

Our revenue is recognized when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably, on the following basis:

- (a) from the sale of goods – when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income – on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income – when the shareholders’ right to receive payment has been established.

Property, plant and equipment and depreciation

Our property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5% to 20%
Plant and machinery	10% to 20%
Office equipment.....	20%
Motor vehicles	20%

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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Our construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds, if any, during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial information in conformity with HKFRSs requires us 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 recognized 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.

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There is no significant effect on the amounts recognised in the Financial Information arising from the judgements, apart from those involving estimations, made by management in the process of applying our accounting policies. Estimates with a significant risk of material adjustment in the next year are discussed in our Group's combined financial statements in the Accountants' Report set out in Appendix I to this prospectus.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on ongoing assessment of the recoverability of trade and other receivables. The identification of impairment requires our management's judgments and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade and other receivables and impairment loss in the period in which such estimate has been changed.

Provision for slow-moving inventories and net realizable value of inventories

We reviews the ageing analysis of inventories of our Group at the end of each reporting period, and makes a provision for slow-moving inventory items. We estimate the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. Write-down of inventories to net realizable value is made based on the estimated net realizable value of inventories. The assessment of the write-down amount requires our management's estimates and judgments. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed.

Income tax

Our Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to income taxes have not been confirmed by the local tax bureau, objective estimates and judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision of enterprise income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the enterprise income tax and tax provisions in the period in which the differences are realized.

Warranty provision

The Group provides warranties on the products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volume and past experience of the level of repairs and returns, discounted to the present value as appropriate. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

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RESULTS OF OPERATIONS

The following table sets forth our combined statements of income for the Track Record Period as extracted from the Accountants' Report included in Appendix I to this prospectus:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue	382,846	371,463	591,504
Cost of sales	(285,981)	(264,249)	(454,752)
Gross profit	96,865	107,214	136,752
Other income and gains	3,935	5,809	2,066
Selling and distribution costs	(20,989)	(13,588)	(21,066)
Administrative expenses	(25,401)	(26,663)	(47,350)
Other expenses	(2,137)	(630)	(1,846)
Finance costs	(10,177)	(6,175)	(6,115)
Share of profits of an associate	9,187	22,160	27,094
Profit before tax	51,283	88,127	89,535
Income tax expense	(8,353)	(11,385)	(8,755)
Profit for the year	<u>42,930</u>	<u>76,742</u>	<u>80,780</u>
Attributable to:			
Owners of the parent	43,370	77,534	81,541
Non-controlling interests	(440)	(792)	(761)
	<u>42,930</u>	<u>76,742</u>	<u>80,780</u>

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Our revenue is derived from the sale of automotive HVAC components, which mainly includes evaporators, condensers, heater cores and compressors, which in aggregate accounted for 82.3%, 86.5% and 84.6% of our total revenue during the Track Record Period. Our sales of evaporators, condensers and heater cores during the Track Record Period were generated from self-manufactured products whereas our sales of compressors for the two years ended 31 December 2009 were solely generated from trading of compressors sourced from third party suppliers. In 2010, in addition to the trading of compressors, we commenced the sales of our self-manufactured compressor products solely to the overseas aftermarket which amounted to RMB18.1 million for the year ended 31 December 2010. In addition, we generate revenue, on a relatively small scale, from the sales of other self-manufactured automotive heat-exchange devices, such as oil coolers and intercoolers, trading of other automotive HVAC parts and components, such as liquid-gas separators, sourced from third party suppliers as well as sales of aluminium wastes generated as a by-product during our production process.

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Our revenue increased by RMB220.0 million, or 59.2%, from RMB371.5 million for the year ended 31 December 2009 to RMB591.5 million for the year ended 31 December 2010. The increase in revenue was mainly attributable to: (i) an increase in sales of our products to the international market by RMB145.6 million as the automobile industry picked up in 2010 in line with the recovery of the world economy from financial crisis; and (ii) an increase in sales of our products to the domestic market by RMB74.4 million as a result of the growing domestic market.

Our revenue decreased slightly by RMB11.3 million, or 3.0%, from RMB382.8 million for the year ended 31 December 2008 to RMB371.5 million for the year ended 31 December 2009. The slight drop in revenue was mainly the net effect of: (i) a decrease in sales of our products to the international market by RMB34.3 million as a result of the global economic crisis that started in the fourth quarter of 2008 and the subsequent slowdown in the automobile industry in 2009; and (ii) an increase in sales of our products to the domestic market by RMB23.0 million primarily attributable to the economic stimulation policy in automobile industry implemented by the PRC government which lessened the impact of the global economic crisis nationwide and led to the subsequent rebound of the PRC economy in 2009.

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

Products	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Self-Manufactured						
Evaporators	145,504	38.0%	120,448	32.4%	162,024	27.4%
Condensers	133,476	34.9%	112,400	30.3%	151,607	25.6%
Heater Cores	12,019	3.1%	24,402	6.6%	33,328	5.6%
Compressors ⁽¹⁾	—	—	—	—	18,138	3.1%
Other products ⁽²⁾	12,125	3.2%	13,153	3.5%	23,081	4.0%
Trading						
Compressors	24,181	6.3%	63,987	17.2%	135,664	22.9%
Other products ⁽³⁾	45,682	11.9%	30,622	8.3%	59,109	10.0%
By-product⁽⁴⁾	<u>9,859</u>	<u>2.6%</u>	<u>6,451</u>	<u>1.7%</u>	<u>8,553</u>	<u>1.4%</u>
Total revenue	<u>382,846</u>	<u>100.0%</u>	<u>371,463</u>	<u>100.0%</u>	<u>591,504</u>	<u>100.0%</u>

Notes:

- (1) We commenced the trial production and sales of our self-manufactured compressor products during 2010.
- (2) Other products mainly comprised of self-manufactured oil coolers and intercoolers.
- (3) Other products mainly comprised of other automotive HVAC parts and components (e.g. liquid-gas separators) which we sourced from third party local suppliers.
- (4) Aluminium waste generated during our production process is considered as a by-product.

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Our sales of products can also be principally divided into two segments: (1) sales to automotive HVAC system suppliers and automakers in the OEM market in China; and (2) sales to overseas customers of automotive HVAC components in the international aftermarket.

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

Segments	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
OEM Market						
Domestic	158,248	41.3	180,577	48.6	257,591	43.6
International	—	0.0	—	0.0	—	0.0
Sub-total	158,248	41.3	180,577	48.6	257,591	43.6
Aftermarket						
Domestic	12,772	3.3	16,815	4.5	12,112	2.0
International	201,967	52.8	167,620	45.2	313,248	53.0
Sub-total	214,739	56.1	184,435	49.7	325,360	55.0
By-product⁽¹⁾	9,859	2.6	6,451	1.7	8,553	1.4
Total revenue	<u>382,846</u>	<u>100.0</u>	<u>371,463</u>	<u>100.0</u>	<u>591,504</u>	<u>100.0</u>

Notes:

(1) Aluminium wastes generated as a by-product during our production process are all sold to the domestic market.

The following tables set forth the breakdown of our revenue by: (i) products; (ii) business mode; and (iii) market during the Track Record Period:

	Year ended 31 December 2008									
	Domestic		International						Total	
	RMB'000	%	United States	Canada	Asia	Others	Sub-total	RMB'000	%	
Self-Manufactured										
Evaporators	75,890	42.0%	32,319	3,129	24,587	9,579	69,614	34.5%	145,504	38.0%
Condensers	81,420	45.0%	10,533	24,547	14,959	2,017	52,056	25.8%	133,476	34.9%
Heater Cores	10,280	5.7%	—	1,739	—	—	1,739	0.9%	12,019	3.1%
Other products	3,430	1.8%	—	7,505	893	297	8,695	4.3%	12,125	3.2%
Sub-total	<u>171,020</u>	<u>94.5%</u>	<u>42,852</u>	<u>36,920</u>	<u>40,439</u>	<u>11,893</u>	<u>132,104</u>	<u>65.5%</u>	<u>303,124</u>	<u>79.2%</u>
Trading										
Compressors	—	—	21,510	764	—	1,907	24,181	12.0%	24,181	6.3%
Other products	—	—	43,241	739	449	1,253	45,682	22.5%	45,682	11.9%
Sub-total	<u>—</u>	<u>—</u>	<u>64,751</u>	<u>1,503</u>	<u>449</u>	<u>3,160</u>	<u>69,863</u>	<u>34.5%</u>	<u>69,863</u>	<u>18.2%</u>
By-product	9,859	5.5%	—	—	—	—	—	—	9,859	2.6%
	<u>180,879</u>	<u>100.0%</u>	<u>107,603</u>	<u>38,423</u>	<u>40,888</u>	<u>15,053</u>	<u>201,967</u>	<u>100.0%</u>	<u>382,846</u>	<u>100.0%</u>

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Year ended 31 December 2009

	Domestic		International						Total	
	RMB'000	%	United States	Canada	Asia	Others	Sub-total	%	RMB'000	%
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000	
Self-Manufactured										
Evaporators	85,950	42.2%	18,054	1,581	10,684	4,179	34,498	20.6%	120,448	32.4%
Condensers	85,876	42.1%	6,075	17,250	2,544	655	26,524	15.8%	112,400	30.3%
Heater Cores	16,308	8.0%	–	8,094	–	–	8,094	4.8%	24,402	6.6%
Other products	4,783	2.3%	–	7,780	456	134	8,370	5.0%	13,153	3.5%
Sub-total	<u>192,917</u>	<u>94.6%</u>	<u>24,129</u>	<u>34,705</u>	<u>13,684</u>	<u>4,968</u>	<u>77,486</u>	<u>46.2%</u>	<u>270,403</u>	<u>72.8%</u>
Trading										
Compressors	–	–	60,903	2,016	34	1,034	63,987	38.2%	63,987	17.2%
Other products	4,475	2.2%	25,299	372	296	180	26,147	15.6%	30,622	8.3%
Sub-total	<u>4,475</u>	<u>2.2%</u>	<u>86,202</u>	<u>2,388</u>	<u>330</u>	<u>1,214</u>	<u>90,134</u>	<u>53.8%</u>	<u>94,609</u>	<u>25.5%</u>
By-product	<u>6,451</u>	<u>3.2%</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,451</u>	<u>1.7%</u>
	<u>203,843</u>	<u>100.0%</u>	<u>110,331</u>	<u>37,093</u>	<u>14,014</u>	<u>6,182</u>	<u>167,620</u>	<u>100.0%</u>	<u>371,463</u>	<u>100.0%</u>

Year ended 31 December 2010

	Domestic		International						Total	
	RMB'000	%	United States	Canada	Asia	Others	Sub-total	%	RMB'000	%
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000	
Self-Manufactured										
Evaporators	113,442	40.8%	30,214	542	15,521	2,305	48,582	15.5%	162,024	27.4%
Condensers	113,986	41.0%	8,862	24,069	4,182	508	37,621	12.0%	151,607	25.6%
Heater Cores	25,070	9.0%	180	8,078	–	–	8,258	2.6%	33,328	5.6%
Compressors	–	–	18,138	–	–	–	18,138	5.8%	18,138	3.1%
Other products	14,490	5.1%	–	8,285	–	306	8,591	2.8%	23,081	4.0%
Sub-total	<u>266,988</u>	<u>95.9%</u>	<u>57,394</u>	<u>40,974</u>	<u>19,703</u>	<u>3,119</u>	<u>121,190</u>	<u>38.7%</u>	<u>388,178</u>	<u>65.7%</u>
Trading										
Compressors	–	–	129,823	2,984	6	2,851	135,664	43.3%	135,664	22.9%
Other products	2,715	1.0%	53,603	614	484	1,693	56,394	18.0%	59,109	10.0%
Sub-total	<u>2,715</u>	<u>1.0%</u>	<u>183,426</u>	<u>3,598</u>	<u>490</u>	<u>4,544</u>	<u>192,058</u>	<u>61.3%</u>	<u>194,773</u>	<u>32.9%</u>
By-product	<u>8,553</u>	<u>3.1%</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>8,553</u>	<u>1.4%</u>
	<u>278,256</u>	<u>100.0%</u>	<u>240,820</u>	<u>44,572</u>	<u>20,193</u>	<u>7,663</u>	<u>313,248</u>	<u>100.0%</u>	<u>591,504</u>	<u>100.0%</u>

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The following table sets out the number of units of our major products sold during the Track Record Period:

	Year ended 31 December								
	2008			2009			2010		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
Self-Manufactured									
Evaporators	576,406	452,604	1,029,010	723,544	236,866	960,410	1,043,950	357,388	1,401,338
Condensers	498,078	248,587	746,665	522,608	115,779	638,387	668,073	168,331	836,404
Heater Cores	170,975	28,423	199,398	265,711	126,659	392,370	405,158	134,434	539,592
Compressors	-	-	-	-	-	-	-	29,330	29,330
Trading									
Compressors	-	45,387	45,387	-	126,038	126,038	-	265,420	265,420

The following table sets out the average unit selling prices for our major products during the Track Record Period:

	Year ended 31 December								
	2008			2009			2010		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Self-Manufactured									
Evaporators	131.7	153.8	141.4	118.8	145.6	125.4	108.7	135.9	115.6
Condensers	163.5	209.4	178.8	164.3	229.1	176.1	170.6	223.5	181.3
Heater Cores	60.1	61.2	60.3	61.4	63.9	62.2	61.9	61.4	61.8
Compressors	-	-	-	-	-	-	-	618.4	618.4
Trading									
Compressors	-	532.8	532.8	-	507.7	507.7	-	511.1	511.1

The decrease in the average selling price of evaporators for domestic market during the Track Record Period was mainly due to market competition in the domestic OEM market. The decrease in the average selling of evaporators for international market was mainly due to market competition in the overseas aftermarket and the effect of RMB appreciation against US Dollar in 2010 on our overseas sales.

Cost of sales

Our cost of sales primarily comprises raw materials, direct labor and manufacturing overhead. For the years ended 31 December 2008, 2009 and 2010, our cost of sales was RMB286.0 million, RMB264.2 million and RMB454.8 million respectively, representing 74.7%, 71.1% and 76.9% of our revenue respectively.

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The following table sets forth the breakdown of our cost of sales for the Track Record Period:

Cost of sales	Year ended 31 December					
	2008		2009		2010	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales
Raw materials.....	180,781	63.2	143,709	54.4	222,340	49.0
Direct labor.....	14,281	5.0	11,268	4.3	18,304	4.0
Manufacturing overhead..	33,277	11.6	29,694	11.2	46,590	10.2
Compressors and other HVAC parts and components for trading	<u>57,642</u>	<u>20.2</u>	<u>79,578</u>	<u>30.1</u>	<u>167,518</u>	<u>36.8</u>
Total	<u><u>285,981</u></u>	<u><u>100.0</u></u>	<u><u>264,249</u></u>	<u><u>100.0</u></u>	<u><u>454,752</u></u>	<u><u>100.0</u></u>

Aluminium, packing materials and auxiliary materials and other materials accounted for approximately 85.9%, 84.8% and 81.4%, 4.8%, 5.6% and 5.0%, and 9.3%, 9.6% and 13.6%, respectively of our cost of raw materials during the Track Record Period. During the Track Record Period, our average purchase price of aluminium processed parts, such as aluminium tubes, aluminium foils and aluminium plates, was approximately RMB28.9, RMB23.0 and RMB24.0 per kilogram.

The major component in the costs of sales was the costs of raw materials, principally aluminium. For the years ended 31 December 2008, 2009 and 2010, the costs of raw materials accounted for 63.2%, 54.4% and 49.0%, respectively, of our total cost of sales for the same periods.

Direct labor costs primarily consist of expenses related to wages and overtime payment. For the years ended 31 December 2008, 2009 and 2010, direct labor costs accounted for 5.0%, 4.3% and 4.0%, respectively, of our total cost of sales for the same periods.

Manufacturing overhead costs primarily consist of depreciation of our plant and equipment and fixed manufacturing costs, including utilities and maintenance costs. For the years ended 31 December 2008, 2009 and 2010, manufacturing overhead costs accounted for 11.6%, 11.2% and 10.2%, respectively, of our total cost of sales for the same periods.

Apart from purchasing raw materials for its production, we also purchased compressors and other automotive HVAC parts and components for our trading business. During the Track Record Period, the increase in the cost of compressors and other automotive HVAC parts and components acquired by us for trading business was consistent with the increase in our revenue generated from trading of compressors and other automotive HVAC parts and components which amounted to RMB69.9 million, RMB94.6 million and RMB194.8 million, respectively.

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Gross profit

For the years ended 31 December 2008, 2009 and 2010, our gross profit was RMB96.9 million, RMB107.2 million and RMB136.8 million, respectively. Our gross profit margin, which is equal to gross profit divided by revenue, was 25.3%, 28.9% and 23.1%, respectively, for the same periods. Our overall gross profit margin decreased from 28.9% in 2009 to 23.1% in 2010 mainly due to: (i) the decrease in the average unit selling price of most of our evaporator and condenser products as a result of market competition and the effect of RMB appreciation against US\$ on our overseas sales; (ii) the increase in average purchase cost of aluminium raw materials in 2010 which led to higher production cost; (iii) more sales of new types of condenser by us with liquid-gas separator built-in as demanded by our customers, leading to higher production cost which outpaced the increase in the average unit selling price of this product; and (iv) the increase in the proportion of our sales and gross profit contribution from the trading of compressors with relatively low gross profit margin of 9.6% (2009: 9.6%). Aluminium wastes were generated as a by-product of our production process and were sold at cost domestically, and hence no gross profit was generated from the sales of aluminium wastes during the Track Record Period.

The following table sets forth the breakdown of our gross profits and gross profit margins by: (i) products; (ii) business mode; and (iii) market during the Track Record Period:

Gross profit/(loss)

	Year ended 31 December 2008										
	Domestic		International							Total	
	RMB'000	%	United States	Canada	Asia	Others	Sub-total	RMB'000	%		
Self-Manufactured											
Evaporators	26,124	65.0%	14,622	1,813	7,158	6,093	29,686	52.3%	55,810	57.6%	
Condensers	15,404	38.4%	2,452	9,450	695	813	13,410	23.6%	28,814	29.7%	
Heater Cores	12	0.0%	–	(737)	–	–	(737)	(1.3%)	(725)	(0.7%)	
Other products	(1,384)	(3.4%)	–	1,850	10	269	2,129	3.8%	745	0.8%	
Sub-total	<u>40,156</u>	<u>100.0%</u>	<u>17,074</u>	<u>12,376</u>	<u>7,863</u>	<u>7,175</u>	<u>44,488</u>	<u>78.4%</u>	<u>84,644</u>	<u>87.4%</u>	
Trading											
Compressors	–	–	(566)	209	–	(372)	(729)	(1.2%)	(729)	(0.8%)	
Other products	–	–	12,407	600	338	(395)	12,950	22.8%	12,950	13.4%	
Sub-total	<u>–</u>	<u>–</u>	<u>11,841</u>	<u>809</u>	<u>338</u>	<u>(767)</u>	<u>12,221</u>	<u>21.6%</u>	<u>12,221</u>	<u>12.6%</u>	
By-product	–	–	–	–	–	–	–	–	–	–	
	<u>40,156</u>	<u>100.0%</u>	<u>28,915</u>	<u>13,185</u>	<u>8,201</u>	<u>6,408</u>	<u>56,709</u>	<u>100.0%</u>	<u>96,865</u>	<u>100.0%</u>	

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Gross profit/(loss) margin

	Year ended 31 December 2008		
	Domestic	International	Total
Self-Manufactured			
Evaporators	34.4%	42.6%	38.4%
Condensers	18.9%	25.8%	21.6%
Heater Cores	0.1%	(42.4%)	(6.0%)
Other products	(40.3%)	24.5%	6.1%
Overall (self-manufactured)	<u>23.5%</u>	<u>33.7%</u>	<u>27.9%</u>
Trading			
Compressors	–	(3.0%)	(3.0%)
Other products	–	28.3%	28.3%
Overall (trading)	<u>–</u>	<u>17.5%</u>	<u>17.5%</u>
By-product	<u>–</u>	<u>–</u>	<u>–</u>
Overall	<u>22.2%</u>	<u>28.1%</u>	<u>25.3%</u>

Gross profit/(loss)

	Year ended 31 December 2009										
	Domestic		International							Total	
	RMB'000	%	United States RMB'000	Canada RMB'000	Asia RMB'000	Others RMB'000	Sub-total RMB'000	%	RMB'000	%	
Self-Manufactured											
Evaporators	35,723	52.6%	8,544	915	2,459	3,173	15,091	38.4%	50,814	47.4%	
Condensers	23,925	35.2%	1,302	5,288	487	231	7,308	18.6%	31,233	29.1%	
Heater Cores	4,066	6.0%	–	2,316	–	–	2,316	5.9%	6,382	6.0%	
Other products	2,710	4.0%	–	732	204	108	1,044	2.7%	3,754	3.5%	
Sub-total	<u>66,424</u>	<u>97.8%</u>	<u>9,846</u>	<u>9,251</u>	<u>3,150</u>	<u>3,512</u>	<u>25,759</u>	<u>65.6%</u>	<u>92,183</u>	<u>86.0%</u>	
Trading											
Compressors	–	–	5,554	495	6	105	6,160	15.7%	6,160	5.7%	
Other products	1,454	2.2%	7,204	172	96	(55)	7,417	18.7%	8,871	8.3%	
Sub-total	<u>1,454</u>	<u>2.2%</u>	<u>12,758</u>	<u>667</u>	<u>102</u>	<u>50</u>	<u>13,577</u>	<u>34.4%</u>	<u>15,031</u>	<u>14.0%</u>	
By-product	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	
	<u>67,878</u>	<u>100.0%</u>	<u>22,604</u>	<u>9,918</u>	<u>3,252</u>	<u>3,562</u>	<u>39,336</u>	<u>100.0%</u>	<u>107,214</u>	<u>100.0%</u>	

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Gross profit/(loss) margin

	Year ended 31 December 2009		
	Domestic	International	Total
Self-Manufactured			
Evaporators	41.6%	43.7%	42.2%
Condensers	27.9%	27.6%	27.8%
Heater Cores	24.9%	28.6%	26.2%
Other products	56.7%	12.5%	28.5%
Overall (self-manufactured)	34.4%	33.2%	34.1%
Trading			
Compressors	–	9.6%	9.6%
Other products	32.5%	28.4%	29.0%
Overall (trading)	32.5%	15.1%	15.9%
By-product	–	–	–
Overall	33.3%	23.5%	28.9%

Gross profit/(loss)

	Year ended 31 December 2010										
	Domestic		International							Total	
	RMB'000	%	United States	Canada	Asia	Others	Sub-total	%	RMB'000	%	
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000				
Self-Manufactured											
Evaporators	47,637	59.2%	10,727	300	4,766	1,337	17,130	30.4%	64,767	47.4%	
Condensers	26,860	33.4%	1,153	5,610	1,386	82	8,231	14.6%	35,091	25.7%	
Heater Cores	5,485	6.8%	39	1,405	–	–	1,444	2.6%	6,929	5.1%	
Compressors	–	–	103	–	–	–	103	0.2%	103	0.1%	
Other products	581	0.7%	–	1,732	–	294	2,026	3.6%	2,607	1.8%	
Sub-total	80,563	100.1%	12,022	9,047	6,152	1,713	28,934	51.4%	109,497	80.1%	
Trading											
Compressors	–	–	12,029	549	1	390	12,969	23.0%	12,969	9.5%	
Other products	(109)	(0.1%)	12,544	550	25	1,276	14,395	25.6%	14,286	10.4%	
Sub-total	(109)	(0.1%)	24,573	1,099	26	1,666	27,364	48.6%	27,255	19.9%	
By-product	–	–	–	–	–	–	–	–	–	–	
	80,454	100.0%	36,595	10,146	6,178	3,379	56,298	100.0%	136,752	100.0%	

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Gross profit/(loss) margin

	Year ended 31 December 2010		
	Domestic	International	Total
Self-Manufactured			
Evaporators	42.0%	35.3%	40.0%
Condensers	23.6%	21.9%	23.1%
Heater Cores	21.9%	17.5%	20.8%
Compressors	–	0.6%	0.6%
Other products	<u>4.0%</u>	<u>23.6%</u>	<u>11.3%</u>
Overall (self-manufactured)	<u>30.2%</u>	<u>23.9%</u>	<u>28.2%</u>
Trading			
Compressors	–	9.6%	9.6%
Other products	<u>(4.0%)</u>	<u>25.5%</u>	<u>24.2%</u>
Overall (trading)	<u>(4.0%)</u>	<u>14.2%</u>	<u>14.0%</u>
By-product			
Overall	<u>–</u>	<u>–</u>	<u>–</u>
Overall	<u>28.9%</u>	<u>18.0%</u>	<u>23.1%</u>

Other income and gains

Other income and gains primarily include interest income derived from bank deposits, gain on disposal of a subsidiary, government grants and gain on disposal of items of property, plant and equipment which related to the transfer of leasing rights of an apartment in 2009.

The following table sets forth the breakdown of our other income and gains during the Track Record Period:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank interest income	775	158	402
Gain on disposal of a subsidiary	1,300	–	–
Government grants	1,159	981	1,310
Gain on disposal of items of property, plant and equipment	–	4,620	187
Others	<u>701</u>	<u>50</u>	<u>167</u>
Total	<u>3,935</u>	<u>5,809</u>	<u>2,066</u>

Selling and distribution costs

Our selling and distribution costs consist primarily of freight charges and transportation costs, salary and commission expenses paid to our sales and marketing employees, rental expenses and customs declaration expenses. For the years ended 31 December 2008, 2009 and 2010, our selling and distribution costs represented 5.5%, 3.7% and 3.6% of our total revenue, respectively.

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The following table sets forth the breakdown of selling and distribution costs for the Track Record Period:

Selling and distribution costs	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Freight charges and insurance expense	13,453	8,482	15,523
Staff cost	1,963	1,649	2,056
Rental expenses	1,826	1,491	1,778
Customs declaration expenses	680	432	651
Commission	445	227	293
Conference fee	949	462	13
Others	1,673	845	752
Total	<u>20,989</u>	<u>13,588</u>	<u>21,066</u>

Administrative expenses

Our administrative expenses consist primarily of salary expenses paid to our management and administrative personnel, depreciation expenses, rental expenses and research and development expenses. For the years ended 31 December 2008, 2009 and 2010, our administrative expenses represented 6.6%, 7.2% and 8.0% of our total revenue, respectively.

The following table sets forth the breakdown of our administrative expenses for the Track Record Period:

Administrative expenses	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Staff costs	8,872	9,735	15,554
Depreciation	2,278	3,072	3,703
Rental expenses	1,828	1,418	1,211
Office supplies	1,571	1,391	1,562
Research and development expenses	2,737	3,063	6,878
Amortization of land lease payments	1,354	1,272	1,481
Consulting expenses	1,010	1,159	681
Professional fees incurred for the Listing	–	–	10,646
Other administrative expenses	5,751	5,553	5,634
Total	<u>25,401</u>	<u>26,663</u>	<u>47,350</u>

Other expenses

Our other expenses mainly represent foreign exchange losses arose from our US-dollar denominated trade receivables and bank balances, bank charges and losses on disposal of certain machinery and vehicles and a subsidiary.

Finance costs

Our finance costs mainly represent interest expenses on bank borrowings.

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Share of profits of an associate

Share of profits of an associate related to our shared interest in Macs Baoding which has been accounted for as an associated company of our Group since its incorporation on 18 January 2004. As of the Latest Practicable Date, Macs Baoding was held as to 49% by our subsidiary, Hong Kong Automart, and 51% by Great Wall Motor. The results of Macs Baoding are accounted for in our Group's financial results using the equity method of accounting.

Macs Baoding acts as an automotive HVAC system supplier exclusively for Great Wall Motor. Our products are assembled into the automotive HVAC systems of Macs Baoding which are ultimately supplied to Great Wall Motor for use in different car models.

For the years ended 31 December 2008, 2009 and 2010, the revenue of Macs Baoding amounted to RMB218.3 million, RMB310.1 million and RMB397.0 million, respectively, and its profit amounted to RMB18.7 million, RMB45.2 million and RMB55.3 million, respectively, whereas our share of profits of Macs Baoding amounted to RMB9.2 million, RMB 22.2 million and RMB27.1 million, respectively. The increase in our share of Macs Baoding's profits in 2009 and 2010 was primarily attributable to the strong sales and profit growth of Macs Baoding as Great Wall Motor has commenced scale production of sedan in addition to its SUV and MPV in 2009 thereby placing more orders for HVAC systems with Macs Baoding.

Income tax expense

Our Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate.

Cayman Islands

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability and is not subject to corporate income tax as our Company does not have a place of business (other than a registered office only) or carries on any business in the Cayman Islands.

BVI

BVI Automart is not subject to corporate income tax as it does not have a place of business (other than a registered office only) or carries on any business in the BVI.

Hong Kong

Pursuant to the relevant Hong Kong tax law, provision of income tax has been made for Hong Kong Shuanghua at the Hong Kong profits tax rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period. No provision of income tax has been made for Hong Kong Automart as it had no taxable income derived from Hong Kong during the Track Record Period.

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PRC

Our subsidiaries operating in the PRC are subject to EIT on their taxable income in accordance with the relevant PRC tax laws and regulations. Effective on 1 January 2008, the new PRC Enterprise Income Tax Law introduces the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In this connection, Shanghai Shuanghua, Shuanghua Auto Components, Shuanghua Machinery, Youshen Industry and Baoding Shuanghua are subject to an EIT rate of 25%.

Shanghai Shuanghua, being registered as a foreign-invested enterprise, was exempted from EIT for its first-two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. Shanghai Shuanghua was in its third, fourth and fifth profit making years in 2008, 2009 and 2010 and therefore was subject to a reduced EIT rate of 12.5% during the Track Record Period. Youshen Industry is located in Pudong New Area and was subject to a preferential EIT rate of 18%, 20% and 22% respectively for the Track Record Period.

Pursuant to the new PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, and in accordance with the Arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, any dividends received ultimately by our Company from Shanghai Shuanghua and Macs Baoding in regards of the profits generated after 2007, is subject to a withholding tax rate of 10%.

Our Group recognized deferred tax liabilities in respect of accumulated distributable earnings from our subsidiaries and associate established in the PRC since 1 January 2008, no matter whether such earnings have been declared or not by the subsidiaries at the reporting dates.

REVIEW OF HISTORICAL RESULTS OF OPERATION

Year ended 31 December 2010 compared with year ended 31 December 2009

Revenue

Revenue increased by 59.2% from RMB371.5 million for the year ended 31 December 2009 to RMB591.5 million in for the year ended 31 December 2010, primarily due to the following reasons:

- **Evaporators.** Sales of our evaporators increased by RMB41.6 million, or 34.6%, from RMB120.4 million for the year ended 31 December 2009 to RMB162.0 million for the year ended 31 December 2010, of which sales to the domestic market increased by RMB27.5 million to RMB113.4 million for the year ended 31 December 2010 and sales to the international market increased by RMB14.1 million to RMB48.6 million for the year ended 31 December 2010. For domestic market, the increase in revenue is primarily due to the net effect of (i) an increase in the sales volume by 44.3% from 723,544 units in 2009 to 1,043,950 units in 2010 mainly due to the growth of domestic OEM market for automotive HVAC components and our selling effort; and (ii) the decrease in the average unit selling price of our evaporators from RMB118.8 in 2009 to RMB108.7 in 2010 mainly due to market competition. For international market, the increase in revenue is primarily due to the net effect of (i) an increase in the sales volume by 50.9% from 236,866 units in 2009 to 357,388 units in 2010 mainly due to the recovery of

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overseas aftermarket and our selling effort; and (ii) the decrease in the average unit selling price of our evaporators from RMB145.6 in 2009 to RMB135.9 in 2010 mainly due to market competition and the effect of RMB appreciation against US\$ on our overseas sales.

- **Condensers.** Sales of our condensers increased by RMB39.2 million, or 34.9%, from RMB112.4 million for the year ended 31 December 2009 to RMB151.6 million for the year ended 31 December 2010, of which sales to the domestic market increased by RMB28.1 million to RMB114.0 million for the year ended 31 December 2010 and sales to the international market increased by RMB11.1 million to RMB37.6 million for the year ended 31 December 2010. For domestic market, the increase in revenue is primarily due to the combined effect of (i) an increase in the sales volume by 27.8% from 522,608 units in 2009 to 668,073 units in 2010 mainly due to the growth of domestic OEM market for automotive HVAC components and our selling effort; and (ii) the increase in the average unit selling price of our condensers from RMB164.3 in 2009 to RMB170.6 in 2010 mainly due to more sales of new types of condenser with liquid-gas separator built-in, which had higher unit selling price and higher production cost. For international market, the increase in revenue is primarily due to the net effect of (i) an increase in the sales volume by 45.4% from 115,779 units in 2009 to 168,331 units in 2010 mainly due the recovery of overseas aftermarket and our selling effort; and (ii) the decrease in the average unit selling price of our condensers from RMB229.1 in 2009 to RMB223.5 in 2010 mainly due to fierce market competition and the effect of RMB appreciation against US\$ on our overseas sales.
- **Heater cores.** Sales of our heater cores increased by RMB8.9 million, or 36.5%, from RMB24.4 million for the year ended 31 December 2009 to RMB33.3 million for the year ended 31 December 2010, of which sales to the domestic market increased by RMB8.8 million to RMB25.1 million for the year ended 31 December 2010 and sales to the international market increased by RMB0.1 million to RMB8.2 million for the year ended 31 December 2010. For domestic market, the increase in revenue is primarily due to the increase in the sales volume by 52.5% from 265,711 units in 2009 to 405,158 units in 2010 mainly due to the growth of domestic OEM market for automotive HVAC components and our selling effort, whereas the average unit selling price of our heater cores remained stable due to relatively smaller competition in the domestic heater core market. For international market, the increase in revenue is primarily due to the net effect of (i) an increase in the sales volume by 6.1% from 126,659 units in 2009 to 134,434 units in 2010 mainly due the recovery of overseas aftermarket and our selling effort; and (ii) the decrease in the average unit selling price of our heater cores from RMB63.9 in 2009 to RMB61.4 in 2010 mainly due to the effect of RMB appreciation against US\$ on our overseas sales.
- **Compressors.** Sales of compressors increased significantly by RMB89.8 million, or 140.3%, from RMB64.0 million for the year ended 31 December 2009 to RMB153.8 million for the year ended 31 December 2010. The sales of compressors for the year ended 31 December 2010 comprises trading of compressors of RMB135.7 million (2009: RMB64.0 million) and sales of our self-manufactured compressors of RMB18.1 million (2009:nil). For our trading of compressors, the increase in sales was primarily due to the significant increase in the sales volume of compressors by 110.6% from 126,038 units in 2009 to 265,420 units in 2010 mainly due to our increased selling efforts to the international aftermarket, while the average unit selling price of our compressors increased slightly by 0.7% from RMB507.7 in 2009 to

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RMB511.1 in 2010. For the sales of our self-manufactured compressors, no sales was noted in 2009 as the trial production and sales of our self-manufactured compressors commenced during 2010.

