

Xing Yuan Power Holdings Company Limited 興源動力控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 01156

GLOBAL OFFERING



Sole Sponsor, Sole Global Coordinator and Sole Bookrunner



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

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GLOBAL OFFERING

Number of Offer Shares : 260,000,000 Shares (comprising 200,000,000 new Shares and 60,000,000 Sale Shares, subject to the Over-allotment Option)

Number of Hong Kong Public Offer Shares : 26,000,000 Shares (subject to adjustment)

Number of International Offer Shares : 234,000,000 Shares (comprising 174,000,000 new Shares and 60,000,000 Sale Shares, subject to adjustment and the Over-allotment Option)

Offer Price : Not more than HK\$3.62 per Offer Share (payable in full on application in Hong Kong dollar, plus a brokerage of 1.0%, a SFC transaction levy of 0.003% and a Hong Kong Stock Exchange trading fee of 0.005% and subject to refund)

Nominal value : US\$0.01 per Share

Stock code : 01156

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Hong Kong Exchanges and Clearing Limited, The Hong Kong Stock Exchange 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.

A copy of this prospectus, having attached thereto the documents specified in the section entitled "Documents Delivered To The Registrar of Companies in Hong Kong and Available for Inspection" in 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.

The Offer Price is expected to be determined by agreement between our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) at the Price Determination Date. The Price Determination Date is expected to be on or around June 23, 2011 or such later time as may be agreed by our Company and the Sole Global Coordinator (on behalf of the Underwriters), but in any event no later than June 24, 2011.

The Offer Price will be not more than HK\$3.62 per Offer Share and is currently expected to be not less than HK\$2.72 per Offer Share. Investors applying for Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK\$3.62 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%, subject to refund if the Offer Price is lower than HK\$3.62. The Sole Global Coordinator (on behalf of the Underwriters), with the consent of our Company and the Selling Shareholder, may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range 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 Global Offering and/or of the indicative offer price range 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. If applications for Hong Kong Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offer, then even if the number of Offer Shares and/or indicative offer price range is so reduced, such applications cannot subsequently be withdrawn. Further details are set out in the sections entitled "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) on or before June 24, 2011, the Global Offering will not proceed and will lapse.

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

Pursuant to the termination provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Sole Global Coordinator, on behalf of the Underwriters, have the right in certain circumstances, in the sole discretion of the Sole Global Coordinator, 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 Hong Kong Stock Exchange of Hong Kong Limited (such first dealing date is currently expected to be June 28, 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 Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold or delivered (i) within the United States in reliance on an exemption from registration under the Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from registration under the Securities Act; and (ii) in offshore transactions outside the United States in reliance on Regulation S.

June 17, 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.

Application lists open⁽²⁾ 11:45 a.m. on June 22, 2011

Latest time to complete electronic applications under the **HK eIPO White Form** service through the designated website www.hkeipo.hk⁽³⁾ 11:30 a.m. on June 22, 2011

Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC⁽⁴⁾ . 12:00 noon on June 22, 2011

Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) 12:00 noon on June 22, 2011

Application lists close⁽²⁾ 12:00 noon on June 22, 2011

Expected Price Determination Date⁽⁵⁾ June 23, 2011

Announcement of the Offer Price, indication of level of interest in the International Offer, the level of applications and basis of allocation of the Hong Kong Public Offer Shares 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 June 27, 2011

Results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers or Hong Kong business registration numbers, where appropriate) to be available through a variety of channels as described in the section entitled "How to Apply for the Hong Kong Public Offer Shares — Results of allocations" from June 27, 2011

Results of allocations in the Hong Kong Public Offer will be available at www.tricor.com.hk/ipo/result with a "search by ID" function June 27, 2011

Despatch of share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offer on or before⁽⁶⁾ June 27, 2011

EXPECTED TIMETABLE

Despatch of e-Auto 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^{(6) and (7)} June 27, 2011

Dealings in Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on June 28, 2011

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section entitled “Structure of the Global Offering” 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) 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 June 22, 2011, the application lists will not open on that day. Please see the paragraph entitled “Effect of Bad Weather on the Opening of the Application Lists” under the section entitled “How to apply for Hong Kong Public Offer Shares” in this prospectus. If the application lists do not open and close on June 22, 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.
- (3) You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at, www.hkeipo.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 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.
- (4) Applicants who apply by giving **electronic application instructions** to the HKSCC should refer to the paragraph entitled “How to Apply by Giving Electronic Application Instructions to HKSCC via CCASS” under the section entitled “How to Apply for Hong Kong Public Offer Shares” in this prospectus.
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about June 23, 2011 and, in any event, not later than June 24, 2011. If, for any reason, the Offer Price is not agreed by the Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offer) will not proceed and will lapse.
- (6) Applicants who apply for 1,000,000 or more Hong Kong Public 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, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on June 27, 2011 or any other date notified by us in the newspapers as the date of despatch of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who opt for personal collection must not authorise 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 Public Offer Shares” in this prospectus.

EXPECTED TIMETABLE

- (7) Refund cheques or e-Auto Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer and also in respect of successful applications in the event that the Offer Price is less than the initial price per Hong Kong Public Offer Share payable on application. 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 to facilitate your refund. 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 your refund cheque or may invalidate your refund cheque. Further information is set out in “How to Apply for Hong Kong Public Offer Shares” in this prospectus.

Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms at or before 8:00 a.m. on the Listing Date, which is currently expected to be on June 28, 2011. 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. If the Global Offering does not become conditional or the Underwriting Agreements are terminated in accordance with their terms, we will make an announcement as soon as possible.

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

TABLE OF CONTENTS

This prospectus is issued by us solely in connection with the Hong Kong Public Offer and the Hong Kong Public 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 Public 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. We have 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 us, the Selling Shareholder, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering.

	<i>Page</i>
EXPECTED TIMETABLE	i
TABLE OF CONTENTS	iv
SUMMARY	1
DEFINITIONS	17
GLOSSARY OF TECHNICAL TERMS	28
FORWARD LOOKING STATEMENTS	31
RISK FACTORS	32
INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING	51
DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING	55
CORPORATE INFORMATION	58
INDUSTRY OVERVIEW	60
REGULATIONS	96
HISTORY, REORGANIZATION AND GROUP STRUCTURE	103
BUSINESS	118
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS	174
CONTINUING CONNECTED TRANSACTIONS	184
WAIVERS	189
DIRECTORS, SENIOR MANAGEMENT AND STAFF	191
SUBSTANTIAL SHAREHOLDERS	203

TABLE OF CONTENTS

	<i>Page</i>
SHARE CAPITAL	205
FINANCIAL INFORMATION	208
FUTURE PLANS AND USE OF PROCEEDS	259
UNDERWRITING	261
STRUCTURE OF THE GLOBAL OFFERING	271
HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES	279
APPENDICES	
I — ACCOUNTANTS' REPORT	I-1
II — UNAUDITED PRO FORMA FINANCIAL INFORMATION	II-1
III — PROFIT FORECAST	III-1
IV — PROPERTY VALUATION	IV-1
V — SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANY LAW	V-1
VI — STATUTORY AND GENERAL INFORMATION	VI-1
VII — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION	VII-1

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 the largest manufacturer and integrator of mid-range diesel generator cores (with a power output range of 20 kW to 220 kW) in China throughout the period from 2008 to 2010, and a leading manufacturer and integrator of all ranges of diesel generator cores in China, ranking 3rd in 2008, 5th in 2009 and 2nd in 2010, in terms of revenue, according to Frost & Sullivan. Our diesel generator cores are widely used in both permanently-installed and mobile power systems that serve rail, factories, commercial buildings, telecommunications infrastructure and mining and exploration industries across China. We are also the 4th largest and the 2nd largest manufacturer of electronic control systems in the diesel generator power system sector in China in terms of revenue in 2009 and 2010, respectively, and a leading manufacturer of heat exchange systems in the diesel generator power system sector in China, ranking 7th in both 2008 and 2009 and 6th in 2010 in terms of revenue, according to Frost & Sullivan. Both of our heat exchange systems and electronic control systems are core components of a diesel generator core. Revenues derived from both our external sales and internal sales for these two products are used in determining the above rankings.

Value chain of diesel power industry

Diesel power is of significant importance in many industries. In particular, diesel engines are installed in diesel generator power systems and are also used in power industrial machinery and equipment and many forms of transportation such as commercial vehicles and ships. Diesel engines must be integrated with various systems such as heat exchange systems and electronic control systems to achieve efficiency, safety and reliability, and the integrated product is a diesel generator core, which is a key part of diesel generator power system. As a result, the diesel power industry consists of upstream manufacturers of diesel engines, mid-stream manufacturers of related components and systems and integrators of power cores, and downstream manufacturers of end products that are equipped with power cores such as the manufacturers of diesel generator power systems, industrial machinery and equipment, commercial vehicles and ships. The mid-stream manufacturing and integration of power cores is a vital stage to connect the upstream manufacturing of diesel engines and the downstream manufacturing of end products, thereby enabling diesel engines to be widely used in various industries.

Business model

Our business model involves the development of key components and technologies relating to the applications of diesel engines. We integrate heat exchange systems and electronic control systems, both manufactured by us, with diesel generator engines and other related parts, sourced from suppliers, into diesel generator cores, as well as supplying heat exchange systems and electronic control systems to external customers. Unlike other major players who manufacture diesel generator

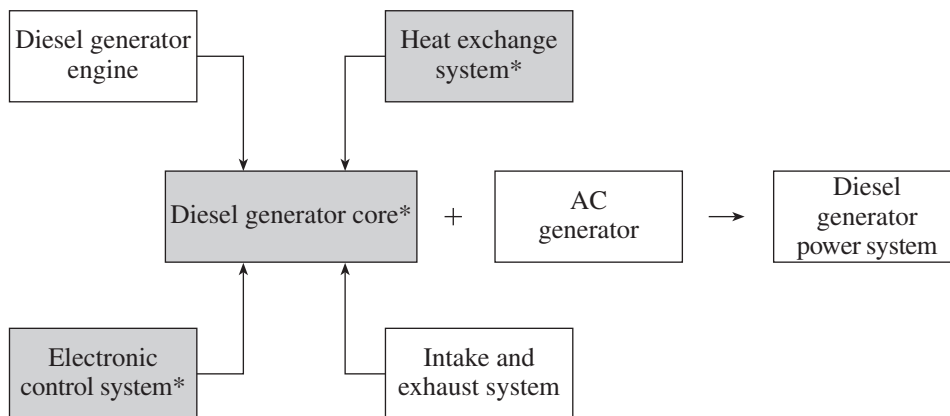
SUMMARY

cores based on their own engines, we do not manufacture diesel generator engines. We currently have three business segments: the power core segment, which comprises our diesel generator core business, oil hydraulic power drive business and engine distribution business; the heat exchange system segment; and the electronic control system segment.

Our key competitive advantage lies in our ability to provide a comprehensive, customized diesel generator core solution to our customers. By leveraging our in-depth understanding of the diesel power system market in China, together with our strong in-house research and development and manufacturing capabilities of heat exchange systems and electronic control systems, we have developed valuable technical skills and know-how to tailor and integrate the core components of a diesel generator core in order to meet customized technical specifications, ensure the best fit between the diesel generator engine and all related systems and improve the efficiency, safety, reliability and product life of a diesel generator power system.

Products

Diesel generator power systems are typically installed at locations with limited reliable power sources or no grid connection, or to provide standby or emergency electricity supply when there is an electricity shortage. In particular, diesel generator power systems are vital to supplying emergency electricity when large-scale destruction of infrastructure is caused by extraordinary and unexpected natural disasters, such as the heavy snow storms in China in January 2008 and the Sichuan earthquake in May 2008, which drove increased demand for our diesel generator cores during the same year. The diesel generator core is the most critical component of a diesel generator power system, and typically comprises a diesel generator engine, a heat exchange system, an electronic control system and an intake and exhaust system. The following chart shows the schematic layout of a diesel generator power system in principle:



* *highlighted components indicate those manufactured and integrated by us*

Our oil hydraulic power drives are one type of industrial power core, primarily used in heavy construction machinery and equipment, such as oil hydraulic machines, emergency fire pump sets and dredging pumps. In addition, our jointly-controlled entity Hubei Langtong also offers industrial power cores with applications in heavy construction machinery such as excavating machines and loading machines.

SUMMARY

Our heat exchange systems are used both in our diesel generator cores for generator power systems and in other engine applications, serving engines with a power output range of 20 kW to 2,000 kW. Our heat exchange systems are compatible with various models of branded engines such as Cummins, Perkins, Caterpillar and Mitsubishi engines. Some of our heat exchange systems are customized to operate in difficult operating conditions, including high temperatures and high altitude.

Our electronic control system business focuses on the design, manufacture and sale of high-end electronic control systems, which we use internally for the integration of our diesel generator cores. We also sell our electronic control systems to external customers. Our electronic control system typically consists of an electronic speed actuator and an electronic speed controller. A set of high-end electronic control system in the diesel generator power system sector in China is typically over RMB2,500.

History and results of operations

We initiated a strategy of providing a comprehensive, customized solution for diesel generator cores in 2006. In 2008, we added research and development capabilities, as well as manufacturing and marketing services, for heat exchange systems. Further, in March 2009, we supplemented our business operations with electronic control systems. This strategy has resulted not only in significant synergy between our three business segments, but also has allowed us to cater to the special needs of our customers. In addition, we also manufacture and sell oil hydraulic power drives and distribute engines, which, together with our diesel generator core business, form our power core segment.

We sold most of our products in China during the Track Record Period. Benefiting from the fast growth of the overall economy and electricity market in China, we achieved rapid growth during the Track Record Period. For the years ended December 31, 2008, 2009 and 2010, our turnover was RMB1,005.2 million, RMB640.6 million and RMB1,109.9 million, respectively, and our profit attributable to equity shareholders of our Company was RMB74.6 million, RMB49.8 million and RMB100.6 million, respectively, representing a CAGR of 5.1% and 16.1%, respectively, between 2008 and 2010.

OUR BUSINESS RELATIONSHIP WITH DONGFENG CUMMINS AND OTHER DIESEL ENGINE SUPPLIERS

Overview

Diesel generator engines and industrial diesel engines are the main parts used in our production of power cores. We also trade diesel generator engines and industrial diesel engines. During the Track Record Period, all of our diesel generator engines and industrial diesel engines were purchased from Dongfeng Cummins, Cummins Power Generation, Cummins China, Xi'an Cummins and distributors of Chongqing Cummins. Each of Dongfeng Cummins, Xi'an Cummins and Chongqing Cummins is a joint venture established by subsidiaries of Cummins Inc., a company listed on the New York Stock Exchange (NYSE: CMI), and their respective joint venture partners. Each of Cummins Power Generation and Cummins China is a wholly-owned subsidiary of Cummins Inc. Dongfeng Cummins was our largest supplier for the years ended December 31, 2008, 2009 and 2010, our purchase amounts from which were RMB755.9 million, RMB291.7 million and RMB460.4 million for the years ended December 31, 2008, 2009 and 2010, respectively, accounting

SUMMARY

for 89.0%, 51.2% and 49.6% of our total purchase amounts of all parts, components and raw materials for the same periods. Taking into account the Dongfeng Cummins engines we purchased from Cummins Power Generation, our total purchase of Dongfeng Cummins engines amounted to approximately RMB755.9 million, RMB386.5 million and RMB632.7 million in 2008, 2009 and 2010, respectively, accounting for 89.0%, 67.8% and 68.2% of our total purchase amounts of all parts, components and raw materials for the same periods, respectively.

Long-term Supply Contract with Dongfeng Cummins

In order to ensure a steady supply of diesel generator engines from Dongfeng Cummins, Xiangfan Kanghao entered into a six-year supply contract with Dongfeng Cummins (the “**Long-term Supply Contract**”) on May 24, 2011. Under the Long-term Supply Contract, both parties agree to discuss estimated annual sale and purchase volume of diesel generator engines in the first quarter of each calendar year. If the parties are unable to reach an agreement before the end of the first quarter on the amount to be supplied for that calendar year, (i) Dongfeng Cummins shall be obliged to supply up to 130% of the total diesel generator engines it supplied to our Group in the preceding year; and (ii) Xiangfan Kanghao shall be obliged to purchase not less than 70% of the total diesel generator engines it purchased from Dongfeng Cummins in the preceding year. Under the Long-term Supply Contract, Dongfeng Cummins will supply diesel generator engines manufactured by it with a power output range of 20 kW to 220 kW to Xiangfan Kanghao on a priority basis. Dongfeng Cummins agrees to communicate closely with Xiangfan Kanghao on a monthly basis in each year in respect of Xiangfan Kanghao’s actual demand for diesel generator engines and schedule its production level to satisfy such demand. Dongfeng Cummins further agrees that unless Xiangfan Kanghao’s demand for diesel generator engines is satisfied, it will not provide diesel generator engines to any third parties. The Long-term Supply Contract also includes a pricing schedule for 2011 and detailed pricing and rebate schemes for the supply of diesel generator engines from 2012 and throughout the term of the Long-term Supply Contract. The Long-term Supply Contract also provides that in the event of a significant fluctuation in the market price, or a material change in the nature, model or quality, of diesel generator engines supplied by Dongfeng Cummins to Xiangfan Kanghao, the parties shall negotiate and agree in good faith the prices and rebates of diesel generator engines with reference to the then prevailing market prices. The Long-term Supply Contract will be effective from the date of signing for a term of six years. Neither party has a right to unilaterally terminate the Long-term Supply Contract. Prior to the expiry of the Long-term Supply Contract, the parties shall discuss the renewal of the Long-term Supply Contract and enter into a new long-term supply contract, if appropriate.

For further details on our business relationship with Dongfeng Cummins, including the terms of the Long-term Supply Contract, see “Business — Our Business Relationship with Dongfeng Cummins”.

Risks Associated with Our Business Relationship with Dongfeng Cummins

Although we have maintained a close business relationship with Dongfeng Cummins since 2006, we cannot assure you that we will be able to maintain our business relationship with Dongfeng Cummins in the future. If Dongfeng Cummins decides to terminate its business relationship with us, our diesel generator core business and competitiveness will be adversely affected. In addition, we generally rely on the brand awareness of diesel generator engines supplied by Dongfeng Cummins

SUMMARY

to promote our diesel generator cores. For details of the risks associated with our sourcing of diesel generator engines from Dongfeng Cummins, see “Risk Factors — Risks Relating to Our Business and the Industries in which We Operate — We mainly source diesel generator engines from Dongfeng Cummins.”

FLUCTUATIONS IN OUR RESULTS OF OPERATIONS

Our results of operations fluctuated during the Track Record Period. Our total turnover decreased by RMB364.6 million, or 36.3%, from RMB1,005.2 million in 2008 to RMB640.6 million in 2009, but increased by RMB469.3 million, or 73.3%, from RMB640.6 million in 2009 to RMB1,109.9 million in 2010. The decrease in 2009 was primarily due to a decrease in the revenue contributed by our power core integration business, primarily reflecting a decreased sales volume for diesel generator cores as a result of the global economic downturn and a decrease in ASP of diesel generator cores as a result of different product mix due to changes in customer demand. In addition, the decreased sales volume of diesel generator cores in 2009 was also due to the non-recurring nature of a certain portion of our 2008 sales due to the Sichuan earthquake in May 2008 and the winter snow storms across Southern China during January 2008. These natural disasters in 2008 generated extraordinary market demand for standby and emergency electricity supply which did not exist in 2009. In line with the improved industry condition and global economic recovery which resulted in increased market demand for our diesel generator cores, and increased contribution of revenue by our heat exchange system and electronic control system segments, our total turnover increased in 2010. In addition, our cost of sales decreased by RMB315.5 million, or 36.8%, from RMB857.9 million in 2008 to RMB542.4 million in 2009, but increased by RMB403.3 million, or 74.4%, from RMB542.4 million in 2009 to RMB945.7 million in 2010. The fluctuation was primarily due to our decreased purchase cost of engines following the decreased demand for our products in 2009, a trend which was reversed in 2010.

As a result of the foregoing fluctuations in our total turnover and cost of sales during the Track Record Period, our gross profit decreased by RMB49.1 million, or 33.3%, from RMB147.3 million in 2008 to RMB98.2 million in 2009, but increased by RMB66.0 million, or 67.2%, from RMB98.2 million in 2009 to RMB164.2 million in 2010. Our profit for the year attributable to equity shareholders also decreased by RMB24.8 million, or 33.2%, from RMB74.6 million in 2008 to RMB49.8 million in 2009, but increased by RMB50.8 million, or 102.0%, from RMB49.8 million in 2009 to RMB100.6 million in 2010.

For detailed analysis of these fluctuations, see the section headed “Financial Information — Year to Year Comparison of Results of Operations”. For risks relating to the demand for our diesel generator cores, see “Risk Factors — Demand for our diesel generator cores is dependent upon the overall demand for electricity in China and the other major markets.”

SUMMARY

OUR BUSINESS SEGMENTS

Overview

Our business segments consist of (i) power core integration and sales; (ii) heat exchange system manufacture and sales; and (iii) electronic control system manufacture and sales.

The following table sets forth our operating entities in each of our business segments:

Business segment	Operating entities ⁽¹⁾ ⁽²⁾	Principal business
Power core integration and sales	Xiangfan Kanghao	Integration and sale of diesel generator cores
	Xiangfan Hero City	Sale of diesel generator cores that are integrated by Xiangfan Kanghao
	Chongqing Langyu	Integration and sale of oil hydraulic power drives
	Hubei Langtong	Distribution of industrial diesel engines and integration of industrial power cores
Heat exchange system manufacturing and sales	Wuhan Hero City	Manufacturing and sale of heat exchange systems for engines with a power output ranging from 20 kW to 250 kW
	Beworld	Manufacturing and sale of heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW
Electronic control system manufacturing and sales	Wuhan Norman	Manufacturing and sale of electronic speed actuators
	Ascend	Manufacturing and sale of electronic speed controllers

Notes:

- (1) See “History, Reorganization and Group Structure — Reorganization” for the corporate chart showing our interests in these operating entities. Other than Hubei Langtong, which is a jointly-controlled entity of our Group, all the other operating entities are our subsidiaries. Beworld was a joint-controlled entity of our Group in 2008, 2009 and 2010 and became our subsidiary on December 31, 2010.
- (2) Wuhan Roll Technology, a wholly-owned subsidiary of our Group, owns a land parcel with a site area of approximately 47,461 square meters and has not engaged in any operating activities during the Track Record Period. We are currently constructing production facilities on this parcel of land.

SUMMARY

Results of Business Segments

The following table sets forth, for the periods indicated, selected financial information of our business segments:

	Years ended December 31,		
	2008	2009	2010
	(RMB'000, except percentages)		
Power core business:			
Revenue from external customers	999,901	615,529	1,064,449
Inter-segment revenue ⁽¹⁾	145	25	25
Reportable segment revenue	1,000,046	615,554	1,064,474
Reportable segment gross profit	147,315	75,318	103,342
Reportable segment gross profit margin ⁽²⁾	14.7%	12.2%	9.7%
Heat exchange system business⁽³⁾:			
Revenue from external customers	1,605	3,254	14,492
Inter-segment revenue ⁽⁴⁾	8,886	19,921	31,441
Reportable segment revenue	10,491	23,175	45,933
Reportable segment gross profit	969	7,791	13,964
Reportable segment gross profit margin ⁽²⁾	9.2%	33.6%	30.4%
Electronic control system business:			
Revenue from external customers	3,696	21,810	31,005
Inter-segment revenue ⁽⁵⁾	—	15,534	67,306
Reportable segment revenue	3,696	37,344	98,311
Reportable segment gross profit	45	19,562	64,691
Reportable segment gross profit margin ⁽²⁾	1.2%	52.4%	65.8%

Notes:

- (1) Represents primarily internal sales of scrap materials from Xiangfan Kanghao to Wuhan Hero City for the latter to sell to external customers.
- (2) Represents the reportable segment gross profit, inclusive of gross profit derived from external sales and inter-segment sales, divided by the reportable segment revenue, inclusive of revenue derived from external sales and inter-segment sales.
- (3) Does not include our share of revenue or gross profit in Beworld, which became a subsidiary of our Group on December 31, 2010. Beworld was a jointly controlled entity of our Group in 2008, 2009 and 2010 until December 31, 2010. On December 31, 2010, our Group obtained effective control over the majority of the board of Beworld. Our reportable segment revenue and reportable segment gross profit arising from the heat exchange system segment would be RMB20.2 million, RMB43.9 million and RMB89.8 million, respectively, and RMB2.6 million, RMB13.9 million and RMB26.7 million in 2008, 2009 and 2010, respectively, if Beworld were a subsidiary of our Group during the same periods.
- (4) Represents primarily intra-group sales of heat exchange systems for engines with a power output range of 20 kW to 250 kW to serve our integration of diesel generator cores.
- (5) Represents primarily intra-group sales of electronic speed controllers to serve our integration of diesel generator cores.

SUMMARY

COMPETITIVE STRENGTHS

We believe our primary competitive strengths include the following:

- We are a leading manufacturer and integrator of diesel generator cores in China.
- We offer a comprehensive, customized diesel generator core solution.
- We are capable of designing and manufacturing high-performance heat exchange systems and electronic control systems, allowing us to enjoy higher margins for these two segments.
- We have strong research and development capabilities.
- We maintain strong business relationships with leading players in our target markets.
- We have an experienced management team with extensive knowledge of our business segments.

STRATEGIES

We intend to consolidate our current market leading positions in our principal business segments and strengthen our competitiveness through expanding our heat exchange system, electronic control system and other high value-added diesel engine-related businesses. To achieve this, we intend to focus on the following strategies:

- We intend to grow our power core business and enhance production capacity for the integration of power cores to meet customer demand.
- We intend to expand market penetration and enlarge customer base in our principal business segments.
- We intend to develop new products with high growth potential in our existing business segments, as well as new diesel engine-related products.
- We seek to identify compelling acquisition opportunities with demonstrated growth potential.

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following table sets out our combined income statements for the years ended December 31, 2008, 2009 and 2010, which are derived from the Accountants' Report as set out in Appendix I to this prospectus. Our combined financial statements have been prepared in accordance with IFRS. Investors should also read the following selected financial data together with the Accountants' Report and the discussion in the section headed "Financial Information" in this prospectus.

Combined Income Statements

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Turnover	1,005,202	640,593	1,109,946
Cost of sales	(857,936)	(542,430)	(945,722)
Gross profit	147,266	98,163	164,224
Other revenue	994	1,367	1,267
Other net income/(loss)	927	61	(1,219)
Selling and distribution expenses	(11,307)	(8,040)	(12,625)
Administrative expenses	(14,193)	(16,851)	(25,014)
Profit from operations	123,687	74,700	126,633
Finance costs	(6,821)	(8,549)	(8,511)
Share of profit less losses of an associate	(434)	167	143
Share of profits less losses of jointly controlled entities	(311)	751	6,275
Profit before taxation	116,121	67,069	124,540
Income tax	(7,547)	(14,189)	(22,161)
Profit for the year	108,574	52,880	102,379
Attributable to:			
Equity shareholders of the Company	74,605	49,811	100,628
Non-controlling interests	33,969	3,069	1,751
Profit for the year	108,574	52,880	102,379
Basic and diluted earnings per share (RMB)	0.124	0.083	0.168

SUMMARY

Combined Balance Sheets

	As of December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	8,856	11,636	15,864
Construction in progress	90	—	1,392
Lease prepayments	—	11,740	11,542
Prepayment for acquisition of leasehold land	11,416	—	—
Interest in an associate	4,066	4,233	—
Interests in jointly controlled entities	6,671	7,422	9,606
Deferred tax assets	378	1,748	5,931
Total non-current assets	<u>31,477</u>	<u>36,779</u>	<u>44,335</u>
Current assets			
Inventories	36,492	74,129	65,827
Trade and bills receivables	40,976	24,499	68,940
Prepayments and other receivables	6,222	48,618	53,394
Amounts due from related parties	94,693	85,642	59,575
Restricted bank deposits	—	225	—
Cash and cash equivalents	34,474	66,732	91,115
Total current assets	<u>212,857</u>	<u>299,845</u>	<u>338,851</u>
Current liabilities			
Bank loans	15,000	68,500	100,000
Trade and other payables	77,933	110,617	104,801
Amounts due to related parties	68,356	84,934	19,322
Income tax payables	—	7,558	15,097
Warranty provisions	1,397	1,140	1,006
Total current liabilities	<u>162,686</u>	<u>272,749</u>	<u>240,226</u>
Net current assets	<u>50,171</u>	<u>27,096</u>	<u>98,625</u>
Total assets less current liabilities	81,648	63,875	142,960
Non-current liabilities			
Deferred tax liabilities	7,800	5,500	6,500
Net assets	<u>73,848</u>	<u>58,375</u>	<u>136,460</u>
Equity			
Capital	9,972	10,522	42,522
Reserves	53,536	44,032	88,551
Total equity attributable to equity shareholders of the Company	63,508	54,554	131,073
Non-controlling interests	10,340	3,821	5,387
Total equity	<u>73,848</u>	<u>58,375</u>	<u>136,460</u>

SUMMARY

PROFIT FORECAST

The following unaudited pro forma forecast earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 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 Global Offering.

For the six months ending June 30, 2011

Unaudited forecast combined profit attributable
to equity shareholders of our Company⁽¹⁾⁽²⁾⁽⁴⁾ not less than RMB85 million
(approximately HK\$102 million)

Unaudited pro forma forecast earnings per Share⁽³⁾⁽⁴⁾ not less than RMB0.106
(approximately HK\$0.127)

Notes:

- (1) Our unaudited forecast combined profit attributable to equity shareholders of our Company for the six months ending June 30, 2011 is extracted from the section headed “Financial Information — Profit Forecast” in this prospectus. The bases on which the above profit forecast for the six months ending June 30, 2011 has been prepared are summarized in Appendix III to this prospectus.
- (2) The unaudited forecast combined profit attributable to equity shareholders of our Company for the six months ending June 30, 2011 prepared by our Directors is based on, in the absence of unforeseen circumstances, the unaudited management accounts of our Group for the three months ended March 31, 2011 and a forecast of the combined results of our Group for the remaining three months ending June 30, 2011. We have undertaken to the Hong Kong Stock Exchange that our interim report for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Hong Kong Listing Rules. The forecast has been prepared on the basis consistent in all material respects with the accounting policies presently adopted by us as summarized in the Accountants’ Report as set out in Appendix I to this prospectus.
- (3) The calculation of the unaudited pro forma forecast earnings per Share is based on the unaudited forecast combined profit attributable to the equity shareholders of our Company for the six months ending June 30, 2011, assuming the Global Offering had been completed on January 1, 2011 and a total of 800,000,000 Shares were in issue during the entire period, taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or under the Share Option Scheme.
- (4) For the purpose of the unaudited forecast combined profit attributable to the equity shareholders of our Company and the unaudited pro forma forecast earnings per Share, the translation of Renminbi into HK dollars was made at the rate of RMB0.8337 to HK\$1.00.

SUMMARY

OFFERING STATISTICS

	<u>Based on an Offer Price of HK\$2.72 per Share</u>	<u>Based on an Offer Price of HK\$3.62 per Share</u>
Our Company's market capitalization upon completion of the Global Offering ⁽¹⁾	HK\$2,176 million	HK\$2,896 million
Unaudited pro forma adjusted net tangible asset per Share ⁽²⁾	HK\$0.80	HK\$1.02

Notes:

- (1) The calculation of market capitalization is based on 800,000,000 Shares expected to be issued immediately upon completion of Global Offering and the Capitalization Issue, without taking into account the exercise of the Over-allotment Option.
- (2) The unaudited pro forma adjusted net tangible asset per Share is calculated after making the adjustments referred to in Appendix II in this prospectus and on the basis of 800,000,000 Shares in issue at the respective offer price of HK\$2.72 and HK\$3.62 immediately upon completion of the Global Offering and the Capitalization Issue, without taking into account the exercise of the Over-allotment Option.

DIVIDEND POLICY

Dividends may be paid out of our distributable profits as permitted under the relevant laws, subject to the Articles. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our 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.

A decision to declare or to pay any dividends in the future, and the amount of any dividends, depend on a number of factors, including our results of operations, financial condition, the payments by our subsidiaries of cash dividends to us, future prospects and other factors that our Directors may consider important.

Subject to the factors described above, we currently intend to recommend a distribution to all Shareholders in an amount representing not less than 25.0% of the distributable net profit attributable to the equity Shareholders of our Company for the year ending December 31, 2011 following the Global Offering. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to the Shareholders by any means which our Directors consider appropriate.

SUMMARY

USE OF PROCEEDS

We estimate that the aggregate net proceeds to our Company from the Global Offering (after deducting underwriting commissions, incentive fees (if any) and estimated expenses in connection with the Global Offering payable by us and assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$3.17 per Offer Share, being the mid-point of the indicative offer price range stated in this prospectus) will be approximately HK\$573.7 million. We currently intend to apply such net proceeds for the following purposes:

- approximately 35.0%, or approximately HK\$200.8 million, for the expansion of our production capacity of power core business, of which:
 - approximately HK\$42.9 million will be used for the acquisition of land use rights;
 - approximately HK\$124.3 million will be used for the construction of production facilities in Xiangyang, Hubei Province;
 - approximately HK\$30.2 million will be used for the purchase of production lines, assembly lines and equipment to increase our integration capacity of diesel generator cores; and
 - approximately HK\$3.4 million will be used for the purchase of equipment to increase our integration capacity of industrial power cores.

For details of production capacity expansion plan of our power core business, please refer to “Future Plans and Use of Proceeds” in this prospectus.

- approximately 35.0%, or approximately HK\$200.8 million, for the expansion of our production capacity of heat exchange system business, of which:
 - approximately HK\$176.8 million will be used for the purchase of property, plant and equipment to manufacture commercial vehicle heat exchange systems; and
 - approximately HK\$24.0 million will be used for the purchase of equipment to increase our production capacity of heat exchange systems serving power cores.
- approximately 10.0%, or approximately HK\$57.4 million, for the development of new products, including air-to-air aftercoolers, radiating pipes, CAN and after-treatment systems. For details of the development of these new products, see “Business — Production — Development Plan of New Products” in this prospectus;
- approximately 10.0%, or approximately HK\$57.4 million, for acquisition purposes, including acquisition of or investment in equity interests in entities or businesses that are related to our existing or new businesses; and
- approximately 10.0%, or approximately HK\$57.3 million for general working capital purposes.

We estimate that the Selling Shareholder will receive net proceeds from the Global Offering of approximately HK\$177.9 million, after deducting the underwriting commissions and fees payable by the Selling Shareholder in respect of the Sale Shares (assuming an Offer Price of HK\$3.17 per Offer Share, being the mid-point of our indicative Offer Price range). We will not receive any net proceeds from the sale of Sale Shares by the Selling Shareholder in the Global Offering.

SUMMARY

To the extent our net proceeds are either more or less than the amounts set out above, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis. Any additional net proceeds that we would receive from any exercise, in full or in part, of the Over-allotment Option may be applied in the manner and the proportions stated above.

To the extent that our net proceeds are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit the net proceeds into short-term interest bearing deposits and/or money market instruments.

Our plan to use a portion of net proceeds for acquisition purposes is contingent on the identification of compelling acquisition targets and the completion of acquisitions on commercially viable terms. As of the Latest Practicable Date, we had not identified any acquisition target. Our plan to use a portion of net proceeds for development of CAN and after-treatment systems is contingent on our technology development and the then prevailing market conditions. To the extent that we are not able to apply any portion of our net proceeds for acquisition purposes or for development of CAN or after-treatment systems, we intend to adjust our allocation of the net proceeds for the other purposes as described above on a pro rata basis and make an appropriate announcement.

RISK FACTORS

There are numerous risks involved in our operations. These risks can be categorized into (i) risk relating to our business and the industries in which we operate; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering. A detailed discussion of the risk factors are set forth in the section headed “Risk Factors” in this prospectus. The following is a list of the risk factors:

Risks Relating to Our Business and the Industries in which We Operate

- Demand for our diesel generator cores is dependent upon the overall demand for electricity in China and the other major markets.
- We mainly source diesel generator engines from Dongfeng Cummins.
- We may be negatively affected by price increases or a shortage in supply of the parts, components and raw materials required for our operations.
- We may not be able to continue our rapid growth and implement our business expansion plans successfully.
- Our production capacity plans for our existing business segments and for new products are subject to changes.
- Our competitiveness requires that we maintain relationships with leading players in our target markets.
- Our development of new diesel engine-related products with commercial vehicle applications may not be successful.
- Our research and development efforts may not yield the benefit that we expect.
- We face intense competition in the markets in which we operate.
- Any constraints on our production capacity would be detrimental to our business development.
- Our products are subject to substantial policy and regulatory requirements.
- We may not be able to adequately protect our intellectual property rights.
- We rely on third-party after-sales service providers to provide after-sales services.
- Our proposed branding change for the sales and marketing of our electronic control systems may not yield the expected benefits.

SUMMARY

- All of our production and office facilities are currently situated on leasehold properties.
- We may not be able to successfully implement our relocation plans in Xiangyang and Wuhan in Hubei Province.
- We are dependent on the contributions of our key management personnel.
- We are dependent on the contributions of our skilled workforce.
- Substantial injury to persons or loss of property may occur at our production facilities.
- We may be subject to product liability claims.
- Compliance with more stringent regulations may have negative effects on our operations.
- We may be unable to renew all necessary licenses, certificates, approvals and permits for our production. Changes in licensing requirements applicable to our industry may also adversely affect us.
- The failure of our operating entities to pay us dividends would negatively affect our financial condition.
- Our Controlling Shareholders may affect our businesses in ways that may not be in the best interests of other Shareholders.
- Our production and operations may be affected by factors beyond our control.

Risks Relating to the PRC

- Changes in the economic, political and social conditions in the PRC may have a material and adverse effect on our results of operations and financial condition.
- The slowdown of the Chinese economy may have a material and adverse effect on our results of operations and financial condition.
- Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in.
- PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or our PRC subsidiary to liability or penalties, or may otherwise adversely affect us.
- Government control over the conversion of foreign exchange may affect our results of operations and financial condition.
- Fluctuation in the value of RMB may have a material and adverse effect on our business and your investment.
- It may be difficult to effect service of process on, or to enforce any judgments obtained outside China against us, our Directors or our senior management members who reside in China.
- Dividends payable to us by our PRC subsidiaries and gains on sales of our shares may be subject to PRC withholding taxes, and we may be subject to PRC taxation on our worldwide income.
- Any change in the income tax rate in China may have a negative impact on our results of operations.
- Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business.

SUMMARY

Risks Relating to the Global Offering

- There has been no prior public market for our Shares and an active or liquid trading market for our Shares may not develop.
- Our profit forecast for the six months ending June 30, 2011 contained in this prospectus may not necessarily give an accurate indication of, and should not be interpreted as a guidance of, our full year financial results for the financial year ending December 31, 2011.
- The trading price of our Shares may be volatile.
- Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience dilution if we issue additional Shares in the future.
- Our Directors, officers or existing Shareholders may sell, or be perceived to sell, our Shares in the future and this may adversely affect the value of your investment.
- We cannot ensure the accuracy of the industry and market information and statistics from official government publications contained in this prospectus.
- Investors should not place undue reliance on information derived from the research report contained in this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms have the following meanings.

“Application Form(s)”	white application form(s), yellow application form(s) and green application form(s) or, where the context so requires, any of them
“AQSIQ”	General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (國家質量監督檢驗檢疫總局)
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company adopted on June 8, 2011 and amended from time to time
“Ascend”	Ascend Compliments Limited (贊昇有限公司), a limited liability company incorporated in Hong Kong on February 28, 2008 which is a wholly-owned subsidiary of our Company
“ASIMCO”	Fuel System Unit ASIMCO Tianwei (BYC) Co. Ltd.* (北京亞新科天緯油泵油嘴股份有限公司), a limited liability company established in China, a customer of our Group and an Independent Third Party
“ASP”	average selling price
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Audit Committee”	the audit committee of the Board
“Beijing Changyuan”	Beijing Changyuan Hero City Technology Co., Ltd.* (北京長源朗弘科技有限公司), a limited liability company incorporated in the PRC on October 31, 2007, which was our non-wholly owned subsidiary and has been disposed to Changyuan Donggu Industry in 2008
“Beworld”	Beworld Thermal-Sys (Wuhan) Co., Ltd.* (倍沃得熱力技術(武漢)有限公司), a limited liability company incorporated in the PRC on December 28, 2007, which is our non-wholly owned subsidiary owned as to 90% by our Group and 10% by Mr. Wei Qun
“Board” or “Board of Directors”	the board of Directors

DEFINITIONS

“business day”	any day (other than Saturday and Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of Shares to be made upon capitalization of certain amounts in the share premium account of our Company as referred to in the section entitled “Resolutions of our Shareholder passed on June 8, 2011” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or 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 (if it is a participant or accountholder with the relevant clearing system) or its direct or indirect custodian
“Changyuan Donggu Industry”	Xiangfan Changyuan Donggu Industry & Trade Co., Ltd.* (襄樊長源東谷實業有限公司), a limited liability company incorporated in the PRC, which is beneficially owned and controlled by Mr. Li, a Controlling Shareholder and an executive Director
“Chongqing Cummins”	Chongqing Cummins Engine Co., Ltd.* (重慶康明斯發動機有限公司), a joint venture established in China by Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司) and Cummins (China) Investment Co., Ltd.* (康明斯(中國)投資有限公司) and principally engaged in the manufacturing of heavy duty and high-powered engines, an Independent Third Party

DEFINITIONS

“Chongqing Langyu”	Chongqing Langyu Power Equipment Co., Ltd.* (重慶朗譽動力設備有限公司), a limited liability company incorporated in the PRC on June 22, 2009, which is our non-wholly owned subsidiary owned as to 55% by our Group and 45% by Mr. Wang Zhengchang
“Companies Law” or “Cayman Companies Law”	the Companies Law (2010 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “we”, “us”, or “our”	Xing Yuan Power Holdings Company Limited (興源動力控股有限公司), formerly known as Xing Yuan Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability on January 10, 2011
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the Hong Kong Listing Rules and, in the context of this prospectus, refers to Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao, our ultimate controlling shareholders, and Yuan Tai Long
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Cummins China”	Cummins (China) Investment Co., Ltd.* (康明斯(中國)投資有限公司), a company established in China and principally engaged in trading of diesel engines, an Independent Third Party
“Cummins Power Generation”	Cummins Power Generation (China) Co., Ltd.* (康明斯電力(中國)有限公司), formerly known as Cummins Engine (Beijing) Co., Ltd.* (康明斯發動機(北京)有限公司), a company established in China and principally engaged in the manufacturing of diesel generator power systems and trading of diesel generator engines, an Independent Third Party
“Director(s)”	the director(s) of our Company

DEFINITIONS

“Dongfeng Cummins”	Dongfeng Cummins Engine Co., Ltd.* (東風康明斯發動機有限公司), a joint venture established in China by Cummins China and Dongfeng Automobile Co., Ltd.* (東風汽車股份有限公司) and principally engaged in the manufacturing of advanced vehicle diesel engines and diesel generator engines, an Independent Third Party
“Dongfeng Motor Engine”	Commercial Vehicle Engine Plant of Dongfeng Motor Co., Ltd.* (東風汽車有限公司商用車發動機廠), a company established in the PRC and principally engaged in the manufacturing of commercial vehicle engines, an Independent Third Party
“Exchange Act”	the U.S. Securities Exchange Act of 1934, as amended
“FIE”	foreign invested enterprise
“Global Offering”	the Hong Kong Public Offer and the International Offer
“green Application Form(s)”	the application form(s) to be completed by HK eIPO White Form service provider designated by our Company
“Group”, “our Group”, “our”, “we” or “us”	our Company and its subsidiaries and jointly-controlled entity, and where the context otherwise requires, in respect of the period before our Company becoming the holding company of its present subsidiaries and jointly-controlled entity, the present subsidiaries and jointly-controlled entity and their respective predecessors, or the business operated by such subsidiaries and jointly-controlled entity, as the case may be
“Hero City Investment”	Hero City Investments Limited (朗弘投資有限公司), a limited liability company incorporated in Hong Kong on August 31, 2005 and owned as to 50% by Mr. Li and 50% by Ms. Xu
“HK eIPO White Form”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC

DEFINITIONS

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“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
“Hong Kong Public Offer”	the offer of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%), on the terms and subject to the conditions described in this prospectus and the Application Forms
“Hong Kong Public Offer Shares”	the 26,000,000 Shares (subject to adjustment as described in the section headed “Structure of the Global Offering”) being offered by us for subscription under the Hong Kong Public Offer
“Hong Kong Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Takeovers Code”	The Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement relating to the Hong Kong Public Offer entered into by, among others, the Sole Global Coordinator, the Hong Kong Underwriters and us on June 16, 2011
“Hubei Langtong”	Hubei Langtong Power Technology Co., Ltd.* (湖北朗通動力科技有限公司), a limited liability company incorporated in the PRC on August 20, 2007, which is our jointly-controlled entity owned as to 50% owned by our Group and 50% by Mr. Li Kewu
“IFRS”	International Financial Reporting Standards, as issued by the International Accounting Standards Board

DEFINITIONS

“Independent Third Party(ies)”	party(ies) which is/are independent of and not a connected person (within the meaning of the Hong Kong Listing Rules) of our Group
“International Offer”	the offering of the International Offer Shares at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) by the Company (i) in the United States only to QIBs in reliance on Rule 144A or another exemption from registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional investors and excluding retail investors in Hong Kong) in accordance with Regulation S
“International Offer Shares”	the 234,000,000 Shares comprising 174,000,000 new Shares and 60,000,000 Sale Shares initially being offered for subscription under the International Offer (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) together with (unless the context otherwise requires) up to an additional 39,000,000 new Shares which may be issued by us pursuant to exercise of the Over-allotment Option
“International Underwriters”	the underwriters of the International Offer
“International Underwriting Agreement”	the underwriting agreement relating to the International Offer which is expected to be entered into, among others, the Sole Global Coordinator, the International Underwriters, the Selling Shareholder and us on or around June 23, 2011
“Latest Practicable Date”	June 10, 2011, being the latest practicable date for ascertaining certain information in this prospectus before its publication
“Listing”	the listing of the Shares on the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about June 28, 2011, on which our Shares will be listed on the Main Board
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company adopted on June 8, 2011, as amended from time to time
“Ministry of Finance”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“Ministry of Industry and Information Technology”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)

DEFINITIONS

“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Fan”	Mr. Fan Xiao (凡曉), an executive Director and a Controlling Shareholder
“Mr. Gao”	Mr. Gao Yongchun (高永春), a Controlling Shareholder
“Mr. Li”	Mr. Li Zuoyuan (李佐元), an executive Director, the chairman of the Board, a Controlling Shareholder, and the spouse of Ms. Xu
“Mr. Luo”	Mr. Luo Huibin (羅會斌), an executive Director and a Controlling Shareholder
“Mr. Zhang”	Mr. Zhang Yu (張宇), an executive Director and a Controlling Shareholder
“Ms. Huang Fei”	Ms. Huang Fei (黃菲), an executive Director and a Controlling Shareholder
“Ms. Huang Yue”	Ms. Huang Yue (黃越), a Controlling Shareholder
“Ms. Xu”	Ms. Xu Nengchen (徐能琛), an executive Director and a Controlling Shareholder, the spouse of Mr. Li
“National People’s Congress”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Neng Yuan Power”	Neng Yuan Power Science and Technology Group Limited (能源動力科技集團有限公司), a company incorporated in Hong Kong on January 14, 2011, which is a wholly-owned subsidiary of our Company
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Hong Kong Public Offer Shares are to be subscribed under the Hong Kong Public Offer and the International Offer Shares are to be offered under the International Offer, to be determined in the manner further described in the section headed “Structure of the Global Offering” in this prospectus
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offer Shares

DEFINITIONS

“Over-allotment Option”	the option to be granted by us to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters under the International Underwriting Agreement pursuant to which we may be required to issue up to 39,000,000 additional Offer Shares at the final Offer Price, representing 15% of the initial size of the Global Offering, to, among other things, cover over-allocations in the International Offer as described in the section headed “Structure of the Global Offering” in this prospectus
“PRC”, “China” or the “People’s Republic of China”	the People’s Republic of China, which for the purposes of this prospectus only (unless otherwise indicated) excludes Hong Kong, Macau and Taiwan
“PRC EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), promulgated on March 16, 2007 by the National People’s Congress and effective on January 1, 2008
“PRC government”	the government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
“Price Determination Date”	the date, expected to be on or around June 23, 2011 and, in any event, not later than June 24, 2011, on which the Offer Price is to be fixed by agreement between our Company, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters) to determine the Offer Price
“QIB”	qualified institutional buyer within the meaning of Rule 144A
“Regulations S”	Regulation S under the Securities Act
“Reorganization”	the reorganization undergone by the Company and its subsidiaries and jointly-controlled entities in preparation for the Listing as described in the section headed “History, Reorganization and Group Structure” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rui Man Di”	Rui Man Di Holding Limited (瑞曼底控股有限公司), a BVI business company incorporated in the BVI on January 4, 2011, a wholly-owned subsidiary of our Company
“Rule 144A”	Rule 144A under the Securities Act
“Sale Shares”	the 60,000,000 Offer Shares being offered for sale by the Selling Shareholder at the Offer Price under the International Offer
“SEC”	the U.S. Securities and Exchange Commission

DEFINITIONS

“Securities Act”	the U.S. Securities Act of 1933, as amended
“Selling Shareholder”	Yuan Tai Long
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) with a nominal value of US\$0.01 each in our share capital
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally adopted by us on June 8, 2011, the principal terms of which are summarized in the section headed “Share Option Scheme” in Appendix VI to this prospectus
“Sole Sponsor”, “Sole Global Coordinator”, “Sole Bookrunner” and “Stabilizing Manager”	UBS AG, Hong Kong Branch
“State Administration for Industry and Commerce”	the State Administration for Industry and Commerce of the PRC (中華人民共和國工商行政管理總局)
“State Administration of Foreign Exchange” or “SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable
“State Administration of Taxation” or “SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“State Environmental Protection Administration”	the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about June 23, 2011 between the Stabilizing Manager and Yuan Tai Long pursuant to which Yuan Tai Long will agree to lend Shares to the Stabilizing Manager, its affiliate or any person acting on its behalf
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“subsidiary”	has the meaning ascribed thereto in section 2 of the Companies Ordinance

DEFINITIONS

“Tianjin Lovol”	Tianjin Lovol Engines Co., Ltd.* (天津雷沃動力股份有限公司), a company established in China and principally engaged in the manufacture of engines, an Independent Third Party
“Track Record Period”	the three financial years ended December 31, 2010
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	The United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“VAT”	value added tax
“white Application Form(s)”	the form(s) of application for the Hong Kong Public Offer Shares for use by the public who require such Hong Kong Public Offer Shares to be issued in the applicants’ own name
“Wise Jade”	Wise Jade Investments Limited (可譽投資有限公司), a limited liability company incorporated in Hong Kong on January 22, 2008, which is owned as to 60.97% by Mr. Zhang Yu, 22.18% by Ms. Huang Fei, 13.29% by Ms. Huang Yue and 3.56% by Mr. Gao
“Wuhan Hero City”	Wuhan Hero City Thermal-Sys Co., Ltd.* (武漢朗弘熱力技術有限公司), a limited liability company incorporated in the PRC on December 27, 2007, which is a non-wholly owned subsidiary of our Company owned as to 92.5% by our Company, 1.5% by an employee of our Group, and 6% by another three individuals who are Independent Third Parties
“Wuhan Kanghao”	Wuhan Kanghao Machine & Electricity Engineering Co., Ltd.* (武漢康豪機電工程有限公司), a limited liability company incorporated in the PRC on January 30, 2008 as a subsidiary of Xiangfan Kanghao, the entire equity interest of which has been disposed to an Independent Third Party on December 30, 2010
“Wuhan Norman”	Wuhan Norman Technology Co., Ltd.* (武漢諾爾曼科技有限公司), a limited liability company incorporated in the PRC on July 25, 2008, which is a non-wholly owned subsidiary of our Company owned as to 90% by our Company, 5% by an employee of our Group and 5% by Ms. Xu’s brother

DEFINITIONS

“Wuhan Roll Technology”	Wuhan Roll Technology Co., Ltd.* (武漢羅爾科技有限公司), a limited liability company incorporated in the PRC on August 1, 2007, which is a wholly-owned subsidiary of our Company
“Xi’an Cummins”	Xi’an Cummins Engine Company Limited* (西安康明斯發動機有限公司), a joint venture established in China by Cummins Co., Ltd., Cummins China, Shaanxi Automobile Group Co., Ltd. (陝西汽車集團有限責任公司) and Shaanxi heavy-duty Automobile Co., Ltd. (陝西重型汽車有限公司) and principally engaged in the manufacturing of heavy-duty diesel engines, an Independent Third Party
“Xiangfan Hero City”	Xiangfan Hero City Machinery & Electric Co., Ltd.* (襄樊朗弘機電有限公司), a limited liability company incorporated in the PRC on July 21, 2004, which is a wholly-owned subsidiary of our Company
“Xiangfan Kanghao”	Xiangfan Kanghao M&E Engineering Co., Ltd.* (襄樊康豪機電工程有限公司), a limited liability company incorporated in the PRC on December 7, 2005, which is an indirect wholly-owned subsidiary of our Company
“yellow Application Form(s)”	the form(s) of application for the Hong Kong Public Offer Shares for use by the public who require such Hong Kong Public Offer Shares to be deposited directly into CCASS
“Yuan Tai Long”	Yuan Tai Long Investment Limited (源泰隆投資有限公司), a BVI business company incorporated in the BVI on January 4, 2011, through which our ultimate Controlling Shareholders (other than Yuan Tai Long) hold the controlling interest in our Company
“%”	percent

Unless expressly stated or the context requires otherwise:

- all other percentages and figures, including share ownership and operating data, have been rounded, and accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items;
- where information is presented in thousands or millions of units, amounts may have been rounded up or down;
- all references to any shareholdings in the Company assume no exercise of the Over-allotment Option; and
- 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.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company 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.

“AC generator”	generator used in a power system, which converts mechanical energy from the engine into alternating current electrical energy to provide external electricity
“after-treatment system”	module installed in the exhaust system of an engine, to reduce NOx emission from the engine’s exhaust
“air-to-air aftercooler”	the unit includes at least one core assembly and two inlet lines connected to the core assembly. The air-to-air aftercooler may also include a single outlet line configured to direct cooled charge air to an intake manifold of an engine
“alternator”	an electromechanical device that converts mechanical energy to electrical energy in the form of alternating electric currents through a rotating magnetic field; the mechanical energy is typically provided by an engine
“analog control”	a control circuit that uses analog signals as its operating signals, analog signals refer to all signals that are continuous in terms of time and numerical values
“°C”	the degree Celsius, a scale and unit of measurement of temperature
“CAN”	Controller Area Network
“diesel generator core”	a critical component of a diesel generator power system consisting of a diesel generator engine, a heat exchange system, an electronic control system and an intake and exhaust system
“diesel generator power system”	uses mechanical energy to produce electricity and is comprise of a diesel generator core, electrical generator and various ancillary devices such as bases, canopies, sound attenuation, control systems, circuit breakers, jacket water heaters and starting system
“digital control”	digital control uses numbers, characters or other symbols to automatically program and control an operation process. Specialized computers are usually used and operating instructions are expressed in digital form. Machines and equipment will operate according to a preset program

GLOSSARY OF TECHNICAL TERMS

“ECM”	engine control module
“electronic control system”	a type of engine control system used to regulate the speed of diesel engines as well as the rate of fuel injection; primarily comprised of an electronic speed controller and an electronic speed actuator
“electronic speed actuator”	a diesel engine fuel control device; controls the flow of oil supply to the engine
“electronic speed controller”	an electronic device designed to control engine’s speed with fast and precise response to transient load charges
“Euro IV standards”	the set of standards that limits the emission from heavy duty diesel engine of carbon monoxide at 1.5 g/kWh, hydrocarbons at 0.46 g/kWh, nitrogen oxides at 3.5 g/kWh, particulate matters at 0.02 g/kWh, and smoke at 0.5 m ⁻¹
“heat exchange system”	used to transfer thermal energy from one medium to another, usually to dissipate residual heat generated by engines and to lower the temperature of engines, also known as radiators
“hp”	horsepower, a unit of measurement of power
“industrial power core”	an integrated mechanical motion source unit and a subset of power cores that is used as the primary power source of industrial machinery; consists of a diesel engine, a heat exchange system, an electronic control system and an intake and exhaust system similar to a diesel generator core
“intake and exhaust system”	system composed of an air intake system for an engine that draws in air and facilitates air travel into the combustion chamber as well as an exhaust system used to guide exhaust gases generated from reactions away from a controlled combustor inside the engine
“kW”	kilowatt, equal to one thousand watts of electricity
“kWh”	kiloWatt-hour, the standard unit of energy used in the electric power industry. One kiloWatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
“mid-range”	a power output range of 20 kW to 220 kW
“Nm”	Newton meter, a unit of measurement of torque
“NO _x ”	nitric oxide and nitrogen dioxide

GLOSSARY OF TECHNICAL TERMS

“oil hydraulic power drive”	a specific type of industrial power core used in oil hydraulic machines, emergency fire pump sets and dredging pumps
“PCB”	printed circuit board
“power core”	an integrated mechanical motion source unit: consists of a diesel engine, heat exchange system, electronic control system and an intake and exhaust system
“radiator”	a cooling device through which water or other fluids circulate as a coolant
“rpm”	revolutions per minute
“TWh”	terawatthour

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 suppliers and 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 and results of operations;
- our capital expenditure plans;
- the regulatory environment in the PRC; and
- future developments and the competitive environment in our industries and the markets for our products, including primarily the diesel generator power system, heat exchange systems and electronic control systems industries.

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 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 and, including the risks and uncertainties described below in respect of our business and the industry, before making an investment in the Offer Shares. You should pay particular attention to the fact that our principal operations are conducted in the PRC and are governed by a legal and regulatory environment that in some respects differs from that which prevails in other countries. Our business, results of operations or financial condition could be materially and adversely affected by any of these risks. The trading price of the Offer Shares in this Global Offering could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND THE INDUSTRIES IN WHICH WE OPERATE

Demand for our diesel generator cores is dependent upon the overall demand for electricity in China and the other major markets.

Demand for diesel generator cores is closely related to overall demand for electricity. As the economy grows, economic activities such as industrial production and private consumption tend to grow, therefore increasing the demand for electricity. When the economy is in recession, however, activities such as industrial production and consumer demand may decline or come to a standstill, thereby decreasing the demand for electricity. Our turnover decreased by RMB364.6 million, or 36.3%, to RMB640.6 million for the year ended December 31, 2009 from RMB1,005.2 million for the year ended December 31, 2008, primarily due to a slow down in the electricity industry in the PRC in 2009 as a result of the global economic downturn. Also, the additional purchase orders we received in 2008 as a result of the snow storms across southern China in January 2008 and the severe earthquake in Sichuan Province in May 2008 reflected increased market demand for standby and emergency electricity supply. We did not receive such additional purchase orders in 2009. If the economy of the PRC and other major international markets does not continue to grow, there may be a drop in demand for electricity. This would have an adverse effect on our business, results of operations and financial condition.

We mainly source diesel generator engines from Dongfeng Cummins.

We have maintained a business relationship with Dongfeng Cummins since 2006. Dongfeng Cummins was our largest supplier for the years ended December 31, 2008, 2009 and 2010. Our purchase amounts from Dongfeng Cummins were RMB755.9 million, RMB291.7 million and RMB460.4 million for the years ended December 31, 2008, 2009 and 2010, respectively, accounting for 89.0%, 51.2% and 49.6% of our total purchase amounts of all parts, components and raw materials for the same periods. In 2009 and 2010, in addition to the Dongfeng Cummins engines we purchased from Dongfeng Cummins, we also purchased 3,880 units and 6,946 units of Dongfeng Cummins engines from Cummins Power Generation, respectively, representing purchase amounts of approximately RMB94.8 million and RMB172.3 million for the same periods, respectively. Taking into account the Dongfeng Cummins engines we purchased from Cummins Power Generation, our total purchase of Dongfeng Cummins engines amounted to approximately RMB755.9 million, RMB386.5 million and RMB632.7 million in 2008, 2009 and 2010, respectively, accounting for 89.0%, 67.8% and 68.2% of our total purchase amounts of all parts, components and raw materials for the same periods, respectively. Further, we also sourced diesel engines from other suppliers

RISK FACTORS

during the Track Record Period, including Cummins China, Xi'an Cummins and distributors of Chongqing Cummins. For details of our purchase of diesel engines from these suppliers, see “Business — Supply of Parts, Components and Raw Materials — Purchase of Diesel Engines from Dongfeng Cummins and Other Suppliers”.

We cannot assure you that we will be able to maintain our business relationship with Dongfeng Cummins in the future. If Dongfeng Cummins decides to terminate its business relationship with us, our diesel generator core business and competitiveness will be significantly affected. We may not be able to source diesel generator engines from other suppliers in a timely and cost-effective manner, or at all. Even if we are able to source diesel generator engines from other suppliers, such diesel generator engines may not be of comparable quality or reputation, which may result in a significant decrease in the demand for our diesel generator cores, and we may incur increased production cost, transportation cost or production line modification cost or receive less favorable rebate or discount terms for the purchase of diesel generator engines from alternative suppliers, as compared to those purchased from Dongfeng Cummins. We will also need to conduct research and development activities to provide diesel generator core solutions based on new engines, including designing heat exchange systems and electronic control systems to match the new diesel generator engines and running requisite tests. We may also need to incur expenses to launch certain marketing activities or offer incentive sales terms to maintain and expand our customer base. In addition, if Dongfeng Cummins decides to terminate its business relationship with us, our heat exchange system and electronic control system businesses may also be significantly affected as they both supply a substantial amount of heat exchange systems and electronic speed controllers to our diesel generator core business. As a result, our business, results of operations and financial condition may be materially and adversely affected.

In addition, in line with market practice, each significant part of the diesel generator cores integrated by us is branded under its original brand, while the diesel generator core as a whole is not branded. As such, we usually leverage on the market reputation of the diesel generator engine contained in a diesel generator core, being in most cases a Dongfeng Cummins engine, to promote our whole diesel generator core. If the engines manufactured by Dongfeng Cummins have, or are alleged to have, any quality defects, or infringe upon, or are alleged to infringe upon, the intellectual property rights held by any third parties, or if Dongfeng Cummins' intellectual property protection is inadequate to protect its proprietary rights to engines sold by it, or if factors within or outside of its control cause Dongfeng Cummins' brand awareness and reputation to decline, the demand for our diesel generator cores equipped with engines provided by Dongfeng Cummins could significantly decrease and our diesel generator core business may be materially and adversely affected.

We may be negatively affected by price increases or a shortage in supply of the parts, components and raw materials required for our operations.

The principal parts, components and raw materials that we source externally for our production include engines for our generator core business, copper belts and steel plates for our heat exchange system business, and PCBs, chipsets and potentiometers for our electronic control system business. Most of our parts, components and raw materials are purchased domestically. We expect our demand for these parts, components and raw materials to increase as our production capabilities

RISK FACTORS

increase and our business grows. Any shortages or disruption in the supply of these parts, components and raw materials could lead to production shutdowns and force us to limit or delay our production, which could have a material adverse effect on our business, results of operations and financial condition.

Further, any significant increase in the prices of the parts, components and raw materials required for our operations will increase our production costs and may adversely affect our results of operations if we are not able to pass the increased costs on to our customers. The prices of these materials may be affected by factors beyond our control, including global demand for and supply of such materials, inflation and local economic cycles, and government price control measures. We do not hedge our exposure to movements in the prices of copper belts and steel plates, and other parts, components and raw materials. Although we believe that our resources and experience allow us in most cases to estimate and control costs effectively, should the factors described above prevent us from doing so, our results of operations and financial condition may be materially and adversely affected.

We may not be able to continue our rapid growth and implement our business expansion plans successfully.

We have experienced significant growth in terms of production capacity, revenue and profits during the Track Record Period. We plan to secure further growth by increasing the production capacity of our major products, developing and introducing new diesel engine-related products with commercial vehicle applications, improving the performance of our existing products, and in particular, expanding the production capacity for our integration of diesel generator cores and industrial power cores, heat exchange system business and electronic control system business. The success of our plans for growth depends on certain factors, including, but not limited to, our ability to:

- expand, construct and operate our production bases;
- ensure a timely and sufficient supply of parts, components and raw materials on commercially reasonable terms;
- implement and manage our business expansion plans;
- secure financing necessary for business expansion;
- operate in an efficient manner;
- maintain and expand our existing customer base;
- manage relationships with suppliers;
- develop technical know-how for upgrading existing products and launching new products;
- hire, train and retain qualified personnel; and
- overcome challenges that may arise in new and existing markets and business areas.

Some of the above factors are beyond our control. If we fail to successfully implement our business expansion plans, maintain and further enhance our market share, increase sales and effectively promote new products, develop businesses with strategic significance, our business, results of operations and financial condition could be materially and adversely affected.

RISK FACTORS

Moreover, we may cooperate with third parties through acquisitions to expand our existing products and develop new products in the future. We cannot assure you that we will be able to identify compelling acquisition opportunities, nor can we predict the operating results arising from any acquisitions.

Our production capacity plans for our existing business segments and for new products are subject to changes.

We intend to expand our production capacities for major products in the future as well as launch new products to capture potential market demand. Our production capacity plans are set forth in “Business — Production — Production Capacities and Utilization Rates — Expansion of Production Capacities” and “Business — Production — Development Plan of New Products”. Although we have conducted careful feasibility studies on the market demand for these products and currently we are not aware of any circumstances that may cause our inability to realize our production capacity plans, we cannot assure you that our production capacity plans will be implemented successfully, or at all. Our actual production capacity may differ significantly from our current plans. Our production capacity plans may also be changed due to changes in business plans such as potential acquisitions, progress of our research and development activities, timely supply of parts, components and raw materials on commercially reasonable terms, market conditions and outlook. Furthermore, our ability to obtain sufficient funding for our production capacity plans in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, and economic, political and other condition in the PRC, Hong Kong and other jurisdictions in which we may operate.

Our competitiveness requires that we maintain relationships with leading players in our target markets.

We maintain business relationships with leading players in our target markets, which is a key driving force of our revenue growth. These leading players include Dongfeng Cummins, which was our largest supplier of diesel generator engines during the Track Record Period; Dongfeng Motor Engine, which is expected to become a supplier of industrial diesel engines and diesel generator engines to us for the integration of industrial power cores pursuant to a framework agreement with us dated February 26, 2011; and Tianjin Lovol, which is expected to become a customer of our electronic control systems business in 2011 pursuant to a supply contract with us dated February 12, 2011. These strategic business relationships are critical to our competitiveness and business prospects. However, we cannot assure you that we will continue to maintain these relationships in the future, or that they will yield the anticipated results. In particular, neither of the supply contract we entered into with Tianjin Lovol, nor the framework agreement we entered into with Dongfeng Motor Engine, includes any take-or-pay obligation or should be regarded as a long-term supply agreement.

Our development of new diesel engine-related products with commercial vehicle applications may not be successful.

We intend to develop certain new diesel engine-related products with commercial vehicle applications such as CAN, after-treatment systems and commercial vehicle heat exchange systems. There is no assurance that our expectations regarding market demand for these new products will be correct, and that the development of our business segment in offering these new products will benefit our business as expected. If the market demand for these new diesel engine-related products

RISK FACTORS

with commercial vehicle applications does not meet our expectations, the resources we invest in developing these new products, including our purchase of equipment and efforts in research and development, will be under-utilized. In addition, the technologies relating to new diesel engine-related products with commercial vehicle applications evolve rapidly and we are a new entrant to these markets. Further, although we entered into a letter of intent with Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司) on May 3, 2011, pursuant to which we may be able to sell commercial vehicle heat exchange systems to Beiqi Foton Motor Co., Ltd., this letter of intent is not legally binding and does not include any take-or-pay obligation. We cannot assure you that we will sell any commercial vehicle heat exchange systems to Beiqi Foton Motor Co., Ltd. in the future. We cannot assure you that our expansion plan for the manufacturing and sales of new diesel engine-related products with commercial vehicle applications will be successful. If we encounter delays in technology development, or fail to meet changing market demand, successfully introduce newly developed products to the market or gain market share from our competitors, our business, results of operations and financial condition may be materially and adversely affected.

Our research and development efforts may not yield the benefit that we expect.

In order to maintain and improve our current competitive position and to continue to grow our business, we must keep up with new technological developments to provide better product performance and address increasingly complex market needs. As a result, we have placed a strong emphasis on our research and development activities, which require considerable human resources and capital investment. However, our research and development efforts may not be successful or yield the anticipated level of economic benefit. In addition, even if our research and development efforts are successful, we may not be able to develop products that are accepted by the market, or launch promising products in a timely manner. Furthermore, the success of our new products depends on a number of factors, some of which are beyond our control, such as the prevailing economic conditions and the inherent uncertainty in market demand forecast. The level of economic benefit that can be derived from newly developed technologies or products may also be affected by the ability and promptness of our competitors to replicate these technologies or products or develop more advanced or cheaper alternatives. Furthermore, if we are unable to anticipate trends in technological or product development and rapidly develop innovative technologies or products desired by our customers, we may not be able to produce sufficiently advanced products at competitive prices, which in turn may have an adverse impact on our business, results of operations and financial condition.

We face intense competition in the markets in which we operate.

We face increasingly intense competition in the markets for our business segments, namely the power core business, heat exchange system business and electronic control system business. Some of our competitors may have greater financial, sales and marketing, research and development, personnel, or other resources than we do. Our competitors may also respond more quickly to changes in technology or customer requirements, or offer similar products at lower prices. All of the foregoing factors would intensify market competition, which may result in price reductions, reduced profit margins and a loss of market share. Any adverse or unforeseen change in our competitive environment may have a material and adverse effect on our business, results of operations and financial condition.

RISK FACTORS

Any constraints on our production capacity would be detrimental to our business development.

Our ability to supply products is limited by the capacity of our production facilities and workforce. To expand our production capacity we must upgrade our existing equipment, construct new facilities, and hire workers with the requisite skill to operate and maintain the new equipment and facilities. We cannot assure you that equipment will be available to us in a timely manner or at a reasonable cost, or that we will have access to a sufficient number of skilled employees to upgrade, install or operate the equipment. If we are unable to increase our production capacity effectively, in a timely manner or at all, our results of operations and growth prospects could be adversely affected.

In addition, we require significant capital to build, maintain and operate our production facilities. We also require significant capital to purchase production equipment and spare parts. As a substantial portion of our capital expenditure must be incurred in advance of any additional sales generated by new or upgraded production facilities, securing adequate financing will be essential to our expansion plans. There can be no assurance that such financing for upgrading or expanding our production facilities will be available on terms acceptable to us, or at all. If we are unable to obtain financing in a timely manner and at a reasonable cost, our growth, competitive position and future profitability could be materially and adversely affected.

Our products are subject to substantial policy and regulatory requirements.

Diesel engines with a power output ranging from 20 kW to 220 kW are the key components utilized in the diesel generator cores integrated and sold by us. In recent years, the PRC government has promulgated a series of laws, regulations and policies to restrict the emissions and noise of diesel engines. These laws and regulations include *Law on Prevention of Air Pollution of the People's Republic of China* (中華人民共和國大氣污染防治法), *Law on Prevention and Control of Pollution from Environmental Noise of the People's Republic of China* (中華人民共和國環境噪聲污染防治法), *Comprehensive Working Program on Energy Saving and Emission Elimination* (節能減排綜合性工作方案), *The Eleventh Five-Year Plan of National Environmental Protection* (國家環境保護十一五規劃), *Limitations on and Measurement Methods for Exhaust Pollutants from Diesel Engines of Non-road Mobile Machinery(I、II)* (非道路移動機械用柴油機排氣污染物排放限值及測量方法 (中國I、II階段)) (GB20891-2007) and *Energy Conservation Law of the People's Republic of China* (中華人民共和國節約能源法) *the Circular of the State Council on Further Intensifying Efforts to Ensure Achieving Energy-Saving and Emission Reduction Targets in the "Eleventh Five-Year Plan"* (國務院關於進一步加大工作力度確保實現“十一五”節能減排目標的通知). Our diesel generator cores are also subject to policy and regulatory requirements imposed by other regulatory agencies around the world if our customers resell our products to overseas markets. Due to efforts worldwide to reduce the emissions and noise of diesel engines, these policy and regulatory requirements may become more stringent in the future. As a result, our diesel generator cores may not be allowed to operate in certain markets if they do not meet the applicable regulatory requirements in such markets. In addition, the manufacturers of diesel generator engines may be required to develop new technologies or products to comply with these requirements, which may in turn increase the costs of the diesel generator engines sourced by us and adversely affect our margins and profitability. In some cases, we may be required to incur capital and research expenditures in the integration of diesel generator cores to comply with policy and regulatory requirements. We cannot assure you that we will be able to meet these requirements in a timely and cost-effectively manner, or at all. Any delays

RISK FACTORS

in product development, cost over-runs, unanticipated technical and manufacturing difficulties, or failures to comply with policies and regulatory standards affecting our products could require us to cease production of any non-compliant generator cores. As a result, our business, results of operations and financial condition may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights.

We rely primarily on patents and proprietary technologies to protect our technological know-how, which includes designs and technologies for our products. Furthermore, certain know-how cannot be registered, and we rely on our suppliers and employees observing confidentiality and trade secrets protection obligations to protect such know-how. We are also applying for the registration of certain patents and have licensed a number of patents from third parties. We cannot assure you that these measures will be sufficient to prevent any infringement of our intellectual property rights or that our competitors will not independently develop alternative technologies that are equivalent or superior to our technologies. Furthermore, we cannot assure you that all our registration applications will be successful, or our registered intellectual property rights will not be subject to any objection. In the event that the steps we have taken and the protection afforded by law do not adequately safeguard our intellectual property rights, or we are not able to register or defend our intellectual property rights, our competitors may exploit our intellectual property in the manufacturing and sale of competing products, which could materially and adversely affect our business. Further, our licensed patents will expire between 2014 and 2019, some of which are critical to our business. For example, we have applied our patents of water tank for multiple flow radiators (多流程散熱器水箱), gasket heat exchanger for new-type diesel generator sets (新型柴油發電機組組合熱交換器) and heat radiator for new-type diesel generator sets (新型柴油發電機組散熱器) for the development of heat exchange systems and applied our patents or licensed patents of stands for LED energy-saving lights (LED節能燈燈架), digital electronic speed controlling device (用於發動機的數字式電子調速控制裝置) for use in engines. For expiry dates of such patents, see “Business — Research and Development”. Although we plan to renew the license periods after the expiry of relevant license agreements, and continue to develop our own technical skills and know-how, we may not be able to do so in a timely manner or at a reasonable cost or at all. In the event that we are not able to continue using certain of our licensed patents, our business, results of operations and financial condition may be adversely affected.

We rely on third-party after-sales service providers to provide after-sales services.

We rely on third-party after-sales service providers to provide after-sales services with respect to the diesel generator cores offered by us. While we select these third-party after-sales service providers using stringent criteria such as experience, service efficiency, technical capability and financial status, we cannot assure you that the services rendered by any of the third-party after-sales service providers will be satisfactory or match our expectations. In addition, our third-party after-sales service providers may encounter financial or other difficulties that affect their ability to carry out their work. As a result, our reputation and results of operations may be materially and adversely affected.

Our proposed branding change for the sales and marketing of our electronic control systems may not yield the expected benefits.

We manufactured and sold our electronic speed actuators and electronic speed controllers under the brand name “Segma”, which is licensed by us from Segma Power Products Company, during the

RISK FACTORS

Track Record Period and up to the Latest Practicable Date. We plan to commence manufacturing and sale of all of our electronic speed actuators and electronic speed controllers under our own brand in the fourth quarter of 2011, for the purpose of establishing market recognition of our own brand. Although we believe that the demand for our electronic control systems will not be materially adversely affected in the future as a result of our proposed change of brand, we cannot assure you that this plan will yield the benefits that we expect. We may face intense competition from competitors when we launch our new brand. We may also need to incur expenses for the sales and marketing of the new brand of electronic control systems, and despite these efforts, our customers may not recognize our new brand. Our inability to compete effectively or an increase in competition with respect to our electronic control systems arising from the proposed change of brand could have an adverse effect on our future results of operations and result in loss of market share.

All of our production and office facilities are currently situated on leasehold properties.

All of our production and office facilities in Xiangyang, Wuhan, Chongqing and Hong Kong are currently situated on leasehold properties.

In relation to the properties with an aggregate gross floor area of 9,742 square meters leased by Wuhan Hero City and Beworld, the lessor is in the process of obtaining the building ownership certificates and we are in the process of registering these leases with the relevant PRC authorities. Should disputes arise due to encumbrances on the title of these lease properties, we may encounter difficulties in continuing to lease and use the properties. In addition, we will continue to lease properties for our production and corporate purposes in Chongqing and Hong Kong.

There is no assurance that our landlords will honor their obligations to continue leasing these properties to us. In the event of an early termination of the lease agreements that we have entered into for any reason or any dispute or claim in relation to the title to the properties occupied by us, including litigation involving allegations of illegal or unauthorized use of these properties, we would be required to find alternative locations for our production facilities, which would be expensive and disruptive to our operations. Moreover, there is no assurance that we would be able to secure alternative locations or negotiate lease agreements on commercially reasonable terms in a timely manner, or at all. If we were required to enter into new lease agreements with less favorable terms, our business, financial condition and future growth potential may be materially and adversely affected.

We may not be able to successfully implement our relocation plans in Xiangyang and Wuhan in Hubei Province.

We intend to relocate certain of our production facilities in Wuhan to a parcel of land owned by Wuhan Roll Technology, our wholly-owned subsidiary, and acquire land in Xiangyang for the construction of new plants to accommodate our diesel generator cores and industrial power cores production facilities. For details, see “Business — Production — Production Facilities — Premises”. However, the implementation of our relocation plans is subject to many factors such as:

- the obtaining of necessary licenses, permits and approvals from government authorities;
- the acquisition of land in Xiangyang within our budget and on schedule;
- our capabilities to raise sufficient fund for the acquisition of land in Xiangyang and the construction of production facilities in both Xiangyang and Wuhan; and

RISK FACTORS

- the completion of constructions according to our planned specifications, schedule or budget by our contractors.

There can be no assurance that our relocation plans will be implemented as scheduled and within budget, or at all. If we are required to incur additional costs, or experience delay or failure to complete our relocations, or are forced to abandon our relocation plans entirely, our business, results of operations and financial condition may be materially and adversely affected.

We are dependent on the contributions of our key management personnel.

Our success depends, to a significant extent, upon the continued service of key members of our management team. If we were to lose the services of any of the existing key management members without a suitable replacement, or were unable to attract new members to join our management with suitable experience as we grow, there could be a negative impact on our operations. The loss of one or more members of our management team might pose a threat to our future business and continued growth as such member would be difficult to replace. Our expansion plans and future success depend on our ability to maintain a skilled and experienced management team. In addition, we may lose business to our competitors if any member of our management team were to join them after leaving employment with us.

We are dependent on the contributions of our skilled workforce.

Our success also depends upon the continued service of our skilled workforce and on our ability to continue to attract, retain and motivate such workforce. If we experience difficulties in recruiting technically competent personnel for any of our business segments, our production capacity may be limited and the quality of our products may be adversely affected, which could have an adverse impact on our profitability and limit our ability to grow.

Substantial injury to persons or loss of property may occur at our production facilities.

While we seek to comply with applicable safety requirements and standards, work injury accidents may still occur at our production facilities, which may result in personal injuries or fatalities and damage to property and equipment. Accidents related to any of these may result in personal injury claims, cessation of business, or civil and criminal penalties. We do not maintain third party liability insurance in respect of our operations as it is neither industry practice nor a mandatory requirement under PRC law. If we incur substantial losses or liabilities as a result of work place accidents and insurance coverage is unavailable or inadequate to cover such losses or liabilities, our results of operations and financial condition may be materially and adversely affected.

We may be subject to product liability claims.

Our products can expose us to potential product liability claims. Such claims may arise if our products fail to perform as expected, or are proven to be defective, or if their use causes, results in, or is alleged to have caused or resulted in personal injuries, property damages or other adverse effects. Any product liability claim, whether relating to personal injuries or property damages, or related regulatory actions could prove costly and time-consuming to defend and could potentially harm our brand and reputation. If successful, product liability claims may require us to pay substantial damages and recall relevant products. We currently do not maintain product liability insurance to cover potential product liability arising from the use of our products and may be unable to obtain sufficient product liability insurance coverage on commercially reasonable terms, or at all.

RISK FACTORS

Furthermore, certain product liability claims may be the result of defects from parts and components purchased from third-party suppliers. Such third-party suppliers may not indemnify us for defects as to such parts and components or would only provide us with limited indemnification that is insufficient to cover our damages resulting from the product liability claim. Any product liability claim, with or without merit, may result in significant negative publicity and thus may materially and adversely affect the marketability of our products and our reputation, as well as our business, results of operations and financial condition.

Compliance with more stringent regulations may have negative effects on our operations.

Our operations require a certain number of government approvals and we are subject to a broad range of laws and regulations governing various matters. In particular, the continuance of our operations depends upon compliance with applicable environmental, health and safety and other regulations. Any change in the scope or application of these laws, regulations or approvals may limit our production capacity or increase our costs and therefore could have an adverse effect on our financial condition and results of operations. We may be unable to, or elect not to, comply with such laws and regulations, which could result in fines, penalties or lawsuits. There can also be no assurance that the PRC government will not impose additional or more stringent laws or regulations. Compliance with such additional or more stringent laws or regulations may cause us to incur significant capital expenditures, which we may be unable to pass on to our customers.

We may be unable to renew all necessary licenses, certificates, approvals and permits for our production. Changes in licensing requirements applicable to our industry may also adversely affect us.

Our subsidiaries Wuhan Hero City, Beworld and Wuhan Norman have applied for pollutants discharge permits, which are pending approval. Due to delays in filing applications for the pollutants discharge permits, Wuhan Hero City, Beworld and Wuhan Norman commenced operations prior to obtaining such permits. Each of Wuhan Hero City, Beworld and Wuhan Norman may be penalized for a fine up to RMB100,000 for operating without the requisite pollutants discharge permits and may be ordered to shut down its related facilities. For details, see “Business — Environmental and Safety Protection”. Save as disclosed in the prospectus, as of the Latest Practicable Date, we have obtained all necessary licenses, certificates, approvals and permits for the production of our existing products. There can be no assurance that we will be able to renew such licenses, certificates, approvals and permits upon their expiration. The eligibility criteria for such licenses, certificates, approvals and permits may change from time to time and may become more stringent. In addition, new requirements for licenses, certificates, approvals and permits may come into effect in the future. The introduction of any new and/or more stringent laws, regulations, licenses, certificates, approvals or permits requirements relevant to our business operations may significantly escalate our compliance and maintenance costs or may limit our ability to continue with our existing operations or may limit or prohibit us from expanding our business. Any such event may have an adverse effect to our business, financial results and future prospects.

RISK FACTORS

The failure of our operating entities to pay us dividends would negatively affect our financial condition.

We conduct most of our operations through our operating entities, comprising subsidiaries and a joint-controlled entity. Most of our assets are held by, and substantially all of our earnings and cash flows are attributable to, our operating entities. If the earnings from our operating entities were to decline, our cash flow would be negatively affected, which could in turn affect our ability to pay dividends to shareholders or to meet our debt obligations. The ability of our operating entities to pay dividends depends on a number of business considerations and regulatory restrictions. Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. These restrictions could reduce the amount of distributions that we receive from our operating entities, which would restrict our ability to pay dividends. There can be no assurance that our operating entities will generate enough earnings and cash flows to pay dividends to enable us to meet our obligations or declare dividends to our Shareholders.

Our Controlling Shareholders may affect our businesses in ways that may not be in the best interests of other Shareholders.

Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao, are our Controlling Shareholders, who will together hold approximately 67.5% of our issued share capital upon completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised). Accordingly, our Controlling Shareholders, subject to the Articles and applicable laws and regulations, will, through Board representation or otherwise, be able to influence our major policy decisions. In addition, they will be able to control the election of our Directors and, in turn, to indirectly control the selection of our senior management.

The interests of our Controlling Shareholders may not always be consistent with the best interests of our Company or those of our minority shareholders. Our Controlling Shareholders will have the ability to exert significant influence over our actions and may have the ability to require us to effect corporate transactions irrespective of the preferences of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders cause our business to pursue strategic objectives that are not in the best interest of our other Shareholders, our business may be adversely affected.

Our production and operations may be affected by factors beyond our control.

Our manufacturing businesses may be interrupted for reasons beyond our control, which may include natural disasters such as extreme weather conditions, flooding, cyclones, typhoons, blizzards, snowstorms, landslides, earthquakes and fire, as well as labor strikes, union strikes or social turmoil. Any major interruption of our business may have a material and adverse effect on our ability to manufacture and sell our products. The occurrence of any of such events could have a material and adverse effect on our production capacity, business, results of operations and financial condition.

RISKS RELATING TO THE PRC

The majority of our assets are located in the PRC and most of our revenue is derived from the PRC. Therefore, our business operations and prospects are to a large extent affected by the economic, political and legal developments in the PRC.

RISK FACTORS

Changes in the economic, political and social conditions in the PRC may have a material and adverse effect on our results of operations and financial condition.

The Chinese economy differs from that of most developed countries in many respects, including the degree of government involvement, control of capital investment, as well as the overall level of development. The PRC government is committed to the continued reform of the economic system as well as the structure of the government. The PRC government's reform policies have emphasized the independence of enterprises and the use of market mechanisms to effect economic growth. Since the introduction of these reforms, significant progress has been achieved in economic development, and enterprises have enjoyed an improved environment for their development. However, any changes in the PRC's political, economic and social conditions may have a material and adverse effect on our present and future business operations, results of operations and financial condition.

The slowdown of the Chinese economy may have a material and adverse effect on our results of operations and financial condition.