Cost of sales

Cost of sales increased by 72.1% from RMB264.2 million in 2009 to RMB454.8 million in 2010. The increase in costs of sales corresponded with our increase in sales.

As a percentage of revenue, the cost of sales increased from 71.1% in 2009 to 76.9% in 2010. Such increase of percentage was mainly due to higher percentage of raw materials and direct sales to our total revenue.

Gross profit

Our overall gross profit increased by 27.6% from RMB107.2 million in 2009 to RMB136.8 million in 2010. Our overall gross profit margin decreased from 28.9% in 2009 to 23.1% in 2010, of which (a) the gross profit margin of our self-manufacture segment decreased from 34.1% in 2009 to 28.2% in 2010; and (b) the gross profit margin of our trading segment decreased from 15.9% in 2009 to 14.0% in 2010. The decrease in our overall gross profit margin is mainly due to: (i) the decrease in the gross profit margin of our evaporators, which accounted for 47.4% (2009: 47.4%) of our total gross profit contribution in 2010, from 42.2% in 2009 to 40.0% in 2010; (ii) the decrease in the gross profit margin of our condensers, which accounted for 25.7% (2009: 29.1%) of our total gross profit contribution in 2010, from 27.8% in 2009 to 23.1% in 2010; and (iii) the increase in the proportion of our sales and gross profit contribution from the trading of compressors, which accounted for 22.9% (2009: 17.2%) of our total revenue in 2010, with relatively low gross profit margin of 9.6% (2009: 9.6%). An analysis of the gross profit and gross profit margin of each of our major products are illustrated below:

- **Evaporators.** Gross profit of our evaporators increased by 27.6% from RMB50.8 million in 2009 to RMB64.8 million in 2010, while their gross profit margin decreased from 42.2% in 2009 to 40.0% in 2010, of which gross profit margin for the domestic market increased from 41.6% in 2009 to 42.0% in 2010 and gross profit margin for the international market decreased from 43.7% in 2009 to 35.3% in 2010. For domestic market, the gross profit margin increased slightly is mainly due to the net result of: (i) the significant increase in the production volume of evaporators for domestic market in 2010 has led to significant reduction in our unit cost of production amid the increase in average purchase cost of aluminium raw materials in 2010; and (ii) the decrease in the average unit selling price of our evaporators mainly due to market competition. For international market, the decrease in gross profit margin is mainly to the combined effect of: (i) the decrease in the average unit selling price of our evaporators mainly as a result of market competition and the effect of RMB appreciation against US\$ on our overseas sales; and (ii) the increase in our average purchase cost of aluminium raw materials in 2010 which led to higher production cost.
- **Condensers.** Gross profit of our condensers increased by 12.5% from RMB31.2 million in 2009 to RMB35.1 million in 2010, while their gross profit margin decreased from 27.8% in 2009 to 23.1% in 2010, of which gross profit margin for the domestic market decreased from 27.9% in 2009 to 23.6% in 2010 and gross profit margin for the international market decreased from

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27.6% in 2009 to 21.9% in 2010. For domestic market, the decrease in gross profit margin is mainly due to the combined effect of: (i) more sales of new types of condenser with liquid-gas separator built-in as demanded by our customers, leading to higher production cost which outpaced the increase in the average unit selling price of this product as the increment in production cost could not be passed fully to our customers with corresponding increment in the selling price mainly due to market competition; and (ii) the increase in our average purchase cost of aluminium raw materials in 2010 which led to higher production cost. For international market, the decrease in gross profit margin is mainly due to the combined effect of: (i) the decrease in the average unit selling price of our other condensers mainly as a result of market competition and the effect of RMB appreciation against US\$ on our overseas sales; and (ii) the increase in average purchase cost of aluminium raw materials in 2010 which led to higher production cost.

- **Heater cores.** Gross profit of our heater cores increased by 7.8% from RMB6.4 million in 2009 to RMB6.9 million in 2010, while their gross profit margin decreased from 26.2% in 2009 to 20.8% in 2010, of which gross profit margin for the domestic market decreased from 24.9% in 2009 to 21.9% in 2010 and gross profit margin for the international market decreased from 28.6% in 2009 to 17.5% in 2010. For domestic market, the decrease in gross profit margin is mainly due to the increase in average purchase cost of aluminium raw materials in 2010 which led to higher production cost. For international market, the decrease in gross profit margin is mainly due to the combined effect of: (i) the increase in average purchase cost of aluminium raw materials in 2010 which led to higher production cost; and (ii) the decrease in the average unit selling price of our heater cores mainly due to the effect of RMB appreciation against US\$ on our overseas sales.
- **Compressors.** While we continue our export trading business for compressors, we commenced the sales of our self-manufactured compressor products during 2010. The overall gross profit of our compressors increased by 111.3% from RMB6.2 million in 2009 to RMB13.1 million in 2010, while their overall gross profit margin decreased from 9.6% in 2009 to 8.5% in 2010. In 2010, the gross profit margin of the sale of our self-manufactured compressors was 0.6% (2009: nil), and that of the trading of third-party manufactured compressors was 9.6% (2009: 9.6%). Since we only commenced trial production of our self-manufactured compressors during 2010, the low production volume together with high fixed production cost allocated led to the low gross profit margin for our self-manufactured compressors in 2010.

Other income and gains

Other income and gains decreased by 63.8% from RMB5.8 million in 2009 to RMB2.1 million in 2010. The decrease was primarily because the increases in bank interest income and government grants were largely offset by a prior-year gain recognized on transfer of leasing rights of an apartment.

Selling and distribution costs

Selling and distribution costs increased by 55.1% from RMB13.6 million in 2009 to RMB21.1 million in 2010. This increase was primarily due to the increases in freight and insurance charges by RMB7.0 million and customs declaration expenses by RMB0.2 million as a result of the increase in our overseas sales by RMB145.6 million, or 86.9%, in 2010.

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Administrative expenses

Administrative expenses increased by 77.5% from RMB26.7 million in 2009 to RMB47.4 million in 2010. This increase was primarily due to the increases in professional fees incurred for the Listing by RMB10.6 million, administrative staff costs by RMB5.8 million, research and development costs by RMB3.8 million and depreciation charges by RMB0.6 million.

Other expenses

Our other expenses increased by 200.0% from RMB0.6 million in 2009 to RMB1.8 million in 2010. The increase was primarily because (i) we incurred foreign exchange losses of RMB0.2 million mainly resulting from the higher appreciation of RMB against US\$ and bank charges of RMB0.8 million; and (ii) the loss on disposal of our 68% equity interest in Baoding Shuanghua to Great Wall Motor amounted to RMB0.8 million was recognized in 2010.

Finance costs

Our finance costs remained relatively stable at RMB6.1 million in 2010 as compared to RMB6.2 million in 2009.

Share of profits of an associate

Our share of profits of an associate increased by 22.1% from RMB22.2 million in 2009 to RMB27.1 million in 2010. The increase was attributable to the net profit growth of Macs Baoding, a 49% held associate of our Group, resulting from the recovery of the automotive industry in 2010.

Profit before income tax

For the above reasons, our profit before income tax increased by 1.6% from RMB88.1 million in 2009 to a RMB89.5 million in 2010.

Income tax expenses

Our income tax expenses decreased by 22.8% from RMB11.4 million in 2009 to RMB8.8 million in 2010. Our effective tax rates calculated from the tax charged to our Group over our profit before tax were 12.9% and 9.8% in 2009 and 2010, respectively. The decrease in effective tax rate in 2010 was primarily due to: (i) the increase in share of result (net profit after tax) of Macs Baoding in 2010, which was subject to a 10% withholding tax at a rate lower than the average tax rate applied to our Group; (ii) the effect on deferred tax balances due to change in income tax rate of Shanghai Shuanghua from 12.5% to 15% in 2011; and (iii) tax losses utilized mainly for Baoding Shuanghua with no deferred tax assets recognised in prior years for such tax losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Profit for the year

As a result of the foregoing, profit for the year increased by 5.3% from RMB76.7 million in 2009 to RMB80.8 million in 2010. Our net profit margin decreased from 20.7% in 2009 to 13.7% in 2010.

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Year ended 31 December 2009 compared with year ended 31 December 2008

Revenue

Revenue decreased by RMB11.3 million or 3.0% from RMB382.8 million for the year ended 31 December 2008 to RMB371.5 million for the year ended 31 December 2009, primarily due to the following reasons:

- **Evaporators.** Sales of our evaporators decreased by RMB25.1 million, or 17.3%, from RMB145.5 million for the year ended 31 December 2008 to RMB120.4 million for the year ended 31 December 2009, of which sales to the domestic market increased by RMB10.0 million to RMB85.9 million for the year ended 31 December 2009 and sales to the international market decreased by RMB35.1 million to RMB34.5 million for the year ended 31 December 2009. For domestic market, the increase in revenue is primarily due to the net effect of (i) an increase in the sales volume by 25.5% from 576,406 units in 2008 to 723,544 units in 2009 mainly due to the stimulation policy for automobile industry implemented by the PRC government in 2009 and our selling effort; and (ii) the decrease in the average unit selling price of our evaporators from RMB131.7 in 2008 to RMB118.8 in 2009 mainly due to market competition. For international market, the decrease in revenue is primarily due to the combined effect of (i) a decrease in the sales volume by 47.7% from 452,604 units in 2008 to 236,866 units in 2009 mainly due to the slowdown in the automotive HVAC parts and components overseas aftermarket as a result of the global economic crisis in 2009; (ii) the decrease in the average unit selling price of our evaporators from RMB153.8 in 2008 to RMB145.6 in 2009 mainly due to weak sales demand and market competition.
- **Condensers.** Sales of our condensers decreased by RMB21.1 million, or 15.8%, from RMB133.5 million for the year ended 31 December 2008 to RMB112.4 million for the year ended 31 December 2009, of which sales to the domestic market increased by RMB4.5 million to RMB85.9 million for the year ended 31 December 2009 and sales to the international market decreased by RMB25.6 million to RMB26.5 million for the year ended 31 December 2009. For domestic market, the increase in revenue is primarily due to increase in the sales volume by 4.9% from 498,078 units in 2008 to 522,608 units in 2009 mainly due to the stimulation policy for automobile industry implemented by the PRC government in 2009. For international market, the decrease in revenue is primarily due to the decrease in the sales volume by 53.4% from 248,587 units in 2008 to 115,779 units in 2009 mainly due to the slowdown in the automotive HVAC parts and components overseas aftermarket as a result of the global economic crisis in 2009.
- **Heater cores.** Sales of our heater cores increased significantly by RMB12.4 million, or 103.3%, from RMB12.0 million for the year ended 31 December 2008 to RMB24.4 million for the year ended 31 December 2009, of which sales to the domestic market increased by RMB6.0 million to RMB16.3 million for the year ended 31 December 2009 and sales to the international market increased by RMB6.4 million to RMB8.1 million for the year ended 31 December 2009. For domestic market, the increase in revenue is primarily due to increase in the sales volume by 55.4% from 170,975 units in 2008 to 265,711 units in 2009 mainly due to the small production scale in 2008 and the stimulation policy for automobile industry implemented by the PRC government in 2009. For international market, the increase in revenue is primarily due to the

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increase in the sales volume by 345.6% from 28,423 units in 2008 to 126,659 units in 2009 mainly due to the small production scale of our Group in 2008. In 2008, our Group was in the process of refining its production process for heater cores in order to improve the passing rate of qualified products and hence the production scale was at a low level.

- **Compressors.** All compressors we sold in 2008 and 2009 were sourced from third party suppliers. Sales of compressors increased significantly by RMB39.8 million, or 164.5%, from RMB24.2 million for the year ended 31 December 2008 to RMB64.0 million for the year ended 31 December 2009. This was primarily due to the significant increase in the sales volume of compressors by 177.7% from 45,387 units in 2008 to 126,038 units in 2009 resulting from our increased selling efforts which led to increased sales order received by us from certain overseas customers, partially offset by a decrease in the average unit selling price of compressors from RMB532.8 in 2008 to RMB507.7 in 2009.

Cost of sales

Cost of sales decreased by 7.6% from RMB286.0 million in 2008 to RMB264.2 million in 2009, primarily due to a decrease in raw material costs from RMB180.8 million in 2008 to RMB143.7 million in 2009.

As a percentage of revenue, the cost of sales decreased from 74.7% in 2008 to 71.1% in 2009. Such decrease of percentage was mainly attributable to the decrease in cost of raw materials mentioned above and our improved cost control and operating efficiency throughout our business and production process to cope with the change in economic climate resulting from the global financial crisis.

Gross profit

Our overall gross profit increased by 10.6% from RMB96.9 million in 2008 to RMB107.2 million in 2009. Our overall gross profit margin increased from 25.3% in 2008 to 28.9% in 2009, of which (a) the gross profit margin of our self-manufacture segment increased from 27.9% in 2008 to 34.1% in 2009; and (b) the gross profit margin of our trading segment decreased from 17.5% in 2008 to 15.9% in 2009. The increase in our overall gross profit margin is mainly due to: (i) the increase in the gross profit margin of our evaporators, which accounted for 47.4% (2008: 57.6%) of our total gross profit contribution in 2009, from 38.4% in 2008 to 42.2% in 2009; (ii) the increase in the gross profit margin of our condensers, which accounted for 29.1% (2008: 29.7%) of our total gross profit contribution in 2009, from 21.6% in 2008 to 27.8% in 2009; and (iii) the increase in the gross profit margin of our heater cores from gross loss margin of (6.0)% in 2008 to 26.2% in 2009. An analysis of the gross profit and gross profit margin of each of our major products are illustrated below:

- **Evaporators.** Gross profit of our evaporators decreased by 9.0% from RMB55.8 million in 2008 to RMB50.8 million in 2009, while their gross profit margin increased from 38.4% in 2008 to 42.2% in 2009. The increase in gross profit margin of our evaporators was mainly due to the drop of aluminium prices in 2009 and our improved cost control measures whereas the average unit selling price of our evaporators only dropped at a relatively smaller scale.

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- **Condensers.** Gross profit of our condensers significantly increased by 8.3% from RMB28.8 million in 2008 to RMB31.2 million in 2009, while their gross profit margin increased from 21.6% in 2008 to 27.8% in 2009. The increase in gross profit margin of our condensers was mainly due to the decrease in cost of sales as a result of the lower raw material costs due to the drop of aluminium prices in 2009 and our improved cost control measures.
- **Heater cores.** Gross profit of our heater cores significantly increased from a gross loss of RMB0.7 million in 2008 to a gross profit of RMB6.4 million in 2009 while their gross profit margin was 26.2% in 2009. Sales of heater cores resulted in gross losses in 2008 mainly because the Group was in the process of refining its production process for heater cores in 2008 in order to improve the passing rate of qualified products, and hence the production scale was at a low level. The low production volume resulted in high fixed production cost allocated and led to gross loss incurred for heater cores in 2008. The production scale of heater cores recovered in 2009 after the refinement of production process was completed, and hence significant improvement in gross profit resulted in 2009.
- **Compressors.** Gross profit of compressors significantly increased from a gross loss of RMB0.7 million in 2008 to a gross profit of RMB6.2 million in 2009, while their gross profit margin was 9.6% in 2009. All compressors we sold in 2008 and 2009 were sourced from third party local suppliers. We recorded gross loss for our compressor trading sales in 2008 mainly due to our relatively smaller scale of operation which resulted in higher average purchase cost and lower price bargaining power with customers. Our compressor trading business was still in development stage in 2008 after we established business relationships with UAC and SPI, two major overseas customers of our compressor products in 2007, and hence our operation scale for the compressors trading was still relatively small in 2008.

Other income and gains

Our other income and gains increased by RMB1.9 million in 2009 as compared to 2008, which was the net effect of: (i) the gain on disposal of our indirect wholly-owned subsidiary, Shuanghua Industry and Trade, amounted to RMB1.3 million was recognized in 2008 whereas we did not dispose any subsidiary in 2009; and (ii) the gain recognized on the transfer of leasing rights of an apartment by us in 2009 amounted to RMB4.6 million.

Selling and distribution costs

Selling and distribution costs decreased by 35.2% from RMB21.0 million in 2008 to RMB13.6 million in 2009. This decrease was primarily due to the decreases in freight charges and insurance expenses of RMB5.0 million and customs declaration expenses of RMB0.2 million as a result of the decrease in our overseas sales by RMB34.3 million, or 17.0%, in 2009 resulting from the global economic downturn.

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Administrative expenses

Administrative expenses remained relatively stable at RMB26.7 million in 2009 as compared to RMB25.4 million in 2008.

Other expenses

Our other expenses decreased by 71.4% from RMB2.1 million in 2008 to RMB0.6 million in 2009. The decrease was primarily because of the losses on disposal of certain machinery and vehicles and a subsidiary amounted to RMB1.3 million were recognized in 2008.

Finance costs

Our finance costs decreased by 39.2% from RMB10.2 million in 2008 to RMB6.2 million in 2009. The decrease was primarily due to a decrease in our interest expenses on bank borrowings as a result of a decrease in our bank borrowings balance in 2009 as compared to that of 2008.

Share of profits of an associate

Our share of profits of an associate increased significantly by 141.3% from RMB9.2 million in 2008 to RMB22.2 million in 2009. The increase was attributable to the strong net profit growth of Macs Baoding which was a 49% held associate of our Group.

Profit before tax

For the above reasons, our profit before tax increased significantly by 71.7% to RMB88.1 million in 2009 from RMB51.3 million in 2008.

Income tax expense

Our income tax expenses increased by 35.7% from RMB8.4 million in 2008 to RMB11.4 million in 2009, in line with the increased profit before tax. Our effective tax rates calculated from the tax charged to our Group over our profit before tax were 16.3% and 12.9% in 2008 and 2009, respectively. The decrease in effective tax rate in 2009 was primarily due to an increase in share of profits of Macs Baoding which was subject to a 10% withholding tax at a rate lower than the average tax rates applied to our Group, which were in turn relatively stable in 2009.

Profit for the year

As a result of the foregoing, our profit for the year increased by 78.8% from RMB42.9 million in 2008 to RMB76.7 million in 2009. Our net profit margin increased from 11.2% in 2008 to 20.7% in 2009.

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ANALYSIS OF FINANCIAL POSITION

The following table sets forth a summary of our combined statements of financial position for the Track Record Period as extracted from the Accountants' Report included in Appendix I to this prospectus and you should read the entire financial statements included therein, including the notes thereto, for more details.

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	144,941	192,355	191,640
Prepaid land lease payments	79,833	78,224	64,095
Advance payments for property, plant and equipment	28,669	7,040	3,744
Investment in an associate	39,411	61,572	73,966
Available-for-sale investments	262	262	262
Deferred tax assets	3,356	4,671	9,898
Total non-current assets	<u>296,472</u>	<u>344,124</u>	<u>343,605</u>
CURRENT ASSETS			
Inventories	63,064	60,152	83,845
Trade and notes receivables	87,922	95,587	107,742
Prepayments, deposits and other receivables	10,724	7,612	11,143
Due from related parties	34,119	72,719	104,020
Cash and cash equivalents	53,400	30,460	69,596
Total current assets	<u>249,229</u>	<u>266,530</u>	<u>376,346</u>
CURRENT LIABILITIES			
Trade and bills payables	48,961	65,682	85,981
Other payables and accruals	20,492	26,628	35,687
Interest-bearing bank borrowings	174,695	125,877	107,000
Due to related parties	57,607	58,726	62,452
Tax payable	174	3,604	2,745
Government grants	310	1,003	1,170
Provision	5,729	4,131	5,518
Total current liabilities	<u>307,968</u>	<u>285,651</u>	<u>300,553</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>(58,739)</u>	<u>(19,121)</u>	<u>75,793</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>237,733</u>	<u>325,003</u>	<u>419,398</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	–	–	20,000
Government grants	2,638	9,876	9,972
Deferred tax liabilities	2,141	5,433	8,559
Total non-current liabilities	<u>4,779</u>	<u>15,309</u>	<u>38,531</u>
Net assets	<u>232,954</u>	<u>309,694</u>	<u>380,867</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	–	–	–
Reserves	61,285	67,753	74,800
Retained profits	160,616	231,680	306,067
	<u>221,901</u>	<u>299,433</u>	<u>380,867</u>
Non-controlling interests	11,053	10,261	–
Total equity	<u>232,954</u>	<u>309,694</u>	<u>380,867</u>

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Property, plant and equipment

Property, plant and equipment consist of buildings, plants and machinery, office equipment, motor vehicles and construction-in-progress. As at 31 December 2008, 2009 and 2010, the value of our property, plant and equipment amounted to RMB144.9 million, RMB192.4 million and RMB191.6 million, respectively.

The increase in 2009 was primarily due to: (i) additions of construction in progress at our production plant of RMB43.0 million; and (ii) additions of buildings and plant and machinery of RMB12.0 million for our existing and new production plant for evaporators, condensers, heater cores and other products, which were partially offset by depreciation charge of RMB8.8 million. The slight decrease in property, plant and equipment in 2010 was primarily due to the combined effect of: (i) additions of construction in progress of RMB23.5 million at our production plant; (ii) additions of machinery of RMB9.1 million to improve our existing production plant for evaporators, condensers, heater cores and other products; (iii) disposal of Baoding Shuanghua amounted to a decrease in property, plant and equipment of RMB18.1 million; and (iv) depreciation charge of RMB16.1 million.

Advance payments for property, plant and equipment

Advance payments for property, plant and equipment represent prepayments to suppliers for property, plant and equipment, construction materials, plant construction and machinery installation. As at 31 December 2008, 2009 and 2010, our advance payments for property, plant and equipment amounted to RMB28.7 million, RMB7.0 million and RMB3.7 million, respectively. The decrease in 2009 was mainly due to receipt of construction materials and recognition of construction in progress at our compressor production plant in Shanghai and automotive radiator production plant in Baoding as our main construction was conducted in 2009. The further decrease in advance payments for property, plant and equipment in 2010 was mainly due to completion of the construction of our compressor production plant and installation of equipment thereat in 2010.

Investment in an associate

Investment in an associate relates to our shared interest in Macs Baoding which is a 49% held associate of our Group. As at 31 December 2008, 2009 and 2010, our interest in an associate amounted to RMB39.4 million, RMB61.6 million and RMB74.0 million, respectively. The increase in 2009 and 2010 was due to our share of results of Macs Baoding for the respective years.

Inventories

Our inventories consist of raw materials, mainly aluminium raw materials, work in progress and finished products.

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The following table sets forth a summary of our inventory balances as at the end of each reporting period indicated, as well as the turnover days of our inventory for the periods indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	31,878	22,665	27,809
Work in progress	7,903	15,130	20,228
Finished goods	<u>29,028</u>	<u>26,532</u>	<u>39,888</u>
	68,809	64,327	87,925
Impairment	<u>(5,745)</u>	<u>(4,175)</u>	<u>(4,080)</u>
Total inventories	<u><u>63,064</u></u>	<u><u>60,152</u></u>	<u><u>83,845</u></u>

The movements in provision for impairment of inventories are as below:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At beginning of year	3,813	5,745	4,175
Impairment losses recognized/(reversed)	1,932	(1,570)	368
Impairment written off as disposal of a subsidiary	—	—	<u>(463)</u>
At end of year	<u><u>5,745</u></u>	<u><u>4,175</u></u>	<u><u>4,080</u></u>

	Year ended 31 December		
	2008	2009	2010
Inventory turnover days	87.7	85.1	57.8

Our gross inventory balance decreased by RMB4.5 million from 2008 to 2009 mainly due to: (i) the drop in raw materials balance mainly due to the overall drop in aluminium prices during 2009 and significant raw materials consumed for production near 2009 year end; (ii) we increased our production scale near 2009 year end in anticipation of the increase in projected sales demands in view of our strong sales in the fourth quarter of 2009 which led to the increase in our work in progress balance; and (iii) the drop in finished goods balance as a result of our effort in strengthening the control on finished goods level. Our gross inventory balance increased by RMB23.6 million from 2009 to 2010 mainly because: (i) the increase in inventory due to our compressor production lines commenced trial production in 2010; and (ii) booming sales orders received by our Group in fourth quarter of 2010.

Our marketing team reviews and monitors our inventory level on a periodical basis. This involves the maintenance of an appropriate level of inventory as well as any write-down or provision for any obsolete and slow-moving inventory items. During the Track Record Period, impairment losses recognized for inventories amounted to RMB1.9 million, nil and RMB0.4 million respectively, whereas impairment losses reversed for inventories amounted to nil, RMB1.6 million and nil, respectively. Impairment losses

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recognized in 2008 and in 2010 represented the additional write-down of inventories to net realizable value whereas the impairment losses reversed in 2009 represented the reversal of write-down of inventories when the related inventories were sold.

Inventory turnover days are derived by dividing the arithmetic mean of the beginning and ending balances of inventory for the relevant period by cost of sales of the corresponding period and multiplying by 365 days. The slight decrease in inventory turnover days from 87.7 days in 2008 to 85.1 days in 2009 was primarily attributable to the decrease in average inventory of raw materials and finished goods resulting from our increased efforts on inventory control and operating efficiency. The decrease in inventory turnover days in 2010 to 57.8 days was primarily due to booming market demand resulted in fast turnover of inventory.

As at 18 May 2011, we used up 100% of the raw materials and work-in-progress outstanding as at 31 December 2010 and sold 100% of the finished goods outstanding as at 31 December 2010.

Trade and notes receivables

Our trade and notes receivables represent receivables from the sales of our products. We offer credit to our customers on a case-by-case basis, depending on our relationship with, and the location, credibility and volume of purchases of, each customer. We generally offer a credit period ranging from 30 to 90 days to our domestic OEM customers. For overseas sales, we offer our major overseas aftermarket customers credit periods ranging from 45 days to 60 days. We continuously monitor the status of the outstanding accounts receivables due to us from each customer. In order to manage the credit risks associated with trade receivables effectively, each customer has a maximum credit limit and the credit limits are evaluated when sales agreement with such customer is renewed or revised.

The following table sets forth a breakdown of our trade and notes receivables as at the end of each reporting period indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables	64,192	79,086	93,573
Notes receivables	23,914	16,987	14,426
	88,106	96,073	107,999
Impairment	(184)	(486)	(257)
	87,922	95,587	107,742

Our trade and notes receivables (net of provision for impairment) increased from RMB87.9 million as at 31 December 2008 to RMB95.6 million as at 31 December 2009, which was primarily due to an increase in sales in the fourth quarter of 2009 as the global economy started to recover in the second half of 2009 and our successful development of new customers. Our trade and notes receivables (net of provision for impairment) increased to RMB107.7 million as at 31 December 2010, which was in line with our increase in sales.

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As at 31 December 2008, 2009 and 2010, recognized provisions for impairment of trade receivables amounted to of RMB0.2 million, RMB0.5 million and RMB0.3 million, respectively. Such provision for impairment of trade receivables is a provision assessed on individual basis which relate to customers that no longer have any transaction with our Group and these outstanding receivables are not expected to be recovered.

The following table sets forth the aging analysis of our trade and notes receivables as at the end of each reporting period indicated, based on the invoice date, as well as the turnover days of our trade and notes receivables for the periods indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 month.....	22,753	37,849	50,341
1 to 2 months.....	12,166	27,090	23,312
2 to 3 months.....	16,367	17,154	23,758
3 to 12 months.....	36,640	12,394	8,766
Over 12 months.....	<u>180</u>	<u>1,586</u>	<u>1,822</u>
	<u>88,106</u>	<u>96,073</u>	<u>107,999</u>

Our trade and notes receivables that aged over three months comprised: (i) notes receivables of RMB19.4 million, RMB5.3 million and RMB1.8 million; and (ii) trade receivables of RMB17.4 million, RMB8.7 million and RMB8.8 million, respectively during the Track Record Period. Notes receivables represent bank acceptances with maturity period of six months issued by creditworthy banks with no recent history of default. Trade receivables aged over three months arisen from slight delay in settlement as requested by certain customers which have long established business relationship with us and have good repayment history in the past. Our senior management and our credit control department would assess and approve such request for delay in settlement on a case-by-case basis based on the credit-worthiness, financial condition, repayment record and length of business relationship with us of such customers. We have strict credit policy on customers and seek to maintain strict control over our outstanding receivables and have a credit control department to minimize credit risk. Overdue balances are reviewed regularly by our senior management.

	Year ended 31 December		
	2008	2009	2010
Turnover days of trade and notes receivables.....	102.7	133.8	107.2

Turnover days of trade and notes receivables are derived by dividing the arithmetic mean of the opening and closing balances of net trade and notes receivables (including amount due from Macs Baoding classified under amount due from related parties) for the relevant period by revenue of the corresponding period and multiplying by 365 days. For the years ended 31 December 2008, 2009 and 2010, our turnover days of trade and notes receivables were 102.7 days, 133.8 days and 107.2 days, respectively. The turnover days in 2009 were longer than those in 2008 as we generated more sales from local customers which generally requested for longer credit periods from us and more major customers used notes receivables with 6 months maturity term to settle their outstanding amounts with us. The turnover days in 2010 were shorter than those in 2009 due to the recovery of overseas aftermarket and we generated more sales from these customers which generally requested for shorter credit periods.

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As at 18 May 2011, 94.3% of our trade and notes receivables outstanding as at 31 December 2010 was subsequently settled.

Prepayment, deposits and other receivables

The following table sets forth a breakdown of our prepayments, deposits and other receivables as at the end of each reporting period indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other receivables	7,686	3,558	3,718
Prepayments	807	1,422	5,008
Prepaid land lease payments	1,680	1,680	1,403
Prepaid other tax	551	952	1,014
	<u>10,724</u>	<u>7,612</u>	<u>11,143</u>

Other receivables mainly represent deposits made by us to an independent third party agent to assist us in acquiring the land use rights for our Shanghai production base (property No. 1 in the Property Valuation Report). No service was rendered by such agent and we subsequently acquired such land use right in 2008 on our own. As such, a settlement agreement was reached with such agent to refund the paid deposits to us by installments starting from 2008. As at 31 December 2010, the outstanding amount of the deposit was RMB3.4 million which shall be fully refunded to us in 2011 pursuant to the aforesaid settlement agreement. Other receivables decreased from RMB7.7 million as at 31 December 2008 to RMB3.6 million as at 31 December 2009, primarily due to our partial recovery of such land deposits of RMB2.3 million. Other receivables remained relatively stable at RMB3.7 million as at 31 December 2010.

Prepayments mainly represent the prepayments for raw materials and prepayment of listing expenses. Our prepayments increased from RMB0.8 million as at 31 December 2008 to RMB1.4 million as at 31 December 2009 which is in line with our growth in scale of operation. Our prepayments increased to RMB5.0 million as at 31 December 2010, which primarily comprised of our advance payment of professional fees of RMB3.9 million in preparation of Listing.

Trade and bills payables

Trade and bills payables were mainly incurred for the purchase of raw materials from various suppliers. We generally receive credit terms of 30 to 90 days from our suppliers. It is generally accepted by our suppliers that we settle our trade balances by means of cash or endorsing notes receivables upon the expiration of the credit terms.

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The following table sets forth the aging analysis of our trade and bills payables as at the end of each reporting period indicated, based on the invoice date, as well as the turnover days of our trade and bills payables for the periods indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 month.....	15,441	33,359	45,204
1 to 2 months.....	16,174	18,601	18,606
2 to 3 months.....	10,428	7,687	13,920
3 to 6 months.....	5,985	4,094	5,733
6 to 12 months.....	–	798	1,001
12 to 24 months.....	933	1,143	730
Over 24 months.....	–	–	787
	48,961	65,682	85,981
	Year ended 31 December		
	2008	2009	2010
Turnover days of trade payables.....	72.8	79.2	60.9

Our trade payables increased from RMB49.0 million as at 31 December 2008 to RMB65.7 million as at 31 December 2009. The increase was primarily due to: (i) less purchase made by us by the end of 2008 as a result of our strict cash control to keep healthy cash flows under the economic downturn, compared to more raw materials purchased by us for increased production near 2009 year end; and (ii) our purchase of raw materials at 2009 year end to prepare for the trial production at our compressor production plant in 2010. Our trade payables increased to RMB86.0 million as at 31 December 2010, which is in line with our increase in purchase of raw materials in 2010.

Turnover days of trade payables are derived by dividing the arithmetic mean of the beginning and ending balances of net trade payables for the relevant period by cost of sales of the corresponding period and multiplying by 365 days. The turnover days in 2008 and 2009 were in line with the credit terms offered to us by our suppliers which were generally 30 to 90 days. The trade payables turnover days increased from 72.8 days in 2008 to 79.2 days in 2009 primarily because we settled our trade balances with our suppliers by means of notes receivables on more occasions in 2009 thereby extending the actual payment time for our purchases. The decrease in trade payables turnover days to 60.9 days in 2010 was primarily because more purchases were made from suppliers with shorter credit periods.

As at 18 May 2011, 95.7% of our trade payables outstanding as at 31 December 2010 was subsequently settled.