We sold most of our products in China during the Track Record Period. In order to achieve growth in our revenue, we rely on domestic demand for power cores, heat exchange systems, electronic control systems and other new products that we intend to develop in the future. Domestic demand for the products we offer is materially affected by industrial development and overall economic growth in China. The global crisis in financial services and credit markets in 2008 caused a slowdown in the growth of the global economy. Although there are signs of recovery in the global and Chinese economies, there is no assurance that any such recovery is sustainable. In addition, if the crisis in global financial services and credit markets were to persist, there could be no certainty as to its impact on the global economy, especially the Chinese economy. As a result of global economic cycles, there can be no assurance that the Chinese economy will grow in a sustained or steady manner. Any slowdown or recession of the Chinese economy may have a material and adverse effect on our results of operations and financial condition.

Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in.

The PRC legal system is based on the PRC Constitution and consists of written laws, regulations, circulars and directives. The PRC government is still in the process of developing its legal system so as to meet the needs of investors and to encourage foreign investment. As China's economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances.

Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still subject to policy changes. There is no assurance that the introduction of new laws, changes to existing laws and the interpretation or application thereof or the delays in obtaining approvals from the relevant authorities will not have an adverse impact on our business or prospects.

Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited, and unlike other common law regions such as Hong Kong, decisions of precedent cases are not binding. As such, the outcome of dispute resolutions may not be consistent

RISK FACTORS

or predictable as in other more developed jurisdictions and it may be difficult to obtain timely enforcement of the laws in China. Additionally, it is generally impossible to obtain enforcement of judgment by a court of another jurisdiction except for those which have treaties with the PRC, such as Hong Kong.

Our result of operations and ability to compete also depends on our ability to protect our intellectual property rights. However, as the legal system in general, and especially the laws protecting intellectual property rights in China, are still in a state of development, we may not be able to rely on legal protection in the PRC. Therefore, in the event our intellectual property rights are infringed, our business may be adversely affected.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or our PRC subsidiary to liability or penalties, or may otherwise adversely affect us.

The SAFE has promulgated the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies (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), (the “SAFE Circular No. 75”) issued on November 1, 2005 that requires PRC residents to register with the SAFE or its local branch in connection with their direct or indirect offshore investment activities. The SAFE Circular No. 75 applies to our shareholders who are the PRC residents.

Under the SAFE Circular No. 75, PRC residents who make direct or indirect investments in offshore companies will be required to make a foreign exchange registration with the SAFE or its local branch. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update the previously filed registration with the SAFE or its local branch, with respect to that offshore company, to reflect any material change such as a capital increase or decrease, stock right assignment or exchange, merger or division, investment with long-term stock rights or credits. If any PRC shareholder fails to make the required registration or to update the previously filed registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing to such parent company profits, or the proceeds from any reduction in capital, share transfer or liquidation. Moreover, without completion of foreign exchange registration of overseas investments and updated registration thereto as required under the SAFE Circular No. 75, the domestic subsidiaries’ payment of profits and other payments related to equity transfer, capital decrease, remittance of investment, liquidation or shareholder loans’ principal and interests to the special purpose companies will result in liability under the PRC laws for evasion of applicable foreign exchange restrictions.

To date, our PRC resident shareholders have filed and completed their foreign exchange registration of overseas investment for their current shareholdings as required by the SAFE Circular No. 75 with the local SAFE. However, we cannot provide any assurance that all of our shareholders who are PRC residents will make, obtain or update any applicable registrations or approvals required by these foreign exchange regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth in these regulations may subject us to fines and

RISK FACTORS

legal sanctions, restrict our cross-border investment activities, limit our PRC subsidiary's ability to distribute dividends to, or obtain foreign-exchange-dominated loans from, our company, or prevent us from being able to make distributions or pay dividends. As a result, our business operations and our ability to distribute profits to you could be materially and adversely affected.

Government control over the conversion of foreign exchange may affect our results of operations and financial condition.

Renminbi is not currently a freely convertible currency. Under PRC laws and regulations, conversion of Renminbi into foreign currencies for current account transactions, including the distribution of dividends and profits to foreign investors of FIEs, is permissible and the approval of SAFE is not required, and FIEs are permitted to remit foreign currencies from their foreign currency bank accounts in the PRC upon presentation to the banks of board resolutions which authorize the distribution of profits or dividends and subject to other requirements being satisfied. However, conversion of RMB into foreign currencies for capital account transactions, such as repatriation of capital, repayment of loans and for securities investment, is still controlled and requires the approval of SAFE. If we fail to obtain SAFE's approval to converting currencies for such purposes, our capital expenditure plans, business operations and subsequently our results of operations and financial condition could be adversely affected.

Fluctuation in the value of RMB may have a material and adverse effect on our business and your investment.

As our operations are primarily conducted in the PRC, and most of our revenue and of our costs are denominated in RMB, fluctuations in the RMB exchange rate against other currencies did not have a material impact on our results of operations during the Track Record Period. However, as we expand our business of electronic speed controllers in Hong Kong, our overseas income and expenditures may increase, so we anticipate our exposure to fluctuations in foreign exchange rate may increase.

The exchange rate between the RMB against the U.S. dollar and other currencies may fluctuate from time to time and be affected by, among other things, changes in China's political and economic environment. Presently, the RMB is subject to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. We cannot predict how the RMB will fluctuate in the future. There has been pressure from foreign countries on the PRC government for it to adopt a more flexible currency system that could lead to appreciation of the RMB. The exchange rate may become volatile or the RMB may be revalued further against the U.S. dollar or other currencies, which may result in an appreciation or depreciation in the value of the RMB against the U.S. dollar or other currencies. Fluctuations in exchange rates may adversely affect the value of our net assets, earnings or any declared dividends (which could be funded by RMB but paid in Hong Kong dollars) when translated or converted into U.S. dollars or Hong Kong dollars (which are pegged to the U.S. dollar). In addition, any unfavorable movement in exchange rates may lead to an increase in our costs or a decline in sales, which could materially affect our results of operations. We have not entered into any agreements to hedge our exchange rate exposure.

RISK FACTORS

It may be difficult to effect service of process on, or to enforce any judgments obtained outside China against us, our Directors or our senior management members who reside in China.

Substantially all of our operating assets, officers and Directors are located in China. China does not currently have treaties providing for the reciprocal recognition or enforcement of judgments of courts located in the United States, the United Kingdom, Singapore, Japan and most other Western countries. “An Arrangement between the Mainland and Hong Kong Special Administrative Region on Reciprocal Recognition and Enforcement of judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to by the Parties Concerned” (關於內地與香港特別行政區法院相互承認和執行當事人協議管轄的民商事案件判決的安排) was executed on July 3, 2008 and became effective on August 1, 2008. However, there are many restrictions on such arrangement. As a result, it may not be possible for investors to effect service of process upon our subsidiaries or our Directors pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in China of judgments of courts outside China may be difficult or impossible.

Dividends payable to us by our PRC subsidiaries and gains on sales of our shares may be subject to PRC withholding taxes, and we may be subject to PRC taxation on our worldwide income.

Our Company was incorporated under the laws of the Cayman Islands and holds interests in its subsidiaries in the PRC. The PRC EIT Law and its implementation rules stipulate that if an entity is deemed to be a non-PRC resident enterprise without any institution or establishment in the PRC, or for a non-PRC resident enterprise whose incomes have no actual connection to its institution or establishment in the PRC, withholding tax at the rate of 10% will be applicable to any dividends paid to it by its PRC subsidiaries, unless it is entitled to a reduction or elimination of such tax, including by tax treaties.

Under the Treaty between Hong Kong and the PRC for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income implemented on January 1, 2007 (“Tax Treaty”), the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5% if the Hong Kong enterprise owns at least 25% of the PRC enterprise; otherwise, the dividend withholding tax rate is 10%.

According to the Notice of the State Administration of Taxation on issues regarding the administration of the dividend provision in tax treaties (“Notice 81”) promulgated on February 20, 2009, in order for the Tax Treaty to apply, certain requirements shall be satisfied, among which: (1) the taxpayer shall be the beneficiary owner of relevant dividends; (2) for corporate recipients that enjoy the tax treatment under the Tax Treaty as direct owners of a certain proportion of the share capital of a PRC enterprise (usually such certain proportion shall be 25% or 10%, and under the Tax Treaty, 25%), such corporate recipients must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. Further, the State Administration of Taxation promulgated the Notice on How to Understand and Recognize the “Beneficiary Owner” in Tax Treaties on October 27, 2009, which limited the “beneficiary owner” to individuals, enterprises or other organizations normally engaged in substantive operations, and set forth certain factors to be taken into account in recognizing such “beneficiary owner”.

RISK FACTORS

On August 24, 2009, the State Administration of Taxation issued the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (for trial implementation) (the “**Administrative Measures**”), which became effective on October 1, 2009 and requires non-resident enterprises to obtain approval prior to enjoying the treatments under tax treaties from the competent tax authority. No assurance can be given that we can satisfy all of the requirements set forth by aforementioned laws and regulations and obtain the necessary approval in order to be able to enjoy the preferential treatment of the Tax Treaty. If we do not enjoy preferential treatment under the Tax Treaty, the increase in our tax liabilities may materially and adversely affect our results of operations and the financial condition of our Company.

Moreover, the PRC EIT Law provides that, if an enterprise incorporated outside the PRC has its “de facto management organization” located within the PRC, the enterprise may be recognized as a PRC resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income. Currently, most of our Group’s management team members reside in the PRC. Accordingly, our Company may be deemed to be a PRC resident enterprise and therefore we would be subject to PRC enterprise income tax at a rate of 25% on our worldwide income. This would materially and adversely affect our results of operations and profitability.

In addition, dividend payments between certain “qualified PRC-resident enterprises” shall be exempted from income tax under the PRC EIT Law, and its Implementation Rules define such dividend payments between “qualified PRC-resident enterprises” as equity income generated from “direct investments” between PRC-resident enterprises. However, we have been advised by our PRC legal advisors that it remains unclear what the detailed qualification requirements for such exemption are, and whether dividends distributed by our PRC subsidiaries to our Company and to our overseas members will meet such requirements to qualify for tax exemption even if our Company and our overseas members are considered PRC-resident enterprises for tax purposes. If the exemption is not available, our Company’s distributable profits will be adversely affected.

Any change in the income tax rate in China may have a negative impact on our results of operations.

The rate of income tax chargeable on companies in China may vary depending on the availability of preferential tax treatment. The PRC EIT Law that became effective on January 1, 2008 sets a uniform tax rate of 25% for all enterprises, and terminates most of the current tax exemptions, reductions and preferential treatments available under the current laws and regulations. Xiangfan Kanghao and Xiangfan Hero City are entitled to preferential tax treatment based on their qualification as manufacturing foreign investment enterprises. Wuhan Hero City and Beworld are entitled to preferential tax treatment based on their qualification as high and new technology enterprises. Each of Xiangfan Kanghao and Xiangfan Hero City was exempted from income tax from 2007 to 2008, and has been subject to income tax at the rate of 12.5% from 2009 to 2011. Each of Wuhan Hero City and Beworld is subject to income tax at the rate of 15% in 2010, 2011 and 2012. It is expected that they will be subject to income tax at the rate of 25% from 2012 onwards. If there are changes to the PRC Enterprise Income Tax Law regarding the preferential tax rate in China, our financial results may be affected.

RISK FACTORS

Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business.

Natural disasters, acts of war, political unrest and epidemics, all of which are beyond our control, may adversely affect the economy, infrastructure and livelihood of the people of China. Some cities in China are particularly susceptible to floods, earthquakes, sandstorms and droughts. Political unrest, acts of war and terrorist attacks may cause damage or disruption to us, our employees or our facilities. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict. In addition, certain Asian countries, including China, have encountered epidemics such as SARS, or incidents of the avian flu. Past occurrences of epidemics have caused different degrees of damage to the national and local economies in China. A recurrence of an outbreak of SARS, avian flu, influenza A(H5N1) (for example, swine flu) or any other similar epidemic could cause a slowdown in the levels of economic activity generally. If any of such natural disasters occurs, our business, results of operations, and financial condition may be materially and adversely affected.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active or liquid trading market for our Shares may not develop.

Prior to the Global Offering, there has not been a public market for our Shares. Although application has been made for the Listing, we cannot assure you that an active public market for our Shares will develop or that the market price of our Shares will not decline below their initial Offer Price. The Offer Price of our Shares will be determined through negotiation between us, the Selling Shareholder and the Sole Global Coordinator and it may not be indicative of the market price of the Shares after the Global Offering is completed. You may be unable to sell your Shares at or above the Offer Price, and as a result, may lose all or part of your investment in such Shares. Failure in the development of an active and liquid public trading market may materially and adversely affect the market price and liquidity of our Shares.

Our profit forecast for the six months ending June 30, 2011 contained in this prospectus may not necessarily give an accurate indication of, and should not be interpreted as a guidance of, our full year financial results for the financial year ending December 31, 2011.

This prospectus contains our forecast for the profit for the six months ending June 30, 2011, which was prepared based on our management accounts for the first three months of 2011 and our forecast for the remaining three months ending June 30, 2011. Our profit for the six months ending June 30, 2011 is expected to be not less than RMB85 million. The forecast is subject to a number of factors, including market conditions and trends in the PRC diesel generator core, heat exchange system and electronic control system industries. These factors could vary materially between the first and second half of the financial year ending December 31, 2011. Please see the section headed “Financial information — Factors Affecting Our Results of Operations and Financial Condition” in this prospectus for details of these conditions.

Due to the fact that these factors, many of which are beyond our control, our profit forecast for the six months ending June 30, 2011 may not necessarily give an accurate indication of, and should not be interpreted as a guidance of, our full year financial results for the financial year ending December 31, 2011.

RISK FACTORS

The trading price of our Shares may be volatile.

The trading price of our Shares following the Global Offering may be volatile and can fluctuate significantly and rapidly in response to, inter alia, the following factors, some of which are beyond our control:

- actual or anticipated fluctuations in our results of operations;
- changes in securities analysts' estimates, if any, of our financial performance;
- announcements by us or our competitors of new products, litigation relating to intellectual property rights, issuance of patents or registration of trademarks, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the economic performance or market valuations of our competitors; and
- general market conditions or other developments affecting us or our industries.

The Stock Exchange has from time to time experienced significant price and trading volume fluctuations which are not related to the operating performance of companies. As a result, investors in our Shares may experience volatility in the market price of the Shares and a decrease in the value of our Shares regardless of our operating performance or prospects.

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

The Offer Price of our Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible asset value to HK\$0.91 per Share, based on the mid-point of the indicative offer price range of HK\$3.17, assuming the Over-allotment Option is not exercised. There is no assurance that if we were to immediately liquidate after the Global Offering, any assets will be distributed to shareholders after the creditors' claims.

If we issue additional Shares in order to expand our business in the future, investors of our Shares may experience further dilution. Any exercise of the options to be granted under the Share Option Scheme in the future and issue of Shares thereunder would also result in the reduction in the percentage ownership of the Shareholders. There may also be a dilution in the earnings per Share and the net asset value per Share as a result of the increase in the number of Shares outstanding after the issue of such additional Shares.

Under IFRS, the costs of share options to be granted to employees under the Share Option Scheme will be charged to our income statement over the vesting period by reference to the fair value at the date at which the share options are granted. As a result, our profitability may be adversely affected.

RISK FACTORS

Our Directors, officers or existing Shareholders may sell, or be perceived to sell, our Shares in the future and this may adversely affect the value of your investment.

Prior to the Global Offering, there has not been a public market for our Shares. Future sales by our existing Shareholders after the Global Offering could adversely affect market prices prevailing from time to time. Only a limited number of the Shares currently outstanding will be available for sale or issue immediately after the Global Offering due to contractual and regulatory restrictions on disposal and new issue. Nevertheless, after these restrictions lapse or if they are waived or breached, future sales of substantial amounts of our Shares in the public market or the perception that these sales may occur could negatively impact the prevailing market price for our Shares and our ability to raise equity capital in the future.

We cannot ensure the accuracy of the industry and market information and statistics from official government publications contained in this prospectus.

This prospectus contains information and statistics derived from official government publications, including but not limited to information and statistics relating to the PRC and the fixed assets investment in China. We believe that the sources of these information and statistics 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, the Selling Shareholder, the Sole Global Coordinator, the Sole Sponsor, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Prospective investors should not place undue reliance on any of such information and statistics contained in this prospectus.

Investors should not place undue reliance on information derived from the research report contained in this prospectus.

Certain statistics in the section headed “Industry Overview” in this prospectus relating to industries of diesel generator power systems, heat exchange systems and electronic control systems are derived from a report we commissioned from Frost & Sullivan. We believe that the Frost & Sullivan report is an appropriate source for these statistics and we 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, the Selling Shareholder, the Sole Global Coordinator, the Sole Sponsor, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy. Investors should give careful considerations as to how much weight or importance they should attach to or place on such statistics contained in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus 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 to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

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 Global Offering 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 Selling Shareholder, the Sole Sponsor, the Sole Global Coordinator, the Underwriters and any of their respective directors, agents, employees, advisors or any other party involved in the Global Offering. 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 Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Public Offer Shares are set out in the section headed "How to Apply for Hong Kong Public 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 Global Offering. 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 International Offer is managed by the Sole Global Coordinator. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to the agreement on the Offer Price between us, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed upon amongst us, the Selling Shareholder and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For further details of the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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. 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 his 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 he 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 Global Offering (including any additional Shares which may fall to be issued under the Over-allotment Option), (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 stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

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. Our principal register of members will be maintained in the Cayman Islands by our principal registrar, Appleby Trust (Cayman) Ltd. in Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

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

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.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 Global Offering 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 us, the Selling Shareholder, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering 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.

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangements relating to the Stabilization and Over-allotment Option are set out in the section entitled “Structure of the Global Offering” in this prospectus.

PROCEDURE FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

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

STRUCTURE OF THE GLOBAL OFFERING

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

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on June 28, 2011, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on June 28, 2011. Our Shares will be traded in board lots of 1,000 Shares.

CURRENCY TRANSLATIONS

For the purpose of illustration only and unless otherwise specified in this prospectus, certain amounts denominated in Renminbi are translated into Hong Kong dollars at the rate of RMB0.8337 to HK\$1.00, rounded from the exchange rate set by the PBOC for foreign exchange transactions prevailing on May 31, 2011, and certain amounts denominated in U.S. dollars are translated into Hong Kong dollars at the rate of US\$1.00 to HK\$7.7777, the noon buying rate for May 31, 2011 as set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that the Renminbi or U.S. dollars amounts could have been, or could be, converted into Hong Kong dollars, or vice versa, as such rates or at any other rates on such date or on any other dates.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

WEBSITE

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

LANGUAGE TRANSLATION

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.

ROUNDING

Any discrepancies in any table between total and sums of amounts listed herein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Li Zuoyuan (李佐元)	Rainbow Garden B279 No. 1, Guanshankou Hongshan District Wuhan, Hubei Province PRC	Chinese
Ms. Xu Nengchen (徐能琛)	Rainbow Garden B279 No. 1, Guanshankou Hongshan District Wuhan, Hubei Province PRC	Chinese
Mr. Luo Huibin (羅會斌)	1-204 Changchunli Changchun Street Xuanwu District Beijing PRC	Chinese
Mr. Zhang Yu (張宇)	Room 5103, Unit 3, Building 2 No. 190 Binjiang Main Road Hanyang District Wuhan, Hubei Province PRC	Chinese
Mr. Fan Xiao (凡曉)	No. 1710, 20/F Nanli Area No. 2 Ganluyuan Chaoyang District Beijing PRC	Chinese
Ms. Huang Fei (黃菲)	Room 202, Unit 2, Building 8 Hangkong Garden Zhongyuanxi Road Fancheng District Xiangyang, Hubei Province PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Independent non-executive Directors		
Mr. Sun Hongjun (孫宏俊)	Room 210, Level 2, Unit 5 Block 2, No.3, Xiangmihu Street Office No. 4 Road Futian District, Shenzhen PRC	Chinese
Mr. Guo Miao (郭淼)	No. 16A, Lakeview Court Dongfeng Sunshine City Checheng Road West Chunkou Development Zone Wuhan, Hubei Province PRC	Chinese
Mr. Cheung Wai Hung (張偉雄)	Flat E, 26/F, Tower 30 South Horizons Hong Kong	Chinese

PARTIES INVOLVED

Sole Global Coordinator, Sole Sponsor, Sole Bookrunner and Sole Lead Manager

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Legal Advisors to the Company

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

As to PRC law:
Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing 100022
China

As to Cayman Islands law:
Appleby
2206-19 Jardine House
1 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal Advisors to the
Underwriters**

As to Hong Kong law and United States law:

Norton Rose Hong Kong

38/F Jardine House

1 Connaught Place

Central

Hong Kong

As to PRC law:

Jingtian & Gongcheng

34/F, Tower 3, China Central Place

77 Jianguo Road

Chaoyang District

Beijing 100025

PRC

**Auditors and Reporting
Accountants**

KPMG

Certified Public Accountants

8/F, Prince's Building

10 Chater Road

Central

Hong Kong

Property Valuer

Jones Lang LaSalle Sallmanns Limited

6/F Three Pacific Place

1 Queen's Road East

Hong Kong

Receiving Banks

Bank of China (Hong Kong) Limited

1 Garden Road

Hong Kong

Bank of Communications Co., Ltd.

Hong Kong Branch

20 Pedder Street

Central

Hong Kong

CORPORATE INFORMATION

Registered Office	Offshore Incorporations (Cayman) Limited Scotia Centre, 4th Floor P.O. Box 2804 George Town Grand Cayman KY1-1112 Cayman Islands
Headquarters	No. 100 Diamond Avenue Xiangzhou District Xiangyang City Hubei Province PRC
Principal Place of Business in Hong Kong	Suite No. 3311, 33/F Hampton Court, Gateway Apartments Harbour City Hong Kong
Company Website	www.xingyuanpower.com (The contents of this website do not form part of this prospectus)
Company Secretary	Kwok For Chi (<i>HKICPA</i>)
Authorized Representatives	Mr. Luo Huibin 1-204 Changchunli Changchun Street Xuanwu District Beijing Mr. Kwok For Chi Room 2430, King Tao House King Lam Estate, Junk Bay New Territories Hong Kong
Audit Committee	Mr. Guo Miao (<i>Chairman</i>) Mr. Sun Hongjun Mr. Cheung Wai Hung
Remuneration and Nomination Committee	Mr. Li Zuoyuan (<i>Chairman</i>) Mr. Guo Miao Mr. Sun Hongjun

CORPORATE INFORMATION

Principal share registrar and transfer agent in the Cayman Islands	Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal Bankers	China CITIC Bank Xiangfan Branch 1/F, Block B Kaifang Square No. 1 Paopu Street Jiefang Road Xiangyang City Hubei Province PRC Bank of China SAW Development District Sub-Branch, Xiangyang Branch First Road, SAW Xiangyang Base Xiangyang City Hubei Province PRC
Compliance Advisor	Somerley Limited 10/F, The Hong Kong Club Building 3A Chater Road Central Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics relating to the PRC economy, fixed asset investment in China and the industries in which we operate. We have derived such information and data partly from publicly available government official sources which have not been independently verified by us, the Selling Shareholder, the Sole Sponsor, the Sole Global Coordinator, the Underwriters or any of their respective affiliates or advisers. Our Directors have taken reasonable care in the reproduction of such information. The information in such government official sources may not be consistent with the information compiled within or outside China.

Investors should also note that we commissioned Frost & Sullivan to prepare an independent report. Unless otherwise specified for information derived from various official government and independent industry sources, the information and statistics in this section relating to the diesel generator power system, heat exchange system and electronic control system industries are extracted from the independent report we commissioned from Frost & Sullivan. As confirmed by Frost & Sullivan, Frost & Sullivan is an independent provider of business intelligence on industries, countries and consumers. Industries in which Frost & Sullivan conducts research are wide-ranging and include diesel generator power system, heat exchange system and electronic control system industries. Founded in 1961, Frost & Sullivan has more than 40 offices around the world and has a team of more than 1,800 in-country analysts worldwide. We have paid a fee of approximately RMB760,000 to Frost & Sullivan for the preparation of the independent report. We believe that the sources of the information extracted from 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 fact has been omitted that would render such information false or misleading. The information extracted from Frost & Sullivan report has not been independently verified by us, the Selling Shareholder, the Sole Sponsor, the Sole Global Coordinator, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy.

REPORT COMMISSIONED FROM FROST & SULLIVAN

Frost & Sullivan is an independent market research company. We commissioned Frost & Sullivan to conduct an analysis of, and to report on, the diesel generator power system, heat exchange system and electronic control system markets in China. The report commissioned has been prepared by Frost & Sullivan independent of our influence.

The Frost & Sullivan report we commissioned includes information on the PRC diesel generator power system, heat exchange system and electronic control system markets, such as market share and ranking of international and domestic companies, sales value, which are quoted in this prospectus. Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various sources within the relevant industries. Primary research involves interviewing major industry participants, experts, agents, distributors and end-users. Secondary research involves reviewing authorized industry journals, independent research reports and data based on Frost & Sullivan's own proprietary research database. In addition, the Frost &

INDUSTRY OVERVIEW

Sullivan report is also drafted based on Frost & Sullivan’s experience and up-to-minute market insight through its long-term and sustaining monitoring on the markets that are included in its report. The systematic methodology applied by Frost & Sullivan in drafting the industry report is consistent with professional standard and market research practice.

BACKGROUND INFORMATION ON ASSOCIATIONS AND INDUSTRY GROUPS

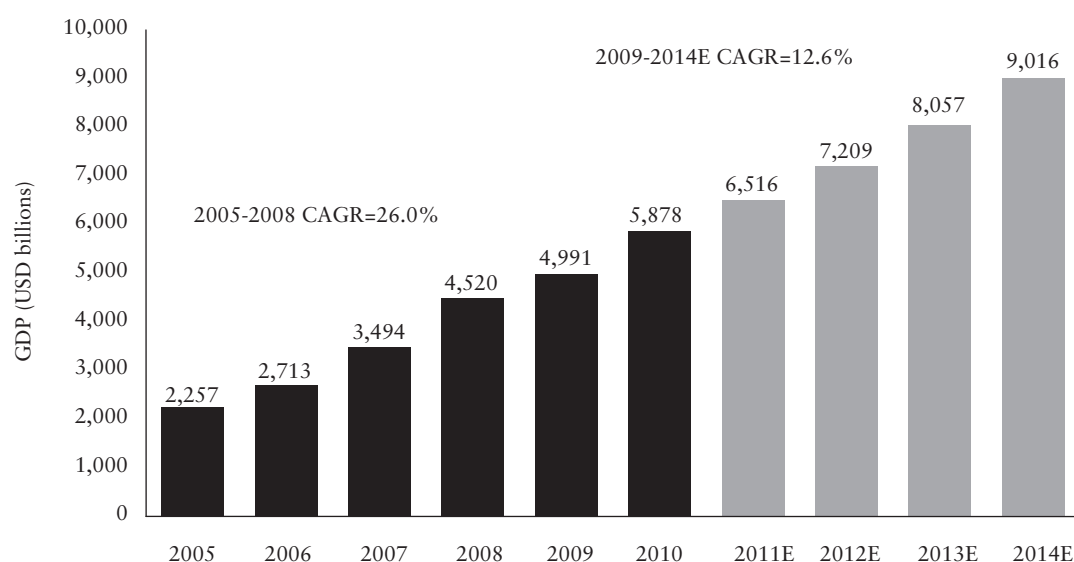
Provided below is information on National Bureau of Statistics of China, which is referred to in this prospectus.

National Bureau of Statistics of China. The National Bureau of Statistics is responsible for the collection and coordination of national statistics in China, ensuring the truthfulness, accuracy and timeliness of statistical data, as well as establishing policies and guidelines with respect to national statistics.

OVERVIEW OF THE CHINESE ECONOMY

China is one of the fastest growing economies in the world with gross domestic product of RMB39.8 trillion in 2010 according to the National Bureau of Statistics of China. In response to the recent global financial crisis, the Chinese government adopted expansionary fiscal policies, including the “RMB4 trillion Stimulus Plan” to stimulate economic growth. As a result, the real GDP growth rate grew from 9.0% in 2008 and 9.1% in 2009 to 10.3% in 2010 based on data by the National Bureau of Statistics of China. The country is expected to continue its strong economic growth trajectory at a CAGR of 12.6% between 2009 and 2014 based on estimates by the International Monetary Fund.

China nominal GDP, 2005-2014E

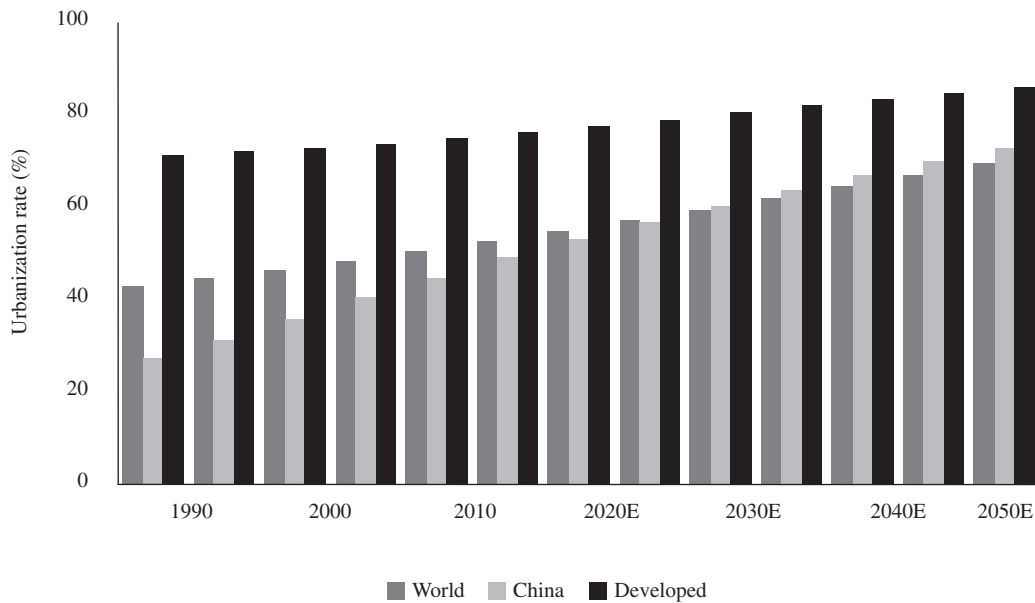


Sources: National Bureau of Statistics of China; International Monetary Fund; Frost & Sullivan

INDUSTRY OVERVIEW

According to the National Bureau of Statistics of China, China's population residing in urban settings, as a percentage of the total population, increased at a steady rate of 2.9% between 2000 and 2008. According to the United Nations, China's expected urbanization rate in 2010 of 44.9% remains below the average world urbanization rate of 50.6% and below the developed world at 75.0%. The Chinese government remains committed to furthering continued regional development and urbanization, particularly in the western and central regions as promulgated in the framework of the Twelfth Five-Year Plan. Urbanization is expected to reach 60.3% by 2030, surpassing the world average, and to continue growing to 72.9% by 2050.

Urbanization rates, 1990-2050E

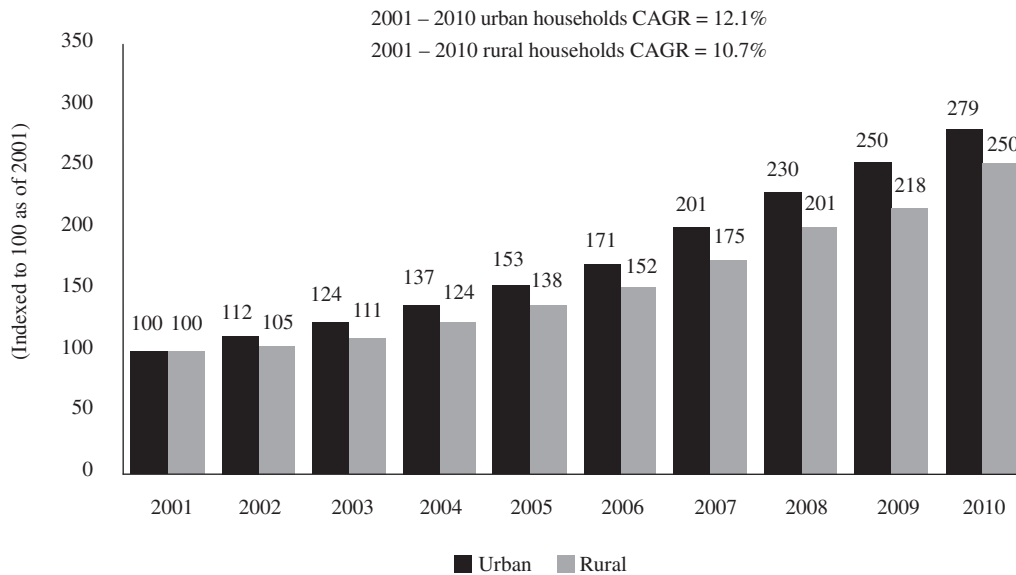


Sources: National Bureau of Statistics of China; United Nations

INDUSTRY OVERVIEW

Along with the increase in overall economic growth there have been improvements in the standard of living. Income per capita of urban households rose by 12.1% over the last 10 years while rural income per capita grew by 10.7% over the same period. Continued economic growth is anticipated to support further increases in income per capita, leading to higher levels of domestic consumption.

China per capita income, 2001-2010

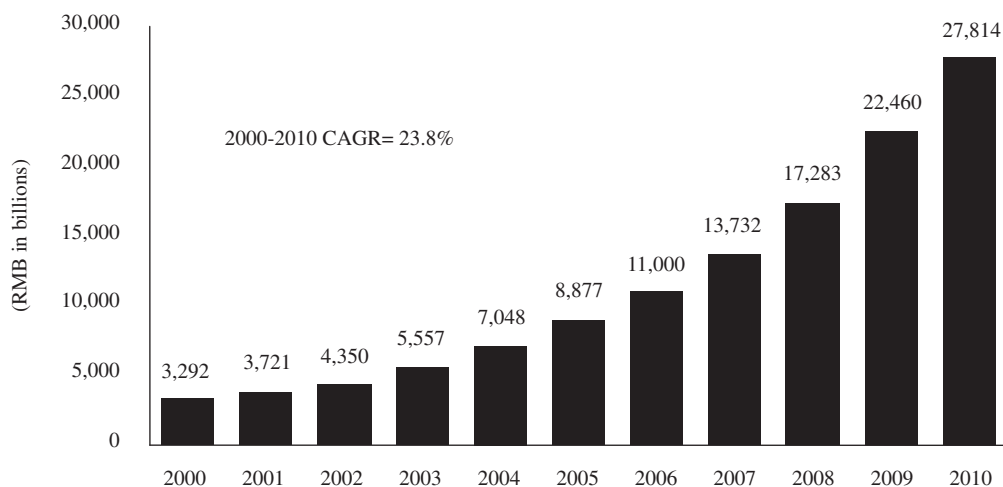


Source: National Bureau of Statistics of China

Driven by the increase in manufacturing, infrastructure and real estate investment and foreign and private investment, fixed asset investment in China has risen at a CAGR of 23.8% over the last ten years, significantly faster than GDP growth over the same period. Of the total RMB27.8 trillion invested in 2010, fixed asset investment in urban areas totaled RMB24.1 trillion, up by 24.5% over 2009. In rural areas, fixed asset investment reached RMB3.7 trillion, up by 19.7% over 2009, according to the National Bureau of Statistics of China. Total investment in real estate development grew by 33.2% over 2009 to RMB4.8 trillion in 2010. With increasing industrialization and urbanization, China's fixed asset investment is anticipated to continue growing at a rate in excess of GDP.

INDUSTRY OVERVIEW

China fixed asset investment, 2000-2010



Source: National Bureau of Statistics of China

VALUE CHAIN OF DIESEL POWER INDUSTRY

Diesel power is of significant importance in many industries. In particular, diesel engines are installed in diesel generator power systems and are also used to power industrial machinery and equipment and many forms of transportation such as commercial vehicles and ships. Diesel engines must be integrated with various systems such as heat exchange systems and electronic control systems to achieve efficiency, safety and reliability. The integrated product with a diesel engine as a key part is a power core. As a result, the diesel power industry consists of upstream manufacturers of diesel engines, mid-stream manufacturers of related components and systems and integrators of power cores, and downstream manufacturers of end products that are equipped with power cores such as the manufacturers of diesel generator power systems, industrial machinery and equipment, commercial vehicles and ships. The mid-stream manufacturing and integration of power cores is a vital stage to connect the upstream manufacturing of diesel engines and the downstream manufacturing of end products, thereby enabling diesel engines to be widely used in various industries.

DIESEL GENERATOR POWER SYSTEM OVERVIEW

A diesel generator power system uses mechanical energy to produce electricity and is comprised of a diesel engine, an electrical generator (often called an alternator) and various ancillary devices such as bases, canopies, sound attenuation, control systems, circuit breakers, jacket water heaters and starting systems. The diesel engine is used to rotate the alternator through a magnetic field which generates alternating electric currents.

Diesel generator power systems are used primarily to provide standby and emergency power, mobile power and primary power in a wide range of end applications. Standby and emergency power is where a diesel generator power system is used to avoid interruptions of the power supply to facilities, particularly those where a stable, uninterrupted power supply is critical to the protection of life or property, and the failure of which could result in immeasurable losses of either or both.

INDUSTRY OVERVIEW

Since the power grid may experience interruptions caused by aging or malfunctioning equipment, repair and maintenance of power lines, or unforeseen natural events such as the Sichuan earthquake and snow storms in China in 2008, it is critical for production and other facilities to be equipped with diesel generator power systems.

Diesel generator power systems are also used to provide a mobile power source, for example where diesel generator power systems are deployed to remote locations to aid construction, exploration, surveying or other field work. In such cases the power using equipment is expected to relocate frequently and connection to the power grid is therefore impractical or impossible, and diesel generator power systems are used instead.

In countries such as parts of Africa, the Middle East, South America, Central and Southeast Asia, the power grid may be underdeveloped, have insufficient reach or be unreliable in terms of providing consistent, uninterrupted power supply. In these cases, diesel generator power systems are used to provide a primary source of power.

The various uses of standby and emergency power, mobile power and primary power can be summarized as follows:

Classifications	Applications	Examples
Standby and emergency power	Used in circumstances demanding highly stable power supply and where loss of power would result in significant loss or damage of life or property or both	<ul style="list-style-type: none"> • Telecommunications facilities, nuclear power stations, power plants, power grid facilities, mines, hospitals, banks, stock exchanges, schools, commercial centers, airports, military facilities, etc.
Mobile power	Used in temporary circumstances where power from grid is not available, especially in remote locations	<ul style="list-style-type: none"> • Emergency rescue operations in earthquakes, snow disasters, mining accidents and forest fires; • Mobile command posts, trains, ships, portable military facilities, etc.; and • Television transmission equipment, exhibitions and major recreational activities.
Primary power	Used in the absence of a power grid or where the power grid cannot adequately meet electricity demand	<ul style="list-style-type: none"> • Under-developed regions in China and other developing countries; • Highway and other construction projects in remote locations; and • Power grid overhaul, geological surveys, fieldwork, scientific surveys, etc.

INDUSTRY OVERVIEW

Diesel generator power systems are categorized by power output size and internationally defined ratings. The power output of diesel generator power systems depends upon the size and power output of the diesel engines in the system and typically ranges from less than 20 kW for low power applications up to 3,000 kW for industrial generators. In addition, diesel generator power systems are rated by manufacturers based on the amount of power expected to be produced. Standby power systems are applicable for supplying emergency power for the duration of normal power interruption but do not usually include sustained overload capability. These systems are automatic auxiliary power systems that ensure a building or structure can still operate in the event of a power outage or an emergency or during peak electricity use periods when electricity supply from the power grid is constrained. Standby power systems are used by enterprises which typically require uninterrupted power flow such as hospitals, factories, commercial buildings, telecommunications infrastructure and the mining and exploration industry. Roughly 70% of commercial standby power equipment sales are for new construction, with the remaining 30% going to retrofits. The replacement cycle for standby power equipment is 20 to 25 years. Primary power systems are capable of producing output with varying loads for an unlimited time with average power output at 70% of the primary rating. This type of product is used by customers whose power source is unreliable or unavailable, and who require generation capacity near to point of use such as the rail, highway construction and remote mining industries as well as in developing economies that require supplemental peak power. Base load or continuous power systems supply power continuously to a constant load up to the full output rating for unlimited hours but do not include sustained overload capability. Also known as peak shaving power systems, these systems may also be used for additional power support when electricity from the power grid is constrained.

Power Cores

A power core is an integrated mechanical motion source unit. It consists of a diesel engine, a heat exchange system, an electronic control system and an intake and exhaust system. It is typically customized to be installed and configured into a specific piece of equipment to maximize performance of the diesel engine. Diesel generator cores are a type of power cores which are critical components to diesel generator power systems. Industrial power cores are similar units which can also be used in mechanical drive applications to generate motion in industrial equipment, such as construction machinery, compressors and pumps and automotive vehicles. Diesel generator cores can be divided into three power segments (low, mid and high) ranging from less than 20 kW, 20 kW to 220 kW, and 221 kW to 3,000 kW, respectively, which are corresponding to different industry applications. Accordingly, in line with industry practices, “mid-range” diesel generator cores refer to diesel generator cores with a power output range of 20 kW to 220 kW.

Heat Exchange Systems

Used to transfer thermal energy from one medium to another for the purpose of cooling and heating, heat exchange systems are comprised primarily of radiators and are typically constructed to function in machines, automobiles, buildings and electronics. Most heat exchange systems are used to dissipate the residual heat generated by engines and to lower the temperature of engines to an acceptable level, which is essential to maintain and improve the operation and efficiency of the engines. Heat exchange systems typically vary according to the power output of the engines they cool which range from 20 kW to 3,000 kW.

INDUSTRY OVERVIEW

Radiators operate by passing a liquid coolant through the engine block, where it is heated, then through the radiator itself to dissipate the heat to the atmosphere. The coolant is usually water-based, but may also be oil. To cool down the engine, coolant heated from flowing through the engine is fed into the header of the radiator via the inlet and then cools down as it circulates through the tubes to the opposite header and cold coolant exits back into the engine via the outlet, and the cycle is repeated. As it circulates through the tubes, the coolant transfers its heat to the tubes which, in turn, transfer the heat to the fins that are lodged between each row of tubes. The fins then radiate the heat transferred by the tubes to the surrounding air. Heat exchange systems are often paired with or include a fan that blows air through the system to help remove heat. As air heats up relatively quickly, it must continuously be replaced by cool air so that the heat transfer process can continue.

Electronic Control Systems

Engine control systems are used to regulate the idling and maximum speed of diesel engines as well as the rate of fuel injection in order to maximize power and efficiency while minimizing emissions. The two types of engine control systems used on diesel engines include mechanical control systems and electronic control systems. Mechanical control systems are based on centrifugal forces while electronic control systems operate on voltage and current signals, resulting in more accurate measurements as compared to mechanical systems. The accuracy class of mechanical control systems is a level three with a static speed governing rate of 5% while electronic control systems have an accuracy class of level one and a static speed governing rate of 2%. Because electronic control systems provide higher levels of accuracy, it is the preferred engine control system for diesel generator power systems due to the high degree of stability required to ensure consistent power output and frequency.

Electronic control systems are composed of three major parts: an electronic speed controller, an electronic speed actuator and a magnetic speed sensor. The electronic speed controller is an electronic device designed to control an engine's speed with fast and precise responses to transient load changes. This closed loop control, when connected to a proportional electronic speed actuator and supplied with a magnetic speed sensor signal, can control a wide variety of engines in an isochronous mode. The electronic speed actuator is typically used as an engine fuel control device. When the actuator is switched on, oil supply flows under normal conditions; when the actuator is turned off, the oil supply is closed off. An internal spring provides fail safe operation by forcing the actuator to the fuel shut-off position when the actuator is de-energized. The third component of electronic control systems is the magnetic speed sensor which is mounted in the ring gear case or flywheel bell housing of the engine. When the ring gear teeth or other ferrous projections pass the tip of the sensor, the electrical impulses are induced within the coil and sent to the speed control unit. Together, these components form an electronic control system which provides precise and fast governing of fuel quantity, a wide range of engine speed control and automatic parallel operation.

INDUSTRY OVERVIEW

Technical Requirements of Diesel Generator Cores

A diesel generator core requires the efficient operation of each of the component systems and seamless coordination between such systems. The following table sets forth the technical requirements for the key systems as well as the integration of a diesel generator core:

	<u>Technical requirements</u>
Integration of a diesel generator core	<ul style="list-style-type: none">• a diesel generator engine and an electronic speed controller must be tested and calibrated to ensure that the power output of the diesel generator engine meets specified standards; and• the integration of a diesel generator core is required to ensure the best match between each component system and improve the technical parameters of these systems, in order to improve the efficiency, safety, reliability and cost-effectiveness of a diesel generator core and maximize its useful life. For example, heat exchange systems and intake and exhaust systems are intended to control the temperature of the diesel generator engine and improve thermal efficiency.
Electronic control system	<ul style="list-style-type: none">• an electronic control system is required to provide highly precise analog control; and• efficient design of the internal structure of an electronic control system ensures minimization of friction loss.
Heat exchange system	<ul style="list-style-type: none">• a heat exchange system must be designed to cope with specific customer requirements which may include high temperature, high altitude and dusty environments; and• minimization of pressure loss within the pipeline is critical to optimize medium flows within the heat exchange system.

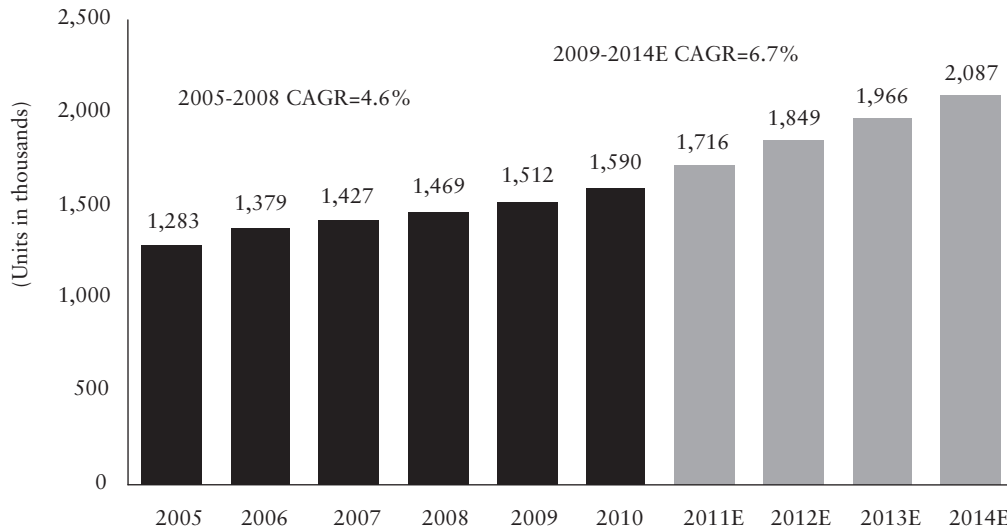
GLOBAL DIESEL GENERATOR POWER SYSTEM INDUSTRY

In recent years, the global diesel generator power system industry has maintained a steady growth, mainly attributable to the following factors: (i) the penetration rate of power grids is still lower in developing countries, for example, this rate is only about 50% in African countries; (ii) the key sectors of every country, such as telecommunications, power, transportation and oil and chemicals, are equipped with standby and emergency power systems which need to be upgraded on a regular basis; (iii) infrastructure construction has increased the demand for standby emergency power; and (iv) the demand for residential standby and emergency power has been increasing in pace with the growth of global population and the process of urbanization.

INDUSTRY OVERVIEW

The global diesel generator power system market grew at a CAGR of 4.6% between 2005 and 2008, reaching total shipments of 1.5 million units. Overall global demand for diesel generator power systems was not noticeably impacted by the recent economic downturn. For example, shipments increased by 43,000 units, or 2.9%, between 2008 and 2009. From 2009 to 2014, total global shipments of diesel generator power system are expected to grow at a CAGR of 6.7% to 2.1 million units.

Global diesel generator power system shipments by unit, 2005-2014E

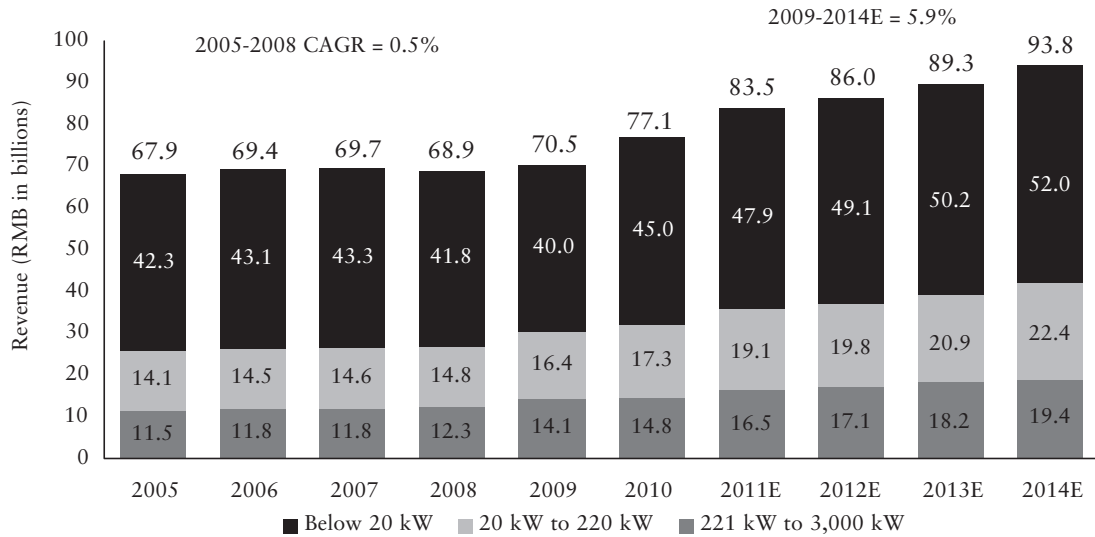


Source: Frost & Sullivan

From 2005 to 2008, the global market for diesel generator cores increased modestly at a CAGR of 0.5% to RMB69 billion. While the market experienced a slight decline in 2008 of approximately 1.1% compared to the previous year during the global economic crisis, growth is expected to improve at a CAGR of 5.9% between 2009 and 2014 with the overall market totaling RMB94 billion by 2014. Estimated CAGR between 2009 and 2014 is 5.4%, 6.4% 6.6% for the below 20 kW, 20 kW to 220 kW, 221 kW to 3,000 kW power segments, respectively. The sales of diesel generator cores with power output of 20 kW to 220 kW and 20 kW or below rating is expected to grow faster than larger power output generator cores and the industry total.

INDUSTRY OVERVIEW

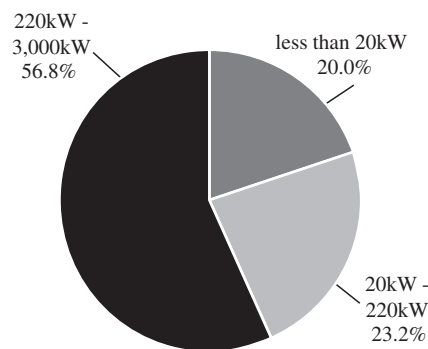
Global diesel generator core revenues, market sizing and forecast by power segment, 2005-2014E



Source: Frost & Sullivan

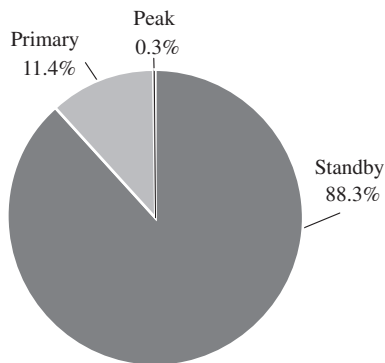
By power segment, diesel generator cores with power outputs below 20 kW represented 56.8% of global revenues in 2009. Diesel generator cores with power outputs between 20 kW to 220 kW and between 221 kW to 3,000 kW accounted for the remaining 23.2% and 20.0% of global revenues, respectively. Standby power accounted for the largest share of global diesel generator revenues by use at 88.3% while primary and peak shaving power represented another 11.4% and 0.3%, respectively. Approximately 41.0% of global diesel generator core revenues in 2009 were derived from the industrial end-user market, again reflecting the higher price point for diesel generator cores used for industrial applications. Commercial end use accounted for 26.0% of global revenues in 2009 while the public sector and infrastructure end markets and residential use comprised the remaining 24.0% and 9.0% of revenues, respectively.

Global diesel generator core revenues by power segment — 2009

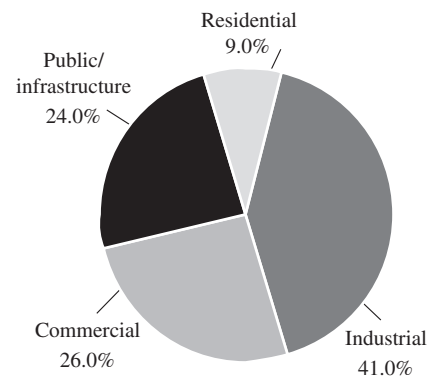


INDUSTRY OVERVIEW

Global diesel generator core revenues by use — 2009



Global diesel generator core revenues by end market — 2009



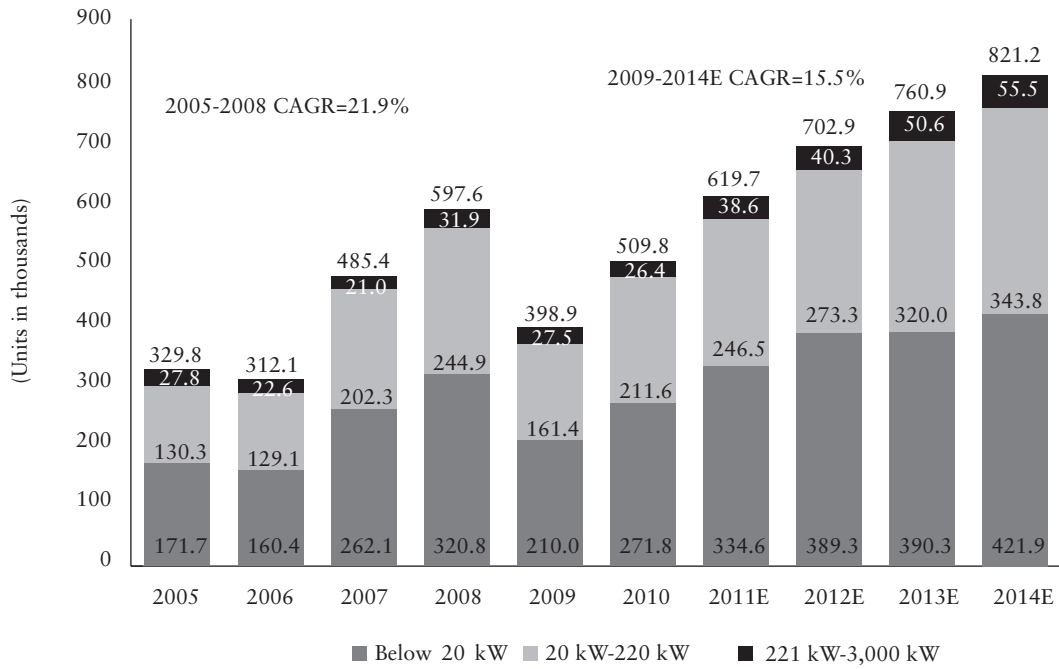
Source: Frost & Sullivan

CHINA DIESEL GENERATOR POWER SYSTEM INDUSTRY

China was the second largest diesel generator power system producing region in 2009 behind North America and accounted for 26.4% of total global shipments which reached 1.5 million units. Growth of diesel generator power system production in China grew at a CAGR of 21.9% between 2005 and 2008 compared to 4.6% globally. The Chinese diesel generator power system industry experienced a sharp decline in 2009 as a result of the global economic downturn, particularly given that historically 70% to 85% of diesel generator power systems manufactured in China were exported to international markets. During this period, international markets focused more towards domestic purchases and had less surplus demand for imports from China. With the improvement of the global economy which began in 2010, shipments are expected to increase in China between 2009 and 2014 at a CAGR of 15.5% to a total of 821,000 units by 2014.

INDUSTRY OVERVIEW

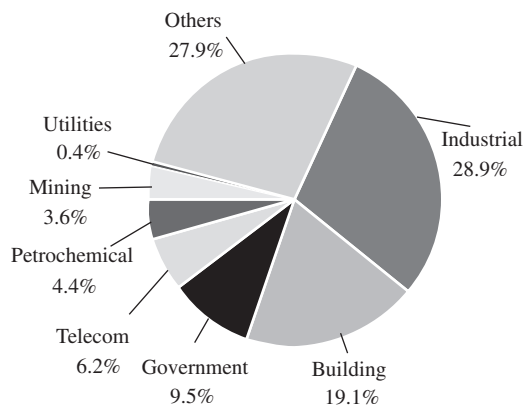
China diesel generator power system shipments by units, 2005-2014E



Source: Frost & Sullivan

Of total diesel generator power systems shipments in 2009 in China, industrial manufacturing facilities and buildings accounted for the greatest share at 28.9% and 19.1%, respectively, while the government, telecom, petrochemicals and mining sectors accounted for less than 10% each.

Chinese diesel generator power system shipments by end market — 2009

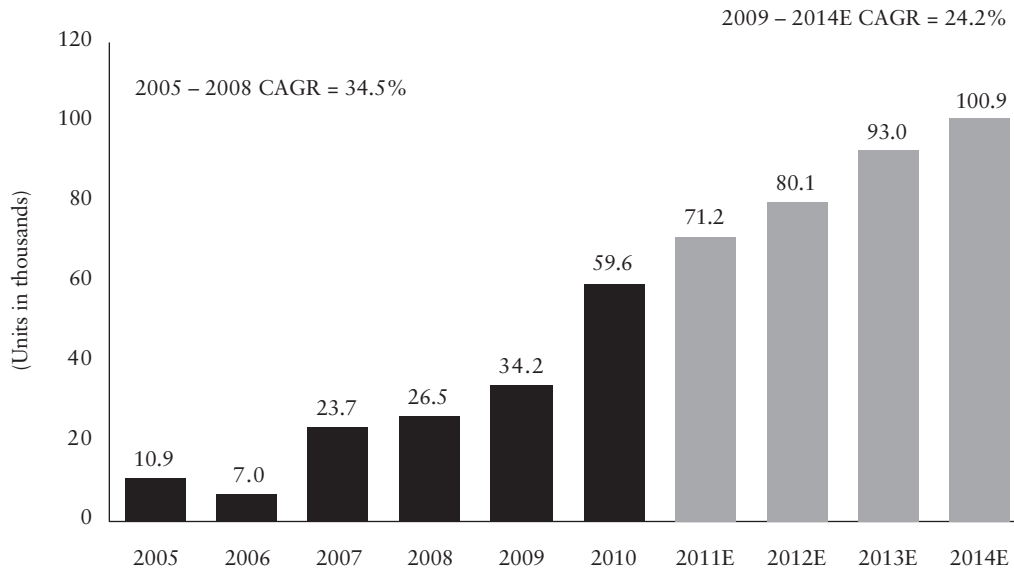


Source: Frost & Sullivan

INDUSTRY OVERVIEW

Within the 20 kW to 220 kW power range segment of diesel generator power systems, shipments grew at a CAGR of 23.4% between 2005 and 2008, reaching a total of 244,900 units by 2008. Shipments are expected to grow at a rate of 16.3% from 161,400 units in 2009 to 343,800 units in 2014. Apparent domestic consumption of 20-220 kW diesel generator power systems grew from 10,900 units in 2005 to 26,500 units in 2008 at a CAGR of 34.5%. Apparent domestic consumption is forecasted to reach 100,900 units in 2014 from 34,200 units in 2009 at a CAGR of 24.2%.

China apparent domestic consumption of 20 kW to 220 kW diesel generator power systems

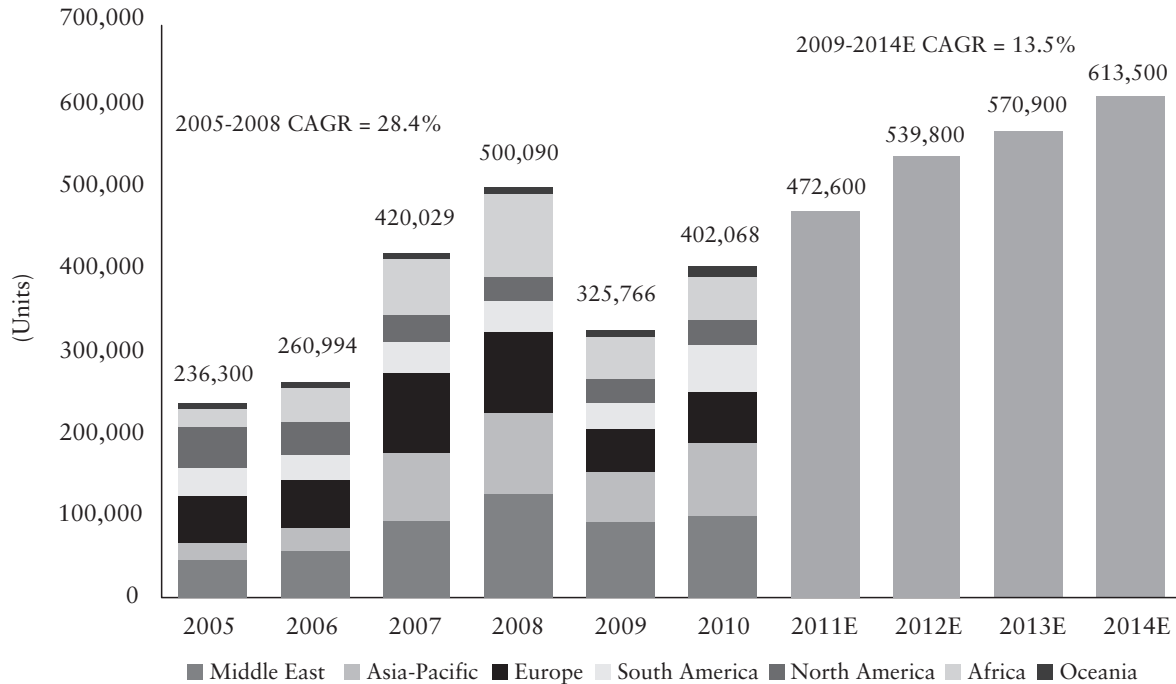


Source: Frost & Sullivan

Overseas demand for Chinese manufactured diesel generator power systems grew at a CAGR of 28.4% between 2005 and 2008, totaling 500,090 units in 2008. For the period between 2009 and 2014, growth in exports is anticipated to slow to a CAGR of 13.5% and to reach 613,500 units in 2014.

INDUSTRY OVERVIEW

China diesel generator power systems exports, 2005-2014E



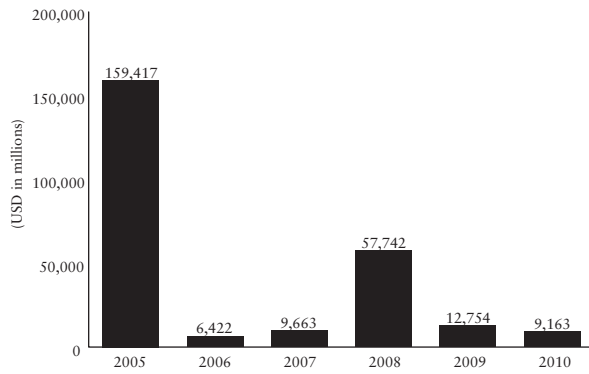
Source: Frost & Sullivan

Historically, the Middle East, Asia-Pacific and Africa accounted for the largest share of Chinese diesel generator power systems exports, largely driven by construction activity in these regions where power infrastructure is less developed than that in North America and Europe. These areas also witness a higher concentration of political unrest and armed conflict which cause instability and damage to existing infrastructure.

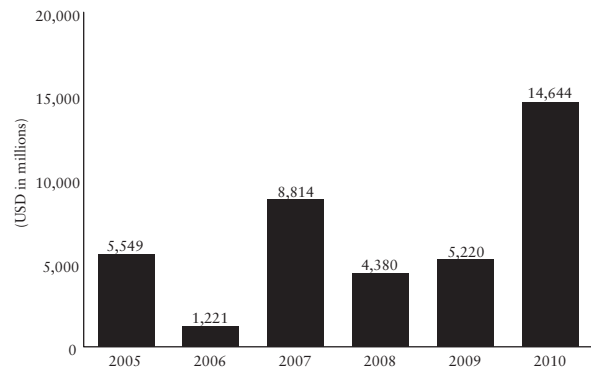
Additionally, extraordinary events such as natural disasters and world sporting events have been positively correlated to increases in overseas demand for diesel generator power systems manufactured in China. Hurricane Katrina in 2005 was the single largest contributor to the cost of damages from natural disasters in North America that year. Chinese exports of diesel generator power systems to North America totaled 50,639 units in that year, the largest volume in the last six years.

INDUSTRY OVERVIEW

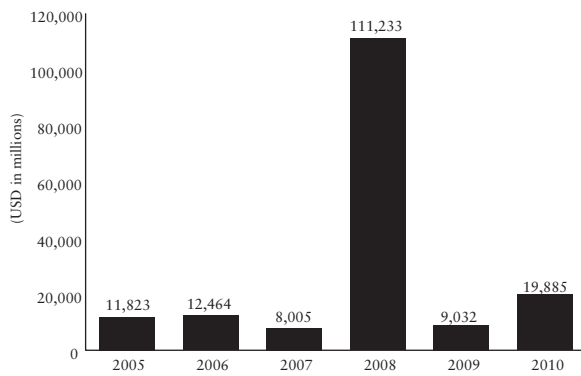
Estimated cost of damages resulting from natural disasters in North America



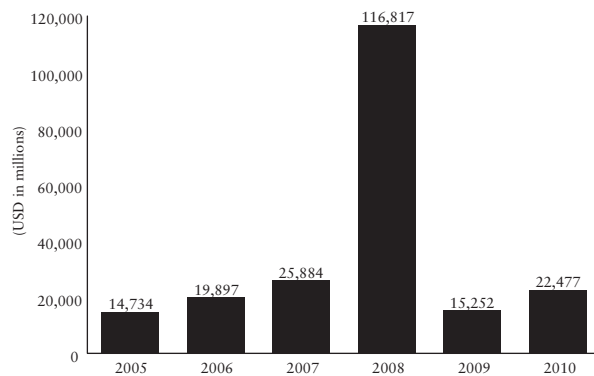
Estimated cost of damages resulting from natural disasters in Europe



Estimated cost of damages resulting from natural disasters in China



Estimated cost of damages resulting from natural disasters in Asia⁽¹⁾



Source: Center for Research and Epidemiology of Disaster (CRED) at Université Catholique de Louvain, Belgium

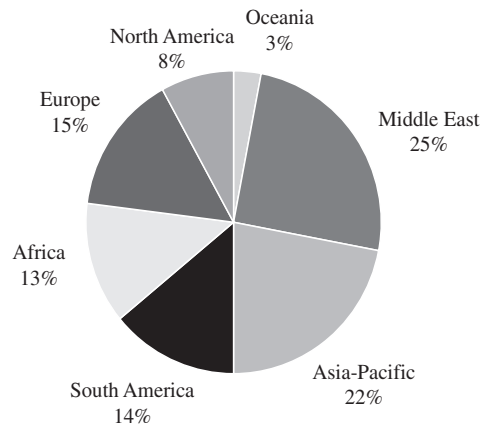
Note:

(1) Asia includes East Asia and Southeast Asia only.

INDUSTRY OVERVIEW

In 2010, the Middle East accounted for 25% of China's diesel generator power systems exports followed by Asia-Pacific at 22%. South America experienced an increase in imports of diesel generator power systems from China in 2010 as a result of the preparations for the upcoming 2014 World Cup in Brazil. A similar run-up in Chinese exports to Africa existed in 2007 and 2008 ahead of the 2010 World Cup in South Africa.

China diesel generator power systems exports by destination, 2010



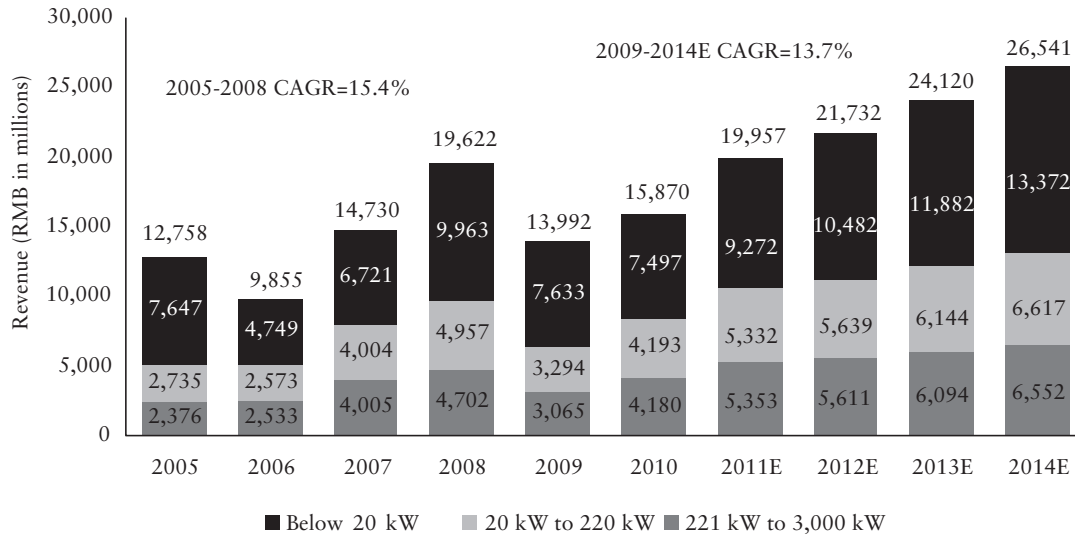
Source: Frost & Sullivan

The recent earthquakes in New Zealand, Japan and Myanmar which destroyed a substantial amount of infrastructure will also likely result in an increase in diesel generator power system exports from China to the Asia-Pacific and Oceania regions in 2011.

For diesel engine generator cores, one of the most critical components of diesel generator power systems, China accounted for 19.8% of the global diesel generator core market with total sales of RMB14.0 billion in 2009. Production in China declined significantly by 28.7% in 2009 as a result of the global economic downturn and subsequent decrease in demand for diesel generator power systems, as well as due to the fact that natural disasters in 2008 such as the snow storms across southern China in January 2008 and the severe earthquake in Sichuan Province in May 2008 led to extraordinary market demand for standby and emergency electricity supply in 2008. As demand for diesel generator power systems recovers with the global economy, demand for diesel generator cores in China is expected to grow at a CAGR of 13.7% between 2009 and 2014 to reach total sales of RMB26.5 billion, or 28.3% of the global market. Estimated CAGR between 2009 and 2014 is 11.9%, 15.0%, 16.4% for the below 20 kW, 20 kW to 220 kW, 221 kW to 3,000 kW power segments, respectively.

INDUSTRY OVERVIEW

China diesel generator core revenues, 2005-2014E

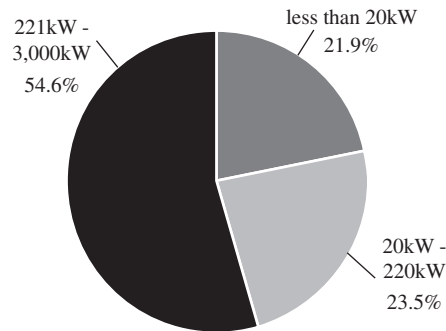


Source: Frost & Sullivan

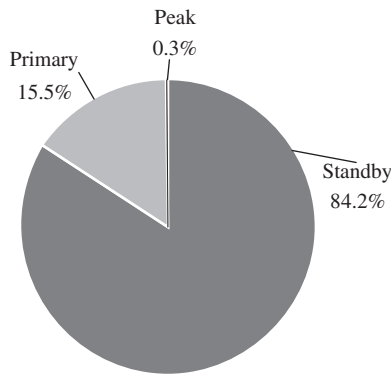
In China, diesel generator cores with a power output below 20 kW accounted for 54.6% of revenues in 2009 and diesel generator cores with power output ranges of 20 kW to 220 kW and 221 kW to 3,000 kW comprised the remaining 23.5% and 21.9%, respectively. By application, diesel generator cores satisfying standby, primary and peak demand represented 84.2%, 15.5% and 0.3% of diesel generator core revenues in 2009, respectively. The mining sector accounted for the largest share of diesel generator core revenues in 2009, reflecting higher average unit prices for applications requiring higher technical specifications and customization to accommodate extreme working conditions such as high temperatures or high altitudes. Other significant end-user markets for diesel generator cores include the industrial manufacturing, buildings, petrochemicals and government sectors. In China, the average market price of diesel generator cores with a power output range of 20 kW to 220 kW is generally between approximately RMB13,000 and RMB60,000, a price range which is consistent with that of industrial power cores with similar power outputs.

INDUSTRY OVERVIEW

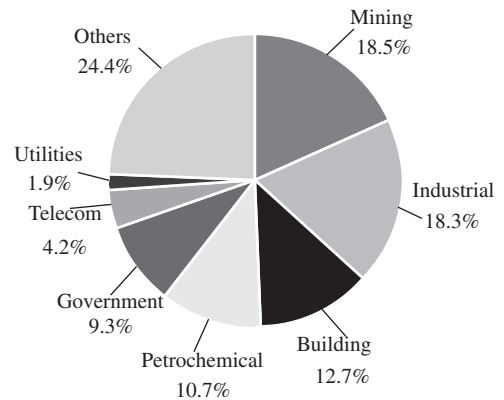
China diesel generator core revenues by power segment — 2009



China diesel generator core revenues by use — 2009



Chinese diesel generator core revenues by end market — 2009



Source: Frost & Sullivan

DEMAND FOR DIESEL GENERATOR POWER SYSTEMS IN CHINA

Electricity Shortage

China has experienced electricity shortage in recent years and this electricity shortage is expected to continue in the next two years, primarily because drought in China reduces the hydropower output and coal price is commercialized in China while the PRC government controls the price of electricity. As the upstream fluctuation of coal prices cannot have an immediate effect on the electricity prices, the supply of electricity in China may fall short of demand. Electricity shortages could drive the demand for diesel generator power systems, which provide standby power, to grow.

Increase in Exports

Diesel generator power systems that are manufactured in China are widely exported to both emerging markets and developed countries. According to Frost & Sullivan, in 78.9% of the diesel generator power systems manufactured in China in 2010 were exported overseas and the Middle East, Africa, Asia-Pacific countries, Europe and South America are the major importers.

INDUSTRY OVERVIEW

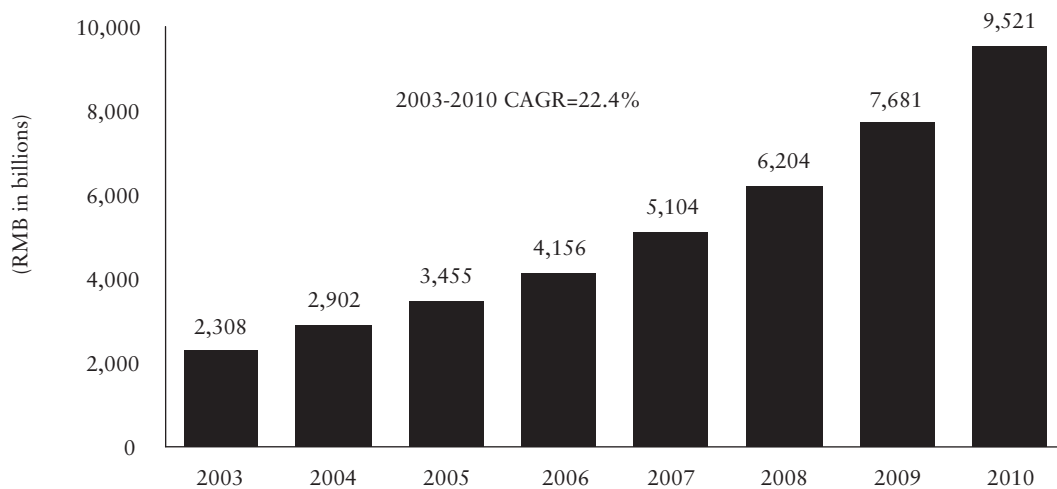
Government Policies

National government policy on strengthening the country's power supply has also contributed to the rising demand for diesel generator power systems in particular. Pursuant to the Notice of Improving Electricity Operations in 2010 (關於做好2010年電力運行工作的通知) issued by NDRC, certain premises such as schools, shopping malls, hotels, airports and railway stations were encouraged to install emergency power systems. The State Council issued the Opinions on Strengthening Power Systems Against Disaster in 2008 (關於加強電力系統抗災能力建設的若干意見) whereby all provinces, autonomous regions and municipalities, all departments and committees of the State Council and directly affiliated institutions were required to establish action plans in response to potential large area power outages with the ability to conduct "isolated operations" and "black start" under special circumstances. A key component of these plans has been the installation of appropriate emergency power supply systems, such as diesel generator power systems. In addition, pursuant to the Ideas and Policies of the "Twelfth Five-Year Plan" in Equipment Manufacturing Industry (裝備製造業“十二-五”發展規劃的思路和政策) issued by Ministry of Industry and Information Technology in 2010 and the Outline of National Key Program for Industrial Restructuring and Revitalization (2009-2011) (國家重點產業調整和振興規劃綱要(2009-2011年)) issued by NDRC in 2009, the relevant government authorities encouraged PRC companies to manufacture high-efficiency, energy-saving and low-emission engines. Future compliance with these policies is expected to continue to support growth in diesel generator power systems.

New Construction Growth

Diesel generator power systems, particularly standby systems, are highly dependent on the development of new construction, particularly of commercial buildings, factories and other large structures for which they act as supplemental power sources. The construction sector in China has grown at a CAGR of 22.4% between 2003 and 2010. With stronger efforts to increase the supply of social and mass market housing and urbanization in inland regions, the overall construction market is anticipated to continue growing at or above the GDP of China.

China construction output by value, 2003-2010



Source: National Bureau of Statistics of China

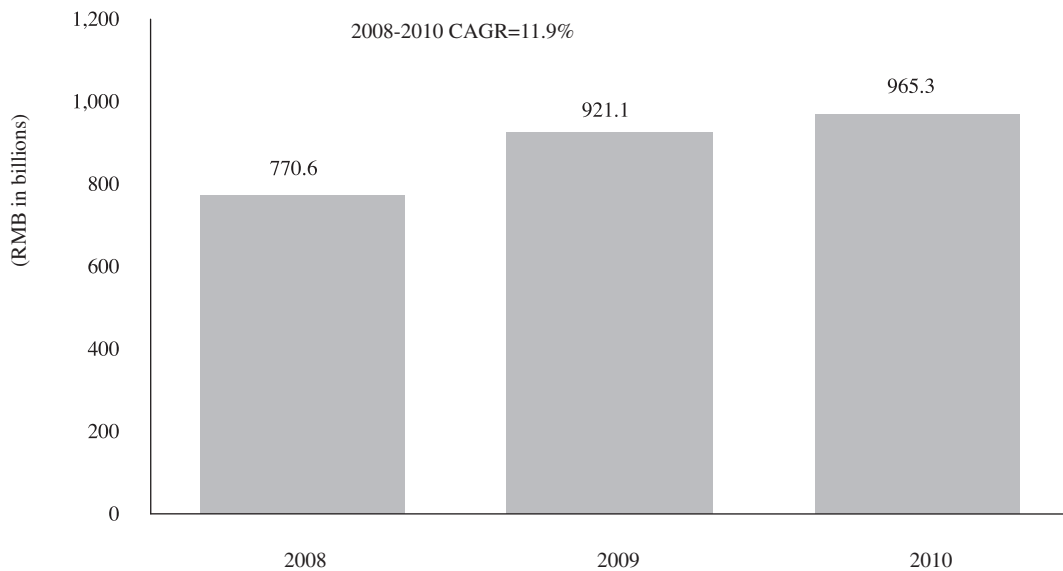
INDUSTRY OVERVIEW

Growth in Demand for Mobile Power

Mobile applications for diesel generator power systems include use in mining and oil and gas drilling equipment. These activities typically occur in remote areas where power supply and infrastructure are not readily available. Growth in the level of mining and oil and gas production is expected to result in higher demand for diesel generator power systems. Mobile applications also include construction for toll road and infrastructure facilities which form part of the above new construction growth.

According to the National Bureau of Statistics of China, fixed asset investment in mining totaled RMB965.3 billion in 2010 and grew at a CAGR of 11.9% since 2008. As the country's demand for natural resources continues to grow, additional investment in production capabilities for these commodities will drive subsequent demand for diesel generator power systems.

China fixed asset investment in mining, 2008-2010



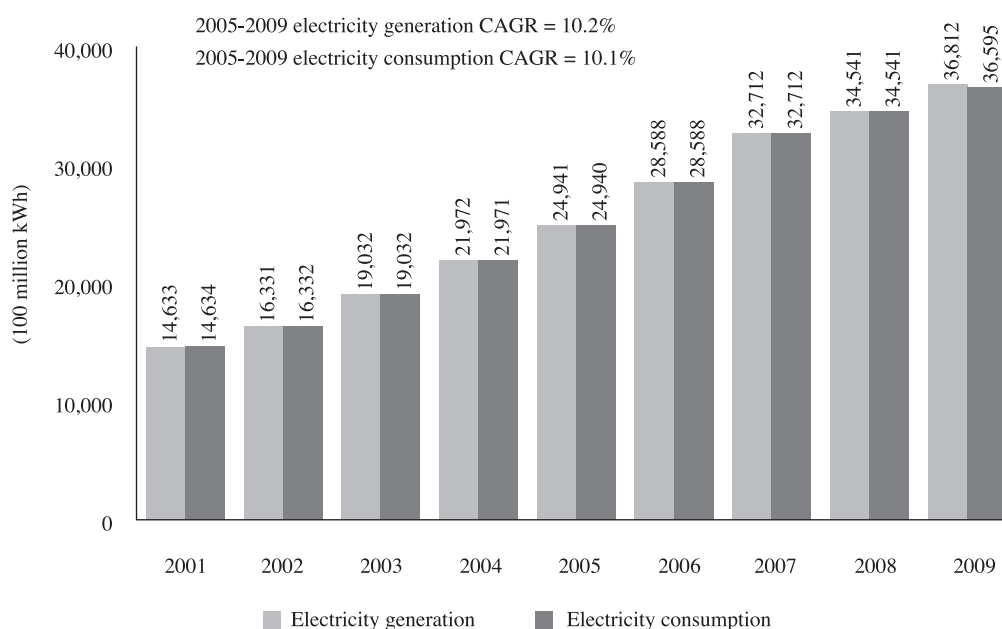
Sources: National Bureau of Statistics of China; Frost & Sullivan

INDUSTRY OVERVIEW

Domestic Power Industry Structure

Given the key role of the power sector in China's economic development, the growth in the industry is strongly correlated with overall economic growth and a leading indicator of the economy as a whole. Since 2001, electricity generation in China has generally grown faster than the country's real GDP growth with a slow down in year-over-year growth during the global economic recession in 2008 and 2009. From 2005 to 2009, electricity consumption rose at a CAGR of 10.1%, and as the global and domestic economy recovers, the growth rate for power demand is anticipated to increase. Largely driven by rapid industrialization, urbanization, accelerating fixed asset investment and rising residential electricity demand due to increased per capita income, the power sector is expected to continue growing along the same trajectory as the GDP of China.

China electricity supply and demand, 2001-2009



Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

China GDP versus power consumption growth

Year	Real GDP growth (%)	Electricity consumption growth (%)
2001	8.3	8.6
2002	9.1	11.6
2003	10.0	16.5
2004	10.1	15.4
2005	10.4	13.5
2006	11.6	14.6
2007	13.0	14.4
2008	9.0	5.6
2009	9.1	6.6

Sources: National Bureau of Statistics of China; State Power Information Network

Electricity provided by China's power industry is often delivered in a very uneven pattern due to the geographic distance between power sources and end-user markets. Power gridlines are not inter-linked and often prove inadequate. The two primary energy resources, coal and hydropower, in addition to onshore wind and solar energy, are concentrated in the western and northern regions, while large economic centers, which have high energy consumption, are mainly located in the more developed central, eastern and southern regions of the country. Generally, the distance between load centers and large power plants is over 1,000 km. Driven by the country's rapid economic growth, power grid infrastructure in China has not kept pace with the increase in electricity generation and demand. Consequently, grid congestion, grid connection limitations and ineffective electricity delivery have resulted in lower supply reliability. Thus, enterprises are required to have diesel generator power systems to support grid supply in the event of power shortages in order to secure consistent and uninterrupted power. Although significant investment is currently being made in China's power transmission grid infrastructure, the continued increase in overall power demand will underscore demand for diesel generator power systems.

Development of China's Mobile Telecommunications Network

The telecommunications industry is one of the cornerstones of the national economy, responsible for the transmission of vast amounts of digital data, and is the foundation of the Internet industry in China. The stability and reliability of telecommunication services depends on the uninterrupted operation of communication facilities all over the country, such as base stations and hub stations, which, once interrupted, may result in a breakdown in communications and inestimable losses. As a result, a standby power system must be built simultaneously with all communication facilities, which in turn leads to market demand for diesel generator power systems.