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Other payables and accruals

The following table sets forth a breakdown of our other payables and accruals as at the end of each reporting period indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other payables	14,740	15,136	12,701
Advances from customers	1,983	4,589	2,037
Taxes other than EIT	1,050	2,217	2,168
Payroll payable	1,587	3,201	8,815
Accrued liabilities	1,132	1,485	9,966
	<u>20,492</u>	<u>26,628</u>	<u>35,687</u>

Our other payables mainly represented land premium payable to the PRC government for land use rights at our Shanghai production base (property No. 5 in the Property Valuation Report) which we have contracted to acquire for a total consideration of RMB23.3 million. Payment for such land premium of RMB9.3 million and RMB4.6 million were made by us in 2009 and 2010 respectively. As at 31 December 2010, the outstanding land premium payable was RMB9.4 million and is expected to be fully settled by us upon obtaining the Certificate of Real Estate Ownership. Our other payables decreased to RMB12.7 million as at 31 December 2010, which was the combined effect of our payment of RMB4.6 million to settle land premium payable in 2010 and an increase of RMB2.1 million of unsettled payable for purchase of property, plant and equipment after completion of our production plant construction work.

Our advances from customers increased significantly from RMB2.0 million as at 31 December 2008 to RMB4.6 million as at 31 December 2009, which is mainly because certain new customers secured in the fourth quarter of 2009 are required to pay deposits in advance of our delivery of products under our strict credit control policy for new customers. Our advances from customers as at 31 December 2010 decreased to RMB2.0 million, primarily because we settled purchase orders from certain international customers near 2010 year end.

Taxes other than EIT mainly represented value added tax, individual income tax and sales tax surplus. Our payroll payable mainly represented the accrual of salary for the month of December and annual bonus, which grew in line with our increase in headcount of staff.

Provision

It is our policy to provide warranty coverage for our products. We generally provide our aftermarket customers with a one-year product warranty under which faulty products are repaired or replaced. We will also provide product warranty to our OEM customers, the terms of which are subject to agreement on a case-by-case basis. The amount of the provision for product warranties is estimated based on sales volumes and past experience of the level of repairs and claims. The estimation basis is reviewed on an ongoing basis and revised where appropriate. The provision utilized during the Track Record Period represents the actual settlement to customers for repairs or claims of products sold.

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During the Track Record Period, warranty claims amounted to RMB3.0 million, RMB3.2 million and RMB0.7 million, and product returns amounted to RMB0.2 million, RMB0.4 million and RMB0.3 million, respectively.

As at 31 December 2010, our total amount of warranty provision outstanding was RMB5.5 million. Based on the past experience of the level of repairs and claims, our Directors are of the view that we have made adequate provisions for product quality warranties.

The following table sets forth the movement in our provision for product warranties provided by our Group as at the end of each reporting period indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Balance at the beginning of year	7,237	5,729	4,131
Additional provision	1,460	1,587	2,108
Provision utilized	<u>(2,968)</u>	<u>(3,185)</u>	<u>(721)</u>
Balance at the end of year	<u>5,729</u>	<u>4,131</u>	<u>5,518</u>

In 2010, approximately 7,875 units of self-manufactured compressors of various models amounted to approximately RMB4.9 million were recalled, which were produced in accordance with certain replacement samples initially provided by an overseas aftermarket customer in the course of our trial production. No revenue was recognized for such recalled products in 2010. We subsequently revised specifications for such products per such customer's amended request with samples of original model, which were accepted by the customer with no further recall. Our Directors have confirmed that such product recall was a one-off incident with respect to each compressor model so recalled and that there is no difference in any product liability arising out of our trial production or commercial production. Our Directors believe there were no internal control deficiencies in our operation in this regard.

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Amounts due from/to related parties

The following table sets forth a breakdown of balances with related parties as at the end of each reporting period indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due from related parties			
– Macs Baoding	25,119	63,719	95,020
– Shanghai Longcang Investment Co., Ltd	3,780	3,780	3,780
– Shanghai Zhongzhi Trading Co., Ltd	5,220	5,220	5,220
	<u>34,119</u>	<u>72,719</u>	<u>104,020</u>
Due to related parties			
– Shanghai Automart	(1,170)	(2,293)	(4,026)
– Youshen International Ltd.	(56,437)	(56,433)	(56,191)
– Shanghai Youchen	–	–	(2,235)
	<u>(57,607)</u>	<u>(58,726)</u>	<u>(62,452)</u>

As at 31 December 2008, 2009 and 2010, we had amounts due from Macs Baoding, a 49% held associate of our Group, of RMB25.1 million, RMB63.7 million and RMB95.0 million, respectively, which represented (i) trade and notes receivables for the sales of products to Macs Baoding of RMB25.1 million, RMB63.7 million and RMB80.3 million; and (ii) dividend receivable from Macs Baoding of nil, nil and RMB14.7 million. The increase in our amounts due from Macs Baoding from 2008 to 2010 was primarily due to the significant increase in our sales to Macs Baoding during the respective periods and dividend declared by Macs Baoding in September 2010. As at 31 December 2010, the trade and notes receivables from Macs Baoding of RMB80.3 million comprised trade receivables of RMB51.1 million and notes receivables of RMB29.2 million, respectively. None of such trade receivables and notes receivables from Macs Baoding were past due as at 2010 year end as the outstanding trade receivables aged less than their respective credit terms of 90 days and the outstanding notes receivables has a maturity period of six months. A large percentage of our sales to Macs Baoding remained outstanding as at 31 December 2010 because a large number of sales orders were obtained from Macs Baoding towards 2010 year end, coupled with an outstanding balance of notes receivables with a maturity period of six months.

Amounts due from Shanghai Longcang Investment Co., Ltd. and Shanghai Zhongzhi Trading Co., Ltd. principally represented advances made by us. No fluctuation was noted for these respective amounts during the Track Record Period.

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As at 31 December 2008, 2009 and 2010, we had amounts due to Shanghai Automart of RMB1.2 million, RMB2.3 million and RMB4.0 million, respectively, which represented rental expenses for our two office premises leased from Shanghai Automart and advance payment by Shanghai Automart on behalf of our purchase of machineries and inventories. The increase in amount due to Shanghai Automart in 2009 and 2010 was mainly because rental payable to Shanghai Automart for the respective previous years had not been fully settled.

As at 31 December 2010, we had amount due to Shanghai Youchen of RMB2.2 million, which represented trade payables for purchases of processed aluminium parts from Shanghai Youchen.

As at 31 December 2008, 2009 and 2010, we also had amounts due to Youshen International Ltd. of RMB56.4 million, RMB56.4 million and RMB56.2 million, respectively, which mainly represented funds advanced by Youshen International Ltd. to our wholly-owned subsidiaries, Hong Kong Automart and BVI Automart, to fund their respective investment in subsidiaries and associates.

All amounts due from/to related parties were unsecured and interest-free and had no fixed terms of repayment except for the amount due from Macs Baoding resulting from sales had a 90 day credit term. Our Directors confirmed that trade receivables from Macs Baoding, rental expenses due to Shanghai Automart and trade payables to Shanghai Youchen will continue after Listing and all other balances with related parties will be fully settled before Listing.

LIQUIDITY AND CAPITAL RESOURCES

Financial resources

Based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that our proceeds from the Share Offer, our cash and bank deposits, cash flow from operations, our banking relationships and future financings will enable us to meet our working capital, capital expenditures, and other funding requirements for the foreseeable future. However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depend on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms, if at all.

In general, we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs. We may use short-term bank borrowings to finance operations and repay bank borrowings once our funding position is in surplus. We have not experienced and do not expect to experience any difficulties meeting our obligations as they become due. We will use part of the proceeds from the Share Offer to fulfill our capital commitments for future expansion.

Our cash and cash equivalents as at 31 December 2008, 2009 and 2010 were RMB53.4 million, RMB30.5 million and RMB69.6 million, respectively.

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Cash flows

We conduct our operations mainly through our operating subsidiaries in the PRC. Cash flows generated by our operating subsidiaries on a stand-alone basis may differ significantly from that presented in our combined cash flow statements.

The following table sets forth a condensed summary of our combined statements of cash flows for the periods indicated. Such summary of our combined statements of cash flows is extracted from the Accountants' Report included in Appendix I to this prospectus and you should read the entire financial statements included therein, including the notes thereto, for more details.

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash flows from operating activities	42,418	54,178	48,018
Net cash flows used in investing activities	(150,374)	(22,105)	(12,287)
Net cash flows from/(used in) financing activities.	29,506	(54,926)	3,730
Cash and cash equivalents at the beginning of the year . .	131,470	53,400	30,460
Cash and cash equivalents at the end of the year.	53,400	30,460	69,596

Operating activities

We derive our net cash flows from operating activities primarily through the receipt of payments for the sale of our products. Our cash flows used in operating activities is used primarily for raw material purchases, payment of utilities, selling and distribution costs, and staff salaries.

Our net cash flows from operating activities of RMB48.0 million in 2010 mainly arose from cash inflow from operating profits before working capital changes of RMB85.5 million, net-off with (i) the increase in inventory of RMB26.6 million; and (ii) income tax payment of RMB11.7 million.

Our net cash flows from operating activities of RMB54.2 million in 2009 mainly arose from cash inflow from operating profits before working capital changes of RMB75.7 million, net-off with (i) the increase in trade-related amount due from Macs Baoding by RMB38.6 million; (ii) the increase in trade payables by RMB16.7 million; and (iii) income tax payment of RMB6.0 million.

Our net cash flows from operating activities of RMB42.4 million in 2008 mainly arose from cash inflow from operating profits before working capital changes of RMB59.9 million, net-off with (i) the increase in trade-related amount due from related parties by RMB6.4 million; (ii) the decrease in trade payables by RMB15.5 million; (iii) the decrease in prepayments, deposits and other receivables by RMB8.8 million; and (iv) income tax payment of RMB7.2 million.

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Investing activities

Our net cash used in investing activities in 2010 was RMB12.3 million. This amount was primarily attributable to payment for purchases of property, plant and equipment of RMB28.5 million mainly for our compressor production plant after completion of its construction work and payment for the land use right to one parcel of land of RMB4.6 million. This was partially offset by the proceeds from the disposal of our indirect interests in Baoding Shuanghua of RMB19.1 million and cash receipt of government grants of RMB1.4 million.

Our net cash used in investing activities in 2009 was RMB22.1 million. This amount was primarily attributable to payment for purchases of property, plant and equipment of RMB35.6 million mainly for the installation of the compressor production lines at our Shanghai production base. This was partially offset by the cash receipt of government grants of RMB8.4 million and the proceeds from disposal of property, plant and equipment of RMB5.1 million.

Our net cash used in investing activities in 2008 was RMB150.4 million. This amount was primarily attributable to payment for (i) the purchase cost, relocation cost and subsequent installation cost for the production facilities for compressors we acquired from Visteon Inc. with aggregate amount of RMB34.0 million; (ii) other purchases of plants, machineries and equipment amounted to RMB14.2 million; (iii) purchases of property amounted to RMB44.1 million; and (iv) additions to prepaid land lease payments of RMB65.4 million. This was partially offset by proceeds from disposal of our indirect wholly-owned subsidiary, Shuanghua Industry and Trade, of RMB6.2 million and cash receipt of government grants of RMB1.5 million.

Financing activities

Our net cash flows from financing activities in 2010 was RMB3.7 million. This amount was primarily attributable to the proceeds from new bank borrowings of RMB109.8 million. This was partially offset by the repayments of bank borrowings of RMB100.0 million and interest payment of RMB6.0 million.

Our net cash used in financing activities in 2009 was RMB54.9 million. This amount was primarily attributable to the repayments of bank borrowings of RMB156.0 million and interest payment of RMB6.1 million. This was partially offset by the proceeds from new bank borrowings of RMB107.2 million.

Our net cash flows from financing activities in 2008 was RMB29.5 million. This amount was primarily attributable to the proceeds from new bank borrowings of RMB59.7 million. This was partially offset by the repayments of bank borrowings of RMB20.0 million and interest payment of RMB10.2 million.

Gearing ratio

Our gearing ratio, which is total debt divided by total equity attributable to owners of the parent plus total debt, was 53%, 45% and 39%, respectively, as at 31 December 2008, 2009 and 2010. The gearing ratio during the Track Record Period was in line with the level of our interest-bearing bank borrowings.

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Net current assets/liabilities

We had net current liabilities of RMB58.7 million and RMB19.1 million as at 31 December 2008 and 2009, respectively and net current assets of RMB75.8 million and RMB66.7 million as at 31 December 2010 and 30 April 2011, respectively. The following table sets out the composition of our unaudited current assets and liabilities as at 30 April 2011, being the latest practicable date for determining our indebtedness:

	As at 30 April 2011
	RMB'000
CURRENT ASSETS	
Inventories	94,867
Trade and notes receivables	117,208
Prepayments, deposits and other receivables	26,183
Due from related parties	76,419
Cash and cash equivalents	83,191
Total current assets	397,868
CURRENT LIABILITIES	
Trade payables.....	93,264
Other payables and accruals	21,731
Interest-bearing bank borrowings.....	135,000
Due to related parties.....	72,514
Tax payable	1,154
Government grants	1,170
Provision	6,370
Total current liabilities	331,203
NET CURRENT ASSETS	66,665

Our net current liabilities position as at 31 December 2008 and 2009 primarily arose from our short-term bank borrowings and amounts due to related parties.

The significant decrease in net current liabilities from RMB58.7 million as at 31 December 2008 to RMB19.1 million as at 31 December 2009 was primarily attributable to the decrease in our bank borrowings balance by RMB48.8 million and the increase in current assets, partially offset by the increase in trade payables in 2009 as compared to that of 2008. The change from a net-current-liability position of RMB19.1 million as at 31 December 2009 to a net-current-asset position of RMB75.8 million as at 31 December 2010 was primarily attributable to: (i) the increase in cash and cash equivalent of RMB39.1 million; (ii) the increase in amount due from related parties of RMB31.3 million; (iii) the increase in inventories of RMB23.7 million; and (iv) the decrease in short-term borrowings of RMB18.9 million.

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The decrease in net current assets from RMB75.8 million as at 31 December 2010 to RMB66.7 million as at 30 April 2011 was primarily attributable to the increase in our bank borrowing balance by RMB28.0 million, partially offset by the increase in cash and cash equivalent by RMB13.6 million.

Working capital

We have historically financed our operations through cash from operating activities, bank borrowings and shareholder contributions. In the future, we expect to use funds from a combination of sources to fund our operation and expansion plan, including bank loans, internally generated cash flows, and proceeds from the Share Offer.

Taking into account the financial resources available to us including internally generated funds, available banking facilities and the estimated net proceeds of the Share Offer, our Directors are of the opinion that we have sufficient working capital to meet our present requirements, and at least for the period ending 12 months from the date of this prospectus.

INDEBTEDNESS

Bank borrowings

We typically use short-term borrowings in the course of financing our business. As at 31 December 2008 and 2009, our total outstanding bank borrowings, all of which were short-term, amounted to RMB174.7 million and RMB125.9 million, respectively. As at 31 December 2010, our total outstanding bank borrowings amounted to RMB127.0 million, of which short-term borrowings amounted to RMB107.0 million and long-term borrowings amounted to RMB20.0 million. Our bank borrowings are all denominated in RMB. The following table sets forth our short-term interest-bearing bank borrowings as at the dates indicated:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Secured bank loans	156,000	100,000	105,000
Discounted bank acceptances.....	18,695	25,877	2,000
Total	<u>174,695</u>	<u>125,877</u>	<u>107,000</u>

As at 31 December 2008, 2009 and 2010, our secured bank borrowings carried interest rates ranging from 5.31% to 7.47%, 3.51% to 5.40% and 5.31% to 5.56%, respectively, per annum and were secured by the following assets and guarantees:

Our bank borrowings are secured by: (i) mortgages over our buildings situated in the PRC, which had aggregate carrying values of RMB6.4 million, RMB15.7 million and RMB69.0 million as at 31 December 2008, 2009 and 2010 respectively; (ii) mortgages over our leasehold lands situated in the PRC, which had aggregate carrying values of RMB13.4 million, RMB61.1 million and RMB59.9 million as at 31 December 2008, 2009 and 2010 respectively; and (iii) guarantees by related parties as follows:

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Shanghai Automart has guaranteed certain of our bank loans up to RMB135.1 million, RMB70.0 million and RMB50.0 million at 31 December 2008, 2009 and 2010 respectively;

Mr. Zheng has guaranteed certain of our bank loans up to RMB45.1 million, RMB15.0 million, and nil at 31 December 2008, 2009 and 2010 respectively; and

Mr. Dong has guaranteed certain of our bank loans up to RMB45.1 million, nil, and nil at 31 December 2008, 2009 and 2010 respectively.

We have not encountered any difficulty in obtaining bank borrowings during the Track Record Period. The guarantees provided by related parties as additional security for our bank borrowings will be released prior to Listing. Our bank borrowings are secured by mortgages over our Group's leasehold lands and buildings situated in the PRC. Sufficient level of security has been provided by our Group for obtaining and maintaining our bank borrowings. With the existing level of security, our Directors do not expect that we will have difficulty in renewing the existing loan facilities or obtaining new bank loan facilities.

As at 30 April 2011, being the latest practicable date for determining our indebtedness, we had outstanding bank borrowings of RMB155 million, of which RMB135 million were short-term. As at 30 April 2011, we had a total available banking facilities of RMB155 million, of which RMB155 million had been utilized. Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 30 April 2011, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 30 April 2011.

Operating lease arrangement

At the end of each reporting period, we were committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within one year	2,274	1,479	1,879
In the second to fifth years, inclusive	3,373	2,439	3,271
After fifth year	4,814	4,279	–
Total	10,461	8,197	5,150

FINANCIAL INFORMATION

Capital commitments

The following table presents our capital commitments to make future contracted payments for the purchase of property, plant and equipment:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Property, plant and equipment	<u>20,621</u>	<u>20,259</u>	<u>3,098</u>

CAPITAL EXPENDITURES

Capital expenditures during the Track Record Period

We historically financed our capital expenditure requirements primarily through cash generated from our operations and bank borrowings. During the Track Record Period, our capital expenditures primarily related to acquisition of land use rights, construction of production facilities and expenditures for plant, machinery and equipment for business expansion at our Shanghai production base. The following table sets out our historical capital expenditures during the Track Record Period:

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	92,256	35,591	28,494
Land use rights	<u>65,365</u>	<u>51</u>	<u>4,620</u>
	<u>157,621</u>	<u>35,642</u>	<u>33,114</u>

Following the Share Offer, we will continue to incur capital expenditure to grow our business. Our intended capital expenditures mainly include those related to (i) the construction of a new production workshop for the production of variable displacement swash plate compressors at our existing production plant, details of which are set out in the section headed “Business – Production Facilities and Production Capacities – Production capacity expansion plan” in this prospectus; and (ii) research and development expenditures. We estimate our total capital expenditures to be not less than RMB62.1 million, RMB55.0 million and RMB11.6 million for each of the three years ending 31 December 2013, respectively.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we did not have any material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

FINANCIAL INFORMATION

FINANCIAL RISKS

We are exposed to various types of financial risks in the normal course of our business, including interest rate risk, foreign currency risk, credit risk and liquidity risk. Please refer to the Accountants' Report as set out in Appendix I to this prospectus for details.

Interest rate risk

We are exposed to fair value interest rate risk arising from our financial instrument, principally interest-bearing bank borrowings, discounted bank acceptances and bank balances. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate with the changes in market interest rates.

We do not anticipate any significant impact resulting from the changes in interest rates as all of our borrowings were at fixed interest rates as at 30 April 2011, being the latest practicable date for determining our indebtedness.

Foreign currency risk

Our businesses are located in the PRC and our primary operating transactions are settled in RMB. We have transactional currency exposures principally arising from our overseas sales denominated in US dollar resulting from the higher appreciation of RMB against US dollar. During the Track Record Period, 52.8%, 45.1% and 53.0% of our Group's sales were denominated in US dollar. We currently do not have a currency hedging policy. However, the management constantly monitors the foreign exchange exposure and will consider appropriate hedging measures when the need arises.

Credit risk

We are exposed to credit risk in the event that our customers fail to perform their payment obligations. In order to minimize credit risk, it is our Group's policy to trade only with recognized and creditworthy third parties and accordingly, we do not require collateral from our customers or counterparties. Further, receivable balances are monitored on an on-going basis and our exposure to bad debts is not significant. The credit risk of our other financial assets, which comprise cash and cash equivalents, amount due from related parties, deposits and other receivables and available-for-sale investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since we trade only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region.

FINANCIAL INFORMATION

Liquidity risk

We are potentially exposed to liquidity risk as we had net current liabilities as at 31 December 2008 and 2009. Our Group's policy is to strike a balance between continuous funding and flexibility through the use of interest-bearing bank borrowings to meet our working capital requirements. We periodically review our liquidity position and evaluate the maturity of our financial instruments.

PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix IV to this prospectus. DTZ Debenham Tie Leung Limited, an independent property valuation firm, has valued the properties owned and leased by us as at 31 March 2011. The text of their letters, summaries of values and valuation certificates are set out in Appendix IV to this prospectus.

A reconciliation of the net book value of the relevant leasehold buildings and prepaid lease payments as at 31 March 2011 to their fair value as stated in Appendix IV to this prospectus is as follows:

	RMB'000
Net book value of our Group's property interests as at 1 January 2011	165,986
Depreciation and amortization	(1,867)
Net book value of our Group's property interests as at 31 March 2011	<u>164,119</u>
Valuation surplus	<u>24,801</u>
Valuation amount as at 31 March 2011	<u><u>188,920</u></u>

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted combined net tangible assets of our Group which have been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out below to illustrate the effect of the Share Offer on our Group's net tangible assets as at 31 December 2010 as if they had taken place on that date.

The unaudited pro forma adjusted combined net tangible assets have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of our Group's net tangible assets had the Share Offer been completed as at 31 December 2010 or at any future date.

FINANCIAL INFORMATION

The unaudited pro forma adjusted combined net tangible assets is based on the audited combined net tangible assets of our Group as at 31 December 2010, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	Audited combined net tangible assets attributable to the owners of our Company as at 31 December 2010	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	Unaudited pro forma adjusted combined net tangible assets per Share
	RMB'000 ⁽¹⁾	RMB'000 ⁽²⁾	RMB'000	RMB ⁽³⁾⁽⁴⁾	HK\$ ⁽⁵⁾
Based on an Offer Price of HK\$1.16 per Share . .	380,867	143,185	524,052	0.81	0.97

Notes:

- (1) The audited combined net tangible assets attributable to owners of the Company as at 31 December 2010 is based on the audited combined net assets attributable to owners of the Company of RMB380,867,000 as at 31 December 2010 extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Shares and the Offer Price of HK\$1.16 per Share, after deduction of the underwriting fees and related expenses payable by the Company. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.00 to RMB0.8351.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 650,000,000 Shares in issue immediately following the completion of the Share Offer.
- (4) On 8 March 2011, Shanghai Shuanghua declared dividends of RMB32.4 million and RMB27.6 million to Shanghai Automart and Hong Kong Automart, respectively, which were the then shareholders of Shanghai Shuanghua. The dividends were paid up in April and May 2011.
- (5) The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.8351 to HK\$1.00.

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2011

The following unaudited pro forma forecast earnings per Share for the six months ending 30 June 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 1 January 2011. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial results of our Group following the Share Offer.

For the six months ending 30 June 2011

Forecast combined profit attributable to owners of our Company (<i>notes 1, 2 and 3</i>).....	not less than RMB41.3 million (equivalent to about HK\$49.5 million)
Unaudited pro forma forecast earnings per Share (<i>note 4</i>) . .	approximately RMB0.06 (approximately HK\$0.08)

FINANCIAL INFORMATION

Notes:

- (1) The bases and assumptions on which the above profit forecast for the six months ending 30 June 2011 has been prepared are summarized in Appendix III to this prospectus.
- (2) The forecast combined profit attributable to owners of our Company for the six months ending 30 June 2011 prepared by our Directors is based on the unaudited combined results of our Group for the three months ended 31 March 2011 and a forecast of the combined results of our Group for the remaining three months ending 30 June 2011. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Company as summarized in the Accountants' Report as set out in Appendix I to this prospectus.
- (3) If the purchase prices of aluminium processed parts differ from our forecasted prices, the forecast combined profit attributable to owners of the Company for the six months ending 30 June 2011 (the "Forecast Period") may differ from the profit forecast for the same period as set out above. The following table sets forth a sensitivity analysis of our net profit in the Forecast Period with respect to the aluminium purchase prices, assuming all other variables held constant:

<u>Change in aluminium</u>	<u>Corresponding net profit during the Forecast Period</u>	<u>Variation for the net profit during the Forecast Period</u>
(%)	RMB'000	(%)
(10)	44,019	6.7
(5)	42,639	3.3
5	39,881	(3.3)
10	38,502	(6.7)

- (4) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to owners of our Company for the six months ending 30 June 2011 and assuming a total of 650,000,000 Shares had been in issues during the entire year, as if the Share Offer had occurred on 1 January 2011 and the Reorganization had been completed on 1 January 2011.

DIVIDEND AND DIVIDEND POLICY

We currently do not have a dividend policy. The declaration, payment and amount of dividends in the future will be subject to the discretion of the Board and will depend on our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

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

On 8 March 2011, Shanghai Shuanghua declared dividends of RMB32.4 million and RMB27.6 million to Shanghai Automart and Hong Kong Automart, respectively, which were the then shareholders of Shanghai Shuanghua. The dividends were paid up in April and May 2011.

Except for the abovementioned dividends declared and paid, our Group has not paid or declared any dividend during the Track Record Period and up to the Latest Practicable Date.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

Our Company was incorporated on 11 November 2010. Our Company did not have any reserve available for distribution to our Shareholders as at 31 December 2010.

DISCLOSURE UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Hong Kong Listing Rules, would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there had been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 31 December 2010, the date to which the latest audited financial statements of our Group were made up, up to the Latest Practicable Date.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

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

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Share Offer (after deducting underwriting fees and estimated expenses payable by us in connection with the Share Offer, and assuming an Offer Price of HK\$1.16 per Share) will be approximately HK\$171.5 million. We currently intend to apply such net proceeds in the following manner:

- Approximately 66.7%, which represent approximately HK\$114.4 million (approximately RMB95.5 million), to fund the construction, expansion and upgrade of our production facilities for variable displacement swash plate compressors:
 - We plan to use 66.7% of the net proceeds, or HK\$114.4 million (approximately RMB95.5 million), to progressively develop towards the production of variable displacement swash plate compressors. We expect to develop samples of variable displacement swash plate compressors in the second half of 2011 and to commence trial production by the end of 2011. The funds will mainly be used for the construction of a new compressor production workshop at our existing production plant, the acquisition and installation of production lines and production equipment. Construction of the new production workshop is expected to commence in 2011, whereas the acquisition and installation of production lines and equipment is expected to be carried out during 2011-2012. The new production workshop is expected, upon full operation in 2012, to add an annual production capacity of approximately 500,000 units of variable displacement swash plate compressors;
- Approximately 23.2%, which represents HK\$39.8 million (approximately RMB33.2 million), for research and development expenditures:
 - We plan to use 23.2% of the net proceeds, or HK\$39.8 million (approximately RMB33.2 million), for the research and development of different types of compressor and other automotive HVAC components to accustom for the needs of our target customers. The funds will mainly be used for the procurement of advanced laboratory equipment and moulds and cutting tools for new products for our production of compressors and other automotive HVAC components in 2011-2013;
- Approximately 10.1%, which represent approximately HK\$17.3 million (approximately RMB14.4 million), to fund the working capital requirement to be arisen as we plan to increase the production volume and scale of our double-sided consistent displacement swash plate compressors from 2011 onwards. We commenced trial production of our self-manufactured double-sided consistent displacement swash plate compressor in 2010 and expect that the demand for this product will increase.

To the extent that our net proceeds are not immediately used for the above purposes, we intend to invest our net proceeds in short-term, interest-bearing debt instruments or bank deposits.

UNDERWRITING

Placing Underwriters

Piper Jaffray Asia Securities Limited
GF Securities (Hong Kong) Brokerage Limited

Hong Kong Underwriters

Piper Jaffray Asia Securities Limited
GF Securities (Hong Kong) Brokerage Limited

UNDERWRITING ARRANGEMENTS, COMMISSIONS AND EXPENSES

Underwriting Agreements

(a) Hong Kong Underwriting Agreement

Under the Hong Kong Underwriting Agreement, our Company has agreed to offer the Hong Kong Offer Shares (subject to adjustment) for subscription on and subject to the terms and conditions of this prospectus and the Application Forms.

Pursuant to the Hong Kong Underwriting Agreement, and conditional upon, inter alia, the Listing Committee of the Hong Kong Stock Exchange granting or agreeing to grant (subject to allotment) listings of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of options to be granted under the Share Option Scheme) subject to such customary conditions that may be imposed by the Hong Kong Stock Exchange and certain other conditions, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offer.

The Hong Kong Underwriting Agreement is conditional upon and subject to the Placing Underwriting Agreement having been signed and becoming unconditional.

Grounds for termination

The Joint Bookrunners (on behalf of themselves and the other Hong Kong Underwriters) may terminate the Hong Kong Underwriting Agreement by giving notice in writing to our Company at any time at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date (“**Termination Time**”) if, at any time before the Termination Time:

- (A) (1) there is any change or development involving a prospective change (whether or not permanent) in the business or in the financial or trading position or prospects of our Company or any other member of our Group; or
- (2) any event or series of events resulting or representing or likely to result in any change or development (whether or not permanent) in local, national, regional or international financial, political, industrial, economic, currency, military, conflict-related, legal, fiscal,

UNDERWRITING

exchange control, regulatory conditions or any monetary or trading settlement system, equity or other financial market or other conditions, circumstances or matters shall have occurred, happened or come into effect; or

- (3) any relevant new law, rule, statute, ordinance, regulation, guideline, notice, circular, order, judgment, decree or ruling (“**Law**”) of any court or any public, regulatory or governmental agency or authority (including, without limitation, the Hong Kong Stock Exchange and the SFC), other authority and any court at the national, provincial, municipal or local level (“**Governmental Authority**”) or change (whether or not forming part of a series of changes) in existing Laws or any change in the interpretation or application thereof by any court or Governmental Authority in Hong Kong, the Cayman Islands, the PRC or in other jurisdiction which our Group operates or has or is deemed by any applicable law to have a presence or any other jurisdiction likely to affect our Group (each a “**Relevant Jurisdiction**”) shall have been introduced or effected; or
- (4) a change or development involving a prospective change occurs in taxation or exchange control (or in the implementation of any exchange control) or foreign investment regulations in any Relevant Jurisdiction; or
- (5) any event, act or omission which gives rise to or is likely to give rise to any liability of any of our Company, our Controlling Shareholders, or our executive Directors (collectively the “**Warrantors**” and each a “**Warrantor**”) pursuant to the indemnity under the terms of the Hong Kong Underwriting Agreement; or
- (6) the imposition of economic or other sanctions, directly or indirectly, by any country or organization in any Relevant Jurisdiction; or
- (7) any event, or series of events, beyond the control of the Hong Kong Underwriters (including without limitation, any acts of God, acts of government, large scale labour disputes, acts or threats of war, riots, public disorder, civil commotion, fire, flooding, explosion, outbreak of diseases or epidemic (including but not limited to severe acute respiratory syndrome and H5N1, avian flu, influenza A (H1Na) (swine flu)), terrorism, strikes or lockouts) or extensive interruption or delay in transportation, economic sanction and any declaration of a national or international emergency or war shall have occurred, happened or come into effect in any Relevant Jurisdiction; or
- (8) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any Relevant Jurisdiction; or
- (9) the imposition or declaration of (i) any suspension or material limitation on dealings in shares or securities generally on the Hong Kong Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, New York Stock Exchange, Inc., London Stock Exchange plc, the Singapore Stock Exchange Limited or any other major international stock exchange or (ii) any moratorium on banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting Hong Kong, PRC, New York, London, Singapore or any other jurisdiction; or

UNDERWRITING

- (10) a demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (11) any litigation of claim of any third party being instigated against any member of our Group; or
- (12) any loss or damage sustained by any member of our Group; or
- (13) a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (14) approval by the Listing Committee of the listing of, and permission to deal in, the Offer Shares to be issued under the Share Offer is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld,

which in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):

- (a) is or will or is likely to individually or in aggregate have a material adverse effect on the business, financial or trading condition or prospects of our Company taken alone or our Group taken as a whole and/or to any present or prospective shareholder in its capacity as such; or
- (b) has or will or is likely to have a material adverse effect on the success of the Hong Kong Public Offer, the Placing or the level of Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
- (c) is or will or is likely to make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Hong Kong Underwriting Agreement, the Placing Underwriting Agreement, the Hong Kong Public Offer, the Placing and/or the Share Offer to be performed or implemented as envisaged or (ii) to proceed with the Hong Kong Public Offer, the Placing and/or the Share Offer; or

UNDERWRITING

- (B) any of the Hong Kong Underwriters shall become aware of the fact that or have cause to believe that:
- (1) any of the warranties or undertakings given by the Warrantors pursuant to the Hong Kong Underwriting Agreement is untrue, inaccurate, misleading or breached in any respect when given or as repeated as determined by the Joint Bookrunners in their sole and absolute discretion;
 - (2) any statement contained in this prospectus, the Application Forms, the WPIP (as defined in the Hong Kong Underwriting Agreement), the formal notice, the press announcement, the roadshow materials and any other document to be published by our Company in connection with the Share Offer (“**Offer Documents**”) and any announcements issued by our Company in respect of the Hong Kong Public Offer, the Placing and/or the Share Offer was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if the Offer Documents in respect of the Hong Kong Public Offer, the Placing and/or the Share Offer were to be issued at that time, constitute a material omission therefrom as determined by the Joint Bookrunners in their sole and absolute discretion; or
 - (3) there has been a breach in any material respect on the part of any of the Warrantors of any of the provisions of the Hong Kong Underwriting Agreement or the Placing Underwriting Agreement as determined by the Joint Bookrunners in their sole and absolute discretion.

For the above purpose, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or any change of the value of Hong Kong currency under such system shall be taken as an event resulting in a change in currency conditions and any market fluctuations, whether or not within the normal range therefor, may be considered as a change of market conditions.