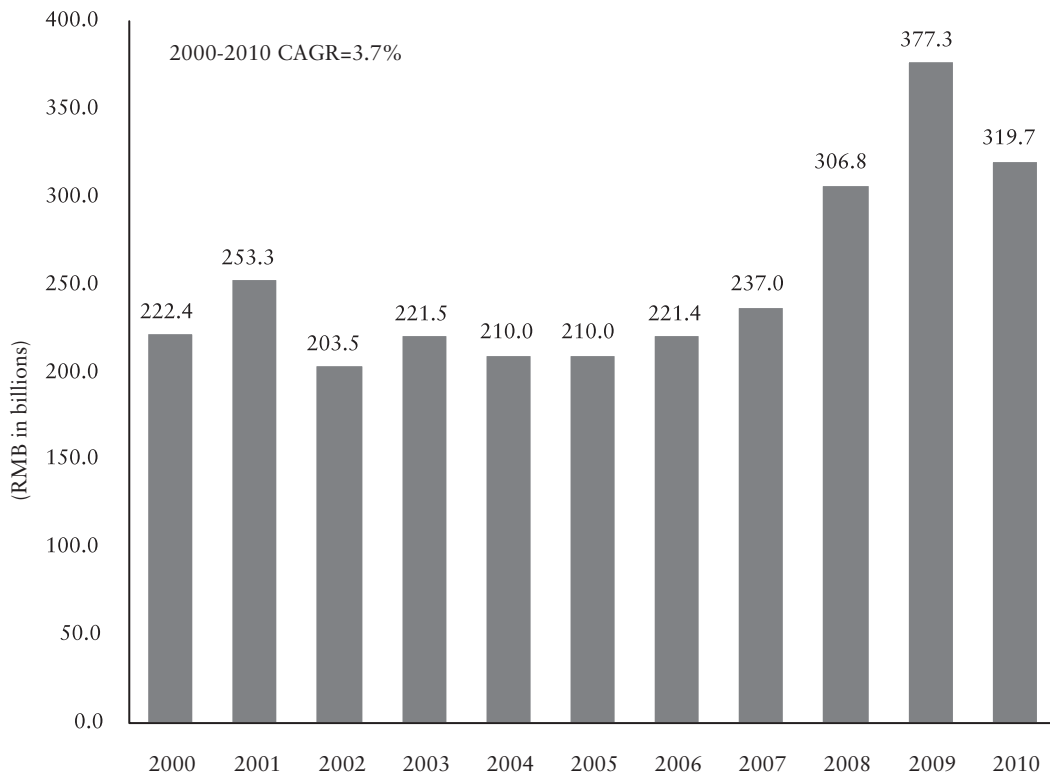
INDUSTRY OVERVIEW

The telecommunications industry is to a large extent countercyclical. When the Chinese economy significantly slowed in 1998 as a result of the Asian financial crisis, investment in telecommunications infrastructure rose considerably and has maintained growth of approximately 14% per annum between 2002 and 2009.

In addition, the penetration rate of mobile phones in China is significantly lower than that in developed countries. An increase in the prevalence of mobile phones in China is expected to drive an increase in the investment in telecommunications infrastructure, and therefore increase the demand for diesel generator power systems.

Further, 3G licenses were first issued in the early part of 2009 in China and the investment in 3G drove significant increases in fixed asset investment in the telecommunications sector in China in 2009.

Fixed assets investment in the telecommunication sector in China, 2000-2010



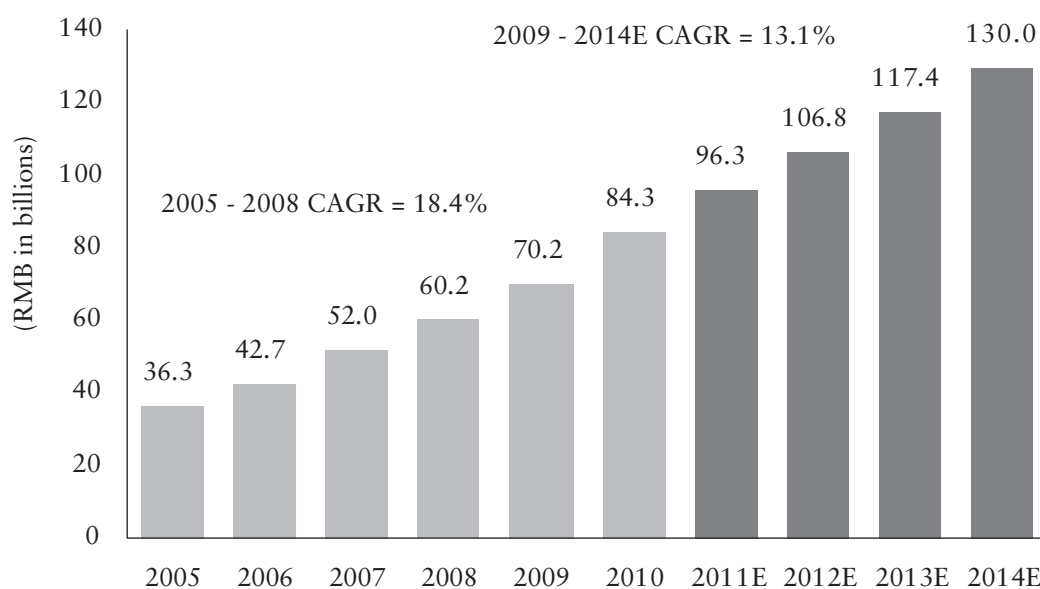
Source: Frost & Sullivan

INDUSTRY OVERVIEW

HEAT EXCHANGE SYSTEMS

The Chinese heat exchange system market reached sales of RMB70.2 billion in 2009 and is forecasted to grow at a CAGR of 13.1% between 2009 and 2014, when the market is expected to total RMB130.0 billion by 2014.

Chinese heat exchange systems revenues, 2005-2014E

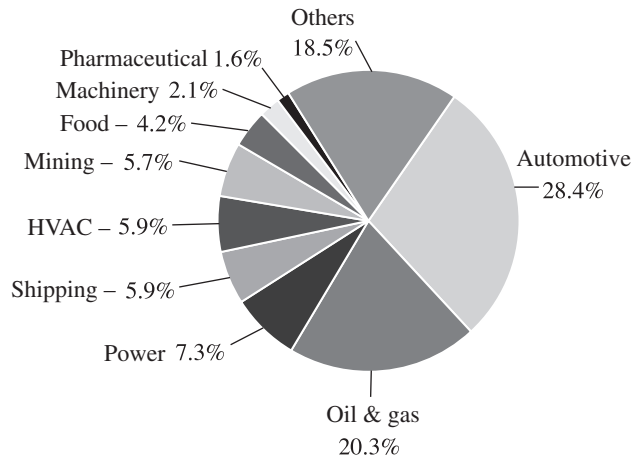


Source: Frost & Sullivan

INDUSTRY OVERVIEW

Domestically, the automotive industry represented the largest end-user market for heat exchange systems at 28.4% of the total market, followed by the oil and gas sector at 20.3%. Other key end market industries include power, mining, shipping, construction machinery, heating, ventilation and air conditioning (HVAC), food and pharmaceuticals. Overall, the Chinese heat exchange system market is fragmented with the two largest sectors, namely automotive and oil and gas, accounting for approximately 48.7% of total revenue in the industry in 2009.

China heat exchange systems revenue by use — 2009



Source: Frost & Sullivan

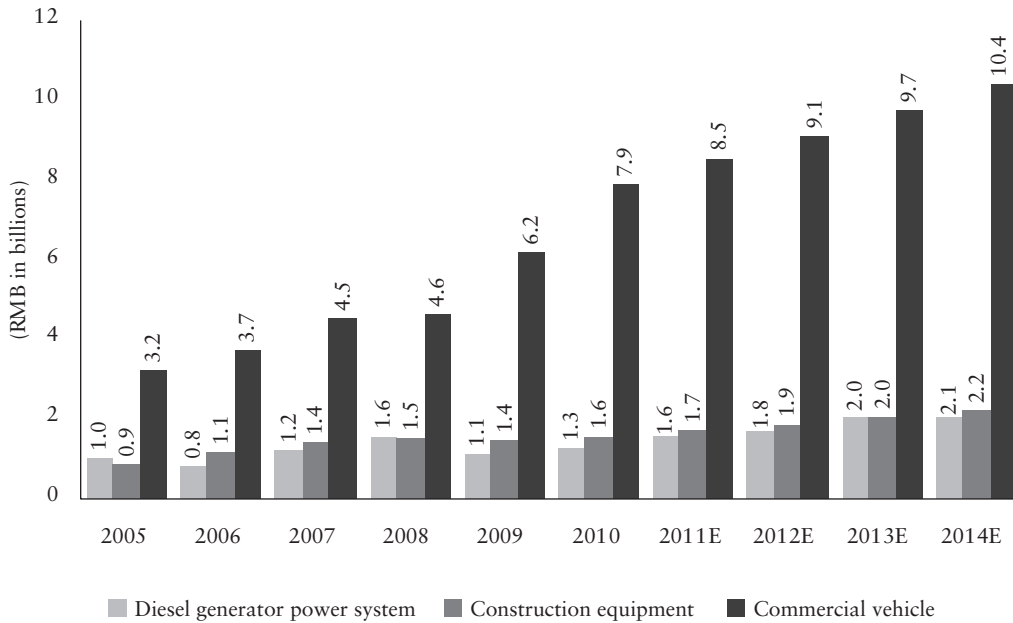
By 2008, the Chinese market for heat exchange systems used in diesel generator power systems reached RMB1.6 billion at a 16.4% CAGR from 2005. Heat exchange systems used in diesel generator power systems accounted for 1.6% of the total market for heat exchange systems in 2009. 2008-2009 revenue declined by 31.3% due to the global economic downturn. The recovery in the diesel generator power systems market is expected to drive the rebound in demand for heat exchange systems used in diesel generator power systems. The heat exchange systems used in diesel generator power systems market is forecasted to grow at a CAGR of 14.0% from 2009 to 2014, reaching RMB2.1 billion by 2014. Estimated CAGR between 2009 and 2014 is 16.4%, 15.2%, 11.9% for the below 20 kW, 20 kW to 220 kW and 221 kW to 3,000 kW power segments, respectively. In China, the average market price of heat exchange systems used in diesel generator cores with a power output ranging from 20 kW to 250 kW is generally between approximately RMB800 and RMB4,500.

Construction machinery accounted for 2.0% of China's consumption of heat exchange systems at RMB1.4 billion in 2009. Demand from this sector grew at a CAGR of 18.6% between 2005 and 2008 and is expected to grow at a CAGR of 9.5% between 2009 and 2014 to over RMB2.2 billion by 2014. Technological standards for heat exchange systems in this application are typically high given harsh working conditions in terms of environment and intensity of use to which construction machinery is regularly subjected.

INDUSTRY OVERVIEW

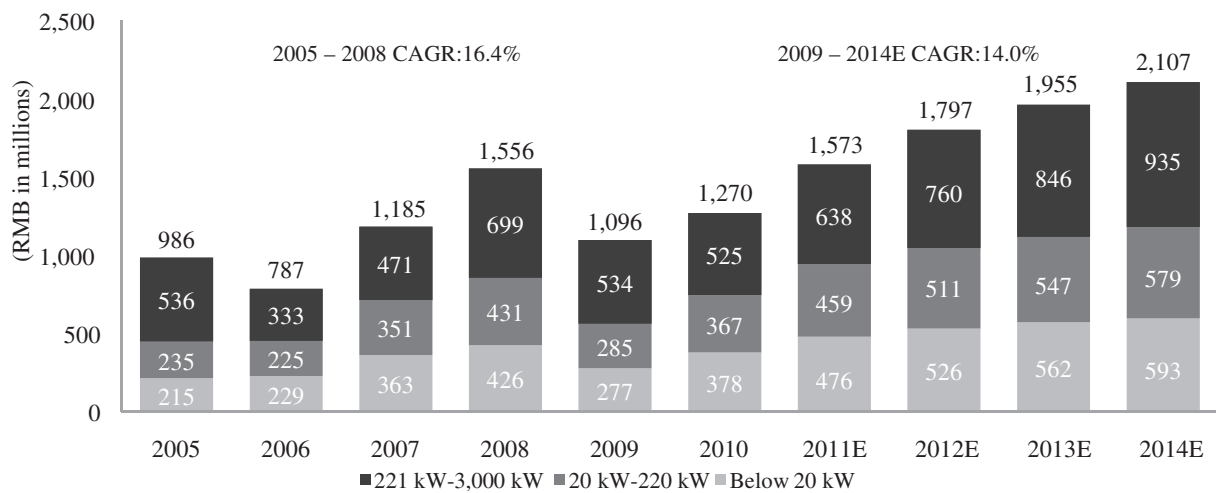
Commercial vehicle heat exchange systems accounted for RMB6.2 billion or 8.8% of the total market in 2009. The market segment increased at a CAGR of 12.9% between 2005 and 2008 and is projected to grow from 2009 to 2014 at a CAGR of 10.9% to RMB10.4 billion by 2014. Expansion of the domestic logistics industry, support for the development of the commercial vehicle industry and the establishment of new emissions standards are all expected to be factors leading to continued growth in heat exchange system demand for commercial vehicle applications.

Chinese heat exchange system revenue by end market, 2005-2014E



Source: Frost & Sullivan

Chinese heat exchange system market revenue in diesel genator power system sector, 2005-2014E



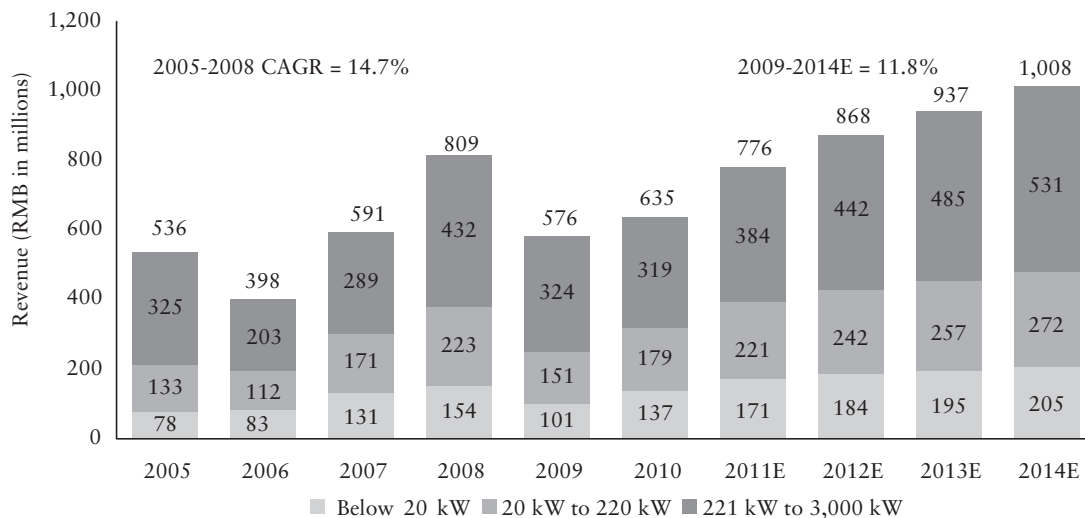
Source: Frost & Sullivan

INDUSTRY OVERVIEW

ELECTRONIC CONTROL SYSTEMS

The Chinese market for electronic control systems in the diesel generator power system sector reached total revenues of RMB809 million in 2008 and grew at a 14.7% CAGR between 2005 and 2008. As a result of the global economic downturn, total revenues declined by 28.8% between 2008 and 2009. The market for electronic control systems in the diesel generator power system sector is expected to recover and grow at a CAGR of 11.8% between 2009 and 2014 to reach RMB1,008 million by 2014. Estimated CAGR between 2009 and 2014 is 15.2%, 12.5% and 10.4% for the below 20 kW, 20 kW to 220 kW and 221 kW to 3,000 kW power segments, respectively. Within the electronic control system market in the diesel generator power system sector in China, high-end electronic control systems, which are those with average price over RMB2,500 per set, comprising an electronic speed actuator, an electronic speed controller and a magnetic speed sensor, account for approximately 25% of total revenues in 2009. In China, the average market price of electronic control systems in the diesel generator power system sector is generally between approximately RMB1,200 and RMB1,500 per set. The price of the magnetic speed sensor typically accounts for not more than 10% of the price of the whole set of electronic control system.

Chinese electronic control system revenues in the diesel generator power system sector, 2005-2014E



Source: Frost & Sullivan

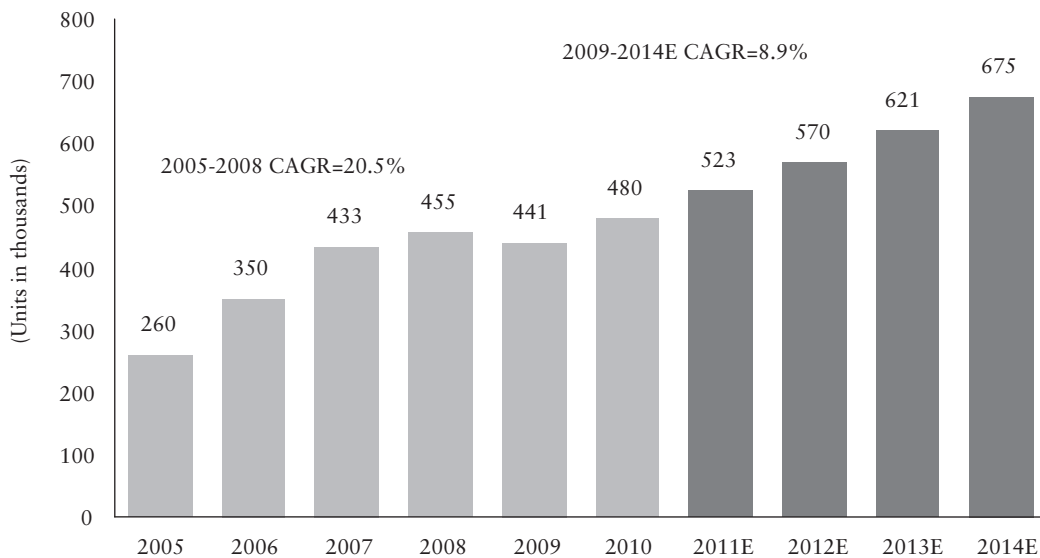
INDUSTRY OVERVIEW

KEY DEMAND DRIVERS FOR HEAT EXCHANGE SYSTEMS AND ELECTRONIC CONTROL SYSTEMS

Construction Equipment

As a direct result of China's increase in fixed asset investment and new construction, the domestic construction machinery industry has experienced strong growth between 2005 and 2008 at a CAGR of 20.5%. Shipments totaled 441,000 units in 2009 and are expected to reach 675,000 units by 2014. Chinese construction equipment manufacturers are not only gaining market share against international competitors in the domestic market, but are also increasing exports to other global regions.

China construction equipment shipments, 2005-2014E



Source: Frost & Sullivan

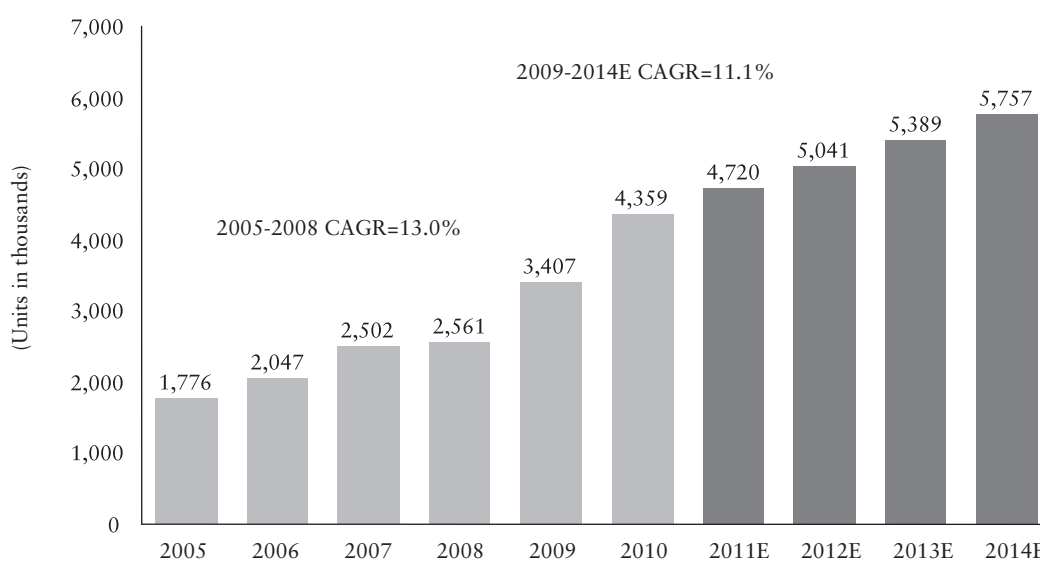
The development of construction machinery industry is supported by government policies including selection in the Twelfth Five-Year Plan as an industry to be consolidated, and recognition as a key industry to meet the fast-growing needs in transportation, energy, water and real estate industries in the Several Opinions of the State Council on Speeding up the Revitalization of the Equipment Manufacturing Industry (Guofa [2006] No.8) (國務院關於加快振興裝備製造業的若干意見(國發[2006]8號)) and the Plan for Equipment Manufacturing Restructuring and Revitalization (裝備製造業調整和振興規劃) issued by the State Council in 2006 and 2009, respectively, and the Notice on Promoting the Development of Remanufacturing Industry (Fagaihuanzi [2010] No. 991) (關於推進再製造產業發展的意見(發改環資[2010]991號)) issued by NDRC and other 10 departments in 2010. With these supporting government policies, the growth in demand for construction machinery is expected to underscore demand for diesel generator cores for this application.

INDUSTRY OVERVIEW

Commercial Vehicles

China has become the world's largest producer of commercial vehicles, leveraging significant economies of scale against foreign competitors. The commercial vehicles industry in China has grown in correlation to the country's industrialization and economic expansion. Between 2005 and 2008, commercial vehicle shipments increased at a CAGR of 13.0% to reach 2.6 million units by 2008. China commercial vehicle shipments are expected to further grow from 3.4 million units in 2009 to 5.8 million units by 2014 at a CAGR of 11.1%.

China commercial vehicle shipments, 2005-2014



Source: Frost & Sullivan

The favorable outlook for the commercial vehicle industry is further enhanced by government support through policies on the long-term development of China's logistics industry and focus on developing China's automobile industry in the Twelfth Five-Year Plan. The NDRC has issued the Outline of National Key Program for Industrial Restructuring and Revitalization (2009-2011) (國家重點產業調整和振興規劃綱要(2009-2011年)) in 2009 and the Opinion on Promoting the Development of Remanufacturing Industry (Fagaihuanzi [2010] No. 991) (關於推進再製造產業發展的意見(發改環資[2010]991號)) with other 10 departments in 2010 to further strengthen the government support for the automobile industry and the manufacture of automobile parts and engines. The NDRC is currently updating the Opinion on Promoting the Development of the Modern Logistics Industry, Development and Reform Commission (2004) No. 1617 (關於促進我國現代物流業發展的意見,發改運行[2004]1617號) with the Plan for Long-Term Development of the Logistics Industry, 2012-2020 (物流業發展中長期規劃,2012-2020年) to further optimize the structure of China's logistics industry in the next five years. In addition, the adoption and implementation of stricter emission standards in the next five years will further generate commercial vehicle demand as the existing fleet of vehicles using non-compliant engines will need to be replaced.

INDUSTRY OVERVIEW

Entry Barrier to the Chinese Diesel Generator Core Industry

Manufacturers and integrators of diesel generator cores in China are required to have knowledge and expertise in many respects. In particular, the manufacturing of high-end diesel generator cores requires players to make investments in the research and development, product design, testing and upgrades, as well as human resources.

Furthermore, customers of high-end diesel generator cores often use them in complex environments and require a high level of product customization. The ability to meet the technical specifications and customization requirements of such customers through the design of products with suitable features requires years of experience.

At present, high-end manufacturers and integrators of diesel generator cores in China typically procure diesel generator engines from leading international manufacturers such as Cummins, Caterpillar, Volvo Penta, Deere, Mitsubishi, etc. In order for diesel generator core manufacturers and integrators to establish a supply relationship with such diesel engine suppliers, they must demonstrate a high degree of technical competence which takes significant time and investment to build up, creating an entry barrier to the industry.

Due to the high requirements on reliability and high degree of customization required of diesel generator cores, manufacturers and integrators of diesel generator cores typically build up relatively stable relationships with key downstream customers once they become certified suppliers of the latter. Any new entrants would have to incur significant investment in order to establish new client relationships or to displace existing diesel generator core suppliers, thereby creating an entry barrier to the industry.

COMPETITION

Diesel Generator Core

While the Chinese diesel generator core market is highly fragmented with the top eight manufacturers accounting for an estimated 38.3% market share in 2010, the market was dominated by international companies. Chongqing Cummins was the largest producer of diesel generator cores in China with a market share of 14.1%, which is meaningfully larger than the other top industry players. With an estimated 5.2% market share, our Company was the second largest manufacturer of diesel generator cores in China in 2010 along with Caterpillar, which also had an estimated 5.2% market share. However, when combined with its subsidiary Perkins, the market share of Caterpillar as a group increases to 9.1% in 2010. Caterpillar itself was the second largest manufacturer in the market in 2008 and 2009, holding a market share of 5.5% and 5.3%, respectively, for the same periods. Other foreign competitors in the domestic market included Volvo Penta, Mitsubishi, Deutz and MTU Aero. Domestic manufacturers, including Weichai and Shanghai Diesel, are experiencing rapid growth in diesel generator core sales but remain less competitive than their international counterparts. The rest of the market was comprised of a large number of small manufacturers producing low volumes of smaller, lower power diesel generator cores. Unlike other top players which manufacture diesel generator cores based on their own engines, our Company does not manufacture diesel generator engines.

INDUSTRY OVERVIEW

China diesel generator core market share by competitor in 2008, 2009 and 2010 (including all power outputs)

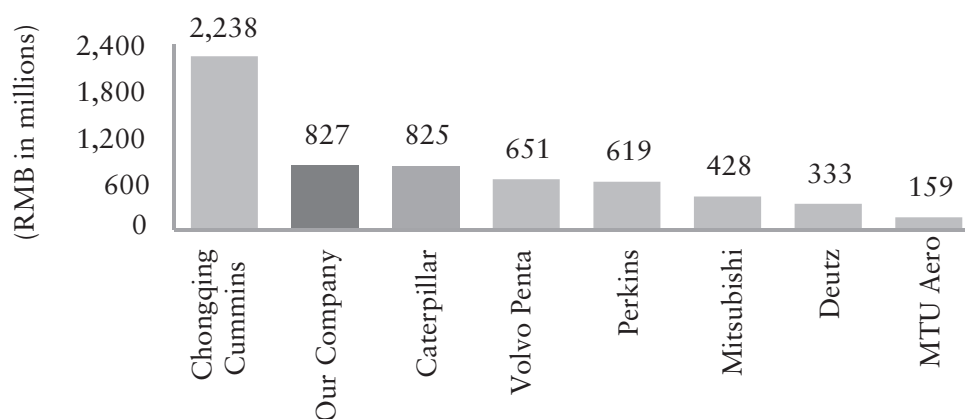
Rank			Company	Estimated market share (%)		
2010	2009	2008		2010	2009	2008
1	1	1	Chongqing Cummins	14.1	14.6	14.3
2	5	3	Our Company	5.2	3.5	4.9
2	2	2	Caterpillar	5.2	5.3	5.5
4	3	4	Volvo Penta	4.1	4.3	4.2
5	4	5	Perkins	3.9	3.9	3.6
6	6	6	Mitsubishi	2.7	2.8	2.9
7	7	7	Deutz	2.1	1.8	1.9
8	8	8	MTU Aero	1.0	1.0	1.1
			Others ⁽¹⁾	61.7	62.8	61.6
			Total	100.0	100.0	100.0

Source: Frost & Sullivan

Note:

(1) Others include John Deere, Daewoo, Kubota, Komatsu, Yanmar and Shanghai Diesel.

China diesel generator core revenue by competitor in 2010



Source: Frost & Sullivan

Within the 20 kW to 220 kW segment, market concentration was similarly low with a high number of small manufacturers, particularly for lower power output diesel generator cores. The top nine largest companies are estimated to hold a collective 38.2% market share in 2010. In 2010, our Company had the largest market share of the 20 kW to 220 kW market at estimated 19.7%, more than four times the size of Kohler, the no. 2 ranked player in the market. Other companies with leading market shares included Sino-foreign joint ventures such as Tianjin Lovol and Weichai Deutz as well as domestic manufacturer Shanghai Diesel. Foreign manufacturers comprised the remaining top nine players including Kubota, Perkins, Yanmar and Volvo Penta, though these companies consistently sell a smaller volume of diesel generator cores.

INDUSTRY OVERVIEW

China 20 kW to 220 kW diesel generator core market share by competitor in 2008, 2009 and 2010

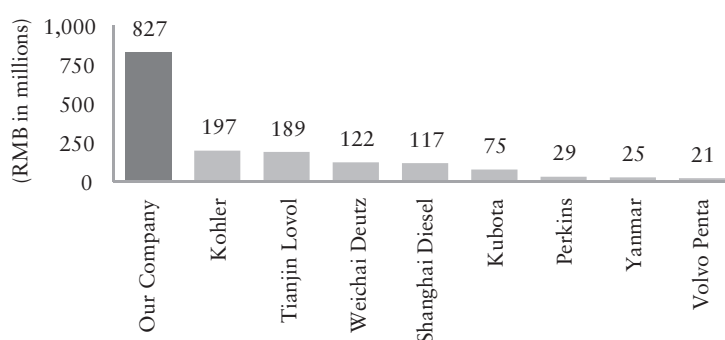
Rank in each of 2008, 2009 and 2010	Company	Estimated market share (%)		
		2010	2009	2008
1	Our Company	19.7	15.0	19.5
2	Kohler	4.7	4.6	4.4
3	Tianjin Lovol	4.5	4.4	4.0
4	Weichai Deutz	2.9	2.9	2.7
5	Shanghai Diesel	2.8	2.7	2.3
6	Kubota	1.8	1.8	1.8
7	Perkins	0.7	0.7	0.7
8	Yanmar	0.6	0.6	0.6
9	Volvo Penta	0.5	0.5	0.4
	Others ¹	61.8	66.8	63.6
	Total	100.0	100.0	100.0

Source: Frost & Sullivan

Note:

(1) Others include Yu Chai, Shanghai Diesel, Wei Chai, Ji Chai, Tong Chai, Xi Chai and Chao Chai.

China 20 kW to 220 kW diesel generator core revenue by competitor in 2010



Source: Frost & Sullivan

China diesel generator power systems competitive landscape analysis

Although the international players offer products in a wide power output range from below 0.4 kW up to 17,460 kW, their offerings in the lower power output range are limited. Domestic companies such as our Company are able to hold market share due to the competitive advantage of a lower cost structure, as well as their greater ability to customize and cater for specific requirements to diesel

INDUSTRY OVERVIEW

generator cores for their customers. As international players focus on higher power output ranges, domestic companies such as the Company may be able to further increase market share within the lower power output range market.

Heat Exchange Systems

Of the diesel generator power systems market for heat exchange systems, the top seven market participants held an estimated 53.6% of the market in 2010. CHEVON, a Singaporean-Chinese joint venture, held the largest market share at estimated 9.3% in 2010, followed by no. 2 player Baling, a key supplier to Yuchai Group. The other top seven manufacturers included Weite Radiator Group, YZSX, Weifang Hengan Radiator Group and Guangzhou City Southern Che-hung Radiator. Our Company was the sixth largest heat exchange systems manufacturer for the diesel generator core market in 2010 with an estimated 7.1% market share. Our Company is one of the few manufacturers in China capable of designing high-performance heat exchange systems to serve the needs of engines with a power output range of 251 kW to 2,000 kW. The high-performance functionalities are typically product features designed to allow engines to operate in operating conditions such as high temperature, high altitude and dusty environments. In order to develop these functionalities and meet customized technical specifications, manufacturers of heat exchange systems are required to conduct extensive research and development activities, including tests between heat exchange systems and diesel engines and expertise to tailor heat exchange systems.

China diesel generator core heat exchange system market share by competitor in 2008, 2009 and 2010

Rank			Company	Estimated market share (%)		
2010	2009	2008		2010	2009	2008
1	1	1	CHEVON	9.3	9.5	8.8
2	2	2	Baling	8.8	9.0	8.5
3	3	3	Weite Radiator Group	8.4	8.6	8.0
4	4	4	YZSX	7.6	7.6	7.5
5	5	5	Weifang Hengan Radiator Group	7.3	7.2	6.9
6	7	7	Our Company	7.1	3.9	1.3
7	6	6	Guangzhou City Southern Che-hung Radiator	5.1	5.1	4.7
			Others ⁽¹⁾	46.4	49.1	54.3
			Total	100.0	100.0	100.0

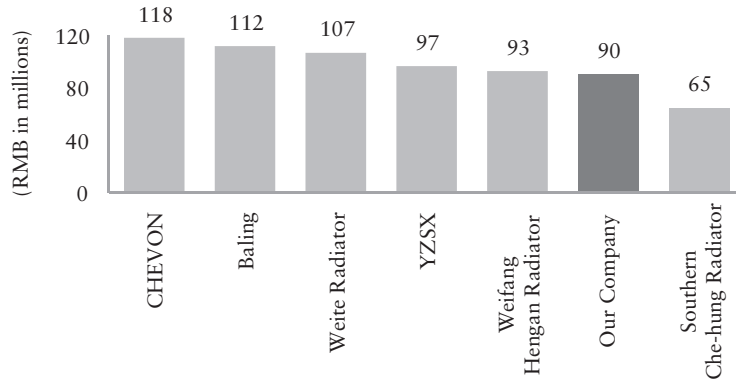
Source: Frost & Sullivan

Note:

(1) Others include An Hui Hui Zhan Radiator, Wei Hui City Ke Yuan Radiator, Qing Dao Bao Rui Radiator, He Nan Bing Yuan Radiator and Qing Dao Shuang Feng Radiator.

INDUSTRY OVERVIEW

China heat exchange system revenue in the diesel generator power system sector by competitor in 2010



Source: Frost & Sullivan

Electronic Control Systems

The PRC market for electronic control systems in the diesel generator power system sector is comprised of leading manufacturers who have their own brands and strong regulations and a large number of small manufacturers. Most of these smaller companies duplicate the products of GAC, the no. 3 player in the market with a 11.8% share in 2010, and offer the products at lower prices. The no. 1 manufacturer in the market in 2009 and 2010 was Fortrust with a market share of 23.3% and 23.4% in 2009 and 2010, respectively, and was selected in 2008 and 2010 respectively for Shanghai Small & Medium-Sized Enterprises and National Technology Innovation Fund projects. Our Company held a 15.5% share in the PRC electronic control systems market in the diesel generator power system sector in 2010. Other leading manufacturers in the PRC electronic control systems market in the diesel generator power system sector include Yunsida Technology, Headcq, Tanghe Technology and Well Fut.

INDUSTRY OVERVIEW

China market share for electronic control systems in the diesel generator power system sector by competitor in 2009 and 2010

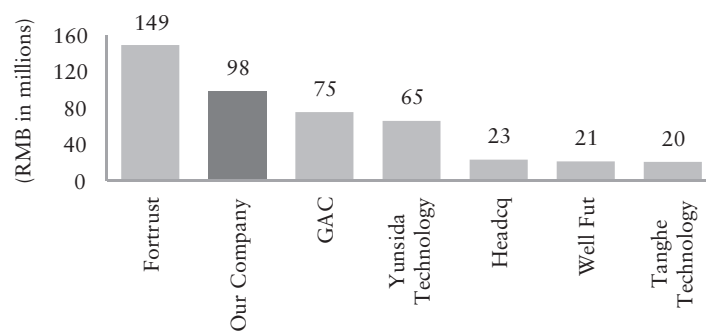
Rank		Company	Market share (%)	
2010	2009		2010	2009
1	1	Fortrust	23.4	23.3
2	4	Our Company	15.5	6.5
3	2	GAC	11.8	11.3
4	3	Yunsida Technology	10.3	9.4
5	5	Headcq	3.6	3.5
6	6	Well Fut	3.3	3.2
7	7	Tanghe Technology	3.2	3.0
		Others ⁽¹⁾	28.9	39.8
		Total	100.0	100.0

Source: Frost & Sullivan

Note:

- (1) Others include Chong Qin Bo Ce Technology, Xián Qing Shan Electronic Control Technology, Dong Guan Xiong Gong Technology, Shen Zhen Yong Hua Mechanical-Electrical Equipment, Guang Zhou San Ye Technology and Wu Xi Tong Hua Xiang Power Equipment.

China electronic control systems revenue in the diesel generator power system sector by competitor in 2010



Source: Frost & Sullivan

REGULATIONS

This section sets out a summary of PRC laws and regulations, which are relevant to our operation and business.

FOREIGN INVESTMENT INDUSTRIAL GUIDANCE

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄(2007年修訂)) (the “**Catalogue**”), which was amended and promulgated by the Ministry of Commerce and the National Development and Reform Commission on October 31, 2007. The Catalogue, as amended, became effective on December 1, 2007 and contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign invested industries, restricted foreign invested industries and prohibited foreign investment. Any industry not listed in the Catalogue is a permitted industry.

IMPORTATION AND EXPORTATION OF GOODS

Pursuant to the Foreign Trade Law of the People’s Republic of China (中華人民共和國對外貿易法) which was promulgated on April 6, 2004 and effective as of July 1, 2004, foreign trade dealers engaged in import and export of goods or technologies shall register with the authority responsible for foreign trade. Where foreign trade dealers fail to register as required, the customs authority shall not process the procedures of declaration, examination and release for the imported and exported goods.

Pursuant to the Administrative Provisions for the Registration of Customs Declaration Bodies by the PRC Customs Authorities (中華人民共和國海關對報關單位注冊登記管理規定), which was promulgated on March 31, 2005 and effective from June 1, 2005, “consignor or consignee of export or import goods” means any legal person, other organization or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of import and export goods shall go through registration formalities with their local customs authorities in accordance with the applicable provisions. After going through the registration formalities with customs, consignors or consignees of import and export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. And a Registration Certificate for Customs Declaration by PRC Consignor/Consignee of Export or Import Goods shall be valid for a period of 3 years.

PRODUCT QUALITY LAW

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (中國人民共和國產品質量法) (the “**Product Quality Law**”), which was promulgated on February 22, 1993 and amended on July 8, 2000 and on August 27, 2009.

Pursuant to the Product Quality Law, a producer shall:

- be responsible for the quality of products it produces;
- not produce products that have been publicly ordered to cease production;
- not forge the origin of a product, or to forge or falsely use the name and address of another producer;
- not forge or falsely use product quality marks such as authentication marks of another producer;

REGULATIONS

- not mix impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production;
- ensure that the marks on the products or the packaging of the products are true; and
- for products that are easily broken, inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or transportation or for which there are other special requirements, the packaging thereof must meet the corresponding requirements, carry warning marks or warnings written in Chinese or draws attention to the method of handling in accordance with the relevant provisions of the state.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

PATENT LAW

According to the PRC Patent Law (中華人民共和國專利法) last amended on December 27, 2008 and the PRC Detailed Rule for the Implementation of Patent Law (中華人民共和國專利法實施細則) amended on January 9, 2010, patent protection is divided into three categories: invention patent; utility model patent and design patent. Invention patent is intended to protect new technical solution for a product, a process or an improvement thereof. Utility model patent is intended to protect new technical solution in relation to a product's shape, structure or a combination thereof, which is fit for practical use. Design patent is intended to protect new design of a product's shape, pattern or a combination thereof as well as its combination with the color and the shape or pattern of a product, which creates an aesthetic feeling and is fit for industrial application.

Invention Patent

The products seeking invention patent protection must possess such characteristics as novelty, creativity and practicability. The grant of invention patent is subject to disclosure and publication requirement. Normally, the patent administrative authority publishes the application 18 months after it is filed after its preliminary review, which may be shortened upon request by the applicant. The patent administrative authority conducts a substantive review within three years from the date the application is filed. The term of protection is 20 years from the date of application.

Once an invention patent is granted, unless otherwise permitted by law, no individuals or entities are permitted to engage in the manufacture, use, offering for sale, sale or import of the patented product, or use the patented solution or otherwise engage in the use, offering for sale, sale or import of the product directly derived from applying the patented solution, without consent of the patent holder.

REGULATIONS

Utility Model Patent

The products seeking utility model patent protection must also possess such characteristics as novelty, creativity and practicability. 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 model patent is also subject to the disclosure and publication requirement upon application. The term of protection is 10 years from the date of application.

Once an utility patent is granted, unless otherwise permitted by law, no individuals or entities are permitted to engage in the manufacture, use, offering for sale, sale or import of the patented product, or use the patented solution or otherwise engage in use, offering for sale, sale or import of the product directly derived from applying the patented solution, without consent of the patent holder.

Design Patent

The products seeking design patent protection must not be the same as prior design. The application procedure and term of protection is the same as utility patent.

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

ENVIRONMENTAL PROTECTION

The Group is subject to various PRC environmental protection laws and regulations promulgated by the central and local governments concerning environmental protection measures in construction projects, discharge and disposal of waste water, solid waste and waste gases, and control of industrial noise.

The State Environmental Protection Administration is responsible for the overall supervision and management of environmental protection in the PRC.

According to the Environmental Protection Law of the PRC (中華人民共和國環境保護法) effective on December 26, 1989, units that cause environmental pollution and other public nuisances shall adopt effective measures to avoid and control the pollution and damage caused to the environment, such as waste gas, waste water, waste residues, dust and noises generated during manufacturing or other activities. Pollution prevention facilities in the construction project shall be designed, built and put into operation together with the main part of the project. The construction project can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities. Enterprises and institutions discharging pollutants shall report to and register with the relevant authorities in accordance with the provisions of the environmental protection authority under the State Council. Units which manufacture, store, transport, sell and use toxic chemicals and materials containing radioactive substances shall comply with the relevant regulations to prevent environmental pollution. The relevant authorities are authorized to impose various types of penalties on the persons or entities in violation of the environmental regulations. The penalties which could be imposed include the issue of warning, suspension of operation or

REGULATIONS

installation and use of preventive facilities which are incomplete and fail to meet the prescribed standard, reinstallation of preventive facilities which have been dismantled or left idle, administrative sanction against office-in-charge, suspension of business operations or shut-down of the enterprise or institution. Fines could also be levied together with these penalties.

According to the Law of the PRC on Appraising of Environment Impacts (中華人民共和國環境影響評價法) effective on September 1, 2003, the PRC government has set up a system to appraise the environmental impact from construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, an environmental impact report of appraising thoroughly the environmental impact which may happen is required; if the construction project may result in a slight impact on the environment, an environmental impact record of analysing or appraising the specific environmental impact which may happen is required; and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but filing an environmental impact form is needed, construction units shall prepare an environmental impacts report. The report shall be approved by the relevant PRC authority before construction commences.

FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is RMB, which is subject to foreign exchange supervision and cannot be freely convertible into foreign exchange. SAFE, under the authority of the Peoples' Bank of China ("PBOC"), is empowered to administer all matters relating to foreign exchange, including the enforcement of foreign exchange supervision regulations.

In 1994, the conditional convertibility of RMB in current account items was implemented, and the official and market rates for RMB exchange were unified. On January 29, 1996, the State Council promulgated the Regulations on the Foreign Exchange Administration of PRC (中華人民共和國外匯管理條例) (the "Foreign Exchange Regulation") which became effective on April 1, 1996. The Control of Foreign Exchange Regulation classifies all international payments and transfers into current account items and capital account items. Current account items are not subject to SAFE's approval while capital account items are.

On June 20, 1996, the PBOC promulgated the Administrative Regulations on the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the "Settlement Regulation") which became effective on July 1, 1996. The Settlement Regulation abolished the remaining restrictions on the convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On January 1, 1994, the former dual exchange rate system for RMB was abolished and replaced by a controlled floating exchange rate system, which was determined by demand and supply.