Similar events are expected to be contained in the Placing Underwriting Agreement that may allow the Placing Underwriters to terminate their respective obligations thereunder.

(b) Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company will, on or about Thursday, 23 June 2011, enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters. Under the Placing Underwriting Agreement, the Placing Underwriters will, subject to certain conditions set out therein, agree to subscribe for the Placing Shares being offered pursuant to the Placing or procure subscribers to subscribe for such Placing Shares.

UNDERWRITING

Restrictions under the Hong Kong Listing Rules

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by our Company within six months from the Listing Date (whether or not such issue of Shares or securities of our Company will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules.

Pursuant to Rule 10.07(1) of the Hong Kong Listing Rules, each of our Controlling Shareholders has undertaken to us and the Hong Kong Stock Exchange that he/it shall not and shall procure that the relevant registered holder shall not, without the prior written consent of the Hong Kong Stock Exchange, except pursuant to the Share Offer or the Capitalization Issue or such circumstances permitted under the Hong Kong Listing Rules:

- (a) at any time during the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/it is shown in this prospectus to be the beneficial owner; or
- (b) at any time during the period of six months commencing on the date on which the period referred to in paragraph (a) above expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our Controlling Shareholder (as defined in the Hong Kong Listing Rules).

Each of our Controlling Shareholders has also undertaken to us and the Hong Kong Stock Exchange that it will, within 12 months from the date of this prospectus, immediately inform us and the Hong Kong Stock Exchange of:

- (a) any pledges or charges of any of the Shares or securities of our Company beneficially owned by him/it in favor of any authorized institution as permitted under the Hong Kong Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and
- (b) any indication received by him/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares will be disposed of.

UNDERWRITING

Undertakings pursuant to the Hong Kong Underwriting Agreement

(a) *By our Company*

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to the Sole Sponsor, the Joint Bookrunners and the other Hong Kong Underwriters that it will, among other things, that:

- (a) except pursuant to the Share Offer, the Capitalization Issue or the options that may be granted under the Share Option Scheme, not without the prior written consent of the Joint Bookrunners (on behalf of the Hong Kong Underwriters), and subject always to the provisions of the Hong Kong Listing Rules, offer, allot, issue or sell, or agree to allot, issue or sell, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to effect any such transaction during the First Six Month Period;
- (b) except pursuant to the Share Offer, the Capitalization Issue or the options that may be granted under the Share Option Scheme, not without the prior written consent of the Joint Bookrunners (on behalf of the Hong Kong Underwriters), and subject always to the provisions of the Hong Kong Listing Rules, at any time during the First Six Month Period issue, or create any mortgage, pledge, charge or other security interest or any rights in favor of any other person over, directly or indirectly, conditionally or unconditionally, any Shares (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares)) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing;
- (c) not at any time within the Second Six Month Period do any of the acts set out in clauses (a) and (b) above such that any of our Controlling Shareholders, directly or indirectly, would cease to be a controlling shareholder of our Company (within the meaning defined in the Hong Kong Listing Rules);
- (d) during a period of two years from the date of this prospectus, in the event that our Company does any of the acts set out in clause (a) or (b) after the expiry of the First Six Month Period or the Second Six Month Period, as the case may be, take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein;

Similar undertakings are expected to be given by our Company to the Placing Underwriters under the Placing Underwriting Agreement.

UNDERWRITING

(b) By our Controlling Shareholders

Each of our Controlling Shareholders has represented, warranted and undertaken to the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the other Hong Kong Underwriters and our Company that:

- (A) he or it will comply with all applicable restrictions and requirements under the Hong Kong Listing Rules on the disposal by him or it or by any registered holder on his or its behalf, of any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or other securities of our Company in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly);
- (B) neither him or it nor any of their respective associates (as defined in the Hong Kong Listing Rules) or companies controlled by him or it has any present intention of disposing of any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or other securities of our Company in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly) (or any beneficial interest therein);
- (C) he or it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Hong Kong Underwriters), directly or indirectly, and will procure that none of his or its associates (as defined in the Hong Kong Listing Rules) or companies controlled by him or it or any nominee or trustee holding in trust for him or it shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) any of the Shares (or any interest in any Shares or any voting or other right attaching to any Shares) in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares or such securities at any time during the First Six Month Period, and subject always to compliance with the provisions of the Hong Kong Listing Rules, in the event of a disposal of any Shares or such securities or any interest therein at any time during the Second Six Month Period, (1) in respect of our Controlling Shareholders, such disposal shall not result in any of our Controlling Shareholders ceasing to be our controlling shareholders (as defined in the Hong Kong Listing Rules) at any time during the Second Six Month Period; and (2) he or it shall take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein;
- (D) within the First Six Month Period and the Second Six Month Period, if and when he or it pledges or charges, directly or indirectly, any Shares or other securities of the Company beneficially owned by it, he or it shall immediately inform the Company, the Sole Sponsor and the Joint Bookrunners in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and

UNDERWRITING

- (E) within the First Six Month Period and the Second Six Month Period, if and when he or it receives indications, either verbal or written, from any pledgee or chargee that any Shares or other securities in the Company pledged or charged by him, her or it will be disposed of, he or it shall immediately inform the Company, the Sole Sponsor and the Joint Bookrunners in writing of such indications.

Without prejudice to the above, each of our Controlling Shareholders has undertaken to the Sole Sponsor, the Joint Bookrunners, the other Hong Kong Underwriters and our Company that within the First Six Month Period and the Second Six Month Period he or it shall:

- (A) if and when he or it pledges or charges, directly or indirectly, any Shares or other securities of our Company beneficially owned by him or it, immediately inform our Company, the Sole Sponsor and the Joint Bookrunners in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
- (B) if and when he or it receives indications, either verbal or written, from any pledgee or chargee that any Shares or other securities in our Company pledged or charged by him or it will be disposed of, immediately inform our Company, the Sole Sponsor and the Joint Bookrunners in writing of such indications.

Our Company shall notify the Hong Kong Stock Exchange as soon as practicable upon being informed of such event and shall make a public disclosure by way of press announcement in accordance with the Hong Kong Listing Rules.

Commission and expenses

Under the terms and conditions of the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission at the rate of 3.0% of the aggregate Offer Price payable for the Hong Kong Offer Share initially offered under the Hong Kong Public Offer, out of which they will pay any sub-underwriting commission.

For unsubscribed Hong Kong Offer Shares reallocated to the Placing, our Company will pay an underwriting commission at the rate applicable to the Placing to the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) but not the Hong Kong Underwriters in accordance with the Placing Underwriting Agreement.

Based on the Offer Price of HK\$1.16, the underwriting commission, sponsorship and documentation fee, Stock Exchange listing fees, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees together with printing and other expenses relating to the Share Offer are estimated to amount to about HK\$17.0 million in total and are payable by our Company.

UNDERWRITING

Indemnity

Each of our Company and our Controlling Shareholders has agreed jointly and severally to indemnify the Sole Sponsor, the Joint Bookrunners and the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement. Similar indemnities are expected to be given by our Company to the Placing Underwriters under the Placing Underwriting Agreement.

Underwriters' interest in our Company

Save for the obligations and the interests under the Underwriting Agreements as disclosed above, none of the Underwriters is interested legally or beneficially in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

Sole Sponsor's independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as required under Rule 3A.07 of the Hong Kong Listing Rules.

STRUCTURE OF THE SHARE OFFER

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

Based on the Offer Price of HK\$1.16 per Offer Share, plus 1% brokerage fee, 0.003% SFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee, one board lot of 2,000 Shares will amount to a total of HK\$2,343.39.

CONDITIONS

Acceptance of all applications for the Share Offer will be conditional upon:

- (i) the Listing Committee granting the approval of the listing of, and permission to deal in the Shares (including any Shares which may fall to be issued upon the exercise of the option that may be granted under the Share Option Scheme), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange;
- (ii) the execution and delivery of the Placing Underwriting Agreement on or around Thursday, 23 June 2011; and
- (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Joint Bookrunners on behalf of the Underwriters) and not being terminated in accordance with the terms of either agreement or otherwise, in each case on or before the dates and times specified in the Underwriting Agreements.

The consummation of each of the Hong Kong Public Offer and the Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with their respective terms.

If these conditions are not fulfilled (or, where applicable, waived by the Joint Bookrunners (on behalf of the Underwriters)) at or before 8:00 a.m. on Thursday, 30 June 2011, the Share Offer will lapse and a press announcement as soon as possible will be made by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section “How to Apply for the Hong Kong Offer Shares” in this prospectus. In the meantime, such monies will be held in separate bank accounts with the Receiving Banks or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

STRUCTURE OF THE SHARE OFFER

OFFER MECHANISM – BASIS OF ALLOCATION OF SHARES

The Share Offer

The Share Offer consists of the Placing and the Hong Kong Public Offer. The 162,500,000 Shares initially offered will comprise 146,250,000 Shares being offered under the Placing and 16,250,000 Shares being offered under the Hong Kong Public Offer. The 162,500,000 Shares being offered under the Share Offer will represent 25.0% of our Company's share capital immediately after completion of the Share Offer but without taking into account any Shares which may fall to be issued upon the exercise of the option that may be granted under the Share Option Scheme.

Subject to possible reallocation on the basis set forth below, 16,250,000 Shares, representing 10% of the total number of the Offer Shares initially being offered under the Share Offer, will be offered to the public in Hong Kong under the Hong Kong Public Offer. The Hong Kong Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors.

Out of the total 162,500,000 Shares offered pursuant to the Share Offer, 146,250,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will be placed with professional, institutional investors and/or other investors in Hong Kong and elsewhere under the Placing. The Placing will be offered in Hong Kong and other jurisdictions outside the United States in offshore transactions.

The Placing Shares will be allocated prior to the commencement of trading of the Shares on the Hong Kong Stock Exchange.

The Hong Kong Public Offer

Our Company is initially offering 16,250,000 Hong Kong Offer Shares, representing 10% of the total number of Shares initially being offered in the Share Offer, for subscription by way of a Hong Kong Public Offer in Hong Kong. The Hong Kong Offer Shares are being offered at the Offer Price. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters, subject to the terms and conditions of the Hong Kong Underwriting Agreement.

The total number of Shares available for subscription under the Hong Kong Public Offer (after taking into account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A (being an aggregate of 8,126,000 Shares) and pool B (being an aggregate of 8,124,000 Shares). The Shares in pool A will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription amount of HK\$5 million (excluding the brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Shares in pool B will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription amount of more than HK\$5 million (excluding the brokerage fee, the SFC transaction levy, and the Hong Kong Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Shares in one (but not both) of the pools are undersubscribed, the surplus Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly.

STRUCTURE OF THE SHARE OFFER

Applicants can only receive an allocation of Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Shares originally allocated to each pool are liable to be rejected. Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the Placing and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

Allocation of Shares to applicants under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for, but, subject to that (and in accordance with the allocation of Hong Kong Offer Shares in pool A and pool B described below), will be made on an equitable basis, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The allocation of the Shares between the Placing and the Hong Kong Public Offer is subject to adjustment.

If the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offer will increase to 48,750,000 Shares, representing 30% of the Shares initially available for subscription under the Share Offer.

If the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then the number of Shares to be reallocated to the Hong Kong Public Offer from the Placing will be increased so that the total number of Shares available for subscription under the Hong Kong Public Offer will be 65,000,000 Shares, representing 40% of the Shares initially available for subscription under the Share Offer.

If the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then the number of Shares to be reallocated to the Hong Kong Public Offer from the Placing will be increased, so that the total number of Shares available for subscription under the Hong Kong Public Offer will increase to 81,250,000 Shares, representing about 50% of the Shares initially available for subscription under the Share Offer. In each such case, the additional Shares reallocated to the Hong Kong Public Offer will be allocated between pool A (being 8,126,000 Shares) and pool B (being an aggregate of 8,124,000 Shares) and the number of Shares allocated to the Placing will be correspondingly reduced.

The Offer Shares to be offered in the Hong Kong Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

STRUCTURE OF THE SHARE OFFER

The Placing

Our Company is initially offering 146,250,000 Shares, as the Placing Shares, representing 90% of the total number of Shares initially being offered in the Share Offer, for subscription by way of the Placing subject to the reallocation of Offer Shares between the Placing and the Hong Kong Public Offer. The Placing is fully underwritten by the Placing Underwriters, subject to the terms and conditions of the Placing Underwriting Agreement.

The Placing Underwriters are soliciting from prospective professional, institutional investors and/or other investors indications of interest in acquiring Placing Shares in the Placing. Prospective professional, institutional investors and/or other investors will be required to specify the number of Placing Shares they would be prepared to acquire at the Offer Price. In Hong Kong, individual retail investors should apply for Shares in the Hong Kong Public Offer, as individual retail investors applying for Placing Shares, including individual retail investors applying through banks and other institutions, will not be allocated any Placing Shares.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of our Company and its shareholders as a whole.

The Placing Underwriters or selling agents nominated by the Placing Underwriters shall, on behalf of our Company, conditionally place the Placing Shares with professional, institutional and/or other investors in Hong Kong and other regions. The Placing shall be subject to the Share Offer restrictions set out under the section “Information about this prospectus and the Share Offer”.

The Placing is conditional on the same conditions as set out in the section “Conditions” above. The total number of Placing Shares to be sold and transferred or allotted and issued pursuant to the Placing may change as a result of the clawback arrangement referred to in the section “The Hong Kong Public Offer” above and any reallocation of unsubscribed Shares originally included in the Hong Kong Public Offer.

Professional and institutional investors may apply for Offer Shares under the Hong Kong Public Offer or receive Offer Shares under the Placing. However, such investors will only receive Offer Shares under either the Hong Kong Public Offer or the Placing, but not both.

LISTING ON OTHER STOCK EXCHANGE

The Directors are not considering any listing of our Company on any other overseas stock exchange. Our Company has not submitted any application nor obtained any approval for the listing of the Shares on any other overseas stock exchange.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. WHO CAN APPLY FOR PUBLIC OFFER SHARES

You can apply for the Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a U.S. person (as defined in Regulation S), or a legal or natural person of the PRC (except those who have complied with all relevant PRC laws and regulations in relation to such application, including but not limited to qualified domestic institutional investors).

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Bookrunners (or its respective agents or nominees) may accept it at their discretion, and subject to any conditions it thinks fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

The Company, the Joint Bookrunners, or the designated **White Form eIPO** Service Provider (where applicable) or our respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

2. CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form;
- applying through the **White Form eIPO** service by submitting an electronic application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf.

You or your joint applicant(s) may only make one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider (individual applicant only).

3. WHICH APPLICATION CHANNEL YOU SHOULD USE

(a) **WHITE** Application Forms

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) White Form eIPO

Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of the **White Form eIPO** service by submitting an application online through the designated website at **www.eipo.com.hk**. In addition to any other requirements, you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **White Form eIPO**. Use the **White Form eIPO** service if you want the Shares to be registered in your own name.

(c) YELLOW Application Forms

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(d) Giving electronic application instructions to HKSCC via CCASS

Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

4. WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 17 June 2011 until 12:00 noon on Wednesday, 22 June 2011 from:

any of the following Hong Kong Underwriters:

Piper Jaffray Asia Securities Limited
Suite 1308, 13/F
Two Pacific Place
88 Queensway
Hong Kong

GF Securities (Hong Kong) Brokerage Limited
Rooms 2301-5 & 2313, COSCO Tower
183 Queen's Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of The Bank of East Asia, Limited:

Branch Name	Branch Address
Hong Kong Island	
Main Branch	10 Des Voeux Road Central, HK
399 Hennessy Road Branch	G/F, Eastern Commercial Centre, 399 Hennessy Road, Wanchai
Taikoo Shing Branch	Shop G1010-1011, Yiu Sing Mansion
Admiralty Branch	Shop 1007-1008, 1/F, United Centre, 95 Queensway
Kowloon	
Mongkok Branch	638 – 640 Nathan Road
Tsim Sha Tsui Branch	Shop A & B, Milton Mansion, 96 Nathan Road
Waterloo Road Branch	Shop A, G/F, Richland House, 77B & 77C Waterloo Road
Millennium City 5 Branch	Shop 1, G/F, Millennium City 5, 418 Kwun Tong Road, Kwun Tong, Kowloon
New Territories	
Shatin Plaza Branch	Shop 3 – 4, Level 1, Shatin Plaza
Tai Po Branch	62-66 Po Heung Street, Tai Po Market
Tuen Mun Town Plaza Branch	Shop 2 – 10, UG/F, Tuen Mun Town Plaza Phase II, 3 Tuen Lung Street, Tuen Mun
Ha Kwai Chung Branch	202 Hing Fong Road

- (b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 17 June 2011 until 12:00 noon on Wednesday, 22 June 2011 from:
- the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
 - Your broker may have **YELLOW** Application Forms and this prospectus available.

If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. on Friday, 17 June 2011 till 12:00 noon on Wednesday, 22 June 2011 and you are not able to obtain printed forms of the prospectus and the related Application Forms from the above addresses, please be reminded that you can obtain an electronic copy of the prospectus on the Company’s website at www.shshuanghua.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk during 9:00 a.m. on Friday, 17 June 2011 till 12:00 noon on Wednesday, 22 June 2011 and may submit your application by White Form eIPO.

HOW TO APPLY FOR HONG KONG OFFER SHARES

5. WHEN TO APPLY FOR THE HONG KONG OFFER SHARES

(a) WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Wednesday, 22 June 2011, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed under the paragraph headed "Where to collect the Application Forms" in this section at the following times:

Friday, 17 June 2011 – 9:00 a.m. to 5:00 p.m.
Saturday, 18 June 2011 – 9:00 a.m. to 1:00 p.m.
Monday, 20 June 2011 – 9:00 a.m. to 5:00 p.m.
Tuesday, 21 June 2011 – 9:00 a.m. to 5:00 p.m.
Wednesday, 22 June 2011 – 9:00 a.m. to 12:00 noon

(b) White Form eIPO

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Friday, 17 June 2011 until 11:30 a.m. on Wednesday, 22 June 2011 or such later time as described under the paragraph below headed "How to Apply through the **White Form eIPO** service – Effect of bad weather conditions on the last application day" (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 22 June 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed "How to Apply for Hong Kong Offer Shares – How to Apply through the **White Form eIPO** service – Effect of bad weather conditions on the last application day".

You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(c) Electronic applications instructions to HKSCC

CCASS Clearing Participants and CCASS Custodian Participants should input **electronic application instructions** via CCASS at the following times:

Friday, 17 June 2011 – 9:00 a.m. to 8:30 p.m. ⁽¹⁾
Saturday, 18 June 2011 – 8:00 a.m. to 1:00 p.m. ⁽¹⁾
Monday, 20 June 2011 – 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Tuesday, 21 June 2011 – 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Wednesday, 22 June 2011 – 8:00 a.m. to 12:00 noon ⁽¹⁾

Note:

(1) These times may be subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR HONG KONG OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 17 June 2011 until 12:00 noon on Wednesday, 22 June 2011 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Wednesday, 22 June, 2011 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

(d) Application lists

The application lists will open from 11:45 a.m. to 12:00 noon on Wednesday, 22 June 2011, except as provided in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(e) Effect of bad weather conditions on the opening of the application lists

The application lists will open between 11:45 a.m. and 12:00 noon on Wednesday, 22 June 2011, subject to weather conditions. The application lists will not be open in relation to the Hong Kong Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 22 June 2011, or if there are similar extraneous factors as are acceptable to the Hong Kong Stock Exchange. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

6. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain a **WHITE** or **YELLOW** Application Form.
- (b) You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker’s cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.
- (c) Decide how many Hong Kong Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the Offer Price of HK\$1.16 per Share, plus brokerage fee of 1%, the SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%. The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for numbers of shares applied for up to 8,124,000 Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (d) Complete the Application Form in English save as otherwise indicated and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorized attorney, the Company and the Sole Sponsor (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.
- (e) Each Application Form must be accompanied by either a separate cheque or a banker's cashier order, which must be stapled to the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account with a licensed bank in Hong Kong;
- show your account name, which must either be pre-printed on the cheque, or be endorsed at the back by person authorized by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;
- be made payable to **“The Bank of East Asia (Nominees) Limited – Shuanghua Public Offer”**;
- be crossed “Account Payee Only”; and
- match the amount set out under the column headed “Amount payable on application HK\$” in the table headed “Number of Shares that may be applied for and payments” in the Application Form with the corresponding number of Hong Kong Offer Shares applied for in the application.

Your application may be rejected if your cheque does not meet all these requirements or is dishonored on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong, and have your name certified on the back by a person authorized by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- not be post-dated;
- be made payable to “**The Bank of East Asia (Nominees) Limited – Shuanghua Public Offer**”;
- be crossed “Account Payee Only”; and
- match the amount set out under the column headed “Amount payable on application HK\$” in the table headed “Number of Shares that may be applied for and payments” in the Application Form with the corresponding number of Hong Kong Offer Shares applied for in the application.

Your application is liable to be rejected if your banker’s cashier order does not meet all these requirements.

- (f) If you are applying for Shares using a **WHITE** or **YELLOW** Application Form, you should lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraphs 3(a) and 4(a) above.
- (g) The right is reserved to present all or any remittance for payment. However, your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Wednesday, 22 June 2011. The Company will not give you a receipt for your payment. The Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund checks). The right is also reserved to retain any share certificate(s) and/or any surplus application monies or refunds pending clearance of your check or banker’s cashier order.
- (h) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed “How many applications you can make” in this section of the prospectus.
- (i) In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form and sign on the first page of the Application Form. Only written signature will be accepted.

- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box on the Yellow Application Form.
- If you are applying as an individual CCASS Investor Participant:
 - you must fill in your full name and your Hong Kong Identity Card number; and
 - you must insert your CCASS Participant I.D. in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:

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- you must insert all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
- you must insert your CCASS Participant I.D. in the appropriate box.
- If you are applying as a corporate CCASS Investor Participant:
 - you must insert your company name and your company's Hong Kong business registration number; and
 - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company's name) in the appropriate box.

Incorrect or incomplete details of the CCASS Participant or CCASS Participant I.D. or other similar matters may render the application invalid.

- (j) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

7. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not strictly follow the instructions your application may be rejected.

Appropriate refund payments (including the brokerage fee, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to unsuccessful or partially unsuccessful applications, without interest. Details of the procedure for refunds are set out below in the paragraph headed "Despatch/Collection of Share Certificates and Refund Monies" below.

8. HOW TO APPLY THROUGH THE WHITE FORM eIPO SERVICE

- (a) If you are an individual and meet the criteria set out in relation to applying for Hong Kong Offer Shares through the **White Form eIPO** service in the white Application Form, you may apply through the **White Form eIPO** service by submitting an application through the designated website at www.eipo.com.hk. If you apply through the **White Form eIPO** service, the Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to the Company.
- (c) In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

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- (d) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service (www.eipo.com.hk), you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to the Company and our Group's Hong Kong Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (f) You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Friday, 17 June 2011 until 11:30 a.m. on Wednesday, 22 June 2011 or such later time as described under the paragraph below headed "Effect of bad weather conditions on the last application day" (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 22 June 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph below headed "Effect of bad weather conditions on the last application day".
- (g) You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. You should make payment for your application made through the **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, 22 June 2011, or such later time as described under the paragraph below headed "Effects of bad weather conditions on the last application day" in this prospectus, the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.

Effect of bad weather conditions on the last application day

The latest time for submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service will be 11:30 a.m., and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 22 June 2011, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 22 June 2011, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Conditions of the White Form eIPO service

In using the **White Form eIPO** service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

- **Applies** for the desired number of Hong Kong Offer Shares on the terms and conditions of this prospectus and **White Form eIPO** application subject to the Memorandum and Articles of Association;
- **Undertakes** and **agrees** to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **Declares** that such application is the only application made and the only application intended by the applicant to be made whether on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider under the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;
- **Undertakes** and **confirms** that the applicant or the person for whose benefit the applicant is applying has not applied for or taken up, or indicated an interest for, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up, or indicate an interest for, any Placing Shares, nor otherwise participate in the Placing;
- **Understands** that this declaration and representation will be relied upon by the Company in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to such application;
- **Authorizes** the Company to place the applicant's name on the register of members of the Company as the holder of any Hong Kong Offer Shares to be allotted to the applicant, and (subject to the terms and conditions set out in this prospectus) to send any Share certificates and/or any refund cheque(s) (if any) by ordinary post at the applicant's own risk to the address given on the **White Form eIPO** application except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that applicant collects any Share certificate(s) in person in accordance with the procedures prescribed in the **White Form eIPO** application and this prospectus;
- **Has read** the terms and conditions and application procedures set out on in the **White Form eIPO** application, this prospectus and the **White Form eIPO** website (www.eipo.com.hk) and agrees to be bound by them;
- **Represents, warrants** and **undertakes** that (i) the applicant or any persons for whose benefit the applicant is applying is outside the United States when completing and submitting the **White Form eIPO** application and is not a U.S. person (as defined in Regulation S under the U.S. Securities Act, as amended), or is a person described in paragraph (h)(3) of Rule 902 of

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Regulation S under the United States Securities Act of 1933, as amended, and (ii) the allotment of or application for the Hong Kong Offer Shares to or by the applicant or the persons for whose benefit this application is made would not require the Company, the Joint Bookrunners or the Underwriters to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and

- **Agrees** that such application, any acceptance of it and the resulting contract, will be governed by and construed in accordance with the laws of Hong Kong.

Supplemental information

If any supplement to this prospectus is issued, applicant(s) who have already submitted an **electronic application instruction** through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee for and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- **instruct** and **authorize** the Company, the Joint Bookrunners (or their agents or nominees) as agent for the Company to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the **White Form eIPO** Application;
- **undertake** to sign all documents and to do all things necessary to enable you to be registered as the holder of the Hong Kong Offer Shares to be allocated to you, and as required by the Articles;
- **confirm** that you have received a copy of the prospectus and you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- **agree** that none of the Company, the Joint Bookrunners and the Hong Kong Underwriters, their respective directors, officers, employees, partners, agents, advisors, or any other parties involved in the Share Offer will have liability for any information or representations not contained in this prospectus or the supplement thereto or the Application Form;

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- **agree** that the Company and the Directors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke it other than as provided in this prospectus;
- (if the application is made for your own benefit) **warrant** that such application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service;
- (if you are an agent or nominee for another person) **warrant** reasonable enquiries have been made of that other person that such application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider via the **White Form eIPO** service, and that you are duly authorized to submit such application as that other person's agent or nominee;
- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make this application;
- **undertake and confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not indicated an interest for or apply or taken up and will not indicate an interest for or apply or take up any of the Placing Shares; nor otherwise have participated or will participate in the Placing;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **agree** to disclose to the Company, the Joint Bookrunners, the Hong Kong Underwriters, the Hong Kong Share Registrar, the receiving bank, and/or their respective advisors and agents any personal data and any information which they require about you or the person(s) for whose benefit you have made this application;
- **agree** with the Company and each Shareholder of the Company, and the Company agrees with each of its Shareholders, to observe and comply with the Companies Law, the Memorandum and the Articles;
- **agree** with the Company and each Shareholder of the Company that the Shares in the Company are freely transferable by the holders thereof;
- **authorize** the Company to enter into a contract on your behalf with each Director and officer of the Company whereby each such Director and officer undertakes to observe and comply with his or her obligations to Shareholders as stipulated in the Memorandum and the Articles;
- **represent, warrant and undertake** that you are not, and none of the other person(s) (if any) for whose benefit you are applying, are a U.S. person (as defined in Rule 902 of Regulation S under the U.S. Securities Act);

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- **represent** and **warrant** that you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S under the U.S. Securities Act) when completing the Application Form;
- **warrant** the truth and accuracy of the information contained in your application;
- **authorize** our Company to place your name(s) on the register of members of the Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except that if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in the Application Form that you wish to collect your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in person);
- **understand** that these declarations and representations will be relied upon by the Company, the Directors, the Joint Bookrunners, the Sole Sponsor and the Hong Kong Underwriters in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application and that you may be prosecuted for making a false declaration;
- **confirm** that you are aware of the restrictions on offering of the Offer Shares described in this prospectus;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus, the **White Form eIPO** Application and the **White Form eIPO** website (www.eipo.com.hk) and agree to be bound by them;
- **undertake** and **agree** to accept the Shares applied for, or any lesser number allocated to you under your application; and
- if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of the Company, the Joint Bookrunners and the Hong Kong Underwriters nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus, the **White Form eIPO** application and the **White Form eIPO** website (www.eipo.com.hk).

The Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters and their respective directors, officers, employees, partners, agents, advisors, and any other parties involved in the Share Offer are entitled to rely on any warranty, representation or declaration made by you in such application.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

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If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at www.eipo.com.hk.

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service (www.eipo.com.hk), you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service (www.eipo.com.hk), you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. See the paragraph headed “How many applications you can make” in this section of the prospectus.

Warning

The application for Hong Kong Offer Shares through the **White Form eIPO** service (www.eipo.com.hk) is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. The Company, the Directors, the Joint Bookrunners, the Underwriters and the **White Form eIPO** Service Provider take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service (www.eipo.com.hk) will be submitted to the Company or that you will be allotted any Hong Kong Offer Shares.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2.0 for each “Shuanghua Holdings Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO**, you should submit a **WHITE** application form. However, once you have submitted **electronic application instructions** and completed payment in full using the payment reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** application form. Please see the paragraph headed “How many applications you can make” in this section of the prospectus.

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9. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.
- (b) If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for you if you come to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Hong Kong Offer Shares on your behalf.
- (d) You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to the Company and the Hong Kong Share Registrar.
- (e) You may give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms.
- (f) Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:
- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and
- (ii) HKSCC Nominees does the following things on behalf of each of such person:
- **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has input **electronic application instructions** on that person’s behalf or that person’s CCASS Investor Participant stock account;

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- **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- **undertakes** and **confirms** that that person has not indicated an interest for, applied for or taken up or indicated an interest for, any Offer Shares under the Hong Kong Public Offer nor otherwise participated in the Placing;
- (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that person is duly authorized to give those instructions as that other person's agent;
- **understands** that the above declaration will be relied upon by the Company, the Directors and the Joint Bookrunners in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if he makes a false declaration;
- **authorizes** the Company to place the name of HKSCC Nominees on the Group's register of members as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf save as set out in any supplement to this prospectus;
- **agrees** that the Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisor and any other parties involved in the Share Offer are liable only for the information and representations contained in this prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to the Company, the Joint Bookrunners, the Hong Kong Share Registrar, receiving bank and/or their respective agents and any information which they may require about that person;

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- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before the expiration of the fifth Business Day after the time of opening of the application lists or such later date as the application lists may close as described under “Effect of bad weather on the opening of the application lists” above, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the expiration of the fifth day after the time of opening of the application lists except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person’s **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by the Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- **agrees** with the Company, for ourselves and for the benefit of each of the Group’s Shareholders (and so that the Group will be deemed by the Group’s acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies Ordinance and the Memorandum and the Articles;
- **agrees** with the Company (for itself and for the benefit of each of its Shareholders) that the shares are freely transferable by the holders thereof; and
- **agrees** that person’s application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

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- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.
- (h) For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (i) The section of the Application Form entitled “Personal data” applies to any personal data held by the Sole Sponsor, the Company and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Warning

Application for Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. The Company, the Joint Bookrunners and any parties involved in the Share Offer take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) submit the **WHITE** or **YELLOW** Application Form (as appropriate); or
- (b) go to HKSCC’s Customer Service Centre to complete an application instruction input request form before **12:00 noon on Wednesday, 22 June 2011** or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” above.

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10. RESULTS OF ALLOCATIONS

Announcement of the results of allocation in the Hong Kong Public Offer, including the level of applications in the Hong Kong Public Offer, the indication of the levels of interest under the Placing, the basis of allotment of Hong Kong Offer Shares and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC via CCASS or the designated **White Form eIPO** Service Provider through the designated **White Form eIPO** website, will be made available in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and will be available from the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of our Company at www.shshuanghua.com on Wednesday, 29 June 2011.

The results of allocation and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- results of allocation for the Hong Kong Public Offer will be available from the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of our Company at www.shshuanghua.com;
- results of allocation for the Hong Kong Public Offer will be available from our Hong Kong Offer results of allocation website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Wednesday, 29 June 2011 to 12:00 midnight on Tuesday, 5 July 2011. The user will be required to key in the Hong Kong Identity Card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- results of allocation will be available from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling **2862 8669** between 9:00 a.m. and 10:00 p.m. from Wednesday, 29 June 2011 to Saturday, 2 July 2011; and
- special allocation results booklets setting out the results of allocation will be available for inspection during opening hours of individual locations from Wednesday, 29 June 2011 to Thursday, 30 June 2011 and on Saturday, 2 July 2011 at all the receiving bank locations at the addresses set out in the paragraph headed “Where to collect the Application Forms” in this section above.

11. HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Hong Kong Offer Shares only if:

- You are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **WHITE** or **YELLOW** Application Form and lodging more than one application in your own name on behalf of different beneficial owners. In the box on the **WHITE** or **YELLOW** Application Form marked “For nominees” you must include:
 - an account number; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- some other identification code for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being made for your own benefit.

Otherwise, multiple or suspected multiple applications are liable to be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider, you:

- (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider;
 - (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider, and that you are duly authorized to sign the Application Form (where applicable) as that other person's agent.
- (b) Save as referred to (a) above, all of your applications for the Hong Kong Offer Shares (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:
- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider; or
 - apply both (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider; or
 - apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **White Form eIPO** Service Provider for more than 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offer, being 8,124,000 Shares; or
 - have applied for or taken up, or indicated an interest in applying for or taking up or have been or will be placed (including conditionally and/or provisionally) any Placing Shares under the Placing.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (c) All of your applications for the Hong Kong Offer Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**). If an application is made by an unlisted company and:
- (i) the principal business of that company is dealing in securities; and
 - (ii) you exercise statutory control over that company,
- then the application will be deemed to be made for your benefit.

Unlisted company means a company with no equity securities listed on the Hong Kong Stock Exchange.

Statutory control in relation to a company means you:

- (i) control the composition of the board of directors of that company; or
 - (ii) control more than half of the voting power of that company; or
 - (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profit or capital).
- (d) If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving **electronic application instructions** through the designated website at www.eipo.com.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

12. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the paragraph headed “Conditions” under the section headed “Structure of the Share Offer” or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the application:

- (a) for applications on **WHITE** Application Forms or **White Form eIPO**:
 - (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or
 - (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful; and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms refund cheque(s) crossed 'Account Payee Only' in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all application monies, if the application is wholly unsuccessful, in each case including brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications are expected to be posted on Wednesday, 29 June 2011. The right to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) is reserved.

Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 30 June 2011 provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the paragraph headed "Grounds for termination" under the section headed "Underwriting" has not been exercised.

(a) if you apply using a WHITE Application Form:

If you apply for 1,000,000 or more Hong Kong Offer Shares and have indicated your intention in your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or share

HOW TO APPLY FOR HONG KONG OFFER SHARES

certificate(s) (where applicable) in person and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) (where applicable) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 29 June 2011 or such other date as notified by us in the newspapers as the date of collection/despatch of e-Refund Payment instructions/refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 29 June 2011, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on Wednesday, 29 June 2011, by ordinary post and at your own risk.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, 29 June 2011, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are applying as a CCASS Investor Participant:

- the Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner described in the section headed "How to apply for Hong Kong Offer Shares – Results of Allocations" on Wednesday, 29 June 2011. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 29 June 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

(c) If you apply through White Form eIPO:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your Share certificate(s) in person from Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 29 June 2011, or such other date as notified by the Company in the newspapers as the date of despatch/collection of e-Refund payment instructions/refund cheques/Share certificates.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk on Wednesday, 29 June 2011, by ordinary post and at your own risk.

If you paid the application monies from a single bank account, e-Refund payment instructions (if any) will be despatched to the application payment account on Wednesday, 29 June 2011. If you used multi-bank accounts to pay the application monies, refund cheque (if any) will be despatched to you on Wednesday, 29 June 2011.

(d) If you apply by giving electronic application instructions to HKSCC:

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Deposit of share certificates into CCASS and Refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Wednesday, 29 June 2011, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- The Group expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Group will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification number (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Offer Shares in the manner described in the section headed “How to apply for Hong Kong Offer Shares – Results of Allocations” on Wednesday, 29 June 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 29 June 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, 29 June 2011. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications, including brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 29 June 2011. No interest will be paid thereon.

HOW TO APPLY FOR HONG KONG OFFER SHARES

13. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting an **electronic application instruction** you agree that your application or the application made by HKSCC Nominees or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) on your behalf cannot be revoked on or before the expiration of the fifth Business Day after the time of opening of the application lists, unless a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with the Company and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider and an Application Form has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the end of the fifth Business Day after the time of opening of the application lists except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) Full discretion of the Company, the Joint Bookrunners or their respective agents or nominees to reject or accept:

The Company, the Joint Bookrunners, the **White Form eIPO** Service Provider or the Company's or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Hong Kong Offer Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing date of the application lists.

(d) You will not receive any allotment if:

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) Placing Shares. By filling in any of the Application Forms or submitting **electronic application instructions**, you agree not to apply for or indicate an interest for Offer Shares in the Placing. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offer from investors who have received Offer Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offer;
- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**;
- you apply for more than 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offer, being 8,124,000 Shares;
- the Company believes that by accepting your application, the Company would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address overleaf is located;
- the Underwriting Agreements do not become unconditional; or
- the Hong Kong Underwriting Agreement and/or the Placing Underwriting Agreement are/is terminated in accordance with their respective terms.

You should also note that you may apply for Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the Placing, but may not do both.

HOW TO APPLY FOR HONG KONG OFFER SHARES

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on Thursday, 30 June 2011. Shares will be traded on the Hong Kong Stock Exchange in board lots of 2,000 Shares each. The Hong Kong Stock Exchange stock code for the Shares is 1241.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

17 June 2011

The Directors
Shuanghua Holdings Limited
Piper Jaffray Asia Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of Shuanghua Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the years ended 31 December 2008, 2009 and 2010 (the “Relevant Periods”), prepared on the basis of presentation set forth in note 2 of Section II, for inclusion in the prospectus of the Company dated 17 June 2011 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 November 2010. Pursuant to a group reorganisation (the “Reorganisation”) as detailed in note 1 of Section II below, the Company became the holding company of the subsidiaries now comprising the Group. Particulars of the Company and its subsidiaries are set out in note 1 of Section II below. The Company and its subsidiaries have adopted 31 December as their financial year end.

The Group is principally engaged in design, development, manufacture and sale of parts of auto air-conditioner.

As of the date of this report, no audited statutory financial statements have been prepared by the Company as the Company is newly incorporated and has not involved in any business transactions since the date of incorporation other than the Reorganisation. No audited statutory financial statements have been prepared for the Company’s subsidiary incorporated in the British Virgin Islands (the “BVI”) since its date of incorporation as there are no statutory requirements for it to prepare audited statutory financial statements.

The audited statutory financial statements of the Company’s subsidiaries established in Hong Kong were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”, which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The audited statutory financial statements of the Company’s subsidiaries established in Mainland China were prepared in accordance with the relevant accounting principles and financial reporting regulations issued by the Ministry of Finance of the People’s Republic of China (“PRC”) applicable to the respective companies (the “PRC GAAP”). The statutory financial statements of the Company’s subsidiaries were audited by auditors other than Ernst & Young, Certified Public Accountants, Hong Kong, the details of which are set out in note 1 of Section II.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the Group’s combined financial statements for the Relevant Periods (the “HKFRS Financial Statements”) on the basis of presentation set forth in note 2 of Section II.

The Financial Information set out in this report including the combined statements of income, comprehensive income, changes in equity and cash flows of the Group for each of the Relevant Periods, the combined statements of financial position of the Group as at 31 December 2008, 2009 and 2010, and the statement of financial position of the Company as at 31 December 2010 together with a summary of significant accounting policies and other explanatory notes thereto has been prepared by the Directors based on the HKFRS Financial Statements with no adjustments made thereon and on the basis set out in note 2 of Section II.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The Directors are responsible for the contents of the Prospectus, including the preparation of the Financial Information that gives a true and fair view in accordance with the basis set out in note 2 of Section II. The directors of the respective companies of the Group are responsible for the preparation of the respective financial statements that give a true and fair view in accordance with the relevant accounting principles and financial reporting regulations applicable to these companies and for such internal control as the Directors and the directors of the respective companies of the Group determine is necessary to enable the preparation of the Financial Information and the respective financial statements that are free from material misstatement, whether due to fraud or error.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information for the Relevant Periods and to report our opinion to you.

PROCEDURES PERFORMED IN RESPECT OF THE FINANCIAL INFORMATION

For the purpose of this report, we have audited the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing (“HKSAAs”) issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA. No adjustments were considered necessary by us to the HKFRS Financial Statements to conform to the accounting policies referred to in note 3 of Section II of this report for the Relevant Periods.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, the Financial Information gives, for the purpose of this report and on the basis of presentation set out in note 2 of Section II, a true and fair view of the combined results and cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Group as at 31 December 2008, 2009 and 2010 and of the state of affairs of the Company as at 31 December 2010.

I. FINANCIAL INFORMATION

COMBINED STATEMENTS OF INCOME

	Notes	Year ended 31 December		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
REVENUE.....	6	382,846	371,463	591,504
Cost of sales.....		<u>(285,981)</u>	<u>(264,249)</u>	<u>(454,752)</u>
Gross profit.....		96,865	107,214	136,752
Other income and gains.....	6	3,935	5,809	2,066
Selling and distribution costs.....		(20,989)	(13,588)	(21,066)
Administrative expenses.....		(25,401)	(26,663)	(47,350)
Other expenses.....		(2,137)	(630)	(1,846)
Finance costs.....	8	(10,177)	(6,175)	(6,115)
Share of profits of an associate.....	15	<u>9,187</u>	<u>22,160</u>	<u>27,094</u>
PROFIT BEFORE TAX.....	7	51,283	88,127	89,535
Income tax expense.....	11	<u>(8,353)</u>	<u>(11,385)</u>	<u>(8,755)</u>
PROFIT FOR THE YEAR.....		<u>42,930</u>	<u>76,742</u>	<u>80,780</u>
Attributable to:				
Owners of the parent.....		43,370	77,534	81,541
Non-controlling interests.....		<u>(440)</u>	<u>(792)</u>	<u>(761)</u>
		<u>42,930</u>	<u>76,742</u>	<u>80,780</u>
EARNINGS PER SHARE				
ATTRIBUTABLE TO OWNERS				
OF THE PARENT.....	12	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR	<u>42,930</u>	<u>76,742</u>	<u>80,780</u>
OTHER COMPREHENSIVE LOSS			
Exchange differences on translation of foreign operations	<u>(32)</u>	<u>(2)</u>	<u>(107)</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX.....	<u>(32)</u>	<u>(2)</u>	<u>(107)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>42,898</u>	<u>76,740</u>	<u>80,673</u>
Attributable to:			
Owners of the parent	43,338	77,532	81,434
Non-controlling interests.....	<u>(440)</u>	<u>(792)</u>	<u>(761)</u>
	<u>42,898</u>	<u>76,740</u>	<u>80,673</u>

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment.....	13	144,941	192,355	191,640
Prepaid land lease payments	14	79,833	78,224	64,095
Advance payments for property, plant and equipment		28,669	7,040	3,744
Investment in an associate	15	39,411	61,572	73,966
Available-for-sale investments.....	16	262	262	262
Deferred tax assets.....	26	3,356	4,671	9,898
Total non-current assets		<u>296,472</u>	<u>344,124</u>	<u>343,605</u>
CURRENT ASSETS				
Inventories.....	17	63,064	60,152	83,845
Trade and notes receivables.....	18	87,922	95,587	107,742
Prepayments, deposits and other receivables....	19	10,724	7,612	11,143
Due from related parties.....	35(c)	34,119	72,719	104,020
Cash and cash equivalents	20	53,400	30,460	69,596
Total current assets		<u>249,229</u>	<u>266,530</u>	<u>376,346</u>
CURRENT LIABILITIES				
Trade and bills payables.....	21	48,961	65,682	85,981
Other payables and accruals.....	22	20,492	26,628	35,687
Interest-bearing bank borrowings	23	174,695	125,877	107,000
Due to related parties	35(c)	57,607	58,726	62,452
Tax payable.....		174	3,604	2,745
Government grants.....	25	310	1,003	1,170
Provision	24	5,729	4,131	5,518
Total current liabilities		<u>307,968</u>	<u>285,651</u>	<u>300,553</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(58,739)</u>	<u>(19,121)</u>	<u>75,793</u>
TOTAL ASSETS LESS CURRENT LIABILITIES.....		<u>237,733</u>	<u>325,003</u>	<u>419,398</u>
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	23	–	–	20,000
Government grants.....	25	2,638	9,876	9,972
Deferred tax liabilities.....	26	2,141	5,433	8,559
Total non-current liabilities		<u>4,779</u>	<u>15,309</u>	<u>38,531</u>
Net assets		<u>232,954</u>	<u>309,694</u>	<u>380,867</u>
EQUITY				
Equity attributable to owners of the parent				
Issued capital	27	–	–	–
Reserves.....	28	61,285	67,753	74,800
Retained profits		<u>160,616</u>	<u>231,680</u>	<u>306,067</u>
		221,901	299,433	380,867
Non-controlling interests.....		<u>11,053</u>	<u>10,261</u>	<u>–</u>
Total equity.....		<u>232,954</u>	<u>309,694</u>	<u>380,867</u>

	Attributable to owners of the parent								
	Issued share capital	Capital reserve* (note 28)	Statutory surplus reserve* (note 28)	Merger reserve* (note 28)	Exchange fluctuation reserve* (note 28)	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2009 and 1 January 2010	-	5,108	24,328	38,351	(34)	231,680	299,433	10,261	309,694
Profit for the year	-	-	-	-	-	81,541	81,541	(761)	80,780
Other comprehensive income for the year:									
Exchange differences on translation									
of foreign operations	-	-	-	-	(107)	-	(107)	-	(107)
Total comprehensive income for the year	-	-	-	-	(107)	81,541	81,434	(761)	80,673
Disposal of a subsidiary	-	-	-	-	-	-	-	(9,500)	(9,500)
Appropriation to statutory surplus reserve	-	-	7,154	-	-	(7,154)	-	-	-
At 31 December 2010	-	5,108	31,482	38,351	(141)	306,067	380,867	-	380,867

(i) On 15 December 2008, Shanghai Youshen Industry Co., Ltd. acquired 1% equity interest in Shanghai Shuanghua Machinery Manufacturing Co., Ltd. from Shanghai Automart Investment Co., Ltd. with a total cash consideration of RMB597,000.

(ii) On 8 July 2008, Great Wall Motor Co., Ltd. ("Great Wall Motor") injected a piece of land into Baoding Shuanghua Autoparts Co., Ltd.. According to the investment agreement, Great Wall Motor agreed to contribute the registered capital of RMB5,652,600, while the land injected by Great Wall Motor was valued at an amount of RMB12,983,600. The difference between the registered capital and the contribution by Great Wall Motor was recorded as capital reserve.

(iii) Shanghai Shuanghua Autoparts Co., Ltd. ("Shanghai Shuanghua") transferred its 100% equity interest in Shanghai Shuanghua Industry and Trade Co., Ltd. to Shanghai Zhenxin Information Consultancy Co., Ltd. with a total cash consideration of RMB13,024,000 (note 29).

(iv) Shanghai Shuanghua transferred its 68% equity interest in Baoding Shuanghua Autoparts Co., Ltd. to Great Wall Motor with a total cash consideration of RMB19,380,000 (note 29).

* These reserve accounts comprise the combined reserves of RMB61,285,000, RMB67,753,000 and RMB74,800,000 in the combined statements of financial position as at 31 December 2008, 2009 and 2010, respectively.

COMBINED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax:		51,283	88,127	89,535
Adjustments for:				
Finance costs	8	10,177	6,175	6,115
Share of profits of an associate		(9,187)	(22,160)	(27,094)
Bank interest income	6	(775)	(158)	(402)
Loss/(gain) on disposal of items				
of property, plant and equipment	7	705	(4,620)	(187)
Loss/(gain) on disposal of a subsidiary	7	(1,300)	–	808
Depreciation	7	6,987	8,810	16,071
Recognition of prepaid land lease payments ..	7	1,353	1,660	1,603
Release of government grants	25	(1,159)	(981)	(1,310)
Impairment/(reversal of impairment) of				
inventories	7	1,932	(1,570)	368
Impairment of trade receivables	7	266	302	(229)
Foreign exchange differences, net	7	(412)	84	218
		59,870	75,669	85,496
Decrease/(increase) in inventories		4,688	4,482	(26,583)
Increase in trade and notes receivables		(3,256)	(7,967)	(16,828)
Decrease/(increase) in prepayments,				
deposits and other receivables		8,779	3,112	(4,820)
Increase in amount due from related parties		(6,428)	(38,600)	(16,601)
Increase/(decrease) in trade and				
bills payables		(15,547)	16,721	15,567
Increase in other payables and accruals		6,979	6,553	17,792
Decrease in amount due to directors		(3,002)	–	–
Increase/(decrease) in amount due to				
related parties		(2,745)	1,119	3,726
Increase in government grants		1,006	507	195
Increase/(decrease) in provision for				
product warranties		(1,508)	(1,598)	1,387
Cash generated from operations		48,836	59,998	59,331
Interest received		775	158	402
Income tax paid		(7,193)	(5,978)	(11,715)
Net cash flows from operating activities		<u>42,418</u>	<u>54,178</u>	<u>48,018</u>

	Notes	Year ended 31 December		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM INVESTING				
ACTIVITIES				
Purchases of items of property, plant and equipment		(92,256)	(35,591)	(28,494)
Additions to prepaid land lease payments		(65,365)	(51)	(4,620)
Proceeds from disposal of items of property, plant and equipment		131	5,132	390
Receipt of government grants		1,525	8,405	1,378
Acquisition of non-controlling interests		(597)	–	–
Disposal of a subsidiary	29	6,188	–	19,059
Net cash flows used in investing activities		<u>(150,374)</u>	<u>(22,105)</u>	<u>(12,287)</u>
CASH FLOWS FROM FINANCING				
ACTIVITIES				
New bank loans		59,695	107,182	109,773
Repayment of bank loans		(20,000)	(156,000)	(100,000)
Interest paid		<u>(10,189)</u>	<u>(6,108)</u>	<u>(6,043)</u>
Net cash flows from/(used in) financing activities		<u>29,506</u>	<u>(54,926)</u>	<u>3,730</u>
NET INCREASE IN/(DECREASE) IN				
CASH AND CASH EQUIVALENTS				
Cash and cash equivalents at beginning of year		131,470	53,400	30,460
Effect of foreign exchange rate changes, net.		<u>380</u>	<u>(87)</u>	<u>(325)</u>
CASH AND CASH EQUIVALENTS				
AT END OF YEAR				
		<u>53,400</u>	<u>30,460</u>	<u>69,596</u>
Analysis of balances of cash and cash equivalents				
Cash and bank balances		53,400	30,460	64,596
Time deposits		–	–	5,000
Cash and cash equivalents		<u>53,400</u>	<u>30,460</u>	<u>69,596</u>

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2010
	RMB'000
CURRENT ASSET	
Cash and cash equivalents.....	—
Net assets.....	—
EQUITY	
Issued capital.....	—
Total equity.....	=

Note: The Company was incorporated on 19 November 2010 with authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. On the same date, one nil paid share of HK\$0.01 was allotted and issued to Codan Trust Company (Cayman) Limited ("Codan Trust") as the subscriber share. Codan Trust transferred its share to Zheng Ping on the same day.

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND THE REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 November 2010. The authorised share capital of the Company was HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in design, development, manufacture and sale of parts of auto air-conditioner.

In the opinion of the directors of the Company, the ultimate controlling shareholders of the Company are Zheng Ping and Dong Zongde.

In order to rationalise the corporate structure in preparation for the Listing of its shares on the Stock Exchange, the Company and its subsidiaries now comprising the Group underwent the Reorganisation of which the following principal steps were taken place:

- (a) On 19 November 2010, the Company was incorporated in the Cayman Islands and one subscriber share, which was nil paid, was allotted and issued to Zheng Ping. On 28 March 2011, Zheng Ping transferred the said one share to Youshen International Group Limited (“Youshen Group”), and 5,799 shares and 4,200 shares were allotted and issued nil paid to Youshen Group and Shuanghua International Limited (“Shuanghua International”), respectively;
- (b) On 27 January 2011, Youshen Group was incorporated with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1 each. The entire issued share capital of Youshen Group is owned by Zheng Ping;
- (c) On 27 January 2011, Shuanghua International was incorporated with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1 each. The entire issued share capital of Shuanghua International is owned by Dong Zongde;
- (d) On 14 January 2011, Dong Zongde transferred his 52.5% shareholding interests in Automart Holdings Limited (“BVI Automart”) to Zheng Ping at a consideration of HK\$295,953 which is determined based on the net assets value of BVI Automart as at 31 December 2010;
- (e) On 24 February 2011, Zheng Ping transferred his 20% shareholding interests in Automart Holdings Limited (“Hong Kong Automart”) to BVI Automart at a nominal consideration of HK\$1;
- (f) On 18 March 2011, BVI Automart increased its authorised share capital from US\$50,000 divided into 50,000 shares of US\$1 each to US\$100,000 divided into 100,000 shares of US\$1 each. On 18 March 2011, 8,000 shares and 42,000 shares of BVI Automart were issued and allotted to Zheng Ping and Shuanghua International at consideration of HK\$81,200,000 and HK\$58,800,000, respectively;
- (g) On 1 June 2011, Hong Kong Automart increased its authorised share capital from HK\$1,000,000 divided into 1,000,000 shares of HK\$1 each to HK\$2,000,000 divided into 2,000,000 shares of HK\$1 each. On 1 June 2011, 200,000 shares of Hong Kong Automart were issued and allotted to BVI Automart at a consideration of HK\$140,000,000;

- (h) On 1 January 2011, Zheng Ping transferred his 58% shareholding interests in Shanghai Automart Investment Co., Ltd. (“Shanghai Automart”) to Dong Zongde at a consideration of RMB29,000,000, which was determined based on the initial amount invested by Zheng Ping;
- (i) On 21 February 2011, the registered capital of Shanghai Shuanghua Autoparts Co. Ltd. (“Shanghai Shuanghua”) increased from RMB178,000,000 to RMB263,415,456. The additional capital injection was contributed by Shanghai Automart and Hong Kong Automart by undistributed profits of Shanghai Shuanghua. On 21 February 2011, Shanghai Automart and Hong Kong Automart entered into equity transfer agreement pursuant to which Shanghai Automart transferred its approximately 54.769% equity interest in Shanghai Shuanghua to Hong Kong Automart at a consideration of RMB157,726,155, which was determined with reference to the valuation of Shanghai Shuanghua conducted by an independent valuer;
- (j) On 4 October 2010, pursuant to an equity share agreement, Shanghai Shuanghua transferred its 68% equity interest to Great Wall Motor at a consideration of RMB19,380,000, which was determined at arm’s length negotiation between the parties;
- (k) To serve the best interest of the Group, Kunshan Xiaocang Compressor Co., Ltd. is in the process of deregistration and is expected to cease to be members in the corporate structure of the Group after deregistration;
- (l) On 8 June 2011, the Company acquired the entire issued share capital of BVI Automart from Zheng Ping and Shuanghua International in consideration of the crediting as fully paid the 5,800 and 4,200 in the share capital of the Company held by Zheng Ping and Dong Zongde, namely, Youshen Group and Shuanghua International, respectively. As a result of the acquisition, the Company became the ultimate holding company of the Group.

As at the end of the Relevant Periods, the Company had direct or indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Automart Holdings Limited (“BVI Automart”) ⁽ⁱ⁾	British Virgin Islands 7 February 2002	US\$50,000	100 (direct)	Investment holding
Automart Holdings Limited (“Hong Kong Automart”) ⁽ⁱⁱ⁾	Hong Kong 7 June 2002	HK\$1,000,000	100 (indirect)	Investment holding
Shanghai Shuanghua Autoparts Co., Ltd. (“Shanghai Shuanghua”) ⁽ⁱⁱⁱ⁾	People’s Republic of China 25 September 1997	RMB178,000,000	100 (indirect)	Manufacture and sale of auto air-conditioner parts and components

Name	Place and date of incorporation/registration and operations	Nominal value of issued ordinary share/registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Shanghai Shuanghua Machinery Manufacturing Co., Ltd. ("Shuanghua Machinery") ^(iv)	People's Republic of China 28 September 2007	RMB60,000,000	100 (indirect)	Manufacture and sale of auto air-conditioner parts and components
Shanghai Youshen Industry Co., Ltd. ("Youshen Industry") ^(v)	People's Republic of China 27 July 2006	RMB10,000,000	100 (indirect)	Import and export goods and technology and sales of auto-conditioner parts and components
Shuanghua Hong Kong Limited ("Hong Kong Shuanghua") ^(vi)	Hong Kong 25 March 2008	US\$200,000	100 (indirect)	Import and export goods and technology and sales of auto-conditioner parts and components
Shanghai Shuanghua Auto Components Co., Ltd. ("Shuanghua Auto Components") ^(vii)	People's Republic of China 7 September 2009	RMB2,000,000	100 (indirect)	Wholesale and retail of mechanical equipment and accessories
Baoding Shuanghua Autoparts Co., Ltd. ("Baoding Shuanghua") ^(viii)	People's Republic of China 18 December 2007	RMB28,500,000	68 (indirect)	Manufacture and sale of auto air-conditioner parts and components

Name	Place and date of incorporation/registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Shanghai Shuanghua Industry and Trade Co., Ltd (“Shuanghua Industry and Trade”) ^(ix)	People’s Republic of China 2 July 1997	RMB5,000,000	100 (indirect)	Wholesale and retail of mechanical equipments and accessories
Kunshan Xiaocang Compressor Co., Ltd. (“Kunshan Xiaocang”) ^(x)	People’s Republic of China 9 March 2004	US\$1,210,000	65 (indirect)	Manufacture of automotive compressor
Automart Heat-exchanger (Shanghai) Co., Ltd. (“Automart Heat-exchanger”) ^(xi)	People’s Republic of China 3 January 2003	US\$2,100,000	100 (indirect)	Manufacture of automotive parts and components

- (i) No statutory audited financial statements have been prepared for BVI Automart since its date of incorporation as BVI Automart is not subject to any statutory audit requirements in its jurisdiction of incorporation.
- (ii) The statutory audited financial statements for the year ended 31 March 2008 prepared in accordance with the HKFRSs and the Hong Kong Companies Ordinance were audited by Ho & Chung CPA Limited registered in Hong Kong.
- (iii) The statutory audited financial statements for the years ended 31 December 2008 and 2009 prepared in accordance with the PRC GAAP were audited by BDO Shanghai Zhonghua Certified Public Accountants and Shanghai Y&Z CPA Partnership registered in the PRC, respectively.
- (iv) No separate statutory audited financial statements have been prepared for Shuanghua Machinery.
- (v) The statutory audited financial statements for the years ended 31 December 2008 and 2009 prepared in accordance with the PRC GAAP were audited by Shanghai Shangshen Certified Public Accountants Co., Ltd. registered in the PRC.
- (vi) The statutory audited financial statements for the years ended 31 March 2009 and 2010 prepared in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard were audited by Ho & Chung CPA Limited registered in Hong Kong.
- (vii) The statutory audited financial statements for the year ended 31 December 2009 prepared in accordance with the PRC accounting principles and regulations were audited by Shanghai Dongcheng Certified Public Accountants Co., Ltd registered in the PRC.
- (viii) The statutory audited financial statements for the years ended 31 December 2008 and 2009 prepared in accordance with the PRC GAAP were audited by Baoding Zheng He Xin Certified Public Accountants Co., Ltd. registered in the PRC.

- (ix) No statutory audited financial statements have been prepared since Shuanghua Industry and Trade was disposed of in June 2008.
- (x) No statutory audited financial statements have been prepared since the liquidation of Kunshan Xiaocang was approved by the Kunshan Foreign Trade Economic Cooperation Bureau on 8 November 2007.
- (xi) No statutory audited financial statements have been prepared since the liquidation of Automart Heat-exchanger was approved by the People's Government of Pudong New Area in Shanghai on 2 February 2008.

2. BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 8 June 2011 by acquiring the entire issued share capital of BVI Automart, a company incorporated in the BVI, which was the then holding company of the other subsidiaries comprising the Group. Since the shareholders group, Zheng Ping and Dong Zongde, is acting in concert and ultimately controlled the Group before and after the Reorganisation and that control is not transitory, the business combination in Reorganisation is accounted for as business combination under common control using the principles of merger accounting in accordance with the Accounting Guidance 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The Financial Information includes the combined statements of income, comprehensive income, changes in equity, cash flows and financial position of the companies now comprising the Group, as if the current group structure resulted from the Reorganisation had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, whichever is a shorter period.

The Financial Information has been prepared in accordance with the accounting policies set forth in note 3 below. All significant intra-group transactions and balances have been eliminated.

3.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with the following accounting policies in conformity with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, and accounting principles generally accepted in Hong Kong.

The HKICPA has issued a number of new and revised HKFRSs that are effective for the Group's annual periods beginning on or after 1 January 2008. For the purpose of preparing the Financial Information, the Group has adopted all these new and revised HKFRSs consistently throughout the Relevant Periods except for those new and revised HKFRSs that are not yet effective for any of the Relevant Periods as further explained in note 3.2 below.

The Financial Information has been prepared under the historical cost convention. The accounting policies set out in note 3.3 have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 1 Amendment	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ⁴
HKFRS 9	<i>Financial Instruments</i> ⁵
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ³
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of Minimum Funding Requirement</i> ³
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

Apart from the above, the HKICPA has issued *Improvements to HKFRs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

- ¹ Effective for annual periods beginning on or after 1 February 2010
- ² Effective for annual periods beginning on or after 1 July 2010
- ³ Effective for annual periods beginning on or after 1 January 2011
- ⁴ Effective for annual periods beginning on or after 1 July 2011
- ⁵ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Financial Information comprises the financial statements of the Company and its subsidiaries for the years ended 31 December 2008, 2009 and 2010.

Acquisitions under common control which is treated as business combination under common control are accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of the Reorganisation under common control. The combined statements of income and comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the Reorganisation under common control.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is a position to exercise significant influence.

The Group's investments in associates are stated in the combined statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the combined income statements and combined reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's

value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5% to 20%
Plant and machinery	10% to 20%
Office equipment.....	20%
Motor vehicles.....	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents building and plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets***Initial recognition and measurements***

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and notes receivables, deposits and other receivables, amount due from related parties and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost

is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimated within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset, or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities***Initial recognition and measurement***

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, less directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amount due to related parties and interest-bearing bank borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

Retirement benefits

The Group's subsidiaries which operate in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The pension scheme is considered as defined contribution plan because the Group has no legal or constructive obligations for retirement benefits beyond the contribution made. Contributions to the defined contribution pension scheme are recognised as expenses in the income statement of the Group as they become payable in accordance with the rules of the scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional

currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the combined statements of cash flows, the cash flows of certain subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of certain subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

There is no significant effect on the amounts recognised in the Financial Information arising from the judgements, apart from those involving estimates, made by management in the process of applying the Group's accounting policies.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to

sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details are contained in note 26 to the Financial Information.

Income tax

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised. Further details are contained in note 11 to the Financial Information.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on ongoing assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade and other receivables and impairment loss in the period in which such estimate has been changed.

Provision for slow-moving inventories and net realizable value of inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. Write-down of inventories to net realisable value is made based on the estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed.

Warranty provision

The Group provides warranties on the products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volume and past experience of the level of repairs and returns, discounted to the present value as appropriate. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at the end of each financial year end based on changes in circumstances.

Recognition of deferred tax liabilities for withholding taxes

Deferred tax liabilities are recognised for 10% withholding tax levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and services and the Group has only one reportable operating segment which is engaged in design, development, manufacture and sale of parts of auto air-conditioner. Management monitors the operating results of operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information*(a) Revenue from external customers*

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Mainland China	180,879	203,843	278,256
United States of America	107,603	110,331	240,820
Canada	38,423	37,093	44,572
Asia	40,888	14,014	20,193
Others	15,053	6,182	7,663
	<u>382,846</u>	<u>371,463</u>	<u>591,504</u>

The revenue information above is based on the location of the customers.

(b) Non-current assets

All non-current assets of the Group are located in Mainland China during the Relevant Periods.

Information about major customers

For the year ended 31 December 2008, revenue from three customers accounted for more than 10% of the Group's total revenue individually. Revenue from these three customers was RMB111,396,711, RMB48,812,632 and RMB43,035,730, respectively.

For the year ended 31 December 2009, revenue from three customers accounted for more than 10% of the Group's total revenue individually. Revenue from these three customers was RMB112,932,419, RMB81,308,419 and RMB40,299,550, respectively.

For the year ended 31 December 2010, revenue from two customers accounted for more than 10% of the Group's total revenue individually. Revenue from these two customers was RMB239,497,632 and RMB119,202,680, respectively.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of valued-added tax and government surcharges, and after allowances for returns.

An analysis of revenue, other income and gains is as follows:

	Notes	Year ended 31 December		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Revenue				
Sale of goods		<u>382,846</u>	<u>371,463</u>	<u>591,504</u>
Other income and gains				
Bank interest income.....		775	158	402
Gain on disposal of a subsidiary.....	29	1,300	–	–
Government grants.....	25	1,159	981	1,310
Gain on disposal of items of property, plant and equipment		–	4,620	187
Others.....		<u>701</u>	<u>50</u>	<u>167</u>
		<u>3,935</u>	<u>5,809</u>	<u>2,066</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Cost of inventories sold		285,981	264,249	454,752
Depreciation	13	6,987	8,810	16,071
Amortisation of prepaid land lease payments . . .	14	1,353	1,660	1,603
Research and development costs		2,737	3,063	6,878
Operating lease expenses		3,654	2,909	2,989
Loss/(gain) on disposal of items of property, plant and equipment		705	(4,620)	(187)
Product warranty provision	24	1,460	1,587	2,108
Employee benefit expense (including directors' remuneration (note 9)):				
Wages and salaries		29,221	26,681	40,318
Pension scheme contribution		3,304	3,700	4,939
Staff welfare expenses		1,624	2,166	2,890
		<u>34,149</u>	<u>32,547</u>	<u>48,147</u>
Foreign exchange differences, net		(412)	84	218
Impairment/(reversal of impairment) of inventories	17	1,932	(1,570)	368
Impairment/(reversal of impairment) of trade receivables	18	266	302	(229)
Loss/(gain) on disposal of a subsidiary	29	(1,300)	–	808
Bank interest income		<u>(775)</u>	<u>(158)</u>	<u>(402)</u>

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	<u>10,177</u>	<u>6,175</u>	<u>6,115</u>

9. DIRECTORS' REMUNERATION

Details of directors' remuneration during the Relevant Periods, disclosed pursuant to the Hong Kong Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Fees	150	150	150
Other emoluments:			
Salaries, allowances and benefits in kind	13	13	1,693
Pension scheme contributions	8	10	16
	<u>171</u>	<u>173</u>	<u>1,859</u>

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods were as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
He Binhui	50	50	50
Zhao Fenggao	50	50	50
Chen Lifan	—	—	—
	<u>100</u>	<u>100</u>	<u>100</u>

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods.