The Foreign Exchange Regulation was subsequently amended on January 14, 1997 and August 1, 2008 respectively. Such amendments have affirmed that the state shall not restrict regular international payments and transfers. Enterprises may either repatriate their foreign exchange

REGULATIONS

incomes or deposit the same abroad. The conditions and terms for repatriating their foreign exchange income or depositing such income in overseas countries shall be regulated by the administration of foreign exchange under the State Council, which may depend on the balance of international payments and the needs for foreign exchange control. The foreign exchange income under capital accounts which is intended to be retained or sold to financial institutions engaged in the settlement and sale of foreign exchange, except stipulated otherwise, are subject to the approvals of relevant foreign exchange administrations.

The PBOC announced that, beginning on July 21, 2005, China would implement a regulated and managed floating exchange rate system based on the market supply and demand and by reference to a basket of currencies. The RMB exchange rate is no longer pegged to the U.S. dollar. The PBOC will announce the closing price of a foreign currency in terms of RMB in the inter-bank foreign exchange market after the close of market every working day, setting the central parity for trading RMB on the following trading day.

Since January 4, 2006, the PBOC has improved the method to generate the central parity of the RMB exchange rate by introducing an inquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. In addition, the PBOC provided liquidity in the market by introducing a market maker system in the inter-bank foreign exchange market. After the introduction of the inquiry system, the formation of the central parity of RMB against the U.S. dollar was transformed from the previous arrangement based on the closing price determined by price-matching transactions in the inter-bank foreign exchange market to a mechanism under which the PBOC authorized the China Foreign Exchange Trading System to determine and announce the central parity of RMB against the U.S. dollar, based on the inquiry system, at 9:15 am on each business day.

On August 29, 2008, SAFE issued the Notice of the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知). According to this notice, a foreign-invested enterprise shall authorize the competent accountant firm to conduct capital verification before applying for the settlement of the foreign currency capital. The settled foreign currency capital shall be merely used in the business approved by the related authorities and shall not be used in equity investment. It is also prohibited to use the settled foreign currency capital for purchasing domestic real estate (other than for its own use), unless such enterprise is a foreign-invested real estate enterprise.

TAXATION

Enterprise Income Tax

On March 16, 2007, the Enterprises Income Tax Law (中華人民共和國企業所得稅法) (“EIT Law”) was enacted. Under the EIT Law, which took effect on January 1, 2008, the PRC adopts a uniform income tax rate of 25% for all enterprises in the PRC (including foreign-invested enterprises) and revoke many of the tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises before January 1, 2008. According to the EIT Law and the Regulation

REGULATIONS

on the Implementation of 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實施條例) (the “**Implementation Rules**”), which became effective on January 1, 2008, there will be a transition period for enterprises, whether foreign-invested or domestic, that are currently receiving preferential tax treatments according to former applicable laws and regulations. Enterprises that are subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires. However, for those that have failed to enjoy the preferential treatment due to failure to make profits, the term of preferential treatment may be counted as of the year when the EIT Law is promulgated.

Under the EIT Law, enterprises are classified as either resident enterprises or non-resident enterprises. A resident enterprise refers to an enterprise that is incorporated under the PRC law, or that is incorporated under the law of a jurisdiction outside the PRC with its de facto management organization located within the PRC. Under the Implementation Rules, “de facto management organization” is defined as the organization of an enterprise through which substantial and comprehensive management and control over the manufacturing and business operations, personnel, accounting and properties of the enterprise are exercised. A non-resident enterprise refers to an enterprise that is incorporated under the law of a jurisdiction outside the PRC with its de facto management organization located outside of the PRC, but which has either set up institutions or establishments in the PRC or it has income originating from the PRC without setting up an institution or establishment in the PRC.

Value-added Tax

According to the Provisional Regulation of the PRC on Value-added Tax (中華人民共和國增值稅暫行條例) (“**VAT Regulation**”), which was last amended on November 5, 2008 and became effective on January 1, 2009, all units and individuals engaged in the sale of goods, provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC are taxpayers of Value-added tax (“**VAT**”), and shall pay VAT in accordance with the VAT Regulation. According to the VAT Regulation, a VAT tax rate of 17% applies to PRC enterprises.

LABOR PROTECTION

According to the Labor Law of the PRC (中華人民共和國勞動法) and the Labor Contract Law of the PRC (中華人民共和國勞動合同法) effective on January 1, 1995 and January 1, 2008 respectively, labor contracts shall be concluded if labor relationships are to be established between the units and the laborers. The units cannot require the laborers to work exceed the time limit and shall provide the wages which are no lower than local standards on minimum wages to the laborers in time. The units shall establish and perfect their system for labor safety and sanitation, strictly abide by the rules and standards on labor safety and sanitation set by the State, and educate laborers in labor safety and sanitation. The units shall provide laborers with labor safety and sanitation conditions meeting stipulations by the State and necessary articles of labor protection, and carry out regular health examination for laborers engaged in work with occupational hazards.

REGULATIONS

As required under Regulation of Insurance for Labor Injury (工傷保險條例), Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費征繳暫行條例) and Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

According to Regulations on Management of Housing Fund (住房公積金管理條例), enterprises should undertake registration at the competent managing center of housing fund and then, upon the examination by such managing center of housing fund, undergo the procedures of opening the account of housing fund for their employees at the relevant bank. Enterprises are also obliged to pay and deposit housing fund in full amount and in a timely manner.

Save as disclosed in the sections headed “Risk Factors — Our products are subject to substantial policy and regulatory requirements” and “Regulations”, our Directors consider that as of the Latest Practicable Date, there were no effective regulations, rules or restrictions relating to the industries in which we operate, the use of diesel generator engines, diesel generator power systems and the diesel generator core integration business in China, which could materially adversely affect market demand for our diesel generator cores or our business, results of operations or financial condition, and our Directors were not aware of any foreseeable changes to such regulations, rules or restrictions.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Introduction

We commenced business operations in December 2005 when Xiangfan Kanghao was established in Xiangyang City, Hubei Province, the PRC, with an initial registered capital of RMB3,000,000. Since then, the power core business has become our major business which accounted for approximately 95.9% of our revenue from external customers (i.e. our turnover) and approximately 56.8% of our reportable segment gross profits during the year 2010. To capitalize on our success in the power core business, we also commenced our heat exchange system business by establishing Beworld and Wuhan Hero City in 2007. In order to further strengthen our leading position in diesel generator core solutions, we also expanded into the electronic control system business by establishing Ascend and Wuhan Norman in 2008.

In preparation for the Listing, we commenced the Reorganization in 2011. Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 10, 2011. Upon Reorganization, our Company has become the ultimate holding company of its existing subsidiaries and holds the interest in its jointly-controlled entity.

Business Milestones

The following chart sets forth major events and milestones in the development of our business:

Year	Event/Milestone
2006	Xiangfan Kanghao commenced the integration of diesel generator cores business in June 2006.
2007	By assisting its customers to explore the overseas market, Xiangfan Kanghao achieved a substantial growth in its sales with its annual unit sales volume of diesel generator cores reaching 15,800 units, compared to 6,100 units in 2006.
2008	Wuhan Hero City commenced the production of heat exchange systems for engines with a power output ranging from 20 kW to 250 kW in April 2008. Beworld commenced the heat exchange system business for engines with a power output ranging from 251 kW to 2,000 kW in April 2008.
2009	Wuhan Norman and Ascend commenced the electronic control system business in March 2009 by producing electronic speed controllers. Xiangfan Kanghao was recognized as a High-tech Enterprise by Hubei Provincial Science & Technology Department, Hubei Provincial Finance Department, Hubei State Taxation Bureau and Hubei Local Taxation Bureau in December 2009. We had the largest market share in the integration of diesel generator cores with a power output ranging from 20 kW to 220 kW in China in terms of revenue. We had the fourth largest market share in the manufacturing of electronic engine control systems in China in terms of revenue.
2010	We had the second largest market share in the manufacturing of electronic engine control systems in China in terms of revenue.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Year	Event/Milestone
2011	<p>We entered into a strategic alliance agreement with Dongfeng Cummins on March 4, 2011, pursuant to which Dongfeng Cummins will supply diesel generator engines to us on a priority basis. This strategic alliance agreement was supplemented by a long-term supply contract we entered into with Dongfeng Cummins on May 24, 2011.</p> <p>We entered into a supply agreement with Tianjin Lovol on February 12, 2011, which recognized us as a qualified electronic control systems supplier to Tianjin Lovol. However, such agreement does not include any take-or-pay obligations and therefore should not be regarded as a long-term agreement.</p> <p>We entered into a framework agreement with Dongfeng Motor Engine to source its industrial diesel engines and diesel generator engines on February 26, 2011. However, such agreement does not include any take-or-pay obligations and therefore should not be regarded as a long-term agreement.</p> <p>We entered into a letter of intent with Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司) on May 3, 2011, pursuant to which we may be able to sell commercial vehicle heat exchange systems to Beiqi Foton Motor Co., Ltd. in the future. However, this letter of intent is not legally binding and does not include any take-or-pay obligation.</p>

History and Development of Our PRC Operating Subsidiaries

Xiangfan Hero City

Xiangfan Hero City, which was formerly known as Xiangfan Dongkang Nengqiang Machinery & Electric Co., Ltd.* (襄樊東康能強機電有限公司) (“**Dongkang Nengqiang**”), was established on July 21, 2004 in Xiangyang City, Hubei Province, the PRC as a limited liability company with a registered capital of RMB2,000,000 and was owned as to 50% by Mr. Li, 25% by Mr. Luo and 25% by an individual who was an Independent Third Party. From its incorporation till December 2005, Xiangfan Hero City was mainly engaged in the integration of diesel generator cores driven by diesel generator engines provided by Dongfeng Cummins. Since the incorporation of Xiangfan Kanghao by our ultimate Controlling Shareholders in December 2005, Xiangfan Hero City has gradually shifted its business focus to research and development activities.

Pursuant to an equity transfer agreement dated March 14, 2006, the individual who was an Independent Third Party transferred all his 25% equity interest in Xiangfan Hero City to Mr. Li and Mr. Luo in equal amounts, each for a consideration determined by reference to the registered capital of Xiangfan Hero City. Upon completion of the above equity transfers, Xiangfan Hero City was owned as to 62.5% by Mr. Li and 37.5% by Mr. Luo.

Pursuant to an equity transfer agreement dated April 20, 2006, Mr. Li transferred his entire equity interest in Xiangfan Hero City to Hero City Investment, a company the entire share capital of which was owned by Ms. Xu and Mr. Li himself. Upon completion of such equity transfer, Xiangfan Hero City became a foreign-invested enterprise.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Xiangfan Hero City changed its name from Xiangfan Dongkang Nengqiang Machinery & Electric Co., Ltd.* (襄樊東康能強機電有限公司) to Xiangfan Hero City Machinery & Electric Co., Ltd.* (襄樊朗弘機電有限公司) on March 26, 2007.

In recognition of the contributions of Mr. Zhang, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao in the management of Xiangfan Hero City, pursuant to an equity transfer agreement dated July 19, 2007, Hero City Investment and Mr. Luo transferred 15.5% and 9.5% equity interest in Xiangfan Hero City to Xiangfan Dongkang Langhong Automotive Parts Co., Ltd.* (襄樊東康朗宏汽車配件有限公司) (“**Dongkang Langhong**”) which was owned by Mr. Hu Wenling (胡文齡) (as trustee for Mr. Li), Mr. Fan and Mr. Gao as to 40%, 40% and 20%, respectively, at that time. The consideration for each of such transfers was determined with reference to the then registered capital of Xiangfan Hero City. The purpose of the trust arrangement between Mr. Li and Mr. Hu Wenling is to take advantage of Mr. Hu Wenling’s reputation in the engine distribution market. Pursuant to a trust agreement dated July 3, 2007 entered into by Mr. Li and Mr. Hu Wenling, Mr. Hu Wenling held the 40% equity interest in Dongkang Langhong for Mr. Li. To evidence the respective beneficial ownership of Mr. Zhang, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao in Xiangfan Hero City through Dongkang Langhong, Mr. Gao entered into three trust agreements with Mr. Zhang, Ms. Huang Fei and Ms. Huang Yue on September 3, 2007. Pursuant to such trust agreements, Mr. Gao held 5.44%, 1.6% and 0.96% equity interest of Dongkang Langhong in trust for Mr. Zhang, Ms. Huang Fei and Ms. Huang Yue, respectively. Upon completion of such equity transfers, Xiangfan Hero City was owned as to 47% by Hero City Investment, 28% by Mr. Luo and 25% by Dongkang Langhong.

Upon completion of a series of equity transfers pursuant to four equity transfer agreements all dated April 14, 2009, each for a consideration determined by reference to the then registered capital of Xiangfan Hero City, Xiangfan Hero City was owned as to 45% by Hero City Investment, 27% by Mr. Luo, 9% by Mr. Fan, 9% by Mr. Hu Wenling (as the trustee for Mr. Li), 5% by Mr. Gao and 5% by an Independent Third Party. To evidence the respective beneficial ownership of Mr. Zhang, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao in Xiangfan Hero City, Mr. Gao entered into three trust agreements with Mr. Zhang, Ms. Huang Fei and Ms. Huang Yue on June 1, 2009. Pursuant to such trust agreements, Mr. Gao held 1.36%, 0.4% and 0.24% equity interest of Xiangfan Hero City in trust for Mr. Zhang, Ms. Huang Fei and Ms. Huang Yue, respectively.

Hero City Investment, Mr. Luo, Mr. Fan and Mr. Hu Wenling (as trustee for Mr. Li) acquired 2%, 1%, 1% and 1% equity interest in Xiangfan Hero City, respectively, held by an individual who was an Independent Third Party pursuant to four equity transfer agreements all dated March 24, 2010, each for a consideration determined by reference to the registered capital of Xiangfan Hero City. Upon completion of such acquisition Xiangfan Hero City was owned as to 47% by Hero City Investment, 28% by Mr. Luo, 10% by Mr. Fan, 10% by Mr. Hu Wenling (as trustee for Mr. Li) and 5% by Mr. Gao.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

In October 2010, for the purpose of business expansion, Xiangfan Hero City increased its registered capital from RMB2,000,000 to RMB22,000,000.

Xiangfan Kanghao

During 2005, both Xiangfan Hero City and Xiangfan Kangchen Machinery & Electric Co., Ltd. (襄樊康晨機電工程有限公司) (“Xiangfan Kangchen”) were engaged in the integration of diesel generator cores driven by diesel generator engines provided by Dongfeng Cummins. Mr. Li and Mr. Luo were the shareholders of Xiangfan Hero City. Mr. Fan was the head of the marketing department and the deputy general manager of Xiangfan Hero City. Mr. Zhang, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao were the then shareholders of Xiangfan Kangchen. At the same time, Mr. Gao was the manager of the marketing department of Xiangfan Kangchen, and Ms. Huang Yue was the financial manager of Xiangfan Yuli Machinery Parts Co., Ltd.* (襄樊宇立機械配件有限責任公司), a company owned as to 40% by Xiangfan Kangchen at that time.

For the purpose of avoiding business competition, the shareholders of Xiangfan Hero City and Xiangfan Kangchen established a joint venture, namely, Xiangfan Kanghao, in 2005 to engage in the integration of diesel generator cores driven by diesel generator engines provided by Dongfeng Cummins. Accordingly, Xiangfan Kanghao was established on December 7, 2005 in Xiangyang City, Hubei Province, the PRC as a limited liability company with a registered capital of RMB3,000,000 and was owned as to 29% by Mr. Li, 16% by Mr. Luo, 5% by Mr. Fan and 50% by Xiangfan Kangchen. Mr. Zhang and Ms. Huang Fei were the registered owner of 13.5% and 4% equity interest, respectively, in Xiangfan Kangchen. As incentives for Mr. Huang Yue and Mr. Gao to actively participate in the management of Xiangfan Kanghao, our other ultimate Controlling Shareholders intended to transfer certain equity interest in Xiangfan Kanghao through Xiangfan Kangchen to Mr. Huang Yue and Mr. Gao subject to their satisfactory performance. To evidence such arrangements, Mr. Zhang entered into a trust agreement with Mr. Gao and Ms. Huang Yue on December 7, 2005, respectively. Pursuant to such trust agreements, of the 13.5% equity interest in Xiangfan Kangchen registered under the name of Mr. Zhang, 0.8889% and 0.5% equity interest were held by Mr. Zhang in trust for Mr. Gao and Ms. Huang Yue, respectively.

Pursuant to an equity transfer agreement dated December 1, 2006, Mr. Li transferred his entire interest in Xiangfan Kanghao to Hero City Investment, a company the entire share capital of which was owned by Ms. Xu and Mr. Li himself. Upon completion of such equity transfer, Xiangfan Kanghao became a foreign-invested enterprise.

Pursuant to six equity transfer agreements all dated April 23, 2008, Xiangfan Kangchen transferred all of its 50% equity interest in Xiangfan Kanghao to six of its individual shareholders, namely, Mr. Zhang, Ms. Huang Fei, Ms. Huang Yue and other three individuals who were Independent Third Parties, each at a consideration determined with reference to the then registered capital of Xiangfan Kaohao. Upon completion of the above equity transfers, Xiangfan Kanghao was owned as to 29% by Hero City Investment, 16% by Mr. Luo, 5% by Mr. Fan, 13.75% by Mr. Zhang, 5% by Ms. Huang Fei, 3% by Ms. Huang Yue and an aggregate of 28.25% by other three individuals who were Independent Third Parties. As requested by Mr. Gao for privacy concern, out of the 13.75% equity interest in Xiangfan Kanghao registered in the name of Mr. Zhang, 0.8889% equity interest was held

HISTORY, REORGANIZATION AND GROUP STRUCTURE

by Mr. Zhang in trust for Mr. Gao. To evidence such trust arrangement, a trust agreement was entered into between Mr. Gao and Mr. Zhang on May 4, 2008, pursuant to which, out of the 13.75% equity interest in Xiangfan Kanghao held by Mr. Zhang, 0.8889% equity interest was held by Mr. Zhang in trust for Mr. Gao.

Pursuant to an equity transfer agreement dated June 12, 2008, one of the three other individuals who were Independent Third Parties transferred all his 7.75% interest in Xiangfan Kanghao to Mr. Zhang at a consideration determined with reference to the registered capital of Xiangfan Kanghao.

Mr. Li and Ms. Huang Yue acquired all the 20.5% equity interest in Xiangfan Kaohao held by the other two individuals who were Independent Third Party pursuant to the equity transfer agreements dated March 6, 2009, and March 11, 2009, at the consideration determined with reference to the registered capital of Xiangfan Kaohao. Upon completion of such equity transfers, Xiangfan Kanghao was owned as to 33.5% by Hero City Investment, 25% by Wise Jade (a company owned by Mr. Zhang, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao), 16% by Mr. Luo, 5% by Mr. Fan, 10.5% by Mr. Li and 10% by Ms. Huang Yue.

Upon completion of a series of equity transfers among our ultimate Controlling Shareholders pursuant to two equity transfer agreements dated April 16, 2009, Xiangfan Kanghao was owned as to 33.5% by Hero City Investment, 25% by Wise Jade, 19.24% by Mr. Luo, 8% by Mr. Fan, 6.77% by Mr. Li, 0.77% by Ms. Huang Yue, 3.43% by Mr. Zhang, 1.29% by Ms. Huang Fei and 2% by Mr. Gao.

In May 2010, for the purpose of business expansion, Xiangfan Kanghao increased its registered capital from RMB3,000,000 to RMB15,000,000.

Hubei Langtong

Hubei Langtong was established on August 20, 2007 in Xiangyang City, Hubei Province, the PRC as a limited liability company with a registered capital of RMB10,000,000 and was owned as to 10% by Mr. Zhang, 45% by Xiangfan Hero City and 45% by Mr. Li Kewu (李克武). Hubei Langtong has been mainly engaged in the distribution of industrial diesel engines and integration of industrial power cores with applications in heavy construction machinery.

Pursuant to an equity transfer agreement dated September 15, 2007, Mr. Zhang transferred his 10% equity interest in Hubei Langtong to Xiangfan Hero City and Mr. Li Kewu in equal amounts at the consideration determined with reference to the then registered capital of Hubei Langtong. Upon completion of such equity transfer, Hubei Langtong was owned as to 50% by Xiangfan Hero City and 50% by Mr. Li Kewu.

Wuhan Hero City

Wuhan Hero City was established on December 27, 2007 in Wuhan City, Hubei Province, the PRC, as a limited liability company with a registered capital of RMB2,000,000 and was owned as to 90% by Xiangfan Hero City and 10% by Mr. Zhang. Wuhan Hero City has been mainly engaged in the manufacture of heat exchange systems for engines with a power output ranging from 20 kW to 220 kW.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Pursuant to 12 equity transfer agreements all dated February 22, 2008, Xiangfan Hero City transferred its 40% equity interest in Wuhan Hero City, as incentives, to 12 individuals who were Independent Third Party individuals, each at a consideration determined with reference to the then registered capital of Wuhan Hero City. Upon completion of such equity transfers, Wuhan Hero City was owned as to 50% by Xiangfan Hero City, 10% by Mr. Zhang and 40% by such 12 Independent Third Party individuals.

On December 23, 2008, Wuhan Hero City increased its registered capital from RMB2,000,000 to RMB4,000,000. Upon completion of such capital increase, Wuhan Hero City was owned as to 25% by Xiangfan Hero City, 16.5% by Mr. Li, 13.25% by Mr. Zhang, 7.75% by Mr. Luo, 4% by Ms. Huang Fei, 4% by Ms. Huang Yue, 2.75% by Mr. Gao, 2.75% by Mr. Fan and 24% by such 12 Independent Third Party individuals.

Upon completion of a series of equity transfers pursuant to the equity transfer agreements dated September 21, 2009, December 7, 2009, February 4, 2010, and November 26, 2010, respectively, each at a consideration determined with reference to the then registered capital of Wuhan Hero City, Wuhan Hero City was owned as to 51% by Xiangfan Kaohao, 41.5% by Xiangfan Hero City, and 7.5% by four Independent Third Party individuals.

Beworld

Beworld was established on December 28, 2007 in Wuhan City, Hubei Province, the PRC as a limited liability company with a registered capital of RMB2,000,000 and was owned as to 50% by Xiangfan Hero City and 50% by Ms. Xiang Er'lan (向二蘭), an Independent Third Party. Beworld has been mainly engaged in the manufacturing of heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW.

Upon completion of a series of equity transfers pursuant to the equity transfer agreements dated January 10, 2008, March 7, 2010, and April 7, 2010, respectively, each at a consideration determined with reference to the then registered capital of Beworld, Beworld was owned as to 51% by Xiangfan Kanghao and 49% by Mr. Wei Qun (衛群). After completion of such equity transfers and amendment of its articles of association to reflect Xiangfan Kanghao's rights in Beworld, Beworld became a subsidiary of ours and ceased being a jointly-controlled entity on December 31, 2010.

On May 3, 2011, Xiangfan Kanghao and Mr. Wei Qun (衛群) entered into an equity transfer agreement pursuant to which Mr. Wei Qun (衛群) transferred 39% equity interest in Beworld to Xiangfan Kanghao for a consideration determined with reference to the then registered capital of Beworld. The equity transfer has been completed and Beworld is owned by Xiangfan Kanghao and Mr. Wei Qun (衛群) as to 90% and 10%, respectively.

Wuhan Roll Technology

Wuhan Roll Technology was established on August 1, 2007 in Wuhan City, Hubei Province, the PRC as a limited liability company with a registered capital of RMB50,000,000 and was owned as to 98% by Xiangfan Kanghao and 2% by Mr. Zhang. As required by local authorities, two

HISTORY, REORGANIZATION AND GROUP STRUCTURE

shareholders are required to form a domestic company. As such, Mr. Zhang entered into a trust agreement with Xiangfan Kanghao on August 1, 2007. Pursuant to the trust agreement, Mr. Zhang held 2% equity interest in trust for Xiangfan Kanghao in Wuhan Roll Technology. Wuhan Roll Technology has not engaged in any operating activities since its establishment.

On August 5, 2010, due to a change in its business plan and capital requirements, Wuhan Roll Technology reduced its registered capital from RMB50,000,000 to RMB19,000,000.

Wuhan Norman

In order to meet the increasing demand of the electronic speed actuators and controllers from Xiangfan Kanghao, Wuhan Norman was established on July 25, 2008 in Wuhan City, Hubei Province, the PRC as a limited liability company with a registered capital of RMB5,000,000 and was owned as to 45% by Mr. Ye Zhongqiao (葉中樵), 25% by Mr. Li, 8% by Mr. Fan, 6% by Mr. Luo, 6% by Mr. Zhang, 5% by Ms. Xu's brother, and 5% by an employee of Wuhan Norman. Wuhan Norman has been mainly engaged in the manufacture of electronic speed actuators. Pursuant to a trust agreement dated July 25, 2008 entered into by Mr. Li and Mr. Ye Zhongqiao, Mr. Ye Zhongqiao held the 45% equity interest in Wuhan Norman for Mr. Li. The purpose of the trust arrangement between Mr. Li and Mr. Ye Zhongqiao is to take advantage of Mr. Ye Zhongqiao's reputation in the electronic controller production market. In view of the minority shareholdings held by Mr. Gao, Ms. Huang Fei and Ms. Huang Yue in Wuhan Norman and to facilitate the management, Mr. Zhang entered into three trust agreements with Mr. Gao, Ms. Huang Fei and Ms. Huang Yue on July 25, 2008, respectively. Pursuant to such trust agreements, Mr. Zhang held 0.5%, 0.5% and 0.5% equity interest in Wuhan Norman on trust for Ms. Huang Yue, Ms. Huang Fei and Mr. Gao, respectively.

Chongqing Langyu

In order to take advantage of Mr. Wang Zhengchang (王正長)'s extensive industry experience in the oil hydraulic power drive integration business, Chongqing Langyu was established on June 22, 2009 in Chongqing City, the PRC as a limited liability company with a registered capital of RMB1,000,000 and was owned as to 55% by Mr. Gao (as trustee for Xianfang Hero City) and 45% by Mr. Wang Zhengchang. Chongqing Langyu was established to be mainly engaged in the integration of oil hydraulic power drives equipped with Chongqing Cummins engines. At the same time, Xiangfan Hero City was undertaking marketing and promotion activities in certain markets for Xiangfan Kanghao's diesel generator cores for engines which were mainly sourced from Dongfeng Cummins. Chongqing Cummins is a joint venture established by Cummins China and Chongqing Machinery & Electric Co., Ltd* (重慶機電股份有限公司) while Dongfeng Cummins is a joint ventures established by Cummins Inc. and Dongfeng Automobile Co., Ltd.* (東風汽車股份有限公司), each being operated and managed independently. In order not to complicate the relationship with Dongfeng Cummins, Xiangfan Hero City entered into a trust agreement with Mr. Gao on June 19, 2009, pursuant to which Mr. Gao held 55% equity interest in Chongqing Langyu in trust for Xiangfan Hero City.

Pursuant to an equity transfer agreement dated September 6, 2010, Mr. Gao transferred the legal title of 55% equity interest in Chongqing Langyu to Xiangfan Hero City. Upon completion of such equity transfer, Chongqing Langyu was owned as to 55% by Xiangfan Hero City and 45% by Mr. Wang Zhengchang.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Ascend

We used to source the electronic speed controllers from the market prior to 2008. In order to meet the increasing demand of the electronic speed controllers from Xiangfan Kanghao, on February 28, 2008, our ultimate Controlling Shareholders, as direct shareholders and/or through trust arrangements, together with an Independent Third Party individual, established Ascend in Hong Kong with limited liability. Upon completion of a series of share transfers among our ultimate Controlling Shareholders, their trustees and the Independent Third Party individual, each at a consideration determined by reference to the par value of the shares of Ascend, on September 22, 2010, Ascend was owned as to 60% by Hero City Investment, 8% by Mr. Zhang, 8% by Mr. Fan, 8% by Mr. Luo, 2.5% by Mr. Gao, 2% by Ms. Huang Yue, 2.5% by Ms. Huang Fei, 8% by Mr. Ye Zhongqiao (as trustee for Mr. Li), and 1% by Mr. Li Yunfeng (as trustee for Mr. Li).

Validity of the trust agreements

Commerce & Finance Law Offices, our PRC legal advisers, advised that the trust agreements involving our PRC subsidiaries since their incorporation, as described above, were not in violation of any mandatory laws or regulations in the PRC and were legal, valid and binding during the relevant period when the trust arrangements were effective and the beneficiaries under the trust agreements are not prohibited from holding the respective equity interests in his/her own name directly.

Entities Formerly Part of Our Group During the Track Record Period

Wuhan Kanghao

Wuhan Kanghao was established on January 30, 2008 in Wuhan City, Hubei Province, the PRC, as a limited liability company with a registered capital of RMB2,000,000 and was owned as to 45% by Xiangfan Hero City, 45% by Ms. Xiang Er'lan and 10% by Mr. Zhang. Wuhan Kanghao was mainly engaged in the manufacture heat exchange systems for engines.

Due to similarity of the operations of Wuhan Kanghao and Beworld, we decided to consolidate such operations by transferring the business of Wuhan Kanghao which had a smaller scale of operation to Beworld and dispose of its equity interests. Prior to such disposal, Wuhan Kanghao was owned as to 51% by Xiangfan Kanghao and 49% by Ms. Xiang Er'lan. Pursuant to a share transfer agreement dated December 23, 2010, the entire equity interests in Wuhan Kanghao were disposed to an individual, who is an Independent Third Party, at a consideration determined by reference to the registered capital of Wuhan Kanghao. Upon completion of such disposal, we ceased to have any interest in Wuhan Kanghao.

Beijing Changyuan

Beijing Changyuan was established on October 31, 2007 in Beijing as a limited liability company with a registered capital of RMB50,000,000 and was owned as to 45.6% by Beijing Foton Environmental Engine Co., Ltd.* (北京福田環保動力股份有限公司), an Independent Third Party, and 54.4% by Xiangfan Kanghao. Beijing Changyuan was mainly engaged in the manufacture of spare parts for engines.

As the business of Beijing Changyuan does not form part of our core business, we had disposed of Beijing Changyuan. Prior to such disposal, Beijing Changyuan was owned as to 88% by Xiangfan

HISTORY, REORGANIZATION AND GROUP STRUCTURE

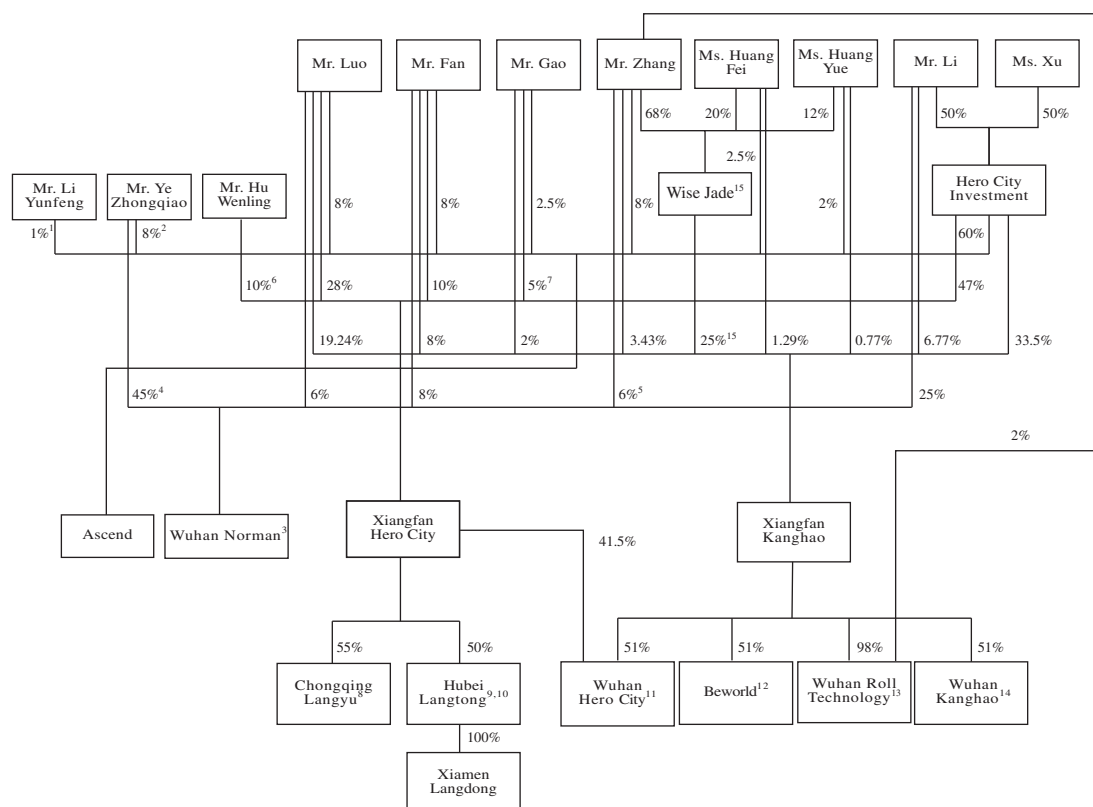
Kanghao and 12% by Beijing Foton Environmental Engine Co., Ltd. Pursuant to a share transfer agreement dated August 20, 2008, we disposed of our entire equity interests in Beijing Changyuan to Changyuan Donggu Industry at a consideration determined by reference to the then registered capital of Beijing Changyuan. Upon completion of such disposal, we ceased to have any interest in Beijing Changyuan.

Xiamen Langdong

Hubei Langtong established Xiamen Langdong Electronic Machinery and Equipment Company Limited (廈門朗東機電設備有限公司) (“**Xiamen Langdong**”), a wholly-owned subsidiary of Hubei Langtong, on January 28, 2008. Xiamen Langdong had not actively pursued business activities since its establishment. Pursuant to a share transfer agreement dated March 3, 2011, Hubei Langtong transferred all its equity interest in Xiamen Langdong to Ms. Liang Huiqi, an Independent Third Party.

REORGANIZATION

The following chart shows the Group’s corporate and shareholding structure immediately prior to the Reorganization.



Notes:

1. The 1% of equity interest was held by Mr. Li Yunfeng as trustee of Mr. Li.
2. The 8% equity interest was held by Mr. Ye Zhongqiao as trustee of Mr. Li.
3. The remaining 10% equity interest was held by Ms. Xu’s brother and another individual who was an Independent Third Party in equal portions.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

4. The 45% equity interest was held by Mr. Ye Zhongqiao as trustee of Mr. Li.
5. Among the 6% equity interest held by Mr. Zhang, 0.5%, 0.5% and 0.5% equity interest was held by Mr. Zhang as trustee of Ms. Huang Fei, Mr. Gao and Ms. Huang Yue, respectively.
6. The 10% equity interest was held by Mr. Hu Wenling as trustee of Mr. Li.
7. Of the 5% equity interest held by Mr. Gao, 1.36%, 0.4% and 0.24% equity interest was held by Mr. Gao as trustee of Mr. Zhang, Ms. Huang Fei and Ms. Huang Yue, respectively.
8. The remaining 45% equity interest was held by Mr. Wang Zhengchang, a general manager of Chongqing Langyu.
9. The remaining 50% equity interest was held by Mr. Li Kewu, a director of Hubei Langtong.
10. Hubei Langtong had a wholly-owned subsidiary, Xiamen Langdong which was disposed of on March 15, 2011.
11. Of the remaining 7.5% equity interest, 1.5% was held by an employee of our Group and 6% was held by other three individuals who were Independent Third Parties.
12. The remaining 49% equity interest was held by Mr. Wei Qun, a director and general manager of Beworld.
13. The 2% equity interest was held by Mr. Zhang as trustee of Xiangfan Kanghao.
14. The remaining 49% equity interest was held by Mr. Xiang Er'lan, a director and general manager of Wuhan Hero City before January 28, 2008 and a director of Beworld before January 28, 2008.
15. Among the 25% equity interest held by Wise Jade, 16.40%, 4.82%, 2.90% and 0.89% equity interest was held by Wise Jade as trustee of Mr. Zhang, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao, respectively.

To prepare our corporate structure for the Listing and to facilitate our growth and expansion strategy, we underwent the Reorganization. The principal steps involved in the Reorganization are summarized below:

A. Incorporation of overseas holding companies

On January 4, 2011, Yuan Tai Long was incorporated in the BVI. On January 4, 2011, Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao subscribed for and were allotted 268,359 shares, 268,356 shares, 170,580 shares, 119,935 shares, 84,000 shares, 37,055 shares, 23,965 shares and 27,750 shares of Yuan Tai Long, respectively. Our ultimate Controlling Shareholders reached the agreement in respect of their agreed shareholding structure as mentioned above having regard to their respective investment in, and contribution to, our Group.

On January 4, 2011, Rui Man Di was incorporated in the BVI. On January 4, 2011, Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao subscribed for and were allotted 268,359 shares, 268,356 shares, 170,580 shares, 119,935 shares, 84,000 shares, 37,055 shares, 23,965 shares and 27,750 shares of Rui Man Di, respectively.

On January 14, 2011, Neng Yuan Power was incorporated in Hong Kong with Rui Man Di as its sole shareholder.

On January 10, 2011, our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorized share capital of US\$50,000 divided into 5,000,000 shares with a par value of US\$0.01 each, with Yuan Tai Long as its sole shareholder.

B. Acquisition of our PRC operating subsidiaries

On January 24, 2011, Neng Yuan Power entered into equity transfer agreements with Hero City Investment, Mr. Luo, Mr. Fan, Mr. Gao and Mr. Hu Wenling to acquire all the equity interest in Xiangfan Hero City held by them, respectively, namely, 47% from Hero City Investment, 28% from Mr. Luo, 10% from Mr. Fan, 5% from Mr. Gao and 10% from Mr. Hu Wenling, at the consideration

HISTORY, REORGANIZATION AND GROUP STRUCTURE

of RMB11,139,000, RMB6,636,000, RMB2,370,000, RMB1,185,000 and RMB2,370,000, respectively, which were determined on the basis of the evaluation result of the equity interest transferred. Approval for the transfer from the relevant PRC authority was obtained on January 27, 2011.

On February 18, 2011, Xiangfan Hero City entered into equity transfer agreements with Hero City Investment, Wise Jade, Mr. Luo, Mr. Fan, Mr. Li, Mr. Zhang, Mr. Gao, Ms. Huang Fei and Ms. Huang Yue to acquire all the equity interest in Xiangfan Kanghao held by them, respectively, namely 33.5% from Hero City Investment, 25% from Wise Jade, 19.24% from Mr. Luo, 8% from Mr. Fan, 6.77% from Mr. Li, 3.43% from Mr. Zhang, 2% from Mr. Gao, 1.29% from Ms. Huang Fei and 0.77% from Ms. Huang Yue, at the consideration of RMB5,293,000, RMB3,950,000, RMB3,039,920, RMB1,264,000, RMB1,069,600, RMB541,940, RMB316,000, RMB203,820 and RMB121,660, respectively, which were determined on the basis of the evaluation result of the equity interest transferred. Approval for the transfer from relevant PRC authority was obtained on February 21, 2011.

On February 18, 2011, Xiangfan Hero City entered into equity transfer agreements with Mr. Ye Zhongqiao, Mr. Li, Mr. Fan, Mr. Zhang and Mr. Luo to acquire all the equity interest in Wuhan Norman held by them, respectively, namely, 45% from Mr. Ye Zhongqiao, 25% from Mr. Li, 8% from Mr. Fan, 6% from Mr. Zhang and 6% from Mr. Luo, at the consideration of RMB2,250,000, RMB1,250,000, RMB400,000, RMB300,000 and RMB300,000, respectively, which were determined with reference to the registered capital of Wuhan Norman.

On February 18, 2011, Xiangfan Kanghao entered into an equity transfer agreement with Mr. Zhang to acquire 2% equity interest of Wuhan Roll Technology from him at the consideration of RMB380,000, which was determined with reference to the registered capital of Wuhan Roll. After the acquisition, Wuhan Roll Technology became an indirect wholly-owned subsidiary of our Company.

C. Transfer of the entire shareholding of Rui Man Di to our Company

On January 21, 2011, Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao transferred all the 268,359 shares, 268,356 shares, 170,580 shares, 119,935 shares, 84,000 shares, 37,055 shares, 23,965 shares and 27,750 shares of Rui Man Di held by them to our Company, respectively, at the consideration of US\$1.00, US\$1.00, US\$1.00, US\$1.00, US\$1.00, US\$1.00, US\$1.00 and US\$1.00, respectively. Upon completion of such transfers, Rui Man Di became a wholly-owned subsidiary of our Company.

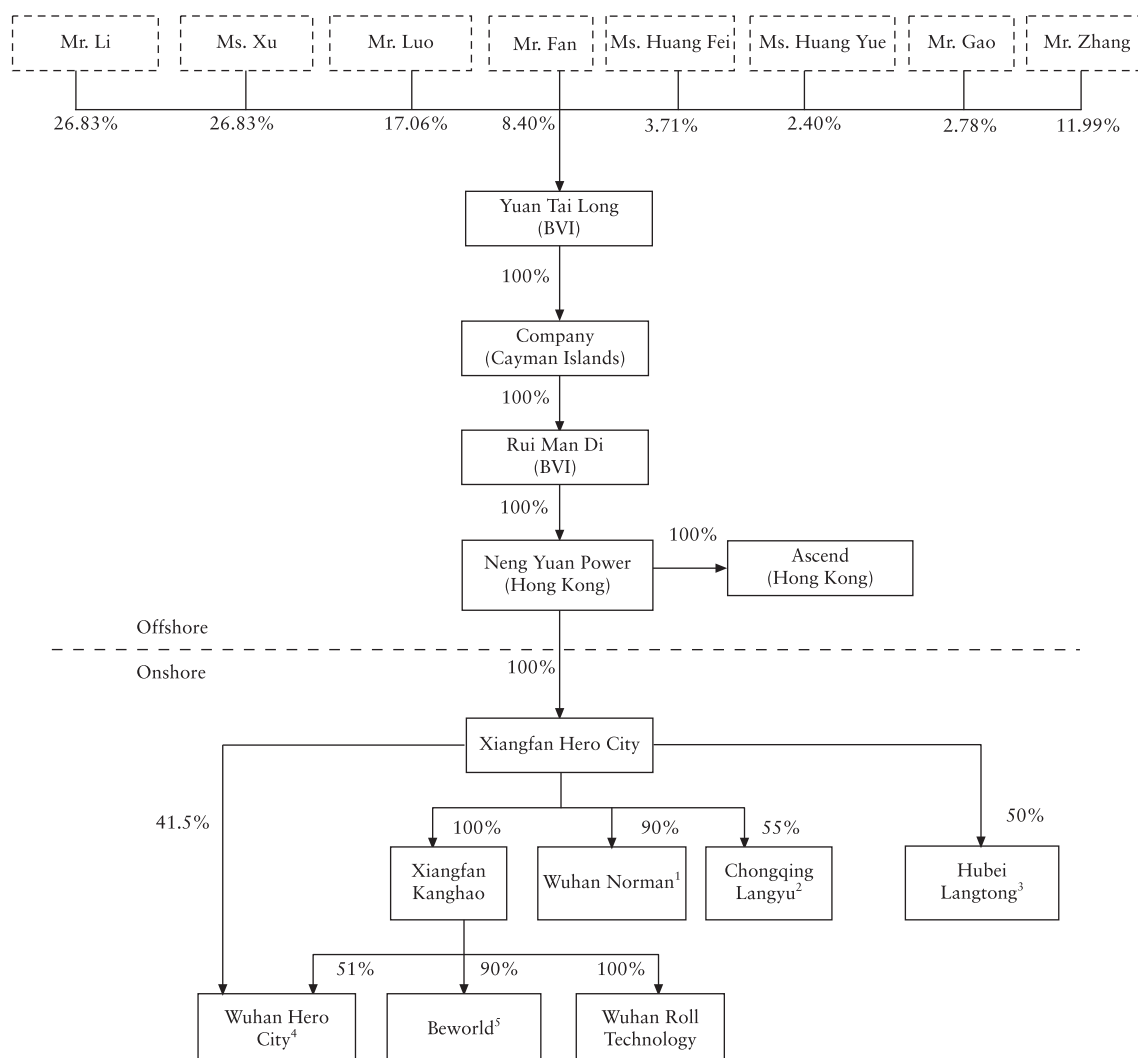
D. Acquisition of Ascend by Neng Yuan Power

On January 20, 2011, Hero City Investment, Mr. Zhang, Mr. Luo, Mr. Fan, Mr. Ye Zhongqiao, Mr. Gao, Ms. Huang Fei, Ms. Huang Yue and Mr. Li Yunfeng transferred all the shares of Ascend held by them to Neng Yuan Power, respectively, at par value. Upon completion of such transfers, Ascend became an indirect wholly-owned subsidiary of our Company.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Corporate Structure upon Completion of the Reorganization

Upon completion of the above steps in the Reorganization, the corporate and shareholding structure of our Group is as follows:



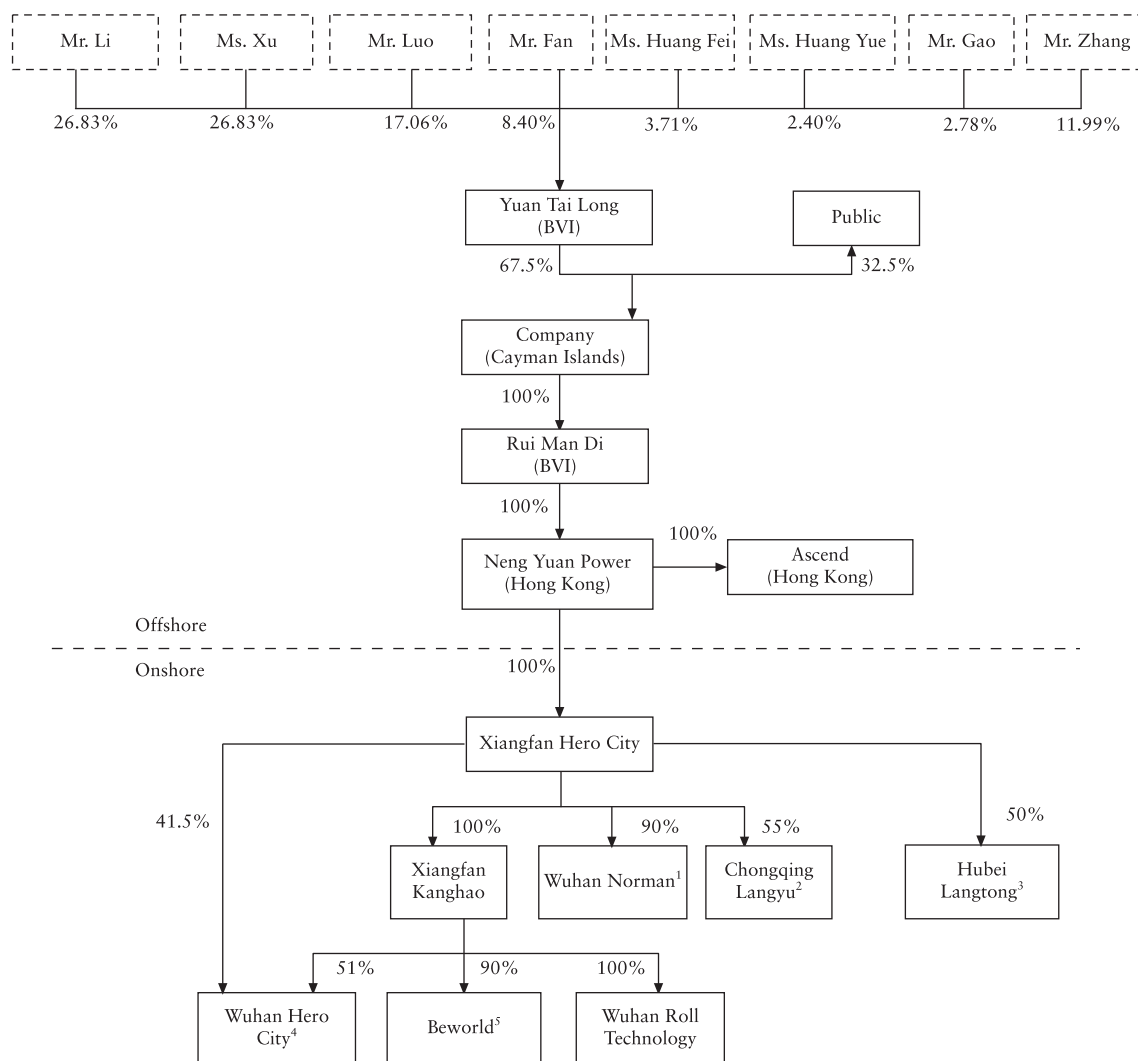
Notes:

1. The remaining 10% equity interest was held by Mr. Xu's brother and an employee of Wuhan Norman in equal portions.
2. The remaining 45% equity interest was held by Mr. Wang Zhengchang, the general manager of Chongqing Langyu.
3. The remaining 50% equity interest was held by Mr. Li Kewu, a director of Hubei Langtong.
4. Of the remaining 7.5% equity interest, 1.5% was held by an employee of our Group and 6% was held by other three individuals who were Independent Third Parties.
5. The remaining 10% equity interest was held by Mr. Wei Qun, a director and the general manager of Beworld.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Corporate Structure upon Completion of the Global Offering and the Capitalization

The following chart sets forth the corporate and shareholding structure of our Group upon completion of the Global Offering and the Capitalization Issue (but assuming that the Over-allotment Option is not exercised):



Notes:

1. The remaining 10% equity interest is held by Mr. Xu's brother and an employee of Wuhan Norman in equal portions.
2. The remaining 45% equity interest is held by Mr. Wang Zhengchang, the general manager of Chongqing Langyu.
3. The remaining 50% equity interest is held by Mr. Li Kewu, a director of Hubei Langtong.
4. Of the remaining 7.5% equity interest, 1.5% is held by an employee of our Group and 6% is held by other three individuals who are Independent Third Parties.
5. The remaining 10% equity interest is held by Mr. Wei Qun, a director and the general manager of Beworld.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

PRC GOVERNMENT APPROVALS

SAFE Registration

Pursuant to the Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Individuals to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (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) (“SAFE Circular 75”) enacted by SAFE on October 21, 2005 and becoming effective on November 1, 2005, a PRC domestic resident engaging in financing by way of equity issue or convertible bond outside the PRC with the assets or interests within the PRC via overseas special purpose vehicle (“SPV”) shall apply to register with the local branch of foreign exchange administration for foreign exchange registration of overseas investments. Upon completion of overseas financing, the PRC domestic resident may, according to the plan on use of funds as stated in the business plans or the prospectus, transfer the funds which ought to be arranged for use within the PRC back into the PRC. A PRC domestic resident may, after completing the procedures for foreign exchange registration of overseas investments or for modification thereof in accordance with the legal provisions, pay the profits, dividends, liquidation expenses, equity assignment expenses and capital decrease expenses to the SPV. Where a SPV incurs a material change in its capital such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long-term stock rights or credits, and provision of guaranty to a foreign party, and is not involved in return investment, the PRC individual shall, within 30 days of the material change, apply to the foreign exchange administration regarding such change.

Our PRC legal advisers, Commerce & Finance Law Offices, have advised us that Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao, being the relevant ultimate beneficial shareholders of our Group and domestic residents of the PRC, have completed their foreign exchange registration of overseas investments for their current shareholdings required by the SAFE Circular 75 with Hubei branch of SAFE.

M&A Rules

On August 8, 2006, six PRC regulatory agencies, including MOFCOM, CSRC and SAFE jointly promulgated the Rules on the Acquisition of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》(the “M&A Rules”) to regulate the mergers and acquisitions of domestic enterprises by foreign investors, which came into effect on September 8, 2006. Under the M&A Rules, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise or subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; or (ii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets or purchases the assets of a domestic enterprise and then invests such assets to establish a foreign invested enterprise (the “Regulated Activities”). Our reorganization steps (“Reorganization Steps”), which are described in the section headed “History, Reorganization and Group Structure” in this prospectus, did not involve any Regulated Activities. Our PRC legal advisers, Commerce & Finance Law Offices, have advised us that the acquisition of domestic enterprises by foreign-invested enterprises is governed by the Interim Provisions on Investment in

HISTORY, REORGANIZATION AND GROUP STRUCTURE

China by Foreign-Invested Enterprises (《關於外商投資企業境內投資的暫行規定》) and other provisions concerning domestic investment by foreign-invested enterprises while the acquisition of foreign-invested enterprises by foreign investors is governed by the 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》) as well as other provisions concerning foreign investment and the alteration of investors' equities in foreign-invested enterprises, and only matters not covered therein are addressed by reference to the M&A Rules.

Since Xiangfan Hero City had been converted into a foreign-invested enterprise prior to the effective date of the M&A Rules, the Provisions for the Alteration of Investors' Equities in Foreign-invested Enterprises and the Interim Provisions on Investment in China by Foreign-Invested Enterprises set forth the relevant requirements and procedures in relation to the acquisition of Xiangfan Hero City by Neng Yuan Power and the acquisition of Xiangfan Kanghao and Wuhan Norman by Xiangfan Hero City respectively, and therefore the M&A Rules do not apply. As such, our PRC legal advisor has advised us that the M&A Rules are not applicable to our Reorganization.

BUSINESS

OVERVIEW

We are the largest manufacturer and integrator of mid-range diesel generator cores (with a power output range of 20 kW to 220 kW) in China throughout the period from 2008 to 2010, and a leading manufacturer and integrator of all ranges of diesel generator cores in China, ranking 3rd in 2008, 5th in 2009 and 2nd in 2010, in terms of revenue, according to Frost & Sullivan. Our diesel generator cores are widely used in both permanently-installed and mobile power systems that serve rail, factories, commercial buildings, telecommunications infrastructure and mining and exploration industries across China. We are also the 4th largest and the 2nd largest manufacturer of electronic control systems in the diesel generator power system sector in China in terms of revenue in 2009 and 2010, respectively, and a leading manufacturer of heat exchange systems in the diesel generator power system sector in China, ranking 7th in both 2008 and 2009 and 6th in 2010 in terms of revenue, according to Frost & Sullivan. Both of our heat exchange systems and electronic control systems are core components of a diesel generator core. Revenues derived from both our external sales and internal sales for these two products are used in determining the above rankings.

Value chain of diesel power industry

Diesel power is of significant importance in many industries. In particular, diesel engines are installed in diesel generator power systems and are also used in power industrial machinery and equipment and many forms of transportation such as commercial vehicles and ships. Diesel engines must be integrated with various systems such as heat exchange systems and electronic control systems to achieve efficiency, safety and reliability, and the integrated product is a diesel generator core, which is a key part of diesel generator power system. As a result, the diesel power industry consists of upstream manufacturers of diesel engines, mid-stream manufacturers of related components and systems and integrators of power cores, and downstream manufacturers of end products that are equipped with power cores such as the manufacturers of diesel generator power systems, industrial machinery and equipment, commercial vehicles and ships. The mid-stream manufacturing and integration of power cores is a vital stage to connect the upstream manufacturing of diesel engines and the downstream manufacturing of end products, thereby enabling diesel engines to be widely used in various industries.

Business model

Our business model involves the development of key components and technologies relating to the applications of diesel engines. We integrate heat exchange systems and electronic control systems, both manufactured by us, with diesel generator engines and other related parts, sourced from suppliers, into diesel generator cores, as well as supplying heat exchange systems and electronic control systems to external customers. Unlike other major players who manufacture diesel generator cores based on their own engines, we do not manufacture diesel generator engines. We currently have three business segments: the power core segment, which comprises our diesel generator core business, oil hydraulic power drive business and engine distribution business; the heat exchange system segment; and the electronic control system segment.

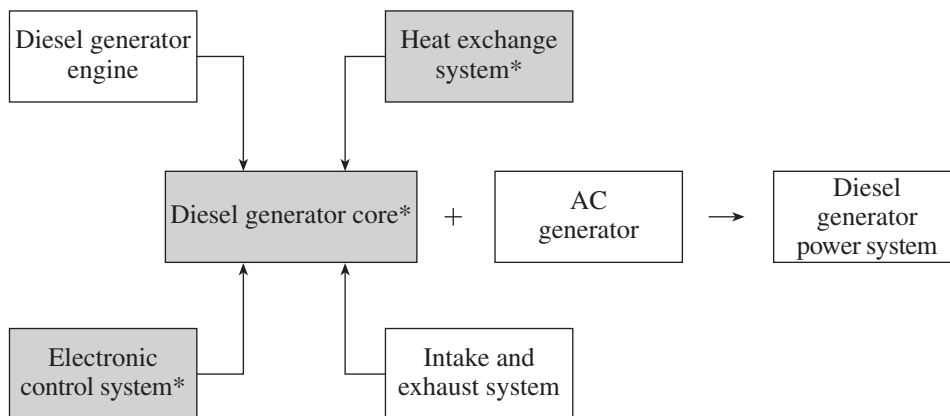
Our key competitive advantage lies in our ability to provide a comprehensive, customized diesel generator core solution to our customers. By leveraging our in-depth understanding of the diesel power system market in China, together with our strong in-house research and development and manufacturing capabilities of heat exchange systems and electronic control systems, we have

BUSINESS

developed valuable technical skills and know-how to tailor and integrate the core components of a diesel generator core in order to meet customized technical specifications, ensure the best fit between the diesel generator engine and all related systems and improve the efficiency, safety, reliability and product life of a diesel generator power system.

Products

Diesel generator power systems are typically installed at locations with limited reliable power sources or no grid connection, or to provide standby or emergency electricity supply when there is an electricity shortage. In particular, diesel generator power systems are vital to supplying emergency electricity when large-scale destruction of infrastructure is caused by extraordinary and unexpected natural disasters such as the heavy snow storms in China in January 2008 and the Sichuan earthquake in May 2008, which drove increased demand for our diesel generator cores during the same year. The diesel generator core is the most critical component of a diesel generator power system, and typically comprises a diesel generator engine, a heat exchange system, an electronic control system and an intake and exhaust system. The following chart shows the schematic layout of a diesel generator power system in principle:



* *highlighted components indicate those manufactured and integrated by us*

Our oil hydraulic power drives are one type of industrial power core, primarily used in heavy construction machinery and equipment, such as oil hydraulic machines, emergency fire pump sets and dredging pumps. In addition, our jointly-controlled entity Hubei Langtong also offers industrial power cores with applications in heavy construction machinery such as excavating machines and loading machines.

Our heat exchange systems are used both in our diesel generator cores for generator power systems and in other engine applications, serving engines with a power output range of 20 kW to 2,000 kW. Our heat exchange systems are compatible with various models of branded engines such as Cummins, Perkins, Caterpillar and Mitsubishi engines. Some of our heat exchange systems are customized to operate in difficult operating conditions, including high temperatures and high altitude.

BUSINESS

Our electronic control system business focuses on the design, manufacture and sale of high-end electronic control systems, which we use internally for the integration of our diesel generator cores. We also sell our electronic control systems to external customers. Our electronic control system typically consists of an electronic speed actuator and an electronic speed controller. A set of high-end electronic control system in the diesel generator power system sector in China typically has a cost of over RMB2,500.

History and results of operations

We initiated a strategy of providing a comprehensive, customized solution for diesel generator cores in 2006. In 2008, we added research and development capabilities, as well as manufacturing and marketing services, for heat exchange systems. Further, in March 2009, we supplemented our business operations with electronic control systems. This strategy has resulted not only in significant synergy between our three business segments, but also has allowed us to cater to the special needs of our customers. In addition, we also manufacture and sell oil hydraulic power drives and distribute engines, which, together with our diesel generator core business, form our power core segment.

We sold most of our products in China during the Track Record Period. Benefiting from the fast growth of the overall economy and electricity market in China, we achieved rapid growth during the Track Record Period. For the years ended December 31, 2008, 2009 and 2010, our turnover was RMB1,005.2 million, RMB640.6 million and RMB1,109.9 million, respectively, and our profit attributable to equity shareholders of our Company was RMB74.6 million, RMB49.8 million and RMB100.6 million, respectively, representing a CAGR of 5.1% and 16.1%, respectively, between 2008 and 2010.

BUSINESS

Results of Business Segments

The following table sets forth, for the periods indicated, selected financial information of our business segments:

	Years ended December 31,		
	2008	2009	2010
	(RMB'000, except percentages)		
Power core business:			
Revenue from external customers	999,901	615,529	1,064,449
Inter-segment revenue ⁽¹⁾	145	25	25
Reportable segment revenue	1,000,046	615,554	1,064,474
Reportable segment gross profit	147,315	75,318	103,342
Reportable segment gross profit margin ⁽²⁾	<u>14.7%</u>	<u>12.2%</u>	<u>9.7%</u>
Heat exchange system business⁽³⁾:			
Revenue from external customers	1,605	3,254	14,492
Inter-segment revenue ⁽⁴⁾	8,886	19,921	31,441
Reportable segment revenue	10,491	23,175	45,933
Reportable segment gross profit	969	7,791	13,964
Reportable segment gross profit margin ⁽²⁾	<u>9.2%</u>	<u>33.6%</u>	<u>30.4%</u>
Electronic control system business:			
Revenue from external customers	3,696	21,810	31,005
Inter-segment revenue ⁽⁵⁾	—	15,534	67,306
Reportable segment revenue	3,696	37,344	98,311
Reportable segment gross profit	45	19,562	64,691
Reportable segment gross profit margin ⁽²⁾	<u>1.2%</u>	<u>52.4%</u>	<u>65.8%</u>

Notes:

- (1) Represents primarily internal sales of scrap materials from Xiangfan Kanghao to Wuhan Hero City for the latter to sell to external customers.
- (2) Represents the reportable segment gross profit, inclusive of gross profit derived from external sales and inter-segment sales, divided by the reportable segment revenue, inclusive of revenue derived from external sales and inter-segment sales.
- (3) Does not include our share of revenue or gross profit in Beworld, which became a subsidiary of our Group on December 31, 2010. Beworld was a jointly controlled entity of our Group in 2008, 2009 and 2010 until December 31, 2010. On December 31, 2010, our Group obtained effective control over the majority of the board of Beworld. Our reportable segment revenue and reportable segment gross profit arising from the heat exchange system segment would be RMB20.2 million, RMB43.9 million and RMB89.8 million, respectively, and RMB2.6 million, RMB13.9 million and RMB26.7 million in 2008, 2009 and 2010, respectively, if Beworld were a subsidiary of our Group during the same periods.
- (4) Represents primarily intra-group sales of heat exchange systems for engines with a power output range of 20 kW to 250 kW to serve our integration of diesel generator cores.
- (5) Represents primarily intra-group sales of electronic speed controllers to serve our integration of diesel generator cores.

BUSINESS

COMPETITIVE STRENGTHS

We believe our primary competitive strengths include the following:

We are a leading manufacturer and integrator of diesel generator cores in China.

We are a leading manufacturer and integrator of diesel generator cores in China, ranking second in terms of revenue in 2010. In particular, we are the largest manufacturer and integrator of mid-range diesel generator cores (with a power output range of 20 kW to 220 kW) with a 19.7% market share in terms of revenue in 2010. We have grown rapidly since our establishment by capitalizing on our strong capabilities in the integration of diesel generator cores and executing an expansion strategy with our heat exchange system and electronic control system businesses. By leveraging our other business segments and expanded production facilities, we are able to benefit from economies of scale, which lower the unit cost of our diesel generator cores and in turn improve our profitability. We target a broad variety of end-user markets and capitalize on demands arising from various business sectors. Our diesel generator cores are widely used in both permanently installed and mobile power systems that serve rail, factories, commercial buildings, telecommunications infrastructure and mining and exploration industries across China.

We distinguish ourselves by the development of mid- to high-end diesel generator cores equipped with diesel generator engines primarily provided by Dongfeng Cummins, a leading engine brand in China. A substantial portion of the diesel generator engines contained in our diesel generator cores have been provided by Dongfeng Cummins during the Track Record Period. We believe that the brand name and quality of the Dongfeng Cummins engines enable us to target end users with strong purchasing power and a preference for high-quality products. Many of our diesel generator core customers are leading suppliers of diesel generator power systems in China.

We offer a comprehensive, customized diesel generator core solution.

The diesel generator core is the most critical component of a diesel generator power system and typically comprises a diesel generator engine, a heat exchange system, an electronic control system and an intake and exhaust system. We believe we are among a limited number of companies in China that are able to not only integrate the various components comprising the diesel generator core, but also design and manufacture both heat exchange systems and electronic control systems. In order to improve the reliability, efficiency, safety and product life of a diesel generator power system, our integration of a diesel generator core involves extensive testing. We undertake rigorous checks to ensure the best fit between an engine and all related systems as well as compatibility and inter-operability of various devices and systems involved. We also supplement these integrated design and manufacturing capabilities with testing and after-sales services support.

Our integrated design and manufacturing capabilities allow us to further offer a comprehensive, customized diesel generator core solution to our customers across various industries within a short timeframe. Benefiting from the synergy between our three business segments, we are able to tailor key devices and systems in our diesel generator cores to respond quickly to customer preferences. We have strategically developed our in-house research and development capabilities in relation to our heat exchange systems and electronic control systems to provide real-time technical support for our

BUSINESS

diesel generator core business. Our engineers are able to design specific and distinctive heat exchange system features to adapt to difficult operating conditions, including high temperatures and high altitude, and to design electronic control systems based on digital controlling model to keep up with rapidly evolving technology standards.

Benefiting from our capability of offering a customized diesel generator core solution, we also provided customized diesel generator core units to our customers for use in high speed railway signaling projects carried out by the Ministry of Railways of China in 2009. In addition, our customers, many of which are leading suppliers of diesel generator power systems in China, enjoy significant advantages such as rapid turnaround from design to delivery, cost-effective diesel generator core component products, convenience in assembly and integrated technical support. These advantages further allow us to enhance customer relationships and continuously target new sales and new customers.

We are capable of designing and manufacturing high-performance heat exchange systems and electronic control systems, allowing us to enjoy higher margins for these two segments.

We have developed strong capabilities to design and manufacture high-performance heat exchange systems and high-end electronic control systems, which allow us to enjoy higher margins for these two segments during the Track Record Period as compared to our power core business.

- We are capable of designing high-performance heat exchange systems to serve the needs of engines with a power output range of 251 kW to 2,000 kW. Most of these heat exchange systems are required to be specifically designed and manufactured with high-performance functionalities to satisfy the strict technical specifications and operating conditions provided by end users. For example, we have designed certain radiator models for Perkins engines used in operational conditions of 52°C with a power output of 985 kW beyond the widely applied industry standard of 40°C as set forth in GB/T 2820.1. We apply the same technical know-how in designing and manufacturing heat exchange systems to serve lower-range engines such as those with power outputs of 20 kW to 250 kW. In addition, our design capability allows us to reduce the unit weight of heat exchange systems while improving functionality. We have also closely monitored the prices of copper belts and steel plates, our major raw materials in this segment, and have made bulk purchases from time to time according to our production plan when their prices were favorable in order to better manage our production costs. These efforts enable us to further reduce the unit cost of raw materials and enhance profitability.
- There are only a limited number of suppliers of high-end electronic control systems in the diesel generator power system sector in China due to the need of suppliers to have a well-established distribution network and high-quality product to support the suppliers' pricing capability. A high-end electronic control system in the diesel generator power system sector in the PRC market, comprising an electronic speed actuator, an electronic speed controller and a magnetic speed sensor, typically has a selling price of over RMB2,500. We believe our business alliances with leading engine manufacturers, strong research and development capabilities and advanced production facilities distinguish us from most of our competitors and allow us to charge premium prices for our electronic control systems. We leverage our leading position in the diesel generator core business, which provides a stable, large demand for our electronic control

BUSINESS

systems. In addition, due to the quality of our electronic control systems, we have been recognized as a qualified supplier to Tianjin Lovol since February 2011, which is a leading supplier of diesel generator engines in China. However, the agreement we entered into with Tianjin Lovol does not include any take-or-pay obligations and therefore should not be regarded as a long-term agreement.

As a result of the strategies described above, the reportable segment gross profit from our heat exchange system business increased from RMB1.0 million in 2008 to RMB14.0 million in 2010, excluding our share of gross profit in Beworld, and the gross profit from our electronic control system business increased from RMB19.6 million in 2009 to RMB64.7 million in 2010. The reportable segment gross profit margin for our heat exchange systems and electronic control systems was 30.4% and 65.8% in 2010, respectively.

We believe our heat exchange systems and electronic control systems represent significant potential for future growth driven by their broad applications in power cores and commercial automobiles. By leveraging our know-how in both business segments, we believe we are well-positioned to take advantage of the growth potential of these two products and further strengthen our current leading market position.

We have strong research and development capabilities.

We place strong emphasis on the continuous improvement of existing technologies and products and the development of new technologies and products to meet customer needs. As of the Latest Practicable Date, we had three in-house research and development teams, comprising 13, 31 and 10 specialist engineers in relation to our power core, heat exchange system and electronic control system businesses, respectively. We engage highly experienced experts in our business segments to lead our respective research and development teams and invest in advanced equipment to support our research and development. For example, we own eight sets of national-level engine test benches certified by AQSIQ for running tests to ensure the best fit between the engine and all related systems in our integration of diesel generator cores. We have also adopted an incentive program to encourage employee innovation through the reward of cash bonuses.

As of the Latest Practicable Date, our Group had 23 registered patents and 10 licensed patents and we have submitted applications for the registration of 15 patents in China. Most of our registered patents and patents in application were developed by our own research and development teams while we purchased a small number of patents from third parties. We have widely used and implemented all of our registered patents in our business.

In addition, our principal operating entities including Xiangfan Kanghao, Xiangfan Hero City, Wuhan Hero City and Beworld are high and new technology enterprises (高新技術企業) in China. We believe our strong research and development capabilities enable us to provide reliable, high-quality and durable products to our customers and will continue to allow us to expand our market share in our principal business segments.

BUSINESS

We maintain strong business relationships with leading players in our target markets.

Our business relationships with leading players in our target markets are the key driving force of our revenue growth. We have invested substantial resources in establishing and maintaining relationships with our largest supplier, Dongfeng Cummins, which is a leading manufacturer of diesel generator engines in China. We have sourced Dongfeng Cummins diesel generator engines, which are well-recognized for their quality and technology advances in China, since January 2006. We also entered into a strategic alliance agreement with Dongfeng Cummins on March 4, 2011, pursuant to which Dongfeng Cummins will supply its diesel generator engines to us on a priority basis. In order to ensure a steady supply of diesel generator engines from Dongfeng Cummins, we further entered into a six-year supply contract with Dongfeng Cummins on May 24, 2011. We believe this arrangement should provide a steady supply of diesel generator engines for the continuing development of our diesel generator core business. In addition, we entered into a supply agreement with Tianjin Lovol on February 12, 2011, pursuant to which we are recognized as a qualified electronic control systems supplier of Tianjin Lovol. We also entered into a framework agreement with Dongfeng Motor Engine on February 26, 2011 for the purchase of industrial diesel engines and diesel generator engines. However, neither our supply contract with Tianjin Lovol nor our framework agreement with Dongfeng Motor Engine include any take-or-pay obligation and neither should be regarded as a long-term supply contract. We did not sell electronic control systems to Tianjin Lovol as of the Latest Practicable Date. We believe that our business relationship with Tianjin Lovol and Dongfeng Motor Engine will enable us to further expand our revenue streams.

We have an experienced management team with extensive knowledge of our business segments.

We have a strong management team that possesses extensive management skills, operating experience and industry knowledge and expertise. Our management team has on average over 20 years of experience in the diesel engine industry. We benefit from the extensive network of contacts in the diesel engine industry maintained by our senior management, which has helped us cultivate strong business relationships with industry leaders, major suppliers and key customers. Further, our operations teams in all of our business segments are led by professionals with significant experience in their fields. We strive to recruit, train and retain top talented professionals in our target industry and provide them with competitive compensation and incentives commensurate with their performance.

STRATEGIES

We intend to consolidate our current market leading positions in our principal business segments and strengthen our competitiveness through expanding our heat exchange system, electronic control system and other high value-added diesel engine-related businesses. To achieve this, we intend to focus on the following strategies:

We intend to grow our power core business and enhance production capacity for the integration of power cores to meet customer demand.

We believe our power core business will continue to be one of the main focuses of our business development. To strengthen this segment and optimize our product mix, we intend to expand our production capacity for the integration of diesel generator cores and complement it with increased

BUSINESS

production capacity for the integration of industrial power cores. In order to achieve this, we plan to acquire land in Xiangyang, Hubei Province for construction of new production facilities as well as purchase new production lines, assembly lines and testing equipment for the expansion of our power core business. We expect to relocate our existing plant to the new premises upon the completion of our new plant in 2012 as we currently anticipate. We expect this new plant will increase our production capacity of diesel generator cores from 28,000 units per annum in 2010 to 45,000 units per annum in 2012. We expect that our production capacity of industrial power cores will reach 5,000 units per annum in 2012 and primarily serve heavy construction machines such as wheel-loaders, bulldozers and road-rollers with a power output range of 220 kW to 330 kW. We intend to diversify our supplier base in respect of our power core segment.

In addition, we plan to expand the production capacity of our heat exchange systems to satisfy demand from our power core business. We expect that our production capacity for heat exchange systems will increase from 39,917 units per annum in 2010 to approximately 65,000 units per annum in 2011. We may also increase utilization rates of our electronic control system business to meet market demand in the future.

We intend to expand market penetration and enlarge our customer base in our principal business segments.

We intend to expand market penetration by securing key customers so as to achieve a more stable demand of our products. For example, we are currently negotiating with potential customers for the sales of commercial vehicle heat exchange systems.

Further, we intend to strengthen relationships with our existing customers and add selective customers to our customer base. In particular, as most of our customers of diesel generator cores purchase our products for assembly into diesel generator power systems and further resale to end users, their distribution capability directly affects our sales results and revenue growth. We will continue to optimize our customer base by selecting customers with a well-established distribution network, strong financial status and specialized end-user markets. We intend to expand the coverage of our products in select end-user markets which we believe have significant growth potential, such as telecommunications, infrastructure and commercial vehicles. We will also encourage our customers to focus on specialized end-user markets to minimize the competition among our customers. To appeal to prospective customers, we seek to offer an increasingly sophisticated range of products to provide customized solutions with integrated after-sales services.

We intend to develop new products with high growth potential in our existing business segments, as well as new diesel engine-related products.

We seek to continuously introduce new products with high growth potential in our existing business to enhance our profitability. For example, we intend to manufacture air-to-air aftercooler and radiating pipes, both in commercial vehicle applications to enable vehicle diesel engines to lower engine temperature and improve engine efficiency. These two products are a subset of heat exchange systems and when designed for commercial vehicles, the technical skills and know-how required are similar to those applied by us in the designing of heat exchange systems for engines in power cores. We intend to expand the production capacity of our existing heat exchange systems and leverage the technical skills and know-how owned by us to develop these products. We are also under

BUSINESS

negotiations with potential customers to extend our sales network with respect to these products. We entered into a letter of intent with Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司) on May 3, 2011, pursuant to which we intend to invest RMB300 million to construct a facility for producing commercial vehicle heat exchange systems in Beijing or its surrounding area and Beiqi Foton Motor Co., Ltd. agrees to purchase our products on a priority basis if the quality and price of our products are competitive. However, this letter of intent is not legally binding and does not include any take-or-pay obligation. With respect to our electronic control systems, we have updated the controlling model of our electronic control systems from analog control to digital control, which offers several advantages in terms of agility, accuracy, stability and reliability. We intend to widely apply this technical know-how in our product offering.

In addition, we expect to leverage our technical skills and know-how in electronic control system business to capitalize on the growing demand for commercial vehicles electrical and electronic products in China. We intend to develop CAN and after-treatment systems as an organic extension of our existing electronic control system business. These two products are a subset of electronic control systems with specific applications in commercial vehicles. We have currently received a key patent with respect to the development of CAN (patent number: ZL2009 2 0289452.0). The CAN to be developed by us based on this patent is expected to comprise a bus terminal, signal controlling panel, display instrument and warning devices. We plan to recruit highly experienced experts to lead our research and development team of after-treatment systems. To enhance progress on the development of new products, we plan to increase our research and development headcount from 54 engineers as of the Latest Practicable Date to 100 engineers by the end of 2012. We intend to launch the production of CAN and after-treatment systems in the fourth quarter of 2012. We estimate that our production capacity for CAN and after-treatment systems will reach approximately 300,000 units and 80,000 units, respectively, in 2013. For details of the development plan of CAN and after-treatment systems, see “Business — Production — Development Plan of New Products”.

We seek to identify compelling acquisition opportunities with demonstrated growth potential.

As the power core and engine-related industries in China continue to develop, we expect acquisition opportunities to emerge. We plan to devote resources towards identifying acquisition opportunities that demonstrate growth potential, including those that are related to our existing businesses or new businesses. The pursuit of such opportunities may or may not result in our acquisition of a controlling interest in other entities or cause us to embark on new businesses. In determining whether to make an acquisition or embark on a new business, we intend to take into account many factors, including the expected growth of the industry and our relevant experience, our management and financial resources, and potential synergies with our existing businesses.

OUR BUSINESS SEGMENTS

Overview

Our business segments consist of (i) power core integration and sales; (ii) heat exchange system manufacture and sales; and (iii) electronic control system manufacture and sales.

BUSINESS

The following table sets forth our operating entities in each of our business segments:

Business segment	Operating entities ⁽¹⁾ ⁽²⁾	Principal business
Power core integration and sales	Xiangfan Kanghao	Integration and sale of diesel generator cores
	Xiangfan Hero City	Sale of diesel generator cores that are integrated by Xiangfan Kanghao
	Chongqing Langyu	Integration and sale of oil hydraulic power drives
	Hubei Langtong	Distribution of industrial diesel engines and integration of industrial power cores
Heat exchange system manufacturing and sales	Wuhan Hero City	Manufacturing and sale of heat exchange systems for engines with a power output ranging from 20 kW to 250 kW
	Beworld	Manufacturing and sale of heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW
Electronic control system manufacturing and sales	Wuhan Norman	Manufacturing and sale of electronic speed actuators
	Ascend	Manufacturing and sale of electronic speed controllers

Notes:

- (1) See “History, Reorganization and Group Structure—Reorganization” for the corporate chart showing our interests in these operating entities. Other than Hubei Langtong, which is a jointly-controlled entity of our Group, all the other operating entities are our subsidiaries. Beworld was a jointly-controlled entity of our Group in 2008, 2009 and 2010 and became our subsidiary on December 31, 2010.
- (2) Wuhan Roll Technology, a wholly-owned subsidiary of our Group, owns a land parcel with a site area of approximately 47,461 square meters and has not engaged in any operating activities during the Track Record Period. We are currently constructing production facilities on this parcel of land.

Power Core Business

Our power core segment consists of the following businesses:

- diesel generator core integration;
- oil hydraulic power drive integration; and
- engine distribution.

With respect to the diesel generator core integration business, Xiangfan Kanghao principally engages in the research and development, integration and sale of diesel generator cores. Our other diesel generator core subsidiary, Xiangfan Hero City, principally engages in the sale of diesel generator cores integrated by Xiangfan Kanghao. With respect to the oil hydraulic power drive integration

BUSINESS

business, Chongqing Langyu principally engages in the research and development, integration and sale of oil hydraulic power drives. With respect to our engine distribution business, Hubei Langtong principally engages in distribution of industrial diesel engines and integration of industrial power cores and Xiangfan Kanghao principally engages in the distribution of diesel generator engines.

Heat Exchange System Business

Our heat exchange system segment consists of the following businesses:

- manufacturing of heat exchange systems for engines with a power output ranging from 20 kW to 250 kW; and
- manufacturing of heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW.

We operate our heat exchange system business through Wuhan Hero City and Beworld. Wuhan Hero City principally engages in the research and development, manufacturing and sale of heat exchange systems for diesel engines with a power output ranging from 20 kW to 250 kW. A substantial portion of the heat exchange systems manufactured by Wuhan Hero City during the Track Record Period were sold internally for integration of diesel generator cores. Beworld principally engages in the research and development, manufacturing and sale of heat exchange systems for diesel engines and natural gas engines, which have a power output ranging from 251 kW to 2,000 kW. These heat exchange systems have been sold to various suppliers of power cores in China and most of these heat exchange systems are designed to provide heat exchange solutions for world-leading engines such as Cummins, Perkins, Mitsubishi and Caterpillar.

Electronic Control System Business

Our electronic control system segment consists of the following businesses:

- electronic speed actuator business; and
- electronic speed controller business.

We operate our electronic control system business through Wuhan Norman and Ascend. Wuhan Norman principally engages in the research and development, manufacturing and sale of electronic speed actuators for fuel injection pumps used in engines. Ascend principally engages in the research and development, manufacturing and sale of electronic speed controllers for diesel generator power systems. All of the electronic speed controllers manufactured by Ascend for the Track Record Period were used in our internal integration of diesel generator cores.

As of the Latest Practicable Date, we had developed a series of electronic control systems for installation on the complete series of 28 kW to 121 kW generator engines produced by Tianjin Lovol. We entered into a supply contract with Tianjin Lovol on February 12, 2011, pursuant to which we are recognized as its qualified electronic control systems supplier. This supply contract does not include any take-or-pay obligations and therefore should not be regarded as a long-term agreement. We did not sell electronic control systems to Tianjin Lovol as of the Latest Practicable Date.

BUSINESS

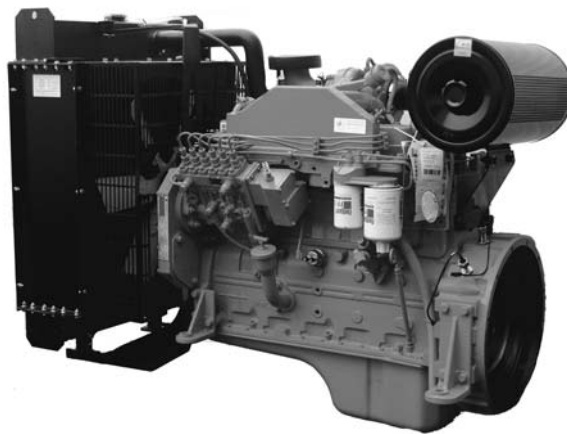
PRODUCTS AND SERVICES

Power Core Business

Diesel Generator Core Integration Business

During the Track Record Period, we offered a wide range of diesel generator cores with a power output ranging from 20 kW to 291 kW. A diesel generator power system usually consists of a diesel generator core, an AC generator and various ancillary devices such as generator power system controller, base and canopy. Among these components, the diesel generator core is the most critical part and typically comprises a diesel generator engine, a heat exchange system, an electronic speed controller and an intake and exhaust system. As of the Latest Practicable Date, we had offered 125 varieties of diesel generator cores. A substantial portion of the diesel generator engines in our diesel generator cores were sourced from Dongfeng Cummins during the Track Record Period. Our diesel generator cores and related heat exchange systems and electronic control systems with different specifications generally do not act as substitutes for each other.

The following is a diesel generator core manufactured and integrated by us:



The following table sets forth selected information about our major diesel generator cores:

<u>Engine model</u>	<u>Rated output/rated speed</u>	<u>General uses</u>
4B3.9-G2	24 kW/1500 rpm; 27 kW/1800 rpm	widely used in rail,
4BT3.9-G2	36 kW/1500 rpm; 40 kW/1800 rpm	factories, commercial
4BTA3.9-G2	50 kW/1500 rpm; 60 kW/1800 rpm	buildings,
6BT5.9-G2	86 kW/1500 rpm; 100 kW/1800 rpm	telecommunications
6BTA5.9-G2	106 kW/1500 rpm; 120 kW/1800 rpm	infrastructure and mining
6BTAA5.9-G2	120 kW/1500 rpm; 132 kW/1800 rpm	and exploration industry
6CTA8.3-G2	163 kW/1500 rpm; 170 kW/1800 rpm	across China
6CTAA8.3-G2	183 kW/1500 rpm; 190 kW/1800 rpm	
6LTAA8.9-G2	220 kW/1500 rpm; 235 kW/1800 rpm	

BUSINESS

Oil Hydraulic Power Drive Integration Business

Oil hydraulic power drives are one type of industrial power cores, primarily used in heavy construction machinery and equipment. During the Track Record Period, we offered oil hydraulic power drives with a power output range of 392 kW to 1,679 kW. These power drives are usually used in oil hydraulic machines, emergency fire pump sets and dredging pumps. As of the Latest Practicable Date, we offered over 20 models of oil hydraulic power drives. The engines in our oil hydraulic power drives were primarily sourced from distributors of Chongqing Cummins engines in China during the Track Record Period, primarily because these distributors offered competitive prices to us. We did not directly purchase any engines from or enter into any purchase agreements with Chongqing Cummins during the Track Record Period.

The following table sets forth selected information about our major oil hydraulic power drives:

Engine model	Rated output/rated speed	General uses
KTA50-G8	1679 kW/1800 rpm	oil hydraulic machine (油田壓裂車)
KTA50-G3	1343 kW/1800 rpm	oil hydraulic machine (油田壓裂車)
KTA38-P1300	970 kW/1500 rpm	emergency fire pump sets (應急消防泵機組)
KT38-P1000	746 kW/1800rpm	dredging pump (挖泥船泥泵)
KTA19-P750	559 kW/1800rpm	horizontal directional drilling machine (水平定向鑽機)
KTA19-C525	392 kW/2100rpm	oil hydraulic blending machine (油田混砂車)

Engine Distribution Business

With respect to our engine distribution business, we principally source diesel generator engines from Cummins Power Generation and Cummins China for resale to customers. We also sourced certain models of diesel engines with applications in cars and shippis from Dongfeng Cummins for distribution purposes in 2008 and 2009. Our customers are mostly domestic companies in China which procure the engines either for further integration into power cores and resale or for their own use.