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2008				
<i>Executive directors:</i>				
Zheng Ping	—	—	—	—
Dong Zongde	—	13	8	21
	<u>—</u>	<u>13</u>	<u>8</u>	<u>21</u>
<i>Non-executive directors:</i>				
Kong Xiaoling	—	—	—	—
Jia Weiren	50	—	—	50
	<u>50</u>	<u>—</u>	<u>—</u>	<u>50</u>
	<u>50</u>	<u>13</u>	<u>8</u>	<u>71</u>

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2009				
<i>Executive directors:</i>				
Zheng Ping	—	—	—	—
Dong Zongde	—	13	10	23
	<u>—</u>	<u>13</u>	<u>10</u>	<u>23</u>
<i>Non-executive directors:</i>				
Kong Xiaoling	—	—	—	—
Jia Weiren	50	—	—	50
	<u>50</u>	<u>—</u>	<u>—</u>	<u>50</u>
	<u>50</u>	<u>13</u>	<u>10</u>	<u>73</u>

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010				
<i>Executive directors:</i>				
Zheng Ping	–	954	–	954
Dong Zongde	–	739	16	755
	–	<u>1,693</u>	<u>16</u>	<u>1,709</u>
<i>Non-executive directors:</i>				
Kong Xiaoling	–	–	–	–
Jia Weiren	50	–	–	50
	<u>50</u>	<u>–</u>	<u>–</u>	<u>50</u>
	<u>50</u>	<u>1,693</u>	<u>16</u>	<u>1,759</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

10. FIVE HIGHEST PAID EMPLOYEES

All the five highest paid employees of the Group during the years ended 31 December 2008 and 2009 were not directors. During the year ended 31 December 2010, two of the highest paid individuals were directors of the Group. Details of the remuneration of the remaining non-director, highest paid employees during the Relevant Periods are as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	1,854	1,937	1,808
Pension scheme contributions	<u>130</u>	<u>200</u>	<u>184</u>
	<u>1,984</u>	<u>2,137</u>	<u>1,992</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Nil to RMB1,000,000	5	5	2
RMB1,000,000 to RMB1,500,000	–	–	1
	<u>5</u>	<u>5</u>	<u>3</u>

11. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The income tax expenses of the Group for the Relevant Periods are analysed as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current – charge for the year.....	7,543	9,408	10,856
Deferred (note 26).....	810	1,977	(2,101)
Total tax charge for the year.....	<u>8,353</u>	<u>11,385</u>	<u>8,755</u>

The Company incorporated in Cayman Island is not subject to corporate income tax (“CIT”) as the company does not have a place of business (other than a registered office only) or carry on any business in Cayman Island.

The subsidiary incorporated in the BVI is not subject to corporate income tax (“CIT”) as such subsidiary does not have a place of business (other than a registered office only) or carry on any business in the BVI.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits was subject to CIT at the rate of 16.5% for the years ended 31 December 2008, 2009 and 2010 in Hong Kong. No provision of income tax has been made for Hong Kong Automart as Hong Kong Automart had no taxable income derived from Hong Kong during the Relevant Periods. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for Hong Kong Shuanghua during the Relevant Periods.

During the Fifth Session of the Tenth National People’s Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the “New Corporate Income Tax Law”) was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In this connection, Shanghai Shuanghua, Shuanghua Machinery, Youshen Industry, Shuanghua Auto Components and Baoding Shuanghua are subject to CIT at the rate of 25%.

Shanghai Shuanghua was registered as a foreign-invested enterprise and pursuant to the approval from the tax bureau, Shanghai Shuanghua was exempted from CIT for its first-two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. Shanghai Shuanghua was in its third, fourth and fifth profit-making years for the years ended 31 December 2008, 2009 and 2010 and therefore, Shanghai Shuanghua was subject to CIT at the rate of 12.5% during the Relevant Periods.

Youshen Industry was located in Pudong New Area and was subject to a preferential CIT at the rate of 15% before 2008. With the release of the New Corporate Income Tax Law, Youshen Industry was subject to CIT at the rates of 18%, 20%, 22% and 24% for 2008, 2009, 2010 and 2011, respectively, before Youshen Industry is subject to CIT at the rate of 25% in 2012.

Shuanghua Machinery, Shuanghua Auto Components and Baoding Shuanghua are subject to CIT at the rate of 25% during the Relevant Periods.

Pursuant to the New Corporate Income Tax Law and implementation regulations issued by the State Council, and in accordance with the Arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, the exemption from the withholding tax on dividends distributed by foreign-invested enterprises to their foreign investors under the previous tax laws is no longer available. Withholding tax is levied at 10% on dividends declared to foreign investors from the foreign-invested enterprises established in Mainland China. Thus, any dividends received ultimately by the Company from Shanghai Shuanghua and Macs (Baoding) Auto A/C Systems Co., Ltd. ("Macs Baoding") in regards of the profits generated after 2007, is subject to a withholding tax rate of 10%.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates in Mainland China to the tax expense at the effective tax rates is as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before tax	51,283	88,127	89,535
Tax at statutory tax rates 25% in Mainland China	12,821	22,032	22,384
Lower tax rate for specific province or enacted by local authority	(6,223)	(9,078)	(9,675)
Profits attributable to an associate	(2,297)	(5,540)	(6,778)
Income not subject to tax	–	(10)	–
Expenses not deductible for tax	779	99	884
Effect on deferred tax balances due to change in income tax rate	–	–	(520)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	2,141	3,292	3,126
Tax losses utilized	–	(15)	(767)
Tax losses not recognised	1,132	605	101
Tax charge at the Group's effective rate	8,353	11,385	8,755

The share of tax credit attributable to an associate amounting to RMB98,066 for the year ended 31 December 2008 and the share of tax charge attributable to an associate amounting to RMB643,214 and RMB8,936,275 for the years ended 31 December 2009 and 2010, respectively, are included in "Share of profits of an associate" in the combined statements of income.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the number of common shares as at end of each financial year is different from the number of common shares immediately after the completion of Share Offer.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2008						
At 1 January 2008:						
Cost	44,322	32,216	1,229	2,184	8,419	88,370
Accumulated depreciation	(3,574)	(5,682)	(330)	(275)	–	(9,861)
Net carrying amount	<u>40,748</u>	<u>26,534</u>	<u>899</u>	<u>1,909</u>	<u>8,419</u>	<u>78,509</u>
At 1 January 2008, net of						
accumulated depreciation	40,748	26,534	899	1,909	8,419	78,509
Additions	428	4,605	754	1,811	67,273	74,871
Disposal	–	(746)	–	(90)	–	(836)
Disposal of a subsidiary (note 29)	–	(62)	–	(554)	–	(616)
Depreciation provided during						
the year (note 7)	(1,960)	(4,280)	(274)	(473)	–	(6,987)
Transfers	<u>8,078</u>	<u>19</u>	<u>4</u>	<u>–</u>	<u>(8,101)</u>	<u>–</u>
At 31 December 2008, net of						
accumulated depreciation	<u>47,294</u>	<u>26,070</u>	<u>1,383</u>	<u>2,603</u>	<u>67,591</u>	<u>144,941</u>
At 31 December 2008:						
Cost	52,828	35,605	1,987	3,232	67,591	161,243
Accumulated depreciation	(5,534)	(9,535)	(604)	(629)	–	(16,302)
Net carrying amount	<u>47,294</u>	<u>26,070</u>	<u>1,383</u>	<u>2,603</u>	<u>67,591</u>	<u>144,941</u>
31 December 2009						
At 1 January 2009:						
Cost	52,828	35,605	1,987	3,232	67,591	161,243
Accumulated depreciation	(5,534)	(9,535)	(604)	(629)	–	(16,302)
Net carrying amount	<u>47,294</u>	<u>26,070</u>	<u>1,383</u>	<u>2,603</u>	<u>67,591</u>	<u>144,941</u>
At 1 January 2009, net of						
accumulated depreciation	47,294	26,070	1,383	2,603	67,591	144,941
Additions	3,815	8,140	1,084	700	42,997	56,736
Disposal	–	(383)	–	(129)	–	(512)
Depreciation provided during						
the year (note 7)	(2,932)	(4,942)	(372)	(564)	–	(8,810)
Transfers	<u>41,966</u>	<u>39,432</u>	<u>514</u>	<u>–</u>	<u>(81,912)</u>	<u>–</u>
At 31 December 2009, net of						
accumulated depreciation	<u>90,143</u>	<u>68,317</u>	<u>2,609</u>	<u>2,610</u>	<u>28,676</u>	<u>192,355</u>
At 31 December 2009:						
Cost	98,609	82,352	3,585	3,776	28,676	216,998
Accumulated depreciation	(8,466)	(14,035)	(976)	(1,166)	–	(24,643)
Net carrying amount	<u>90,143</u>	<u>68,317</u>	<u>2,609</u>	<u>2,610</u>	<u>28,676</u>	<u>192,355</u>

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2010						
At 1 January 2010:						
Cost	98,609	82,352	3,585	3,776	28,676	216,998
Accumulated depreciation	<u>(8,466)</u>	<u>(14,035)</u>	<u>(976)</u>	<u>(1,166)</u>	–	<u>(24,643)</u>
Net carrying amount	<u>90,143</u>	<u>68,317</u>	<u>2,609</u>	<u>2,610</u>	<u>28,676</u>	<u>192,355</u>
At 1 January 2010, net of						
accumulated depreciation	90,143	68,317	2,609	2,610	28,676	192,355
Additions	213	8,845	241	795	23,548	33,642
Disposal	–	(87)	–	(116)	–	(203)
Disposal of a subsidiary (note 29) .	(7,912)	(8,120)	(981)	(121)	(949)	(18,083)
Depreciation provided during						
the period (note 7)	(5,440)	(9,371)	(566)	(694)	–	(16,071)
Transfers	<u>23,484</u>	<u>20,835</u>	<u>139</u>	–	<u>(44,458)</u>	–
At 31 December 2010, net of						
accumulated depreciation	<u>100,488</u>	<u>80,419</u>	<u>1,442</u>	<u>2,474</u>	<u>6,817</u>	<u>191,640</u>
At 31 December 2010:						
Cost	113,856	102,603	2,737	4,193	6,817	230,206
Accumulated depreciation	<u>(13,368)</u>	<u>(22,184)</u>	<u>(1,295)</u>	<u>(1,719)</u>	–	<u>(38,566)</u>
Net carrying amount	<u>100,488</u>	<u>80,419</u>	<u>1,442</u>	<u>2,474</u>	<u>6,817</u>	<u>191,640</u>

As at 31 December 2008, 2009 and 2010, certain of the Group's buildings with aggregate net carrying amounts of RMB6,386,376, RMB15,664,888 and RMB69,037,918, respectively, were pledged to secure bank loan facilities granted to the Group (note 23).

As at 31 December 2008, 2009 and 2010, the Group has not obtained certificates of ownership in respect of certain buildings of the Group in the PRC with aggregate net carrying amounts of RMB21,677,076, RMB57,201,335 and RMB69,417,857, respectively. The Directors are of the view that the Group is entitled to lawfully and validly occupy and use of the above mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2010.

14. PREPAID LAND LEASE PAYMENTS

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of year	5,978	81,513	79,904
Additions	76,888	51	–
Recognised during the year (note 7).....	(1,353)	(1,660)	(1,603)
Disposal of a subsidiary (note 29)	–	–	(12,803)
Carrying amount at end of year.....	81,513	79,904	65,498
Current portion included in prepayments, deposits and other receivables (note 19)	(1,680)	(1,680)	(1,403)
Non-current portion	<u>79,833</u>	<u>78,224</u>	<u>64,095</u>

The Group's leasehold lands are situated in Mainland China and held under long term leases.

As at 31 December 2008, 2009 and 2010, certain of the Group's leasehold lands with aggregate net carrying amounts of RMB13,387,448, RMB61,140,624 and RMB59,884,553, respectively, were pledged to secure bank loan facilities granted to the Group (note 23).

As at 31 December 2008, 2009 and 2010, the Group has not obtained the land use right certificate in respect of a piece of leasehold land in the PRC with aggregate net carrying amounts of RMB5,856,550, RMB5,734,750 and RMB5,612,950, respectively. The Directors are of the view that the Group is entitled to lawfully and validly occupy and use of the above mentioned leasehold lands. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2010.

15. INVESTMENT IN AN ASSOCIATE

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Share of net assets	<u>39,411</u>	<u>61,572</u>	<u>73,966</u>

The Group's trade receivables balances with the associate are disclosed in note 35 to the Financial Information.

Particulars of the principal associate are as follows:

Name	Place and date of incorporation/registration and operations	Nominal value of issued ordinary share/registered paid-up capital	Percentage of ownership interest attributable to the Group	Principal activities
Macs Baoding	People's Republic of China 18 January 2004	RMB20,339,000	49	Manufacture of automotive parts and components

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Assets.....	162,496	297,606	379,709
Liabilities.....	(82,066)	(171,950)	(228,758)
Revenues.....	218,254	310,117	396,974
Profit.....	<u>18,749</u>	<u>45,225</u>	<u>55,294</u>

16. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Unlisted equity investments, at cost.....	<u>262</u>	<u>262</u>	<u>262</u>

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

Unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

17. INVENTORIES

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	31,878	22,665	27,809
Work in progress	7,903	15,130	20,228
Finished goods	29,028	26,532	39,888
	68,809	64,327	87,925
Impairment	(5,745)	(4,175)	(4,080)
	<u>63,064</u>	<u>60,152</u>	<u>83,845</u>

The movements in provision for impairment of inventories are as below:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At beginning of year	3,813	5,745	4,175
Impairment losses recognised/(reversed) (note 7)	1,932	(1,570)	368
Impairment written off as disposal of a subsidiary	—	—	(463)
At end of year	<u>5,745</u>	<u>4,175</u>	<u>4,080</u>

18. TRADE AND NOTES RECEIVABLES

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables	64,192	79,086	93,573
Notes receivables	23,914	16,987	14,426
	88,106	96,073	107,999
Impairment	(184)	(486)	(257)
	<u>87,922</u>	<u>95,587</u>	<u>107,742</u>

The Group's trading terms with its customers are mainly on credit. The credit period for trade receivable is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and notes receivables of the Group as at the end of the reporting dates during the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 month.....	22,753	37,849	50,341
1 to 2 months.....	12,166	27,090	23,312
2 to 3 months.....	16,367	17,154	23,758
3 to 12 months.....	36,640	12,394	8,766
Over 12 months.....	180	1,586	1,822
	<u>88,106</u>	<u>96,073</u>	<u>107,999</u>

The movements in provision for impairment of trade receivables are as below:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At beginning of year.....	256	184	486
Impairment losses recognised/(reversed) (note 7).....	266	302	(229)
Amount written off as uncollectible.....	–	–	–
Amount written off as disposal of a subsidiary.....	(338)	–	–
At end of year.....	<u>184</u>	<u>486</u>	<u>257</u>

Included in the above provision for impairment of trade receivables is a provision assessed on individual basis of RMB183,690, RMB485,662 and RMB257,218 with carrying amounts before provision of RMB183,690, RMB485,662 and RMB257,218 as at 31 December 2008, 2009 and 2010, respectively. The individually impaired trade receivables relate to customers that no longer have transaction with the Group, and none of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade and notes receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	67,523	83,248	90,673
Less than 1 months past due	14,873	8,902	11,052
1 to 2 months past due	2,800	813	3,827
2 to 3 months past due	765	1,243	177
3 to 12 months past due	1,553	1,381	853
Over 12 months past due	408	—	1,160
	<u>87,922</u>	<u>95,587</u>	<u>107,742</u>

Receivables that were neither past due nor impaired relate to a large number of diversified 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, the directors of the Company are of the opinion that no provision for impairment 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 or other credit enhancements over these balances.

As at 31 December 2008, 2009 and 2010, certain of the Group's notes receivables of nil, nil and RMB8,650,000 were pledged to secure bills payables of nil, nil and RMB8,650,000, respectively (note 21).

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other receivables	7,686	3,558	3,718
Prepayments	807	1,422	5,008
Prepaid land lease payments (note 14).....	1,680	1,680	1,403
Prepaid other taxes	551	952	1,014
	<u>10,724</u>	<u>7,612</u>	<u>11,143</u>

Other receivables are non-interest-bearing, unsecured and repayable on demand.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash and bank balances	53,400	30,460	64,596
Time deposits	—	—	5,000
Cash and cash equivalents	<u>53,400</u>	<u>30,460</u>	<u>69,596</u>

As at 31 December 2008, 2009 and 2010, the Group's cash and cash equivalents denominated in RMB were RMB51,728,587, RMB24,727,098 and RMB61,278,441, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for 7 days and earn interest at 7-day short term time deposit rate. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE AND BILLS PAYABLES

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables	48,961	65,682	77,331
Bills payables	—	—	8,650
	<u>48,961</u>	<u>65,682</u>	<u>85,981</u>

An aged analysis of the trade and bills payables as at the end of the reporting dates during the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 month.....	15,441	33,359	45,204
1 to 2 months	16,174	18,601	18,606
2 to 3 months	10,428	7,687	13,920
3 to 6 months	5,985	4,094	5,733
6 to 12 months	—	798	1,001
12 to 24 months	933	1,143	730
Over 24 months	—	—	787
	<u>48,961</u>	<u>65,682</u>	<u>85,981</u>

Trade payables are non-interest-bearing and have an average credit term of one to three months.

Bills payables were secured by certain of the Group's notes receivables of nil, nil and RMB8,650,000 as at 31 December 2008, 2009 and 2010, respectively (note 18).

22. OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other payables	14,740	15,136	12,701
Advances from customers	1,983	4,589	2,037
Taxes other than CIT	1,050	2,217	2,168
Payroll payable	1,587	3,201	8,815
Accrued liabilities	1,132	1,485	9,966
	<u>20,492</u>	<u>26,628</u>	<u>35,687</u>

Other payables and advances from customers are non-interest-bearing and have an average term of three months.

23. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	As at 31 December		
			2008	2009	2010
			RMB'000	RMB'000	RMB'000
Current					
Bank loans – secured *	6.03-6.57	Within 1 year	66,000	–	–
Bank loans – secured *	7.47	Within 1 year	40,000	–	–
Bank loans – secured *	5.58	Within 1 year	20,000	–	–
Bank loans – secured *	5.40	Within 1 year	–	10,000	20,000
Bank loans – secured *	5.31	Within 1 year	30,000	75,000	25,000
Bank loans – secured *	3.51	Within 1 year	–	15,000	–
Bank loans – secured *	5.56	Within 1 year	–	–	60,000
			<u>156,000</u>	<u>100,000</u>	<u>105,000</u>
Discounted bank					
acceptances *	3.08-5.93		18,695	–	–
	2.00-2.62		–	25,877	–
	5.35-5.46		–	–	2,000
			<u>18,695</u>	<u>25,877</u>	<u>2,000</u>
			<u>174,695</u>	<u>125,877</u>	<u>107,000</u>

	Effective interest rate (%)	Maturity	As at 31 December		
			2008	2009	2010
			RMB'000	RMB'000	RMB'000
Non-current					
Bank loans – secured *	5.40	2012	–	–	20,000
Analysed into:					
Bank loans and					
discounted bank					
acceptances					
repayable:					
Within one year or on					
demand					
			174,695	125,877	107,000
In the second year					
			–	–	20,000
			<u>174,695</u>	<u>125,877</u>	<u>127,000</u>

Notes:

The Group's bank borrowings are secured by:

- (i) mortgages over the Group's buildings situated in Mainland China, which had aggregate carrying values of RMB6,386,376, RMB15,664,888 and RMB69,037,918 as at 31 December 2008, 2009 and 2010 respectively (note 13).
- (ii) mortgages over the Group's leasehold lands situated in Mainland China, which had aggregate carrying values of RMB13,387,448, RMB61,140,624 and RMB59,884,553 as at 31 December 2008, 2009 and 2010 respectively (note 14).
- (iii) Guarantees by related parties as follows:

The Group's related party Shanghai Automart has guaranteed certain of the Group's bank loans up to RMB135,100,000, RMB70,000,000 and RMB50,000,000 as at 31 December 2008, 2009 and 2010, respectively.

The Group's ultimate shareholder, Zheng Ping, has guaranteed certain of the Group's bank loans up to RMB45,100,000, RMB15,000,000 and nil as at 31 December 2008, 2009 and 2010, respectively.

The Group's ultimate shareholder, Dong Zongde, has guaranteed certain of the Group's bank loans up to RMB45,100,000, nil and nil as at 31 December 2008, 2009 and 2010, respectively.

24. PROVISION

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At beginning of year	7,237	5,729	4,131
Additional provision	1,460	1,587	2,108
Amounts utilised during the year	(2,968)	(3,185)	(721)
At end of year	<u>5,729</u>	<u>4,131</u>	<u>5,518</u>

The Group provides warranties to its customers on its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

25. GOVERNMENT GRANTS

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Carrying amount at beginning of the year	1,576	2,948	10,879
Received during the year	2,531	8,912	1,573
Released to income statement (note 6)	(1,159)	(981)	(1,310)
Carrying amount at end of the year	<u>2,948</u>	<u>10,879</u>	<u>11,142</u>
Current	310	1,003	1,170
Non-current	<u>2,638</u>	<u>9,876</u>	<u>9,972</u>
	<u>2,948</u>	<u>10,879</u>	<u>11,142</u>

Government grants have been received either for the construction of certain items of property, plant and equipment or for the Group subsidiaries' business development. There are no unfulfilled conditions or contingencies attached to these grants.

26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax assets

	Accruals and provision	Impairment of assets	Government grants	Losses available for offsetting future taxable profits	Unrealised profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	1,095	476	197	–	257	2,025
Deferred tax credited/(charged) to the income statement during the year (note 11)	<u>(238)</u>	<u>271</u>	<u>171</u>	<u>867</u>	<u>260</u>	<u>1,331</u>
Deferred tax assets at 31 December 2008 and 1 January 2009	857	747	368	867	517	3,356
Deferred tax credited/(charged) to the income statement during the year (note 11)	<u>(160)</u>	<u>(158)</u>	<u>1,606</u>	<u>343</u>	<u>(316)</u>	<u>1,315</u>
Deferred tax assets at 31 December 2009 and 1 January 2010	697	589	1,974	1,210	201	4,671
Deferred tax credited to the income statement during the year (note 11)	<u>1,855</u>	<u>119</u>	<u>154</u>	<u>3,080</u>	<u>19</u>	<u>5,227</u>
Deferred tax assets at 31 December 2010	<u>2,552</u>	<u>708</u>	<u>2,128</u>	<u>4,290</u>	<u>220</u>	<u>9,898</u>

Deferred tax liabilities

	Withholding tax on the distributable profits
	<u>RMB'000</u>
At 1 January 2008	–
Deferred tax charged to the income statement during the year (note 11).....	<u>2,141</u>
At 31 December 2008 and 1 January 2009	2,141
Deferred tax charged to the income statement during the year (note 11).....	<u>3,292</u>
At 31 December 2009 and 1 January 2010	5,433
Deferred tax charged to the income statement during the year (note 11).....	<u>3,126</u>
At 31 December 2010	<u><u>8,559</u></u>

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividend distributed by those subsidiaries and associate established in Mainland China in respect of earnings generated from 1 January 2008. The Group recognised deferred tax liabilities in respect of accumulated distributable earnings from its subsidiaries and associate established in Mainland China since 1 January 2008, no matter whether such earnings have been declared or not by the subsidiaries at the reporting dates.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Deferred tax assets have not been recognised in respect of the following items:

	<u>As at 31 December</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Tax losses:			
Hong Kong Automart	4,957	4,868	3,003
Baoding Shuanghua.....	<u>1,257</u>	<u>3,678</u>	<u>–</u>
	<u><u>6,214</u></u>	<u><u>8,546</u></u>	<u><u>3,003</u></u>

The Group has tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of Hong Kong Automart.

The Group also has tax losses arising in Mainland China that will expire in one to five years for offsetting against future taxable profits of Baoding Shuanghua. With the disposal of Baoding Shuanghua in 2010, no such tax losses were recorded as at 31 December 2010.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in Hong Kong Automart and Baoding Shuanghua that it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

27. ISSUED CAPITAL

The Company was incorporated in the Cayman Islands on 19 November 2010, with authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each, of which one ordinary share was issued and held by Zheng Ping.

28. RESERVES

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Capital reserve	5,108	5,108	5,108
Statutory surplus reserve.....	17,858	24,328	31,482
Merger reserve	38,351	38,351	38,351
Exchange fluctuation reserve.....	(32)	(34)	(141)
	<u>61,285</u>	<u>67,753</u>	<u>74,800</u>

Capital reserve

On 17 September 2007, Shanghai Shuanghua was converted from a limited liability company to a joint stock company based on its net assets as at 31 August 2007 of RMB178 million. According to the Zhong Hu Kuai Zi (2007) No.2877 capital verification report issued by Shanghai Zhonghua Huyin Certified Public Accountants, the share capital, capital reserve and statutory surplus reserve of Shanghai Shuanghua were RMB178 million, RMB123,000 and RMB15,815,000, respectively.

On 8 July 2008, Great Wall Motor injected a piece of land into Baoding Shuanghua. According to the investment agreement, Great Wall Motor agreed to contribute the registered capital of RMB5,652,600, while the land injected by Great Wall Motor was valued at an amount of RMB12,983,600. The difference between the registered capital and the contribution by Great Wall Motor was recorded as capital reserve.

Statutory surplus reserve

In accordance with the PRC Company Law, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum of 25% of the registered capital after such usages.

Merger reserve

The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation which is accounted for as reorganisation under common control.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of Hong Kong Shuanghua.

29. DISPOSAL OF SUBSIDIARIES

- (a) In June 2008, the Group disposed of its indirect interests in Shuanghua Industry and Trade to Shanghai Zhenxin Information Consultancy Co., Ltd. for a total cash consideration of RMB13,024,000. The related assets and liabilities of the disposed subsidiary as at the disposal date are as follows:

	<u>Notes</u>	<u>2008</u>
		<u>RMB'000</u>
Net assets disposed of:		
Property, plant and equipment.....	13	616
Cash and bank balances.....		6,836
Trade and notes receivables.....		8,241
Inventories.....		4,714
Prepayments and other receivables.....		7,553
Trade and bills payables.....		(569)
Tax payable.....		(3,675)
Other payables and accruals.....		(11,992)
		<u>11,724</u>
Gain on disposal of a subsidiary.....	6	<u>1,300</u>
		<u>13,024</u>
Satisfied by:		
Cash.....		<u>13,024</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	<u>2008</u>
	<u>RMB'000</u>
Cash consideration.....	13,024
Cash and bank balances disposed of.....	(6,836)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary.....	<u>6,188</u>

- (b) In October 2010, the Group disposed of its indirect interests in Baoding Shuanghua to Great Wall Motor for a total cash consideration of RMB19,380,000. The related assets and liabilities of the disposed subsidiary as at the disposal date are as follows:

	<u>Notes</u>	<u>2010</u>
		<u>RMB'000</u>
Net assets disposed of:		
Property, plant and equipment.....	13	18,083
Prepaid land lease payments	14	12,803
Advance payments for property, plant and equipment		217
Cash and bank balances		321
Trade and notes receivables.....		4,902
Inventories		2,522
Prepayments and other receivables.....		1,012
Trade and bills payables.....		(3,918)
Other payables and accruals		(1,276)
Amount due to related parties		(4,978)
Non-controlling interest		<u>(9,500)</u>
		20,188
Loss on disposal of a subsidiary.....	6	<u>(808)</u>
		<u>19,380</u>
Satisfied by:		
Cash.....		<u>19,380</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	<u>2010</u>
	<u>RMB'000</u>
Cash consideration	19,380
Cash and bank balances disposed of	<u>(321)</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>19,059</u>

30. LIQUIDATION OF A SUBSIDIARY

In February 2008, the Group liquidated one of its subsidiaries, Automart Heat-exchanger, and no material liquidation costs related to the liquidation were incurred. The subsidiary is still in the process of liquidation as at the date of this report.

	<u>2008</u>
	RMB'000
Net assets written-off:	
Cash and bank balances.....	781
Trade and bills payables	(15)
Other payables and accruals	<u>(138)</u>
	<u>628</u>

The subsidiary liquidated had no significant impact on the turnover and results of the Group during the Relevant Periods.

31. CONTINGENT LIABILITIES

There were no significant contingent liabilities at the end of each of the reporting dates during the Relevant Periods.

32. PLEDGE OF ASSETS

Details of the Group's bank borrowings and bills payables which are secured by the assets of the Group, are included in notes 13, 14, 18, 21 and 23 to the Financial Information.

33. OPERATING LEASE ARRANGEMENTS**As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to fifteen years.

At the end of each of the reporting dates during the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<u>As at 31 December</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000
Within one year	2,274	1,479	1,879
In the second to fifth years, inclusive	3,373	2,439	3,271
After fifth years	<u>4,814</u>	<u>4,279</u>	—
	<u>10,461</u>	<u>8,197</u>	<u>5,150</u>

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of each of the reporting dates during the Relevant Periods:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Property, plant and machinery	<u>20,621</u>	<u>20,259</u>	<u>3,098</u>

35. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

	Note	Year ended 31 December		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Associate				
Sales of products to:				
Macs Baoding	(i)	<u>48,813</u>	<u>81,308</u>	<u>119,203</u>
Dividend from:				
Macs Baoding		<u>—</u>	<u>—</u>	<u>14,700</u>
Companies in which the directors of the Company are the shareholders				
Rental expense to:				
Shanghai Automart	(iii)	<u>2,135</u>	<u>2,018</u>	<u>2,060</u>
Purchase of goods from:				
Shanghai Youchen Aluminium Materials Co., Ltd. ("Shanghai Youchen") ..	(ii)	<u>—</u>	<u>—</u>	<u>5,918</u>
Close family member of a director of the Company				
Rental expense to:				
Wu Gang	(iii)	<u>43</u>	<u>—</u>	<u>—</u>

Notes:

- (i) The sales to the related parties were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The purchases from the related parties were made at terms agreed between the parties.
- (iii) The rental expenses to the related parties were based on prices mutually agreed between the parties.

(b) Other transactions with related parties:

The Group's related party, Shanghai Automart, has guaranteed certain of the Group's bank loans up to RMB135,100,000, RMB70,000,000 and RMB50,000,000 as at 31 December 2008, 2009 and 2010, respectively.

The Group's ultimate shareholder, Zheng Ping, has guaranteed certain of the Group's bank loans up to RMB45,100,000, RMB15,000,000 and nil as at 31 December 2008, 2009 and 2010, respectively.

The Group's ultimate shareholder, Dong Zongde, has guaranteed certain of the Group's bank loans up to RMB45,100,000, nil and nil as at 31 December 2008, 2009 and 2010, respectively.

The directors of the Company confirmed that the sales of products to Macs Baoding, the rental expense payable to Shanghai Automart and the purchase of goods from Shanghai Youchen listed in (a) as above, will continue after the listing of the Company's shares on the Main Board of the Stock Exchange.

(c) Outstanding balances with related parties:

	Notes	Year ended 31 December		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Due from related parties:				
Macs Baoding	(i)	25,119	63,719	95,020
Shanghai Longcang Investment Co., Ltd.	(ii)	3,780	3,780	3,780
Shanghai Zhongzhi Trading Co., Ltd.	(ii)	5,220	5,220	5,220
		<u>34,119</u>	<u>72,719</u>	<u>104,020</u>
Due to related parties:				
Shanghai Automart	(ii)	1,170	2,293	4,026
Youshen International Ltd.	(ii)	56,437	56,433	56,191
Shanghai Youchen	(ii)	—	—	2,235
		<u>57,607</u>	<u>58,726</u>	<u>62,452</u>

Notes:

(i) The balance due from Macs Baoding included dividend receivable of nil, nil and RMB14,700,000 as at 31 December 2008, 2009 and 2010, respectively. The remaining balances were trade in nature, unsecured, interest-free and have fixed terms of repayment.

(ii) The balances are unsecured, non-interest-bearing and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Short term employee benefits	698	767	3,317
Pension scheme contributions	91	109	130
Total compensation paid to key management personnel	<u>789</u>	<u>876</u>	<u>3,447</u>

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting dates during the Relevant Periods are as follows:

Financial assets – loans and receivables

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade and notes receivables	87,922	95,587	107,742
Financial assets included in prepayments, deposits and other receivables	7,686	3,558	3,718
Due from related parties	34,119	72,719	104,020
Cash and cash equivalents	<u>53,400</u>	<u>30,460</u>	<u>69,596</u>
	<u>183,127</u>	<u>202,324</u>	<u>285,076</u>

Financial assets – available-for-sale financial assets

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Available-for-sale investments	<u>262</u>	<u>262</u>	<u>262</u>

Financial liabilities at amortised cost

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade and bills payables	48,961	65,682	85,981
Financial liabilities included in other payables and accruals	14,740	15,136	12,701
Interest-bearing bank borrowings	174,695	125,877	127,000
Due to related parties	<u>57,607</u>	<u>58,726</u>	<u>62,452</u>
	<u>296,003</u>	<u>265,421</u>	<u>288,134</u>

37. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

Trade and notes receivables, financial assets included in prepayments, deposits and other receivables, due from related parties, cash and cash equivalents, trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group has no material financial instruments to be disclosed according to the fair value hierarchy (Level 1, 2 and 3).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings. All these interest-bearing bank borrowings were obtained at fixed interest rates, which have exposed the Group to fair value interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The interest rates and terms of repayment of borrowings are disclosed in note 23 above.

Management does not anticipate any significant impact resulting from the changes in interest rates because all of the Group's borrowings as at 31 December 2008, 2009 and 2010 were at fixed interest rates.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 52.8%, 45.1% and 53.0% of the Group's sales for the years ended 31 December 2008 and 2009 and 2010, respectively, were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 98.7% of costs for the Relevant Periods were denominated in the units' functional currency. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

The following table demonstrates the sensitivity at the end of each of the reporting dates during the Relevant Periods to a reasonably possible change in the United States, Hong Kong and Euro exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax
	%	RMB'000
Year ended 31 December 2008		
If RMB weakens against United States dollar	5	1,022
If RMB strengthens against United States dollar.....	(5)	(1,022)
If RMB weakens against Hong Kong dollar.....	5	(2,790)
If RMB strengthens against Hong Kong dollar	(5)	2,790
Year ended 31 December 2009		
If RMB weakens against United States dollar	5	1,694
If RMB strengthens against United States dollar.....	(5)	(1,694)
If RMB weakens against Hong Kong dollar.....	5	(2,783)
If RMB strengthens against Hong Kong dollar	(5)	2,783
Year ended 31 December 2010		
If RMB weakens against United States dollar	5	2,375
If RMB strengthens against United States dollar.....	(5)	(2,375)
If RMB weakens against Hong Kong dollar.....	5	(2,689)
If RMB strengthens against Hong Kong dollar	(5)	2,689

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the General Manager and Chairman.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amount due from related parties, deposits and other receivables and available-for-sale investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. As at 31 December 2008, 2009 and 2010, the Group had certain concentrations of credit risk as 30%, 29% and 39% and 60%, 72% and 75%, respectively, of the Group's trade and notes receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables and deposits and other receivables are disclosed in notes 18 and 19, respectively, to the Financial Information.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of each of the reporting dates during the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	31 December 2008					Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables . . .	31,202	17,759	–	–	–	48,961
Other payables	14,004	736	–	–	–	14,740
Interest-bearing bank borrowings	–	79,195	95,500	–	–	174,695
Due to related parties	57,607	–	–	–	–	57,607
	<u>102,813</u>	<u>97,690</u>	<u>95,500</u>	<u>–</u>	<u>–</u>	<u>296,003</u>

31 December 2009						
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables . .	23,505	42,177	–	–	–	65,682
Other payables	15,136	–	–	–	–	15,136
Interest-bearing bank borrowings	–	69,977	55,900	–	–	125,877
Due to related parties	<u>58,726</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>58,726</u>
	<u>97,367</u>	<u>112,154</u>	<u>55,900</u>	<u>–</u>	<u>–</u>	<u>265,421</u>
31 December 2010						
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables . .	26,525	54,806	4,650	–	–	85,981
Other payables	12,701	–	–	–	–	12,701
Interest-bearing bank borrowings	–	27,000	80,000	20,000	–	127,000
Due to related parties	<u>62,452</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>62,452</u>
	<u>101,678</u>	<u>81,806</u>	<u>84,650</u>	<u>20,000</u>	<u>–</u>	<u>288,134</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirement. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, amount due to related parties, trade and bills payables, other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of each of the reporting dates during the Relevant Periods were as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade and bills payables	48,961	65,682	85,981
Other payables and accruals	20,492	26,628	35,687
Interest-bearing bank borrowings	174,695	125,877	127,000
Due to related parties	57,607	58,726	62,452
Less: Cash and cash equivalents	(53,400)	(30,460)	(69,596)
Net debt	<u>248,355</u>	<u>246,453</u>	<u>241,524</u>
Equity attributable to owners of the parent	<u>221,901</u>	<u>299,433</u>	<u>380,867</u>
Capital and net debt	<u>470,256</u>	<u>545,886</u>	<u>622,391</u>
Gearing ratio	<u>53%</u>	<u>45%</u>	<u>39%</u>

39. EVENTS AFTER THE REPORTING PERIOD

On 8 March 2011, Shanghai Shuanghua declared dividends of RMB32,400,000 and RMB27,600,000 to Shanghai Automart and Hong Kong Automart, respectively. The dividends were paid in April and May 2011.

On 8 June 2011, the companies now comprising the Group completed the steps of Reorganisation listed in note 1 to the Financial Information.

40. SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully,
Ernst & Young
Certified Public Accountants
 Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is set out herein to provide prospective investors with further financial information about (i) how the proposed listing might have affected the combined net tangible assets of the Group after the completion of the Share Offer as if the Share Offer had occurred on 31 December 2010 and the Reorganization had been completed on 31 December 2010; and (ii) how the proposed listing might have affected the unaudited pro forma forecast earnings per share for the six months ending 30 June 2011 as if the Share Offer had taken place on 1 January 2011 and the Reorganization had been completed on 1 January 2011.

The accompanying unaudited pro forma financial information of the Group is based on currently available information along with a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Group does not purport to predict the Group's future financial position or results of operations.

Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial results and positions of the financial periods concerned.

A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted combined net tangible assets of the Group, which has been prepared for the purpose of illustrating the effect of the Share Offer as if it had taken place on 1 January 2011 and the Reorganization had been completed on 1 January 2011. It is based on the adjusted combined net tangible assets attributable to owners of the Company as at 31 December 2010 as shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus, and is adjusted as described below. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial position of the Group.

	Audited combined net tangible assets attributable to owners of the Company as at 31 December 2010	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	
	RMB'000⁽¹⁾	RMB'000⁽²⁾	RMB'000	RMB⁽³⁾⁽⁴⁾	HK\$⁽⁵⁾
Based on an Offer Price of HK\$1.16 per Share.....	380,867	143,185	524,052	0.81	0.97

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited combined net tangible assets attributable to owners of the Company as at 31 December 2010 is based on the audited combined net assets attributable to owners of the Company of RMB380,867,000 as at 31 December 2010 extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on the Offer Shares and the Offer Price of HK\$1.16 per Share, after deduction of the underwriting fees and related expenses payable by the Company. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.00 to RMB0.8351.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 650,000,000 Shares in issue immediately following the completion of the Share Offer.
- (4) On 8 March 2011, Shanghai Shuanghua declared dividends of RMB32.4 million and RMB27.6 million to Shanghai Automart and Hong Kong Automart, respectively, which were the then shareholders of Shanghai Shuanghua. The dividends were paid up in April and May 2011.
- (5) The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.8351 to HK\$1.00.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share of the Group for the six months ending 30 June 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 1 January 2011. It has been prepared for illustrative purpose only and, because of its hypothetical nature, may not give a true and fair picture of the financial results of the Group.

	Forecast for the six months ending 30 June 2011
Forecast combined profit attributable to owners of the Company ⁽¹⁾	not less than RMB41.3 million (equivalent to about HK\$49.5 million)
Unaudited pro forma forecast earnings per Share ⁽²⁾	approximately RMB0.06 (approximately HK\$0.08)

Notes:

- (1) The forecast combined profit attributable to owners of the Company for the six months ending 30 June 2011 is extracted from the section headed "Financial Information – Profit Forecast For The Six Months Ending 30 June 2011" in this prospectus. The bases and assumptions on which the above profit forecast for the six months ending 30 June 2011 has been prepared are summarized in Appendix III to this prospectus.
- (2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast combined profit attributable to owners of the Company for the six months ending 30 June 2011 and assuming a total of 650,000,000 Shares had been in issues during the entire year, as if the Share Offer had occurred on 1 January 2011 and the Reorganization had been completed on 1 January 2011.
- (3) The unaudited pro forma forecast earnings per Share is converted into Hong Kong dollars at an exchange rate of RMB0.8351 to HK\$1.00.

C. LETTER FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, received from our Company's reporting accountants, Ernst & Young, in respect of the unaudited pro forma financial information and for the purpose of incorporation in this prospectus.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

17 June 2011

The Directors
Shuanghua Holdings Limited
Piper Jaffray Asia Limited

Dear Sirs,

We report on the unaudited pro forma adjusted combined net tangible assets and unaudited pro forma forecast earnings per share (the “**Unaudited Pro Forma Financial Information**”) of Shuanghua Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”), which have been prepared by the directors of the Company (the “**Directors**”) for illustrative purposes only, to provide information about how the share offer of 162,500,000 shares of HK\$0.01 each in the capital of the Company, as set out in the section headed “Financial Information” in the prospectus of the Company dated 17 June 2011 (the “**Prospectus**”), might have affected the financial information presented, for inclusion in Appendix II to the Prospectus. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II to the Prospectus.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2010 or any future dates; or
- the forecast earnings per share of the Group for the six months ending 30 June 2011 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated;
- (b) such bases are consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The forecast of our combined profit attributable to the owners of our Company for the six months ending 30 June 2011 is set out in the paragraph headed “Profit Forecast for the six months ending 30 June 2011” in the section headed “Financial Information” in this prospectus.

A. BASES AND ASSUMPTIONS

The Directors have prepared the forecast of combined profit attributable to owners of our Company for the six months ending 30 June 2011 on the basis of the audited combined results of our Group for the year ended 31 December 2010, the unaudited combined results of our Group for the three months ended 31 March 2011 and a forecast of the combined results of our Group for the remaining three months ending 30 June 2011. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by us as set out in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus and is based on the following principal assumptions:

- there will be no material change in the existing government policies, political, legal, fiscal, market or economic conditions in Hong Kong and the PRC or any other places in which any member of our Group is incorporated and/or carries on business;
- with respect to the automotive industry, there will be no change in legislation, regulations or rules which may have an adverse effect on the investment, pricing and selling of our Group’s products;
- our Group’s operations will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of our Directors, including but not limited to the occurrence of natural disasters, epidemics or serious accidents, shortage of materials and fuel;
- there will be no material change in the bases or rates of taxation or duties applicable to the countries or territories in which our Group operates or companies in our Group are incorporated or registered except for those disclosed in this prospectus;
- there will be no material change in the existing inflation rate, interest rates or exchange rates in the PRC or any other territories in which any members of our Group carries on business or which is otherwise material to our Group’s revenue for the six months ending 30 June 2011; and
- there is no significant change in the critical accounting estimates and judgments.

Pursuant to Rule 11.18 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that the interim financial statements of our Group for the six months ending 30 June 2011 will be audited.

B. LETTERS

Set out below are texts of letters received by our Directors from (i) Ernst & Young, our auditors and reporting accountants, and (ii) the Sole Sponsor prepared for the purpose of incorporation in this prospectus in connection with the forecast of our combined profit attributable to the owners of our Company for the six months ending 30 June 2011.

(i) Letter from the Reporting Accountants

The following is the text of a letter received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

17 June 2011

The Directors
Shuanghua Holdings Limited
Piper Jaffray Asia Limited

Dear Sirs,

We have reviewed the calculations of and the accounting policies adopted in arriving at the forecast of the combined net profit attributable to owners of Shuanghua Holdings Limited (the “**Company**”, together with its subsidiaries, hereinafter collectively referred to as the “**Group**”) for the six months ending 30 June 2011 (the “**Profit Forecast**”), as set out in the paragraph headed “Profit Forecast for the Six Months Ending 30 June 2011” under the section headed “Financial Information” in the prospectus of the Company dated 17 June 2011 (the “**Prospectus**”) for which the directors of the Company (the “**Directors**”) are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 “Accountants’ Report on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast has been prepared by the Directors based on the unaudited combined results of the Group for the three months ended 31 March 2011 and a forecast of the combined results of the Group for the remaining three months ending 30 June 2011.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions made by the Directors as set out in Part A of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants’ Report dated 17 June 2011, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(ii) Letter from the Sole Sponsor

The following is the text of a letter received from Piper Jaffray Asia Limited, the Sole Sponsor, in connection with the forecast of the combined net profit attributable to the owners of our Company for the six months ending 30 June 2011, for the purpose of incorporation in this prospectus.

Piper Jaffray

Piper Jaffray Asia Limited
Suite 1308, 13/F
Two Pacific Place
88 Queensway
Hong Kong

17 June 2011

The Directors
Shuanghua Holdings Limited

We refer to the forecast of the combined net profit attributable to owners of Shuanghua Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) for the six months ending 30 June 2011 (the “**Profit Forecast**”) as set out in the prospectus issued by the Company dated 17 June 2011 (the “**Prospectus**”).

We understand that the Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the audited combined results of our Group for the year ended 31 December 2010, the unaudited combined results of the Group for the three months ended 31 March 2011 and a forecast of the combined results of the Group for the remaining three months ending 30 June 2011.

We have discussed with you the bases and assumptions made by the directors of the Company as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated 30 June 2011, addressed to yourselves and ourselves from Ernst & Young regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Piper Jaffray Asia Limited
Klemens Cheng
Principal

The following is the text of a letter, summary of valuation and valuation certificates prepared for the purpose of incorporation in this prospectus and received from DTZ Debenham Tie Leung Limited, an independent valuer, in connection with their valuations of the property interests of our Group as at 31 March 2011.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

17 June 2011

The Directors
Shuanghua Holdings Limited
Level 9, Tongsheng Building,
No.458, Fushan Road,
Pudong District,
Shanghai,
the PRC

Dear Sirs,

Instructions, Purpose and Date of Valuation

In accordance with your instructions for us to value the properties held by Shuanghua Holdings Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) in which have interests in the People’s Republic of China (the “PRC”) (as more particularly described in the valuation certificates), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of the values of such properties as at 31 March 2011 (the “date of valuation”).

Definition of Market Value

Our valuation of each of the properties represents its market value which in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Valuation Basis and Assumption

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

In the course of our valuation of the properties in the PRC, we have assumed that transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. We have relied on the information regarding the title to each of the properties and the interests of the Group in the properties. In valuing the properties, we have assumed that the Group has an enforceable title to each of the properties and has free and uninterrupted right to use, occupy or assign the property interests for the whole of the respective unexpired terms as granted.

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Group and the opinion of the Group's legal adviser, Jingtian & Gongcheng, are set out in the notes in the respective valuation certificate.

Method of Valuation

In valuing the properties Nos. 1, 2 and 4 in Group I, we have adopted the depreciated replacement costs ("DRC") approach. Due to the specific nature and use of the buildings and structures, we have valued the properties by reference to the depreciated replacement cost. DRC is based on an estimate of the market value for the existing use of the land, plus the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization. For the land portion, we have made reference to comparable sales evidence as available in the market. The DRC is subject to adequate potential profitability of the business.

In valuing the property No. 3 in Group I, we have adopted the direct comparison approach assuming the sale of the property in its existing state with the benefit of vacant possession and by making reference to comparable sale evidence as available in the relevant market.

In valuing the property in Group II which is contracted to be acquired by the Group in the PRC, we have been advised by the Group that the title certificate of the property have not been obtained yet and we have ascribed no commercial value to the property.

The properties in Group III which are leased to the Group in the PRC have no commercial value mainly due to the prohibitions against assignment and subletting or otherwise due to the lack of substantial profit rents.

Source of Information

We have been provided by the Group with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a considerable extent on the information given by titles to the properties in the PRC. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date of buildings, identification of buildings, particulars of occupancy, development schemes, construction costs, site and gross floor area and all other relevant matters.

Dimension, measurements and areas included in the attached valuation certificates are based on the information provided to us and are therefore only approximations. We have had no reasons to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

Site Inspection

We have inspected the exterior and, where possible, the interior of the properties. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No test was carried out on any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and gross floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Currency

Unless otherwise stated, all money amounts stated in the Group's valuations are in Renminbi (RMB), the official currency of the PRC.

We enclose herewith a summary of valuations and valuation certificates.

Yours faithfully,

for and on behalf of

DTZ Debenham Tie Leung Limited

Andrew K. F. Chan

Registered Professional Surveyor (GP)

China Real Estate Appraiser

MSc., M.H.K.I.S., M.R.I.C.S

Senior Director

Note: Mr. Andrew Chan is a Registered Professional Surveyor who has over 23 years' experience in the valuation of properties in the PRC and Hong Kong.

SUMMARY OF VALUATIONS

<u>Property</u>	<u>Capital value in existing state as at 31 March 2011</u>	<u>Attributable interest to the Group</u>	<u>Capital value in existing state as at 31 March 2011 attributable to the Group</u>
	RMB	%	RMB
Group I – Properties held by the Group for owner-occupation in the PRC			
1. An industrial complex situated at No. 788, Kegong Road, Huqiao Town, Fengxian District, Shanghai, the PRC	49,900,000	100	49,900,000
2. An industrial building situated at No. 488 Yaoqiao Village, Zhelin Town, Fengxian District, Shanghai, the PRC	26,600,000	100	26,600,000
3. Units 201 and 202, No. 7, Unit 202, No. 8, Unit 202, No. 26, Haian Jingyuan, Lane 99, Xinzhe East Road, Zhelin Town, Fengxian District, Shanghai, the PRC	2,200,000	100	2,200,000

<u>Property</u>	<u>Capital value in existing state as at 31 March 2011</u>	<u>Attributable interest to the Group</u>	<u>Capital value in existing state as at 31 March 2011 attributable to the Group</u>
	RMB	%	RMB
4. An industrial complex situated at No. 88, Lane 3111, Huan Cheng West Road, Xidu Town, Fengxian District, Shanghai, the PRC	63,700,000	100	63,700,000
Sub-total:	142,400,000		142,400,000

Group II – Property contracted to be acquired by the Group in PRC

5. An industrial complex situated at Lot 18, Huqiao Industrial Zone, Zhelin Town, Fengxian District, Shanghai, the PRC	No commercial value		No commercial value
Sub-total:	No commercial value		No commercial value

<u>Property</u>	<u>Capital value in existing state as at 31 March 2011</u>	<u>Attributable interest to the Group</u>	<u>Capital value in existing state as at 31 March 2011 attributable to the Group</u>
	RMB	%	RMB
Group III – Properties leased to the Group in the PRC			
6. Units 901, 909, 910, 911 and 912, Level 9, Tongsheng Building, No. 458, Fushan Road, Pudong District, Shanghai, the PRC	No commercial value		No commercial value
7. Unit 908, Level 9, Tongsheng Building, No. 458, Fushan Road, Pudong District, Shanghai, the PRC	No commercial value		No commercial value
8. Unit 902, Level 9, Tongsheng Building, No. 458, Fushan Road, Pudong District, Shanghai, the PRC	No commercial value		No commercial value
9. Unit 309, Level 3, Block 2, No. 2898, Fengzhe Road, Fengxian District, Shanghai, the PRC	No commercial value		No commercial value
Sub-total:	No commercial value		No commercial value
Total:	142,400,000		142,400,000

VALUATION CERTIFICATE

Group I – Properties held by the Group for owner-occupation in the PRC

	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31 March 2011</u>
1.	An industrial complex situated at No. 788, Kegong Road, Huqiao Town, Fengxian District, Shanghai, the PRC	<p>The property comprises an industrial complex erected on a parcel of land with a site area of approximately 52,522.20 sq m.</p> <p>The industrial complex comprises 5 buildings with Shanghai Certificate of Real Estate Ownership completed in 2008.</p> <p>These 5 buildings have a total gross floor area of approximately 19,734.83 sq m.</p> <p>There is one building with a gross floor area of 1,582 sq m without title certificate (Please see note (1) below).</p> <p>The land use rights of the property have been granted for a term of 50 years due to expire on 17 March 2058 for industrial use.</p>	The property is occupied by the Group for industrial and ancillary use.	RMB49,900,000
	Notes:			
(1)	According to Shanghai Certificate of Real Estate Ownership No. (2008) 007399 issued by Shanghai Housing and Land Resources Administration Bureau dated 2 June 2008, the land use rights and the building ownership rights of the property comprising a site area of approximately 52,522.20 sq m and a total gross floor area of 19,734.83 sq m, have been vested in Shanghai Shuanghua Autoparts Co., Ltd (上海雙樺汽車零部件股份有限公司) for a term due to expire on 17 March 2058 for industrial use.			
	We noted that there is a building with a gross floor area of 1,582 sq m without Shanghai Certificate of Real Estate Ownership. According to the confirmation letter issued by Shanghai Fengxian District Planning and Land Resource Bureau (上海市奉賢區規劃和土地管理局) dated 1 February 2011, the Group is in the process of applying for the Certificate of Real Estate Ownership. In the course of our valuation, we have assigned no commercial value to the building. However, on the assumption that the Certificate of Real Estate Ownership of the building has been obtained, the capital value of the building as at 31 March 2011 would be RMB1,520,000.			
(2)	According to Business Licence No. 310000400180620 dated 7 December 2007, Shanghai Shuanghua Autoparts Co., Ltd was established as a limited company with a registered capital of RMB178,000,000.			
(3)	We have been provided with a legal opinion on the property by the Group's legal adviser, which contains, inter alia, the following information:			
(i)	Shanghai Shuanghua Autoparts Co., Ltd is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights;			
(ii)	All land premium has been fully settled; and			
(iii)	The property is subject to a mortgage in favor of China Construction Bank, Fengxian branch to the extent of RMB25,000,000.			
(4)	The status of the title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:			
	Shanghai Certificate of Real Estate Ownership		Yes
	Business Licence		Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2011
2.	An industrial building situated at No. 488 Yaoqiao Village, Zhelin Town, Fengxian District, Shanghai, the PRC	<p>The property comprises an industrial building erected on a parcel of land with a site area of approximately 43,819 sq m.</p> <p>The industrial building has a gross floor area of approximately 6,540.70 sq m. The property was completed in 2007.</p> <p>The land use rights of the property have been granted for a term from 6 December 2007 to 29 December 2055 for industrial use.</p>	The property is occupied by the Group for industrial and ancillary uses.	RMB26,600,000

Notes:

- (1) According to the Shanghai Certificate of Real Estate Ownership No. (2008) 003255 issued by Shanghai Housing and Land Resources Administration Bureau dated 25 March 2008, the land use rights and the building ownership rights of the property comprising a site area of approximately 43,819.00 sq m and a total gross floor area of 6,540.70 sq m, have been vested in Shanghai Shuanghua Autoparts Co., Ltd (上海雙樺汽車零部件股份有限公司) for a term due to expire on 29 December 2055 for industrial use.
- (2) According to Business Licence No. 310000400180620 dated 7 December 2007, Shanghai Shuanghua Autoparts Co., Ltd was established as a limited company with a registered capital of RMB178,000,000.
- (3) We have been provided with a legal opinion on the property by the Group's legal adviser, which contains, inter alia, the following information:
 - (i) Shanghai Shuanghua Autoparts Co., Ltd is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights; and
 - (ii) The property is subject to a mortgage in favor of Shanghai Rural Commercial Bank to the extent of RMB20,000,000.
- (4) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:

Shanghai Certificate of Real Estate Ownership	Yes
Business Licence	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2011
3.	Units 201 and 202, No. 7, Unit 202, No. 8, Unit 202, No. 26, Haian Jingyuan, Lane 99, Xinzhe East Road, Zhelin Town, Fengxian District, Shanghai, the PRC	<p>The property comprises four residential units of a 6-storey residential building completed in 2006.</p> <p>The property has a total gross floor area of approximately 384.84 sq m.</p> <p>The land use rights of the property have been granted for a term from 5 September 2006 to 17 May 2074 for residential use.</p>	The property is currently occupied by the Group for residential use.	RMB2,200,000

Notes:

- (1) According to Shanghai Certificate of Real Estate Ownership Nos. (2008) 003413, (2008) 003414, (2008) 003415 and (2008) 003416 issued by Shanghai Building and Land Resources Administrative Bureau on 27 March 2008, the land use rights and the building ownership rights of the property comprising a total gross floor area of 384.84 sq m, have been vested in Shanghai Shuanghua Autoparts Co., Ltd (上海雙樺汽車零部件股份有限公司) for a term from 5 September 2006 to 17 May 2074 for residential use.
- (2) According to Business Licence No. 310000400180620 dated 7 December 2007, Shanghai Shuanghua Autoparts Co., Ltd. was established as a limited company with a registered capital of RMB178,000,000.
- (3) We have been provided with a legal opinion on the property by the Group's legal adviser, which contains, inter alia, the following information:
 - (i) Shanghai Shuanghua Autoparts Co., Ltd. is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights; and
 - (ii) The property is not subject to any mortgage.
- (4) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:

Shanghai Certificate of Real Estate Ownership	Yes
Business Licence	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2011
4.	An industrial complex situated at No. 88, Lane 3111, Huan Cheng West Road, Xidu Town, Fengxian District, Shanghai, the PRC	<p>The property comprises an industrial complex erected on a parcel of land with a site area of approximately 45,275.60 sq m.</p> <p>The industrial complex comprises three buildings with a total gross floor area of approximately 26,073.37 sq m completed in 2009.</p> <p>The land use rights of the property have been granted for a term from 22 February 2008 to 21 February 2058 for industrial use.</p>	The property is occupied by the Group for industrial and ancillary uses.	RMB63,700,000

Notes:

- (1) According to Shanghai Certificate of Real Estate Ownership No. (2011) 005378 issued by Shanghai Housing Security and Administration Bureau and Shanghai Planning Land and Resources Administration Bureau dated 29 April 2011, the land use rights and the building ownership rights of the property comprising a site area of approximately 45,275.60 sq m and a total gross floor area of 26,073.37 sq m, have been vested in Shanghai Shuanghua Manufacturing Co., Ltd. (上海雙樺機械製造有限公司) for a term due to expire on 21 February 2058 for industrial use.
- (2) According to Business Licence No. 310226000828594 dated 19 November 2009, Shanghai Shuanghua Manufacturing Co., Ltd. was established as a limited company with a registered capital of RMB60,000,000.
- (3) We have been provided with a legal opinion on the property by the Group's legal adviser, which contains, inter alia, the following information:
- (i) Shanghai Shuanghua Manufacturing Co., Ltd. is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights;
 - (ii) All land premium has been fully settled; and
 - (iii) The property is subject to a mortgage in favor of China Construction Bank, Fengxian branch to the extent of RMB60,000,000.
- (4) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:
- | | |
|---------------------------------------------------------|-----|
| Shanghai Certificate of Real Estate Ownership | Yes |
| Business Licence | Yes |

VALUATION CERTIFICATE

Group II – Property contracted to be acquired by the Group in PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2011
			RMB
5. An industrial complex situated at Lot 18, Huqiao Industrial Zone, Zhelin Town, Fengxian District, Shanghai, the PRC	<p>The property comprises an industrial complex erected on a parcel of land with a site area of approximately 46,666.90 sq m.</p> <p>The industrial complex comprises nine buildings with a total gross floor area of approximately 21,883.99 sq m completed in 2006.</p> <p>The land use rights of the property have been granted for a term of 50 years for industrial use.</p>	The property is occupied by the Group for industrial and ancillary uses.	No commercial value

Notes:

- (1) According to the Agreement entered into The People's Government of Zhelin town Fengxian District and Shanghai Shuanghua Automotive Air Conditioner Accessories Co., Ltd. (上海雙樺汽車空調配件有限公司) dated 14 April 2006, the land use rights and the building ownership rights of the property comprising a site area of approximately 46,666.90 sq m and total gross floor area of 21,883.99 sq m, have been transferred to Shanghai Shuanghua Automotive Air Conditioner Accessories Co., Ltd.

We noted that the Certificate of Real Estate Ownership of the property has not been obtained. In the course of our valuation, we have assigned no commercial value to the property. According to the confirmation letter issued by Shanghai Fengxian District Planning and Land Resource Bureau (上海市奉賢區規劃和土地管理局, which is the competent authority) dated 27 January 2011, the Group is in the process of applying for the Certificate of Real Estate Ownership. However, on the assumption that the Certificate of Real Estate Ownership of the property has been obtained, the capital value of the property as at 31 March 2011 would be RMB45,000,000.

- (2) We have been provided with a legal opinion on the property by the Group's legal adviser, which contains, inter alia, the following information:

(i) Shanghai Shuanghua Autoparts Co., Ltd. (上海雙樺汽車零部件股份有限公司) is in the process of applying for the Certificate of Real Estate Ownership.

- (3) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group are as follows:

Agreement. Yes

VALUATION CERTIFICATE

Group III – Properties leased to the Group in the PRC

Property	Description and tenure	Capital value in existing state as at 31 March 2011
		RMB
6. Units 901, 909, 910, 911 and 912, Level 9, Tongsheng Building, No. 458, Fushan Road, Pudong district, Shanghai, the PRC	<p>The property comprises five office units of a 25-storey office building completed in 2005.</p> <p>The property has a gross floor area of approximately 745.35 sq m.</p> <p>The property is currently leased from Shanghai Automart Investment Co. Ltd. (上海奧拓瑪投資有限公司) (the Parent Company) to Shanghai Shuanghua Autoparts Co., Ltd (上海雙樺汽車零部件股份有限公司) for a term of 3 years commencing from 1 January 2011 at a monthly rent of RMB100,622.</p> <p>According to the PRC legal opinion, the tenancy agreement is legal, valid and enforceable. The tenancy agreement has been duly registered.</p>	No commercial value
7. Unit 908, Level 9, Tongsheng Building, No. 458, Fushan Road, Pudong district, Shanghai, the PRC	<p>The property comprises an office unit of a 25-storey office building completed in 2005.</p> <p>The property has a gross floor area of approximately 149.70 sq m.</p> <p>The property is currently leased from Shanghai Automart Investment Co. Ltd. (上海奧拓瑪投資有限公司) (the Parent Company) to Shanghai Youshen Industry Co., Ltd (上海友申實業有限公司) for a term of 3 years commencing from 1 January 2011 at a monthly rent of RMB20,210.</p> <p>According to the PRC legal opinion, the tenancy agreement is legal, valid and enforceable. The tenancy agreement has been duly registered.</p>	No commercial value

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and tenure</u>	<u>Capital value in existing state as at 31 March 2011</u>
8. Unit 902, Level 9, Tongsheng Building, No. 458, Fushan Road, Pudong district, Shanghai, the PRC	<p>The property comprises an office unit of a 25-storey office building completed in 2005.</p> <p>The property has a gross floor area of approximately 114.51 sq m.</p> <p>The property is currently leased from Shanghai Automart Investment Co. Ltd. (上海奧拓瑪投資有限公司) (the Parent Company) to Shanghai Shuanghua Automotive Accessories Co., Ltd (上海雙樺汽車配件有限公司) for a term of 3 years commencing from 1 January 2011 at an annual rent of RMB185,508.</p> <p>According to the PRC legal opinion, the tenancy agreement is legal, valid and enforceable. The tenancy agreement has been duly registered.</p>	RMB No commercial value
9. Unit 309, Level 3, Block 2, No. 2898, Fengzhe Road, Fengxian District, Shanghai, the PRC	<p>The property comprises an industrial unit of a 3-storey industrial building completed in 2006.</p> <p>The property has a gross floor area of approximately 50 sq m.</p> <p>The property is currently leased from an independent third party to Shanghai Shuanghua Automotive Accessories Co., Ltd. (上海雙樺汽車配件有限公司) for a term of 10 year commencing from 26 August 2009 to 25 August 2019 at an annual rent of RMB5,000.</p> <p>According to the PRC legal opinion, the tenancy agreement is legal, valid and enforceable. The tenancy agreement has been duly registered.</p>	No commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of the Companies Law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 November 2010 under the Companies Law. The Memorandum and the Articles comprise our Company's constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 8 June 2011. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued

shares in our Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of our Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of our subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(c) Alteration of capital

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee(s)) is a member of our Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)).

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorized by the board or our Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarized financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarized financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or

jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of our Company to own shares in our Company and financial assistance to purchase shares of our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in our Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend

as the board may think fit. Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in

one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving

notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury

shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the

shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 14 December 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, our Cayman Islands legal advisors, have sent to us a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of the Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 19 November 2010. Our Company was registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 10 June 2011. In connection with such registration, Mr. Zheng of Flat B, 5th Floor, 38 Tai Yuen Street, Wanchai, Hong Kong and Ms. Tang Lo Nar of 2/F Block A, 186 Fung Hing Tsuen Wang Chau, Yuen Long, New Territories, Hong Kong have been appointed as the authorized representatives of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, our Company operates subject to the Companies Law and to its constitution which comprises the Memorandum and the Articles. A summary of certain relevant parts of our constitution and certain relevant aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

As at the date of our Company's incorporation, its authorized share capital was HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each. The following sets out the changes in the share capital since the date of our Company's incorporation:

- (a) On 19 November 2010, one subscriber Share of HK\$0.01 of our Company which was nil paid was transferred to Mr. Zheng.
- (b) On 28 March 2011, Mr. Zheng transferred the subscriber Share to Youshen Group. On the same date, 5,799 Shares and 4,200 Shares were allotted and issued nil paid to Youshen Group and Shuanghua International respectively.
- (c) On 8 June 2011, Mr. Zheng and Shuanghua International transferred their respective shareholdings in BVI Automart to our Company in consideration of the crediting as fully paid the 5,800 and 4,200 nil paid Shares in the share capital of our Company held by Youshen Group and Shuanghua International respectively.
- (d) Pursuant to the written resolution passed by shareholders on 8 June 2011, the authorized share capital of our Company was increased, from HK\$100,000 divided into 10,000,000 Shares of par value of HK\$0.01 each, to HK\$100,000,000 divided into 10,000,000,000 Shares of par value of HK\$0.01 each.

Assuming that the Share Offer and the Capitalization Issue become unconditional, but taking no account of any options which may be granted under the Share Option Scheme, the authorized share capital of our Company will be HK\$100,000,000 divided into 10,000,000,000 Shares and the issued share capital of our Company will be HK\$6,500,000 divided into 650,000,000 Shares, all fully paid or credited as fully paid immediately after completion of the Share Offer and the Capitalization Issue. Other than any option which may be granted under the Share Option Scheme, there is no present intention to issue any part of the authorized but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Except as described above and in the sub-section 4 below, “Written resolutions passed by all the Shareholders on 8 June 2011”, there have been no changes in the share capital of our Company since its incorporation.

3. Changes in the share capital of the subsidiaries of our Company

Further information on our subsidiaries is set forth in the accountants’ report as set out in Appendix I. The changes in the share capital (or registered capital, as the case may be) of the subsidiaries of our Company occurred within the two years immediately preceding the date of this prospectus were as follows:

Shanghai Shuanghua

On 21 February 2011, resolutions were passed, and the relevant memorandum and articles of associations were amended, to increase the registered capital of Shanghai Shuanghua from RMB178,000,000 to RMB263,415,456.

Shuanghua Auto Components

Shuanghua Auto Components was established on 7 September 2009 with a registered capital of RMB2,000,000 and is wholly owned by Shanghai Shuanghua.

Shuanghua Machinery

On 19 November 2009, pursuant to a shareholders’ resolution of Shuanghua Machinery, the registered capital of Shuanghua Machinery was authorized to be reduced from RMB1,500,000,000 to RMB600,000,000.

BVI Automart

On 18 March 2011, resolutions were passed, and the relevant memorandum and articles of associations were amended, to increase the authorized share capital of BVI Automart from US\$50,000 divided into 50,000 shares of US\$1 each to US\$100,000 divided into 100,000 shares of US\$1 each.

On 18 March 2011, 8,000 and 42,000 shares of BVI Automart were issued and allotted to Mr. Zheng and Shuanghua International at considerations of HK\$81,200,000 and HK\$58,800,000, respectively.

Hong Kong Automart

On 1 June 2011, the authorized share capital of Hong Kong Automart increased from HK\$1,000,000 divided into 1,000,000 shares of HK\$1 each to HK\$2,000,000 divided into 2,000,000 shares of HK\$1 each.

On 1 June 2011, 200,000 shares of Hong Kong Automart were issued and allotted to BVI Automart at a consideration of HK\$140,000,000.

Save as set forth in the above paragraphs and in this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

4. Written resolutions passed by all the Shareholders on 8 June 2011

By resolutions approved in writing by all the Shareholders on 8 June 2011, our Company resolved, among other things:

- (a) to adopt and approve the Memorandum of Association and the Articles of Association, the terms of which are summarized in the section entitled “Appendix V – Summary of the Constitution of our Company and the Companies Law”.
- (b) the authorized share capital of the Company was increased from HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each, by the creation of 9,990,000,000 new Shares ranking pari passu in all respects with the then existing issued Shares;
- (c) conditional on (i) the Listing Committee of the Hong Kong Stock Exchange granting approval of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares which may be issued pursuant to the Capitalization Issue or options which may be granted under the Share Option Scheme) and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Bookrunners (on behalf of the Underwriters)) and not being terminated in accordance with the terms of such agreement or otherwise:
 - (i) the Share Offer be and was approved and the Directors were authorized to allot and issue, and to approve the transfer of, such number of Shares in connection with the Share Offer, on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms; and
 - (ii) the rules of the Share Option Scheme were approved and adopted, and the Directors were authorized, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal in Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme, and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme, subject to the conditions therein;
- (d) conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares pursuant to the Share Offer, the sum of HK\$4,874,900 be capitalized and be applied in paying in full at par 487,490,000 Shares for and issued to the Shareholders in proportion according to their respective shareholding, whose names were on the register of members of the Company as of close of business on 8 June 2011;
- (e) a general unconditional mandate was given to the Directors to exercise all the power of the Company to allot, issue and deal with Shares (otherwise than pursuant to (1) a rights issue; or (2) pursuant to any script dividend scheme; or (3) the exercise of any subscription warrants which may be issued by the Company from time to time; or (4) pursuant to the exercise of options under the Share Option Scheme; or (5) an issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company; or (6) the Capitalization Issue) with an aggregate nominal value of not more than the sum of:
 - (i) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalization Issue; and

- (ii) the aggregate nominal value of the Share capital of the Company repurchased by the Company (if any) pursuant to the repurchase mandate granted under paragraph (f) below;
- (f) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to repurchase Shares on the Hong Kong Stock Exchange or any other stock exchange on which the Shares may be listed and recognized by the SFC and the Hong Kong Stock Exchange for this purpose such number of Shares will represent up to 10% of the aggregate nominal amount of the issued share capital of the Company immediately following the completion of the Share Offer and the Capitalization Issue;
- (g) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above; and

Each of the general mandates referred to in paragraphs (e), (f) and (g) above will remain in effect until the earliest of (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general meeting of the Company is required to be held by any applicable law or the Articles of Association; or (3) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting.

5. The Reorganization

The companies comprising our Group underwent a reorganization to rationalize our Group's structure in preparation for the Listing, pursuant to which our Company became the holding company of our Group. A diagram illustrating our Group's corporate structure after completion of Reorganization as at the Latest Practicable Date is set forth in the section headed "Reorganization" in this prospectus. The Reorganization involved the following principal steps:

- establishment of our Company;
- transfer of 52.5% shareholding interest in BVI Automart from Mr. Dong to Mr. Zheng;
- transfer of 20% shareholding interest in Hong Kong Automart from Mr. Zheng to BVI Automart;
- increase of authorized share capitals of BVI Automart and Hong Kong Automart;
- transfer of 58% shareholding interest in Shanghai Automart from Mr. Zheng to Mr. Dong;
- capital increase of Shanghai Shuanghua and acquisition of approximately 54.769% equity interest in Shanghai Shuanghua from Shanghai Automart;
- disposal of Baoding Shuanghua;

- deregistration of Kunshan Xiaocang; and
- acquisition of BVI Automart.

Details of the Reorganization are set out in the section headed “Reorganization” in this prospectus.

6. Repurchase by our Company of its own securities

This section includes information relating to the repurchase of the securities, including information required by the Hong Kong Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Provision of the Hong Kong Listing Rules

The Hong Kong Listing Rules permit companies whose primary listing is on the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) Shareholders’ Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) on the Hong Kong Stock Exchange by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by ordinary resolutions of shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of Funds

Repurchase must be made out of funds legally available for the purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

(iii) Shares to be repurchased

The Hong Kong Listing Rules provide that the Shares which are proposed to be repurchased by a company must be fully paid up.

(b) Reasons for Repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority to repurchase the Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which, in the opinion of our Directors, are from time to time appropriate for our Company. However, there might be a material adverse impact on the working capital requirement of our Company as set out in this prospectus in the event that the Repurchase Mandate is exercised in full.

(c) *Funding of Repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum of Association and Articles of Association, the Hong Kong Listing Rules and the applicable laws of the Cayman Islands.

(d) *Exercise of Repurchase Mandate*

The exercise in full of the Repurchase Mandate, on the basis of 650,000,000 Shares in issue immediately after the Share Offer and the Capitalization Issue, could accordingly result in up to 65,000,000 Shares being repurchased by the Company during the course of the period prior to the earliest of (i) the conclusion of the next annual general meeting of our Company; (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association to be held; or (iii) the revocation or variation by an ordinary resolution of the Shareholders in a general meeting.

(e) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Hong Kong Listing Rules) has any present intention to sell any of the Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Hong Kong Listing Rules, the Memorandum and Articles and the applicable laws of the Cayman Islands.

If, as a result of any repurchase of the Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

No connected person (as defined by the Hong Kong Listing Rules) has notified our Company that he/she/ it has a present intention to sell his/her/its Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus that are or may be material:

- (a) the share transfer agreement dated 4 October 2010 entered into between Shanghai Shuanghua and Great Wall Motor pursuant to which Shanghai Shuanghua agreed to sell and Great Wall Motor agreed to purchase an aggregate of 68% equity interest in Baoding Shuanghua at an aggregate consideration of RMB19,380,000;
- (b) the share transfer agreement dated 21 February 2011 entered into between Shanghai Automart and Hong Kong Automart pursuant to which Shanghai Automart agreed to sell and Hong Kong Automart agreed to purchase an aggregate of 144,281,674 shares of Shanghai Shuanghua at an aggregate consideration of RMB157,726,155;
- (c) the agreement relating to the sale and purchase of shares in BVI Automart dated 8 June 2011 entered into among Mr. Zheng, Shuanghua International and our Company pursuant to which Mr. Zheng and Shuanghua International transferred their respective shareholdings in BVI Automart to our Company in consideration of the crediting as fully paid the 5,800 and 4,200 nil paid Shares in the share capital of our Company held by Youshen Group and Shuanghua International, respectively;
- (d) the Deed of Indemnity; and
- (e) the Hong Kong Underwriting Agreement.



2. Intellectual property rights

(a) Trademark

As at the Latest Practicable Date, our Group has the following registered trademarks:

	<u>Trademark</u>	<u>Registrant</u>	<u>Place of Registration</u>	<u>Class</u>	<u>Registration Number</u>	<u>Effective Period (PRC Registration)/Declaration Date (International Registration)</u>
1.		Shanghai Shuanghua	PRC	11	1371819	7 March 2000 – 6 March 2020
2.	SHUANG HUA	Shanghai Shuanghua	Benelux	N/A	1007451	11 December 2009 – 10 December 2019
3.	SHUANG HUA	Shanghai Shuanghua	Australia	N/A	1007451	17 February 2010 – 16 February 2020
4.	SHUANG HUA	Shanghai Shuanghua	Russia	N/A	1007451	2 June 2010– 1 June 2020
5.	SHUANG HUA	Shanghai Shuanghua	World Intellectual Property Organization, Geneva	11	1007451	7 July 2009– 6 July 2019
6.	SHUANG HUA	Shanghai Shuanghua	United States of America	N/A	1007451	20 July 2010 – 19 July 2020
7.	友申	Youshen Industry	PRC	11	5744256	14 September 2009 – 13 September 2019
8.	友申	Youshen Industry	PRC	12	5744257	7 September 2009 – 6 September 2019
9.	YOUSHEN	Youshen Industry	PRC	11	5744260	14 September 2009 – 13 September 2019
10.		Hong Kong Automart	Hong Kong	11 & 35	301678447	2 August 2010 – 1 August 2020

As of the Latest Practicable Date, our Group has applied for registration of the following trademarks, but registration of the same has not yet been granted:

	<u>Trademark</u>	<u>Applicant</u>	<u>Place of Application</u>	<u>Class</u>	<u>Application Number</u>	<u>Date of Application (PRC Registration)</u>
1.		Shanghai Shuanghua	PRC	11	7005342	17 October 2008
2.		Shanghai Shuanghua	PRC	12	7005344	17 October 2008
3.	YOUSHEN	Youshen Industry	PRC	12	200854612	11 August 2008

Note:

Class 11: Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.

Class 12: Vehicles; apparatus for locomotion by land, air or water.

Class 35: Advertising; business management; business administration; office functions.

(b) Patents

As of the Latest Practicable Date, our Group had registered the following patents in the PRC:

	Title of Invention	Registrant	Type	Patent Number	Date of Application	Date of Expiry
1.	Intercooler for automobiles equipped with turbocharged intercooled engine	Shanghai Shuanghua	Utility Model	ZL 2005 2 0045151.5	21 September 2005	20 September 2015
2.	The main board structure of intercooler for automobiles equipped with turbocharged intercooled engine	Shanghai Shuanghua	Utility Model	ZL 2005 2 0045150.0	21 September 2005	20 September 2015
3.	Parallel flow evaporator	Shanghai Shuanghua	Utility Model	ZL 2007 2 0071260.3	19 June 2007	18 June 2017
4.	Collecting tube for air-conditioning cascading evaporator	Shanghai Shuanghua	Utility Model	ZL 2007 2 0072138.8	3 July 2007	2 July 2017
5.	Louvered fin of heat exchanger	Shanghai Shuanghua	Utility Model	ZL 2008 2 0153919.4	10 October 2008	9 October 2018
6.	Cascading evaporator for automotive air-conditioner	Shanghai Shuanghua	Utility Model	ZL 2007 2 0073412.3	8 August 2007	7 August 2017
7.	Cascading heater core	Shanghai Shuanghua	Utility Model	ZL 2007 2 0072711.5	20 July 2007	19 July 2017
8.	Micro-channel evaporator for domestic air-conditioner	Shanghai Shuanghua	Utility Model	ZL 2009 2 0072737.9	21 May 2009	20 May 2019
9.	Parallel flow condenser	Shanghai Shuanghua	Utility Model	ZL 2007 2 0072712.X	20 July 2007	19 July 2017
10.	Parallel flow evaporator for automotive air-conditioner	Shanghai Shuanghua	Utility Model	ZL 2008 2 0056850.3	1 April 2008	31 March 2018
11.	Compressor piston for automotive air-conditioner	Shuanghua Machinery	Utility Model	ZL 2009 2 0072897.3	25 May 2009	24 May 2019
12.	Compressor cylinder for automotive air-conditioner	Shuanghua Machinery	Utility Model	ZL 2009 2 0072838.6	22 May 2009	21 May 2019
13.	Cooling coils for fan coil units	Shanghai Shuanghua	Utility Model	ZL 2008 2 0056851.8	1 April 2008	31 March 2018
14.	Parallel flow evaporator for automotive air-conditioner	Shanghai Shuanghua	Utility Model	ZL 2009 2 0071656.7	5 May 2009	4 May 2019
15.	Collecting tube for automotive air-conditioner evaporator	Shanghai Shuanghua	Utility Model	ZL 2009 2 0072167.3	13 May 2009	12 May 2019
16.	Split air-conditioner outdoor units	Shanghai Shuanghua	Invention	ZL 2007 2 0067447.6	16 February 2007	15 February 2017

As of the Latest Practicable Date, our Group had applied for the registration of the following patents, but registration of the same has not yet been granted:

	<u>Title of Invention</u>	<u>Applicant</u>	<u>Type</u>	<u>Application Number</u>	<u>Date of Application</u>
1.	Automotive air-conditioner evaporator	Shanghai Shuanghua	Invention	200810035467.4	1 April 2008
2.	Aluminium alloy flat tube surface cooler for fan coil	Shanghai Shuanghua	Invention	200810035466.X	1 April 2008
3.	Reinforcement structure on both sides of automotive air-conditioner cascading evaporator	Shanghai Shuanghua	Invention	201020244988.3	1 July 2010
4.	Improved structure of micro-channel evaporator for domestic air-conditioner	Shanghai Shuanghua	Invention	200910051740.7	21 May 2009
5.	Reinforcement structure on both sides of automotive air-conditioner cascading evaporator	Shanghai Shuanghua	Invention	201010215497.0	1 July 2010
6.	Lubrication method of automotive air-conditioner compressor cylinder	Shuanghua Machinery	Invention	200910051855.6	22 May 2009
7.	Collecting tube for automotive air-conditioner evaporator	Shanghai Shuanghua	Invention	200910051134.5	13 May 2009

(c) *Domain name*

As of the Latest Practicable Date, our Group had registered the following domain names:

<u>Domain name</u>	<u>Registrant</u>	<u>Expiry Date</u>
www.Shuanghua.sh.cn	Shanghai Shuanghua	4 June 2013
www.shshuanghua.com	Shanghai Shuanghua	15 June 2013

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are or may be material in relation to our Group's business.

3. Further information about the subsidiaries of our Company

The following sets forth further information on each member of our Group as at the Latest Practicable Date:

(i) *PRC subsidiaries*

(a) *Shanghai Shuanghua*

Type of company	Joint stock limited company
Business licence number	310000400180620
Address of registered office	Industry Road, Huqiao LinHai Industry Development District, Zhelin Town, Fengxian District, Shanghai, China
Date and place of incorporation	25 September 1997, PRC
Registered capital	RMB263,415,456
Business scope	the manufacture of automotive air-conditioner components including evaporators, condensers, compressors, clutches, heater cores, liquid accumulators, connecting tubes, valve and thermostat; manufacture of heat exchangers such as charge coolers, water tanks, oil coolers; sale of self-produced products; and manufacture of heat exchangers for domestic and commercial air-conditioners
Equity holder	Hong Kong Automart (99.999%) Shanghai Automart (0.001%)
Legal representative	Mr. Zheng
Term	Unlimited

(b) Shuanghua Auto Components

Type of company	Limited liability company
Business licence number	310226000995400
Address of registered office	Unit 309, Level 3, Block 2, No. 2898, Fengzhe Highway, Fengxian District, Shanghai, the PRC
Date and place of incorporation	26 August 2009, PRC
Registered capital	RMB2 million
Business scope	automotive components, electronic equipment and components, chemical ingredients (except for dangerous chemicals, chemicals under supervision, fireworks and firecrackers, explosive materials for domestic use and precursor chemical), plastics products, construction materials, grocery, woven cloth, computers, software and ancillary facilities (except for products for information system safety), telecommunication facilities (except for satellite television reception system), wholesale and retail of metals, interior decoration and business consultation (any business requiring administrative approval shall be operated with licence)
Equity holder	Shanghai Shuanghua
Legal representative	Mr. Dong
Term	7 September 2009 to 6 September 2019

(c) Youshen Industry

Type of company	Limited liability company
Business licence number	310115000962509
Address of registered office	No. 458, 907, 908 and 909, Fushan Road, Pudong New District, Shanghai, China
Date and place of incorporation	27 July 2006, PRC
Registered capital	RMB10 million
Business scope	the operation of import and export of goods and services, sale of products manufactured by Shanghai Shuanghua, business consultation (except for agent), interior decoration (any business requiring administrative approval shall be operated with licence)
Equity holder	Shanghai Shuanghua
Legal representative	Mr. Zheng
Term	27 July 2006 to 26 July 2026

(d) Shuanghua Machinery

<u>Type of company</u>	<u>Limited liability company</u>
Business licence number	310226000828594
Address of registered office	No.88, Alley 3111, West Orbital, Industrial General Development District, Shanghai, China
Date and place of incorporation	28 September 2007, PRC
Registered capital	RMB60,000,000
Business scope	the development, manufacture and storage of automotive components and electronic facilities; technical consultation relating to automotive; import and export of goods and services (any of the above requiring approval shall be operated with licence)
Equity holder	Shanghai Shuanghua (99%) Youshen Industry (1%)
Legal representative	Mr. Zheng
Term	28 September 2007 to 27 September 2027

*(ii) Hong Kong subsidiaries**(a) Hong Kong Automart*

<u>Type of company</u>	<u>Limited company</u>
Company number	801523
Address of registered office	Room 2203, Tung Wai Commercial Building, 109-111 Gloucester Road, Wanchai, Hong Kong
Date and place of incorporation	7 June 2002, Hong Kong
Authorized share capital	HKD2,000,000 divided into 2,000,000 shares of HKD1.00 each
Issued share capital	1,200,000 shares
Shareholder	BVI Automart (100%)
Directors	Mr. Dong Mr. Zheng

(b) Hong Kong Shuanghua

<u>Type of company</u>	<u>Limited company</u>
Company number	1219761
Address of registered office	Room 2203, Tung Wai Commercial Building, 109-111 Gloucester Road, Wanchai, Hong Kong
Date and place of incorporation	25 March 2008, Hong Kong
Authorized share capital	USD200,000 divided into 200,000 shares of USD1.00 each
Issued share capital	200,000 shares
Shareholder	Shanghai Shuanghua (100%)
Directors	Mr. Dong Mr. Zheng

*(iii) BVI Subsidiary**(a) BVI Automart*

<u>Type of company</u>	<u>Limited company</u>
Company number	482196
Address of registered office	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Date and place of incorporation	7 February 2002, BVI
Authorized share capital	100,000 shares of a single class each with a par value of US\$ 1.00
Issued share capital	100,000 shares
Shareholder	The Company (100%)
Directors	Mr. Dong Mr. Zheng

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Disclosure of Interests

Directors

Immediately following completion of the Share Offer and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), the interests and/or short positions of our Directors and chief executive of our Company in the Shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Hong Kong Listing Rules, to be notified to our Company and the Hong Kong Stock Exchange (all of the aforesaid being “Discloseable Interests”) will be as follows:

(a) Long/short position in Shares

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Shares</u>	<u>Approximately Percentage of Shareholding interest immediately after the Share Offer and the Capitalization Issue</u>
Mr. Zheng	Corporate interest ⁽¹⁾	282,750,000 Long position	43.5%
	Interest in persons acting in concert ⁽²⁾	204,750,000 Long position	31.5%
Mr. Dong	Corporate interest ⁽³⁾	204,750,000 Long position	31.5%
	Interest in persons acting in concert ⁽²⁾	282,750,000 Long position	43.5%
Ms. Kong Xiaoling	Family interest ⁽⁴⁾	282,750,000 Long position	43.5%

Notes:

1. Mr. Zheng holds 100% interest in Youshen Group and he is deemed to be interested in the 282,750,000 Shares held by Youshen Group.
2. Mr. Zheng and Mr. Dong are persons acting in concert and accordingly, Mr. Zheng is deemed to be interested in the 204,750,000 Shares held by Shuanghua International (which is wholly owned by Mr. Dong), whereas Mr. Dong is deemed to be interested in the 282,750,000 Shares held by Youshen Group (which is wholly owned by Mr. Zheng). Pursuant to an agreement dated 13 February 2011, Mr. Zheng and Mr. Dong have agreed to, among other things, discuss and reach mutual consent before voting on any material issues in relation to the financial and operation matters of our Group and they will vote as concerted parties in relation to such matters.
3. Mr. Dong holds 100% interest in Shuanghua International and he is deemed to be interested in the 204,750,000 Shares held by Shuanghua International.
4. Ms. Kong Xiaoling is the spouse of Mr. Zheng and she is deemed to be interested in the interests of Mr. Zheng in our Company.

(b) *Long position in the shares of associated corporations*

<u>Name of Director</u>	<u>Name of associated corporations</u>	<u>Capacity</u>	<u>Approximately Percentage of Issued Shares</u>
Mr. Zheng	Youshen Group	Beneficial owner	100%
Mr. Dong	Shuanghua International	Beneficial owner	100%
Ms. Kong Xiaoling ^(Note)	Youshen Group	Family interest	100%

Note: Pursuant to the SFO, as Ms. Kong Xiaoling is the spouse of Mr. Zheng, she is deemed to be interested in the interests of Mr. Zheng in Youshen Group.

Save as disclosed above, so far as our Directors are aware, none of our Directors or chief executive of our Company will immediately following completion of the Share Offer and the Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme) have any Discloseable Interest (as defined above).

Substantial Shareholders

So far as our Directors are aware, immediately following completion of the Share Offer and Capitalization (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

<u>Name</u>	<u>Nature of Interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding interest immediately after the Share Offer and the Capitalization Issue</u>
Youshen Group	Beneficial owner	282,750,000	43.5%
		Long position	
Shuanghua International	Beneficial owner	204,750,000	31.5%
		Long position	
Mr. Zheng ⁽¹⁾	Corporate interest ⁽²⁾	282,750,000	43.5%
		Long position	
	Interest in persons acting in concert ⁽³⁾	204,750,000	31.5%
		Long position	
Mr. Dong ⁽¹⁾	Corporate interest ⁽⁴⁾	204,750,000	31.5%
		Long position	
	Interest in persons acting in concert ⁽³⁾	282,750,000	43.5%
		Long position	

Notes:

- Mr. Zheng and Mr. Dong are executive Directors.
- Mr. Zheng holds 100% interest in Youshen Group and he is deemed to be interested in the 282,750,000 Shares held by Youshen Group.
- Mr. Zheng and Mr. Dong are persons acting in concert and accordingly, Mr. Zheng is deemed to be interested in the 204,750,000 Shares held by Shuanghua International (which is wholly owned by Mr. Dong), whereas Mr. Dong is deemed to be interested in the 282,750,000 Share held by Youshen Group (which is wholly owned by Mr. Zheng). Pursuant to an agreement dated 13 February 2011, Mr. Zheng and Mr. Dong have agreed to, among other things, discuss and reach mutual consent before voting on any material issues in relation to the financial and operation matters of our Group and they will vote as concerted parties in relation to such matters.
- Mr. Dong holds 100% interest in Shuanghua International and he is deemed to be interested in the 204,750,000 Shares held by Shuanghua International.

Save as disclosed above, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Share Offer and the Capitalization Issue, have a notifiable interest or short position in Shares or, underlying shares of our Company which would fall to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, be directly or indirectly interest in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

2. Particulars of our Directors' service contracts and appointment letters with our Independent Non-executive Directors

- (a) Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing on the date when dealings in the Shares on the Main Board commence and may be terminated by not less than three months' prior notice in writing served by either party on the other.

The annual basic salary payable to each of the executive Directors is as follow:

	<u>RMB</u>
Executive Directors	
Mr. Zheng	120,000
Mr. Dong	120,000

The basic salary of each of our executive Directors will be reviewed by the Board at the end of each financial year.

The determination of the remuneration to our Directors will be based on remuneration of directors of comparable companies in the same industry, time commitment, the duties and responsibilities of our Directors in our Company and our operational and financial performance.

Under their respective service contracts, each of our executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Board or the remuneration committee.

Each of our executive Directors will also be entitled to reimbursement of reasonable traveling, hotel, entertainment and other expenses properly incurred in the performance of his/her duties under the relevant service contract.

- (b) Each of our non-executive and independent non-executive Directors has signed an appointment letter with our Company for a term of three years commencing on the date when dealings of Shares on the Hong Kong Stock Exchange commence and may be terminated by giving three months' notice in writing thereof by either party to the other.

The annual fees payable to each of our non-executive and independent non-executive Directors is as follows:

	<u>RMB</u>
Non-executive Directors	
Ms. Kong Xiao Ling	60,000
Mr. Jia Weiren	60,000
Independent Non-executive Director	
Mr. Zhao Fenggao	60,000
Mr. He Binhui	60,000
Mr. Chen Lifan	60,000

Each of our non-executive and Independent non-executive Directors will also be entitled to reimbursement of traveling expenses properly incurred in the performance of his duties under the relevant appointment letter.

3. Directors' remuneration

Remuneration and benefits in kind of approximately RMB171,248, RMB172,795 and RMB1,858,564 in aggregate were paid and granted by our Group to our Directors in respect of the financial years ended 2008, 2009 and 2010 respectively. The remuneration received by our Directors are Directors' fees paid to our Directors during the Track Record Period representing their emolument for serving as the directors of the PRC subsidiary of our Group, Shanghai Shuanghua.

Under the current arrangements, the aggregate remuneration and benefits in kind which our Directors including our non-executive and independent non-executive Directors are entitled to receive for the financial year ending 31 December 2011, excluding the discretionary bonuses payable to our executive Directors, is expected to be approximately RMB0.3 million.

4. Fees or commissions received

Save as disclosed in this prospectus, none of our Directors or any of the persons whose names are listed in the paragraph headed "Consents of experts" in this Appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue of sale or any capital of any member of our Group from our Group within the two years preceding the date of this prospectus.

D. DISCLAIMERS

Save as disclosed in this prospectus:

- (a) none of our Directors nor any of the parties listed in the paragraph headed "Consents of experts" in the section headed "Other Information" of this Appendix is interested in the promotion of our Company, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

- (b) none of our Directors nor any of the parties listed in the paragraph headed “Other Information – Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (c) save for the Underwriting Agreements, none of the parties listed in the paragraph headed “Other Information – Consents of experts” in this Appendix:
 - (i) is interested legally or beneficially in any of the Shares or any shares in any of our Company’s subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribed for the securities of our Company;
- (d) none of our Directors or their associates has any interest in our five largest suppliers or our Company’s top five business customers; and
- (e) none of our Directors is interested in any business apart from the business of our Group, which competes or is likely to compete, either directly or indirectly, with our Group’s business.

E. SHARE OPTION SCHEME

Summary of terms

The following is a summary of principal terms of the Share Option Scheme.

1. SHARE OPTION SCHEME

(A) Summary of terms

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Share Option Scheme will provide Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) Who may join

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below to:

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries;
- (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and
- (iv) related entities who, in the sole opinion of the Board, will contribute or have contributed to the Group.

(collectively, the “Eligible Participants”)

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Hong Kong Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Share Offer, excluding for this purpose options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Hong Kong Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting

options to specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Hong Kong Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (q) below whether by way of consolidation, capitalization issue, rights issue, sub-division or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(d) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Hong Kong Listing Rules; and
- (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Hong Kong Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Hong Kong Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine.

(e) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the official closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Hong Kong Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(f) Granting options to connected persons

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company or any of their respective associates (as defined in the Hong Kong Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Hong Kong Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Hong Kong Listing Rules of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Hong Kong Listing Rules, based on the official closing price of the Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Hong Kong Listing Rules) of the Company shall abstain from voting in favour, and/ or such other requirements prescribed under the Hong Kong Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;

- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Hong Kong Listing Rules; and
- (iv) the information required under Rule 2.17 of the Hong Kong Listing Rules.

(g) *Restrictions on the times of grant of Options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the Hong Kong Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date to first notified to the Hong Kong Stock Exchange in accordance with the Hong Kong Listing Rules) for the approval of the Company's annual, half-year, quarterly or other interim period results (whether or not required under the Hong Kong Listing Rules); and
- (ii) the deadline for the Company to publish an announcement of its annual or half-year, or quarterly or other interim period results (whether or not required under the Hong Kong Listing Rules)

and ending on the date of actual publication of the results announcement.

(h) *Rights are personal to grantee*

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do.

(i) *Time of exercise of Option and duration of the Share Option Scheme*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

(j) Performance target

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(k) Rights on ceasing employment or death

If the grantee of an option ceases to be an employee of the Company or any of its subsidiaries:

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (l) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(l) Rights on dismissal

If the grantee of an option ceases to be an employee of the Company or any of our subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of our Group (if so determined by the Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, or has been convicted of any criminal offence involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

(m) Rights on takeover

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(n) Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days

prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

(o) Rights on compromise or arrangement between our Company and our members or creditors

If a compromise or arrangement between the Company and our members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(p) Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of exercise.

(q) Effect of alterations to capital

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of capitalization issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of the Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per

Share of each outstanding option as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Hong Kong Listing Rules and the note thereto and the supplementary guidance issued by the Hong Kong Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Hong Kong Listing Rules issued by the Hong Kong Stock Exchange from time to time.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of the Company for which any grantee of an option is entitled to subscribe pursuant to options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(r) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n) or (o);
- (iii) the date on which the scheme of arrangement of the Company referred to in paragraph (o) becomes effective;
- (iv) subject to paragraph (n), the date of commencement of the winding-up of the Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or in relation to an employee of the Group (if so determined by the Board) or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.

(s) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or Eligible Participants (as the case may be) in respect of matters contained in Rule 17.03 of the Hong Kong Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Hong Kong Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

(t) Cancellation of Options

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing.

(u) Termination of the Share Option Scheme

The Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(w) Condition of the Share Option Scheme

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;

- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the approval of the rules of the Share Option Scheme by the Shareholders in general meeting; and
- (iv) the commencement of dealings in Shares on the Hong Kong Stock Exchange.

(x) *Disclosure in annual and interim reports*

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Hong Kong Listing Rules in force from time to time.

(y) *Present status of the Share Option Scheme*

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme. Application has been made to the Listing Committee for the listing of and permission to deal in Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme.

(B) Present status of the Share Option Scheme

The Share Option Scheme shall take effect subject to and is conditional upon (a) the passing of the necessary resolution to adopt the Share Option Scheme by the Shareholders in general meeting and (b) the Listing Committee granting approval for the listing of and permission to deal in any Shares which may fall to be issued pursuant to the exercise of any options under the Share Option Scheme.

Application has been made to the Listing Committee for listing of and permission to deal in the Shares which fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

F. OTHER INFORMATION**1. Deed of indemnity**

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters, Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to any member of our Group on or before the date on which dealings in Shares first commence on the Hong Kong Stock Exchange (the “**Effective Date**”).

The Deed of Indemnity also contain, amongst other things, indemnities given by our Controlling Shareholders in respect of taxation resulting from income, profits, gains, transactions, events, matters or things earned, accrued, received entered into or occurring on or before the Effective Date which might be payable by any member of our Group.

2. Litigation

As at the Latest Practicable Date, none of the members of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any of our members.

3. Sole Sponsor

Piper Jaffray Asia Limited, being the sole sponsor to the Listing, has made an application on behalf of our Company to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus, including the Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme on the Hong Kong Stock Exchange. All necessary arrangements have been made enabling the securities to be admitted to CCASS.

4. Preliminary expenses

The estimated preliminary expenses of our Company are approximately US\$10,000 and are payable by our Company.

5. Promoter

Our Company has no promoter and no cash, securities or other benefit has been paid, allotted or given, or proposed to be paid, allotted or given, to any promoters within two years preceding the date of this prospectus.

6. Qualifications of experts

The qualifications of the experts (as defined under the Hong Kong Listing Rules and the Companies Ordinance) who have given their opinions or advice in this prospectus are as follows:

Name	Qualification
Piper Jaffray Asia Limited	Licensed under the SFO for type 1 (dealing in securities) and type 6 (advising on corporate finance) as defined under the SFO
Ernst & Young	Certified public accountants
DTZ Debenham Tie Leung Limited	Professional surveyors and valuers
Jingtian & Gongcheng	Qualified PRC legal advisor
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

7. Consents of experts

Each of the experts referred to in paragraph 6 above has given and has not withdrawn its respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or legal opinion and/or the references to their names included herein in the form and context in which they are respectively included.

As at the Latest Practicable Date, none of the experts referred to in paragraph 6 above has any shareholding interests in any members of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Miscellaneous

(a) Save as disclosed in this prospectus:

- (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iii) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (iv) none of equity or debt securities of any members of our Group is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
 - (v) our Company have no outstanding convertible debt securities or debentures;
 - (vi) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages fee or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (vii) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company or any of our subsidiaries.
- (b) All necessary arrangements have been made enabling the securities to be admitted into CCASS.
 - (c) Save as disclosed in the Accountants' Report in Appendix I to this prospectus, our Company or any of our subsidiaries has no material mortgage or charge.
 - (d) There has been no material adverse change in the financial position or prospects of our Group in the twelve (12) months immediately preceding the date of this prospectus.
 - (e) There has not been any interruptions in the business of our Company which may have or has had a significant effect on the financial position of our Company in the twelve (12) months preceding the date of this prospectus.
 - (f) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no amount or benefit has been paid, allotted or given or are proposed to be paid, allotted or given to the promoter named above in connection with the Share Offer and the related transactions described in this prospectus.

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information – Other Information – Consents of experts” in Appendix VI to this prospectus; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information – Further Information about Our Business – Summary of material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Sidley Austin at 39/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountant’s Report from Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the audited combined financial statements of the companies comprising our Group for the years ended 31 December 2008, 2009 and 2010;
- (d) the report from Ernst & Young in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letters from Ernst & Young and the Sole Sponsor relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;
- (f) the letter, the summary of valuation and valuation certificates relating to our property interests prepared by DTZ Debenham Tie Leung Limited, the texts of which are set out in Appendix IV to this prospectus;
- (g) the letter of advice from Conyers Dill & Pearman, our Cayman Islands legal advisors, summarizing the constitution of our Company and certain aspects of the Companies Law referred to in “Summary of the Constitution of Our Company and the Companies Law” in Appendix V to this prospectus;

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (h) the Companies Law;
- (i) the legal opinions issued by Jingtian & Gongcheng, our PRC legal advisers, in respect of our Group's business operations and property interests in the PRC;
- (j) the material contracts referred to in the section headed "Statutory and General Information – Further Information about Our Business – Summary of material contracts" in Appendix VI to this prospectus;
- (k) the service agreements with each of our Directors referred to in the paragraph headed "Statutory and General Information – Further Information about Our Directors, Substantial Shareholders and Experts – Particulars of our Directors' service contracts and appointment letters with our Independent Non-executive Directors" in Appendix VI to this prospectus;
- (l) the written consents referred to in the section headed "Statutory and General Information – Other Information – Consents of experts" in Appendix VI to this prospectus; and
- (m) the rules of the Share Option Scheme.



Shuanghua Holdings Limited
雙樺控股有限公司