Xiangfan Kanghao entered into an annual purchase agreement with Cummins Power Generation in 2009. Pursuant to this annual purchase agreement, Xiangfan Kanghao agreed to (i) purchase 300 diesel generator engine units from Cummins Power Generation in 2009; (ii) place monthly orders with Cummins Power Generation; and (iii) deposit 10.0% of the purchase price of each order with Cummins Power Generation once the order is placed while the remaining balance will be fully settled upon receipt of the engines. Such deposit is forfeitable under the annual purchase agreement if Xiangfan Kanghao is not able to collect the engines within a specified period of time. The annual purchase agreement does not have any clause in relation to rebates, repurchase prices, commission fees or handling fees, or specify which party is entitled to set the distribution prices of the diesel generator engines. In practice, the distribution prices of the diesel generator engines are set by

BUSINESS

Xiangfan Kanghao after consulting with Cummins Power Generation. Pursuant to the annual purchase agreement, Cummins Power Generation is entitled but is not obliged to repurchase the unsold engines from Xiangfan Kanghao upon the termination of the annual purchase agreement. The annual purchase agreement does not provide any other circumstances under which Cummins Power Generation is entitled to or is obliged to repurchase unsold engines from Xiangfan Kanghao. During the Track Record Period, Xiangfan Kanghao typically placed a purchase order with Cummins Power Generation upon the receipt of a back-to-back order from its customers. As a result, most of the engines distributed by Xiangfan Kanghao were sold within a commercially reasonable period of time and Xiangfan Kanghao did not request Cummins Power Generation to repurchase any unsold engines during the Track Record Period. Either party is entitled to terminate the agreement with a one-month prior notice. Xiangfan Kanghao continued its business relationship with Cummins Power Generation in 2010 by placing purchase orders on an as-needed basis. Xiangfan Kanghao was not obliged to purchase any specific types or models of engines nor required to purchase a minimum purchase quantity in 2010. Most of engines purchased by Xiangfan Kanghao in 2010 had higher power outputs and commanded higher ASPs.

Xiangfan Kanghao does not provide any after-sales services for the engines it distributes. Xiangfan Kanghao has been acting as a distributor in the transactions to capitalize on our extensive sales network to generate revenue and profit. In addition, as some engines provided by Cummins Power Generation have been shipped from overseas, Xiangfan Kanghao is responsible for the management of warehouse and delivery logistics for such engines. We have acted as the principal, rather than the agent of Cummins Power Generation, in our engine distribution business because we bear the inventory risks if engines cannot be sold to our customers, and assume the credit risk if any of our customers default. Under our accounting policies, the revenue generated from our distribution of engines is recognized when a customer has accepted the related risks and rewards of ownership, which is generally upon delivery of the engines to our customers. Our Directors believe that Xiangfan Kanghao's engine distribution business has not created potential competition with our power core integration business as of the Latest Practicable Date because the diesel generator engines distributed by us typically have higher power outputs than those used in our diesel generator cores. Thus in the event that they were integrated into diesel generator cores by our competitors, such diesel generator cores are expected to target a different customer base. In addition, although engine distribution is still a material part of our business in the short and medium term, we expect to gradually phase out our distribution business in the long term as we intend to focus on the integration of power cores within our power core business segment.

We also purchased diesel generator engines from Cummins China for distribution purposes during the Track Record Period. These engines are similar to the engines provided by Cummins Power Generation in terms of models and power outputs. We typically agreed with Cummins China on prices of certain models of engines in the first quarter and placed purchase orders with Cummins China on an as-needed basis, setting forth the volume, delivery time, models and price. We did not enter into annual purchase agreements with Cummins China.

BUSINESS

The following table sets forth the selected information of the major diesel generator engines distributed by Xiangfan Kanghao in the Track Record Period:

<u>Engine model</u>	<u>Rated output/rated speed</u>
KTA50G8	1200 kW/1500 rpm
KTA50G3	1097 kW/1500 rpm
QSX15G8	444 kW/1500 rpm
QSK60G4	1730 kW/1500 rpm
QST30G3	806 kW/1500 rpm
QST30G4	880 kW/1500 rpm

Our Jointly-Controlled Entity in the Power Core Business

Our jointly-controlled entity Hubei Langtong is located in Xiangyang, Hubei Province. It is principally engaged in distribution of industrial diesel engines and integration of industrial power cores with applications in heavy construction machinery. Hubei Langtong typically sourced industrial diesel engines from Dongfeng Cummins either for distribution to customers or for integration into industrial power cores and further resale to customers. Hubei Langtong's customers are typically domestic suppliers of heavy construction machinery or end users of industrial diesel engines. The results of operations of Hubei Langtong were not combined into our combined financial information as of and for each of the years ended December 31, 2008, 2009 and 2010.

Hubei Langtong entered into annual purchase agreements with Dongfeng Cummins in 2008, 2009 and 2010 to purchase industrial diesel engines. Hubei Langtong typically integrates these industrial diesel engines with selected systems such as heat exchange systems, intake and exhaust systems and control systems, sourced from external suppliers, as well as power take-off units manufactured by Hubei Langtong, into industrial power cores upon specifications provided by customers. The industrial power cores integrated by Hubei Langtong are typically used in heavy construction machinery such as excavating machines and loading machines. It also distributes industrial diesel engines if the customers do not require associated systems to be integrated with such engines. In 2010, Hubei Langtong integrated and sold approximately 3,200 industrial power cores and distributed approximately 1,300 engines.

Under the annual purchase agreements between Hubei Langtong and Dongfeng Cummins, Hubei Langtong is required to place a monthly order with Dongfeng Cummins, stipulating the engine models, purchase volumes and delivery time, and Dongfeng Cummins will arrange for production in accordance with such orders. The annual purchase agreements provide that if Hubei Langtong is not able to collect the engines on a monthly basis according to orders placed, Dongfeng Cummins is entitled to sell the engines to third parties. In the event that the number of engines Hubei Langtong fails to collect exceed the cumulative number of engines collected over a six months period, Dongfeng Cummins is entitled to deduct the rebates payable to Hubei Langtong. These annual purchase agreements also set forth purchase prices of various engine models by Hubei Langtong and Hubei Langtong is entitled to receive a rebate from Dongfeng Cummins for certain engine models, generally ranging from RMB1,000 to RMB3,000 per unit by meeting target purchase volumes generally ranging from 2,000 to 4,500 units per annum. Pursuant to these purchase agreements, Hubei Langtong agrees to sell the industrial diesel engines to customers that are approved by Dongfeng Cummins. Dongfeng Cummins is entitled to terminate the annual purchase agreements if

BUSINESS

Hubei Langtong sells the industrial diesel engines to any customers without Dongfeng Cummins' approval. During the Track Record Period, the terms of the purchase agreements between Hubei Langtong and Dongfeng Cummins were substantially the same and Hubei Langtong entered into a similar agreement with Dongfeng Cummins on May 11, 2011.

The following table sets forth the selected information regarding the major industrial diesel engines purchased by Hubei Langtong from Dongfeng Cummins in the Track Record Period for integration or distribution purposes, depending on customer preferences on a case-by-case basis:

Engine model	Rated output/rated speed	Maximum torque	General uses
6BTA5.9-C180 . .	132 kW/2500 rpm	630 Nm/1500 rpm	screw air compressor (螺桿空壓機)
6LTAA8.9-C325 .	239 kW/2200 rpm	1230 Nm/1400 rpm	screw air compressor (螺桿空壓機)
4BT3.9-C100. . . .	75 kW/2400 rpm	330 Nm/1500 rpm	excavating machine (挖掘裝載機)
6CTA8.3-C215 . .	160 kW/2200 rpm	908 Nm/1500 rpm	loading machine (50裝載機)
6BTA5.9-C180 . .	132 kW/2200 rpm	750 Nm/1300 rpm	directional drilling machine (非開挖鑽機)

The scope of the distribution business of Hubei Langtong, for which it acts as a distributor of Dongfeng Cummins, is subject to actual customer demand. Our Directors believe that the engine distribution business of Hubei Langtong has not created potential competition with our power core integration business as of the Latest Practicable Date because our integration of industrial power cores is currently focused on oil hydraulic power drives and the industrial diesel engines distributed by Hubei Langtong do not fall in this specific category. As we seek to expand our production capacity for industrial power cores in the future, we intend to integrate industrial power cores with applications in different types of heavy construction machinery and equipment or carrying out different power outputs to avoid potential competition with Hubei Langtong.

Heat Exchange System Business

We offer two categories of heat exchange systems in this business segment as follows:

- heat exchange systems for engines with a power output ranging from 20 kW to 250 kW; and
- heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW

Both heat exchange systems are designed by our in-house research and development team to provide heat exchange solutions for engines with various power outputs. The heat exchange system is an important component of the power core to dissipate the residual heat generated by the engine and to lower the temperature of the engine to an acceptable level, which is essential to maintain the operation and improve the efficiency of the engine. During the Track Record Period, all of the heat exchange systems manufactured by us were radiators utilizing liquid coolant.

BUSINESS

The following is a heat exchange system manufactured by us:



Substantially all of the heat exchange systems designed and manufactured by Wuhan Hero City were used in the diesel generator cores integrated by Xiangfan Kanghao during the Track Record Period. The following table sets forth selected information about the major heat exchange systems designed and manufactured by Wuhan Hero City:

<u>Radiator model</u>	<u>Engine brand</u>	<u>Engine model</u>	<u>Engine output</u>
4BT-LQ-S005	Dongfeng Cummins	4BT3.9-G2	36 kW
4BTA-LQ-S003	Dongfeng Cummins	4BTA3.9-G2	50 kW
6BTA-LQ-S002	Dongfeng Cummins	6BTA5.9-G2	106 kW
6BTAA-LQ-S002	Dongfeng Cummins	6BTAA5.9-G2	120 kW
6CTA-LQ-S002	Dongfeng Cummins	6CTA8.3-G2	163 kW
6CTAA-LQ-S002	Dongfeng Cummins	6CTAA8.3-G2	183 kW
6LTAA-LQ-S002	Dongfeng Cummins	6LTAA8.9-G2	220 kW

As of the Latest Practicable Date, Beworld had produced more than 550 varieties of heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW and these heat exchange systems are compatible with and used in a wide variety of international engine models. Most of our heat exchange systems designed for engines with a power output range of 251 kW to 2,000 kW are customized to satisfy the strict technical specifications and operating conditions provided by the end users. The following table sets forth selected information about the major radiators designed and manufactured by Beworld:

<u>Radiator model</u>	<u>Engine brand</u>	<u>Engine model</u>	<u>Engine output</u>	<u>Customized features</u>
BWQ604P40	Cummins	QSK60G4	1915 kW	Adapted for use in environments of 40°C; and designed for generator engines

BUSINESS

<u>Radiator model</u>	<u>Engine brand</u>	<u>Engine model</u>	<u>Engine output</u>	<u>Customized features</u>
BW164W50	DDC-MTU	16V4000	3000 Hp	Adapted for use in environments of 50°C; and designed for oilfield machineries
BW3512M40	Caterpillar	G3512	890 kW	Adapted for use in environments of 40°C; and designed with minimum noise levels and remote control
BWP408A2AB52	Perkins	4008TAG2A	985 kW	Adapted for use in environments of 52°C; and designed for generator engines
BWS16RPTAA2M45	Mitsubishi	S16R-PTAA2	1895 kW	Adapted for use in environments of 45°C; and designed for generator engines
BWC18400P50	Caterpillar	C18	400 Hp	Adapted for use in environments of 50°C; and designed for ship motors

Electronic Control System Business

We offer two categories of products in this business segment as follows:

- electronic speed actuators; and
- electronic speed controllers.

Electronic speed actuator is typically used as an engine fuel control device. When the actuator is switched on, oil supply flows under normal conditions; when the actuator is turned off, the oil supply is closed off. To capitalize on the growth potential of the electronic speed actuator market and optimize our overall product portfolio, we started manufacturing electronic speed actuators in March 2009. As of the Latest Practicable Date, we had produced four varieties of electronic speed actuators.

The following is an electronic speed actuator manufactured by us:



BUSINESS

An electronic speed controller is an electronic device designed to control engine speed with fast and precise response to transient load charges. This closed loop control, when connected to a proportional electronic speed actuator and supplied with a magnetic speed sensor signal, can control a wide variety of engines in an isochronous mode. We started manufacturing electronic speed actuators in March 2009. As of the Latest Practicable Date, we had produced three varieties of electronic speed controllers.

The following is an electronic speed controller manufactured by us:



Our electronic control system combines an electronic speed actuator and an electronic speed controller, which work together to offer functions such as precise and fast control of fuel quantity, a wide range of speed control to the engines and automatic parallel operation. Some of our electronic speed systems are customized to provide specified alarm indications and additional current output to achieve certain control purposes. All of our electronic speed systems meet the highest functionality standards set out in GB2820 adopted in China with the steady speed governing rate at not more than 0.5%, instantaneous speed drop at not more than - 7% with respect to sudden load increase and not more than +10% with respect to a full load decrease and recovery speed at not more than three seconds.

PRODUCTION

Production Facilities

Location

In addition to our headquarters and production base in Xiangyang, Hubei Province, we operate several other production bases located in Wuhan, Hubei Province and Hong Kong through our operating entities. We integrate oil hydraulic power drives primarily at our customers' production facilities and therefore our operating entity Chongqing Langyu does not maintain its own oil hydraulic power drive production facilities in Chongqing. As of the Latest Practicable Date, we leased an aggregate gross floor area of 21,658 square meters which are primarily used for production and administrative purposes.

BUSINESS

Our production bases are strategically located within close proximity to our major suppliers. For example, our production base for diesel generator core business in Xiangyang, Hubei Province is located within three kilometers from Dongfeng Cummins, our largest supplier of diesel generator engines during the Track Record Period. Our production base in Wuhan, Hubei Province for the manufacturing of heat exchange systems is located approximately 300 kilometers from our diesel generator core production base in Xiangyang, Hubei Province, which allows us to deliver heat exchange systems to Xiangyang, Hubei Province conveniently by highway transportation for the integration into our diesel generator cores. We chose to manufacture electronic speed controllers in Hong Kong for the purpose of benefiting from the relatively low taxation rates in Hong Kong. The following table sets forth selected information relating to our production bases as of December 31, 2010:

Operating entity ⁽¹⁾	Production base	Products	Production commencement
Xiangfan Kanghao. . . .	Xiangyang, Hubei Province	Diesel generator core	January 2006
Wuhan Hero City	Wuhan, Hubei Province	Heat exchange systems for engines with a power output ranging from 20 kW to 250 kW	April 2008
Beworld.	Wuhan, Hubei Province	Heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW	April 2008
Wuhan Norman.	Wuhan, Hubei Province	Electronic speed actuators	March 2009
Ascend.	Hong Kong	Electronic speed controllers	March 2009

Note:

(1) Chongqing Langyu commenced integration of oil hydraulic power drives in July 2009. It does not maintain its own production facilities in Chongqing.

Premises

Currently all of our production bases are located on leased properties. We are currently constructing production facilities with an estimated aggregate floor area of 29,380 square meters in Wuhan, Hubei Province, on a parcel of land owned by Wuhan Roll Technology. We plan to start the relocation of a portion of our heat exchange system production facilities operated by Wuhan Hero City and the production facilities operated by Beworld to the new premises in Wuhan in August 2011. In addition, we entered into a land use rights grant contract in April 2011 to acquire land use rights for a parcel of land of approximately 151,667 square meters in Xiangyang, Hubei Province and plan to commence the construction of plants in the fourth quarter of 2011 to support our expansion plan for power core business, including both diesel generator core integration and industrial power core integration, and related heat exchange system and electronic control system businesses. For details of our production capacity expansion plan, see “— Production Capacities and Utilization Rates — Expansion of production capacity” below. We anticipate that the construction of these plants will be completed by the end of 2012. Upon the completion, we plan to move our existing diesel generator core production facilities operated by Xiangfan Kanghao, the remaining

BUSINESS

heat exchange system production facilities operated by Wuhan Hero City and the production facilities operated by Wuhan Norman for the manufacturing of electronic speed actuators to the new premises. The following table sets forth selected information about the new production plants:

Production base	Status	Capital expenditure incurred as of December 31, 2010	Expected additional capital expenditure required for the completion of construction	Source of funds	Estimated completion date	Estimated date to start operation
Xiangyang, Hubei Province	In process of acquiring land use rights	—	RMB373.5 million ⁽¹⁾	Proceeds from the Global Offering	April 2012	by the end of 2012
Wuhan, Hubei Province	Under construction	RMB13.2 million	RMB12.0 million	Internal funds	January 2012	March 2012

Note:

- (1) Includes estimated land premiums, construction costs of production facilities and expenses for purchase of equipment to support our expansion plan for power core business.

In addition to the capital expenditures to be incurred for the completion of construction, we estimate that our total costs for relocating equipment, inventory, staff and ancillary office facilities in Xiangyang and Wuhan will amount to approximately RMB700,000, respectively. During the relocation process, we plan to increase our inventory of finished goods to ensure sufficient supplies to our customers and move key production lines in multiple stages to minimize production outages at any given time. We estimate that it will take approximately 15 days and 30 days to complete all the relocations in Xiangyang and Wuhan, respectively. We do not anticipate that the relocation of our production facilities will cause any material interruption of our production processes or have any material adverse impact on our financial condition.

Production equipment

To ensure efficient and smooth production processes, we place strong emphasis on the acquisition of advanced equipment and the maintenance of our production facilities. Most of the production lines and machines utilized in our production bases are in line with national standards. We have also devoted significant resources to the maintenance of our production facilities. We perform inspections of our equipment on a regular basis and emphasize the use of preventive measures with respect to the maintenance of production facilities.

BUSINESS

Production Capacities and Utilization Rates

The following table sets forth production capacities, actual production amounts and utilization rates for each existing production base during the Track Record Period:

Production Base	Years ended December 31,								
	2008			2009			2010		
	Production capacity ⁽¹⁾	Actual production ⁽²⁾	Utilization rate ⁽³⁾	Production capacity ⁽¹⁾	Actual production ⁽²⁾	Utilization rate ⁽³⁾	Production capacity ⁽¹⁾	Actual production ⁽²⁾	Utilization rate ⁽³⁾
(Units, except percentages)									
Xiangyang, Hubei Province									
- diesel generator cores	26,000	27,009	103.9% ⁽⁴⁾	30,000	15,621	52.1%	28,000	26,114	93.3%
Chongqing									
- oil hydraulic power drives ⁽⁵⁾	—	—	—	22	13	59.1%	105	95	90.5%
Wuhan, Hubei Province									
- heat exchange systems for engines with a power output ranging from 20 kW to 250 kW.	13,440	3,905	29.1%	26,880	10,260	38.2%	33,667	21,142	62.8%
- heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW	3,360	1,056	31.4%	5,040	2,396	47.5%	6,250	5,542	88.7%
- electronic speed actuators ⁽⁶⁾	—	—	—	50,000	6,569	13.1%	50,000	27,024	54.0%
Hong Kong									
- electronic speed controllers ⁽⁶⁾	—	—	—	42,300	11,934	23.4%	50,760	32,740	53.4%

Notes:

(1) Production capacity is calculated based on our direct labor headcount and the average time required for manufacturing one product unit. The basis of calculation on which we estimate production capacity may differ from that used by other companies. Our production capacity for diesel generator cores decreased from 30,000 units in 2009 to 28,000 units in 2010, primarily because we reduced the number of our factory employees for cost control purposes, which was a direct response to the global economic downturn in 2009. For example, the production capacity in 2010 is calculated on the following basis:

- For the integration of diesel generator cores, (i) the average number of workers in 2010 was approximately 14; (ii) the number of statutory working days in a year under the PRC law is 250; (iii) the number of normal working hours in a day is 8; and (iv) following our production procedures, the average number of working hours for integrating one diesel generator core is 1. As a result, the estimated production capacity of our diesel generator cores segment in 2010 is: 14 workers x 250 days x 8 hours ÷ 1 hours/unit = (approximately) 28,000 units;
- For the integration of oil hydraulic power drives, (i) the average number of workers in 2010 was approximately 2; (ii) the number of statutory working days in a year under the PRC law is 250; (iii) the number of normal working hours in a day is 8; and (iv) following our production procedures, the average number of working hours for integrating one oil hydraulic power drive is 38. As a result, the estimated production capacity of our oil hydraulic power drives segment in 2010 is: 2 workers x 250 days x 8 hours ÷ 38 hours/unit = (approximately) 105 units;

BUSINESS

- For the manufacture of heat exchange systems for engines with a power output ranging from 20 kW to 250 kW, (i) the average number of workers in 2010 was approximately 110; (ii) the number of statutory working days in a year under the PRC law is 250; (iii) the number of normal working hours in a day is 8; and (iv) following our production procedures, the average number of working hours for manufacturing one heat exchange system for engines with a power output ranging from 20 kW to 250 kW is 6. As a result, the estimated production capacity of heat exchange systems for engines with a power output ranging from 20 kW to 250 kW for 2010 is: $110 \text{ workers} \times 250 \text{ days} \times 8 \text{ hours} \div 6 \text{ hours/unit} =$ (approximately) 36,667 units;
 - For the manufacture of heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW, (i) the average number of workers in 2010 was approximately 80; (ii) the number of statutory working days in a year under the PRC law is 250; (iii) the number of normal working hours in a day is 8; and (iv) following our production procedures, the average number of working hours for manufacturing one heat exchange system for engines with a power output ranging from 251 kW to 2,000 kW is 25.6. As a result, the estimated production capacity of heat exchange systems for engines with a power output ranging from 251 kW to 2,000 kW for 2010 is: $80 \text{ workers} \times 250 \text{ days} \times 8 \text{ hours} \div 25.6 \text{ hours/unit} =$ (approximately) 6,250 units;
 - For the manufacture of electronic speed actuators, the production capacity is calculated based on designed production capacity of key equipment, and assuming factory employees generally work a single eight-hour shift per day; and
 - For the manufacture of electronic speed controllers, the production capacity is calculated based on designed production capacity of key equipment, and assuming factory employees generally work a single eight-hour shift per day.
- (2) Actual production is the actual number of products integrated or manufactured by our Group during a given period.
- (3) The utilization rate is calculated by dividing the actual production by the production capacity.
- (4) The utilization rate of 103.9% for our diesel generator core production in 2008 reflected primarily extraordinary market demand for standby and emergency electricity supply generated by non-recurring natural events in 2008, such as the Sichuan earthquake in May 2008 and the winter snow storms across Southern China during January 2008. Such utilization rate was mainly achieved by the addition of shifts.
- (5) We integrate oil hydraulic power drives primarily at our customers' production facilities and therefore our operating entity Chongqing Langyu does not maintain its own oil hydraulic power drive production facilities in Chongqing.
- (6) With respect to the manufacturing of electronic speed actuators and electronic speed controllers, we elected to purchase advanced equipment with high designed production capacity when we began the relevant businesses in March 2009 to support our long-term operating needs. As we are at an early stage of our manufacturing of electronic control systems and have a short operating history for this business, we recorded relatively low utilization rates for electronic speed actuators and electronic speed controllers in 2009 and 2010. We believe that the utilization rates for our electronic speed actuators and electronic speed controllers could be improved through an increase in headcount and/or addition of shifts in the future if market demand increases.

BUSINESS

Expansion of production capacities

We intend to expand our production capacities as follows:

Power core business. We intend to expand our production capacity for the integration of diesel generator cores and complement it with increased production capacity for the integration of industrial power cores. We plan to acquire land in Xiangyang, Hubei Province and construct new production plants to accommodate our diesel generator core and industrial power core production facilities, with an estimated aggregate capital expenditure of RMB339.9 million, as well as purchase new production lines, assembly lines and testing equipment with an estimated aggregate capital expenditure of RMB33.6 million for the expansion of these two businesses. We intend to finance these capital expenditures through internal funds and net proceeds from the Global Offering. We anticipate that our new production plant in Xiangyang will be completed by the end of 2012. The following table sets forth our expansion plan of production capacity for our diesel generator core and industrial power core businesses:

	Production capacity by the end of 2010	Expected production capacity by the end of 2011	Expected production capacity by the end of 2012
(units per annum)			
Diesel generator cores	28,000	36,000	45,000
Industrial power cores ⁽¹⁾	105	150	5,000

Note:

(1) Does not include production capacity of Hubei Langtong, which was approximately 5,000 units in 2010 and is expected to reach 10,000 units in 2012.

Heat exchange system business. We intend to increase the production capacity and utilization rates in our heat exchange system segment to meet market demands arising from our power core segment from time to time through the purchase of new equipment, an increase in headcount and the addition of shifts. The following table sets forth our expansion plan of production capacity for our heat exchange system business (exclusive of commercial vehicle heat exchange systems):

	Production capacity by the end of 2010	Expected production capacity by the end of 2011	Expected production capacity by the end of 2012
(units per annum)			
Heat exchange systems	39,917	65,000	157,500

Electronic control system business. We may increase utilization rates of our electronic control system business to meet market demand in the future, primarily through an increase in headcount and/or addition of shifts.

BUSINESS

Development Plan of New Products

We intend to develop new diesel engine-related products with commercial vehicles applications in the future, including commercial vehicle heat exchange systems, CAN and after-treatment systems. The following tables set forth selected information about these products:

Commercial vehicle heat exchange systems

Nature	Commercial vehicle heat exchange systems are a subset of heat exchange systems. We intend to develop air-to-air aftercoolers and radiating pipes with applications in commercial vehicles. An air-to-air aftercooler is a type of heat exchange system typically made of aluminum utilizing air coolant, and radiating pipe is a key component of commercial vehicle heat exchange systems. Both products are widely used in commercial vehicles.
Applications	Commercial vehicle heat exchange systems are attached to vehicle diesel engines in order to lower the engine temperature and improve engine efficiency.
Technology	The technologies required for designing and manufacturing commercial vehicle heat exchange systems are similar to those applied by us in designing and manufacturing heat exchange systems for engines in power cores.
Entry barrier	The entry barrier is relatively low for manufacturers of heat exchange systems. Completion of filing procedures with NDRC and the Ministry of Industry and Information Technology, or the local branches of these two authorities, is required in China for manufacturing auto parts, including commercial vehicle heat exchange systems.
Potential market demand . . .	Based on our feasibility studies, we believe that with the continuous growth of the commercial vehicle market in China, market demand for commercial vehicle heat exchange systems will increase as well. We are currently negotiating with potential customers for the sales of commercial vehicle heat exchange systems. We entered into a letter of intent with Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司) on May 3, 2011, pursuant to which we intend to invest RMB300 million to construct a facility for producing commercial vehicle heat exchange systems in Beijing or its surrounding area, and Beiqi Foton Motor Co., Ltd. agrees to purchase our products on a priority basis, provided the quality and pricing of our products are competitive. However, this letter of intent is not legally binding and does not include any take-or-pay obligation.

BUSINESS

CAN

Nature.....	Controller Area Network, an International Standardization Organization (ISO) defined serial communications bus for the diesel engine-related industries, intended to replace the complex wiring harness with a simpler two-wire bus. The specification calls for high immunity to electrical interference and the ability to self-diagnose and repair data errors.
Applications	CAN is typically attached to diesel engines to monitor the real-time requests from various electronic control units in a vehicle, including fuel injection system, anti-lock braking system, acceleration skid control, exhaust recycling system and air conditioner system, share certain data of vehicles and control the aforementioned electronic control units. CAN is widely used in automobiles, diesel generator power systems, industrial equipment and ships. We intend to develop CAN with commercial vehicle applications.
Technology	The key technology specifications of CAN are standardized in protocols published by ISO and the network designers typically design specifications that are not standardized by ISO. The technology applied in the development of CAN is similar to that used in the development of electronic control systems, which are typically designed to control engine fuel and engine speed.
Entry barrier	The entry barrier is relatively low for manufacturers of electronic control systems. Completion of filing procedures with NDRC and Ministry of Industry and Information Technology, or the local branches of these two authorities, is required in China for manufacturing auto parts, including CAN.
Potential market demand. . .	As compared with traditional controlling network in commercial vehicles, CAN is more efficient and cost-effective. The CAN development in China is currently at an early stage and based on our feasibility studies, we believe that the potential market demand for CAN in China will continue to increase in the future.

BUSINESS

After-treatment system

Nature	A device installed in the exhaust system of an engine to reduce NOx emissions from the engine's exhaust.
Applications	After-treatment systems are typically used by the diesel engine-related industry. We intend to develop after-treatment systems with commercial vehicle applications.
Technology	The key technology applied in the development of after-treatment systems is the electronic control of engine intake system.
Entry barrier	The entry barrier is relatively low for companies that are familiar with the engine intake system and possess the know-how and development skills regarding electronic control systems. Completion of filing procedures with NDRC and the Ministry of Industry and Information Technology, or the local branches of these two authorities, is required in China for manufacturing auto parts, including after-treatment systems.
Potential market demand . . .	The development of after-treatment systems in China is currently at an early stage. The penetration rate of commercial vehicles in China is expected to increase along with economic development and a growth in population, which may cause the demand for after treatment systems with commercial vehicle applications to increase correspondingly. In addition, as regulatory standards for automobile emissions may become more stringent in China in the future, the market demand for after-treatment systems in China may increase further. For example, national standards equivalent to Euro IV standards may come into effect in China on January 1, 2012 and in order to satisfy such standards, automobile manufacturers in China would be required to install after-treatment systems in automobiles manufactured by them, which could be expected to positively affect demand for after-treatment systems in China.

As described above, each of the commercial vehicle heat exchange system, CAN and after-treatment system is a device installed in or attached to a diesel engine in order to improve functionalities of the diesel engine. We believe that we have developed extensive expertise over the years in tailoring these systems and are well positioned to capitalize on our technical skills and know-how. We believe that the development of commercial vehicle heat exchange systems is an organic extension of our heat exchange system business and the development of CAN and after-treatment systems is an organic extension of our electronic control system business. We expect the development of commercial vehicle heat exchange systems, CAN and after-treatment systems to diversify our revenue streams and improve our overall profit margin in the long term.

BUSINESS

We have purchased key equipment for the manufacturing of air-to-air aftercoolers and radiating pipes with applications in commercial vehicles. We are also negotiating with potential customers for the sales of commercial vehicle heat exchange systems. We have currently received a key patent with respect to the development of CAN (patent number: ZL2009 2 0289452.0). The CAN to be developed by us based on this patent is expected to comprise a bus terminal, signal controlling panel, display instrument and warning devices. We plan to recruit highly experienced experts to lead our research and development team of after-treatment systems. To enhance progress on the development of new products, we plan to increase our research and development headcount from 54 engineers as of the Latest Practicable Date to 100 engineers by the end of 2012. We believe there are sufficient labor resources available in the market, including both professionals with industry experience and workers with requisite skills. We seek to leverage the extensive network of contacts in the diesel engine industry maintained by our senior management to recruit talented professionals experienced in the research and development of new products that we intend to launch and provide them with competitive compensation packages. We intend to begin manufacturing a significant component for commercial vehicle heat exchange systems in the second half of 2011 and launch the production of CAN and after-treatment systems in the first quarter of 2013. The following table sets forth our estimated production capacity for our new products:

	Estimated production capacity	Earliest date to commence construction of production facilities	Estimated date to commence production
	(units per annum)		
Air-to-air aftercoolers	600,000 by the end of 2012	January 2012	July 2012
Radiating pipes	200,000 by the end of 2012	January 2012	April 2012
CAN	300,000 by the end of 2013	May 2012	January 2013
After-treatment systems	80,000 by the end of 2013	January 2012	January 2013

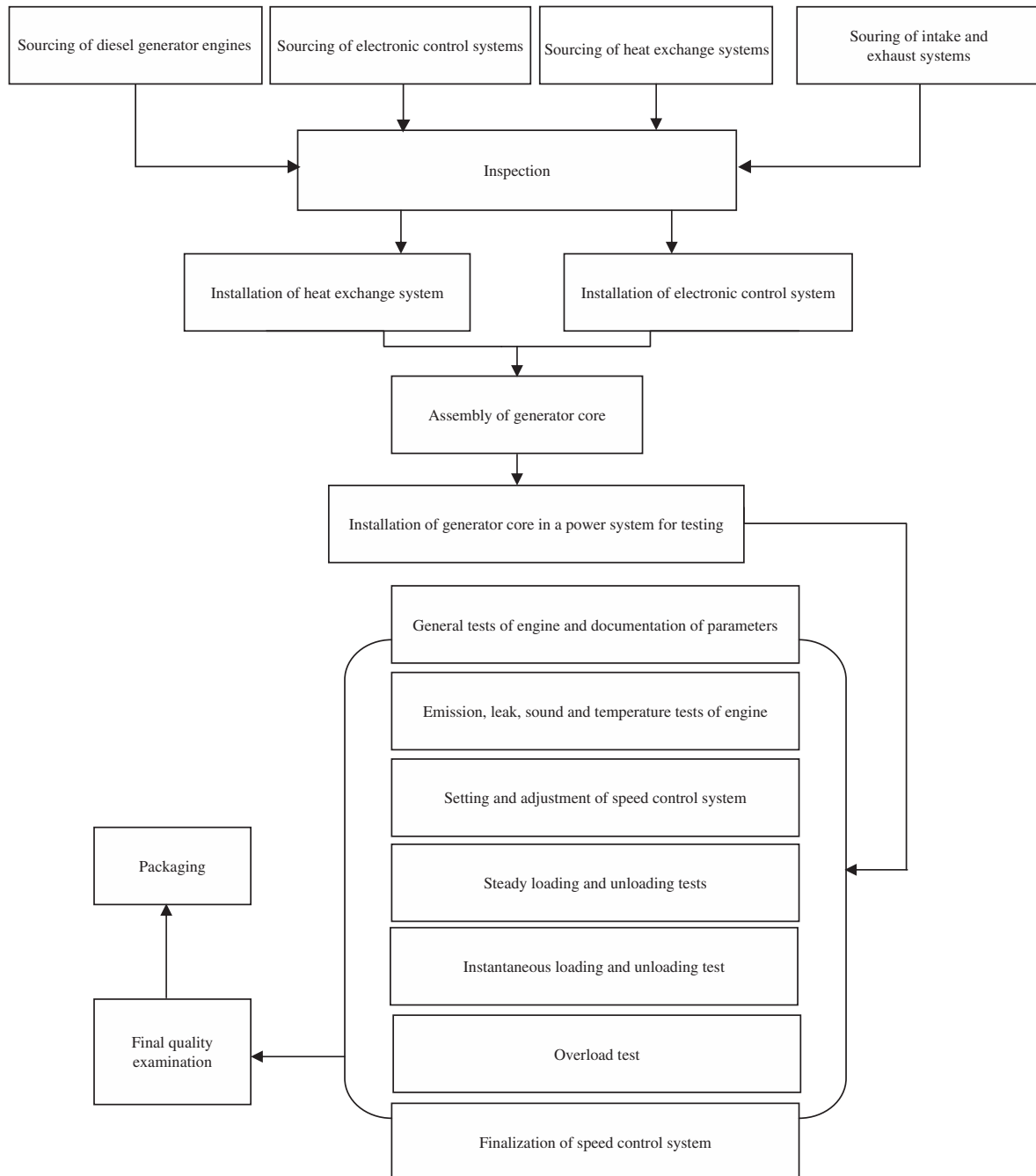
We estimated to incur an aggregate amount of RMB65 million for the development of new products. We anticipate that approximately 75% of the total estimated cost for development of new products will be used in construction of production facilities and the remaining 25% will be used in research and development activities and others. We intend to finance the aggregate of (i) the cost for construction of production facilities and (ii) research and development cost through internal funds as to approximately 25% and net proceeds from the Global Offering as to approximately 75%. Our production capacity plans for our existing business segments as well as for new products only reflected our plan or estimation as of the Latest Practicable Date. Our actual production capacity may differ significantly from our current plans. For risks associated with our production capacity plans, see “Risk Factors—Risks Relating to Our Business and the Industries in which We Operate—Our production capacity plans for our existing business segments and for new products are subject to changes.”

BUSINESS

Production Process

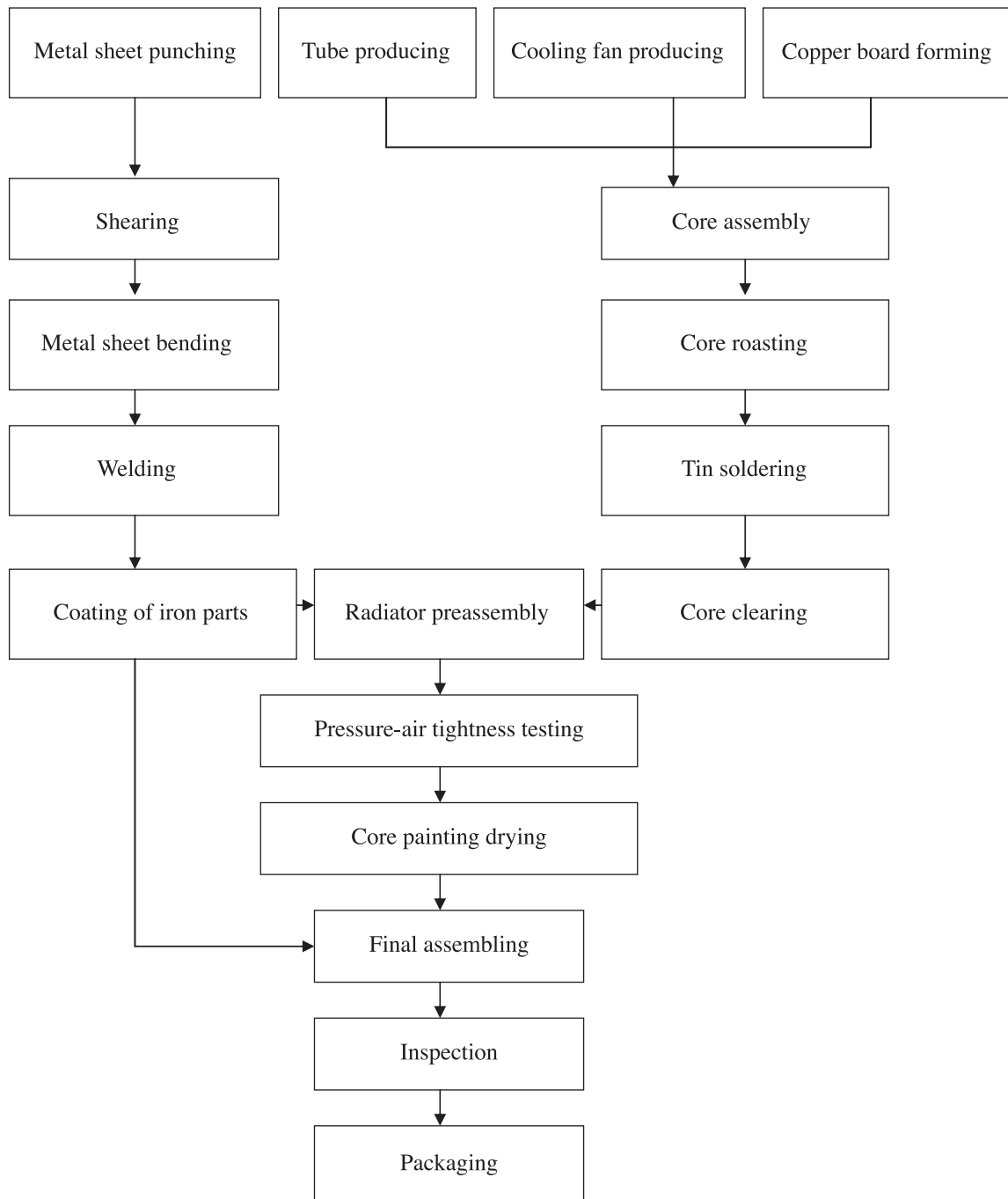
Power Core Business

In general, the integration of our diesel generator cores consists of sourcing of components within our Group or from outside suppliers, inspecting the quality of such components upon their arrival at our production facilities, installing of heat exchange systems and electronic control systems, assembling the diesel generator cores, and running multiple tests to document the parameters of engines and ensure the best fit between the engine and related systems. The following diagram illustrates the general integration process for our diesel generator cores:



Heat Exchange System Business

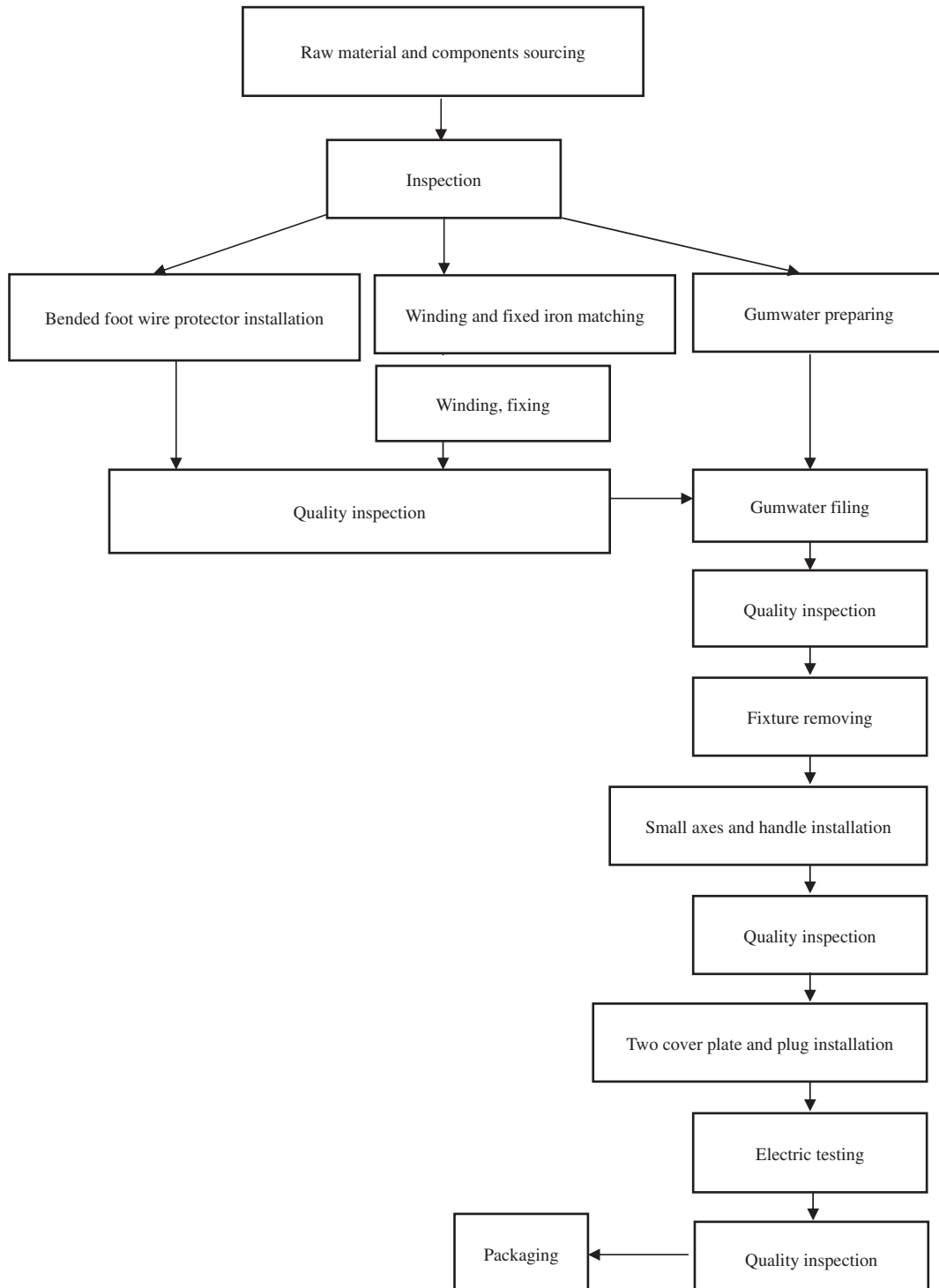
In general, the manufacturing of heat exchange systems consists of the punching, shearing, bending, welding and coating of metal parts, the manufacturing of tube and cooling fans, assembling, roasting and tin soldering of the heat exchanger core, preassembling radiators, testing and final assembly. The following diagram illustrates the general production process for our heat exchange systems:



BUSINESS

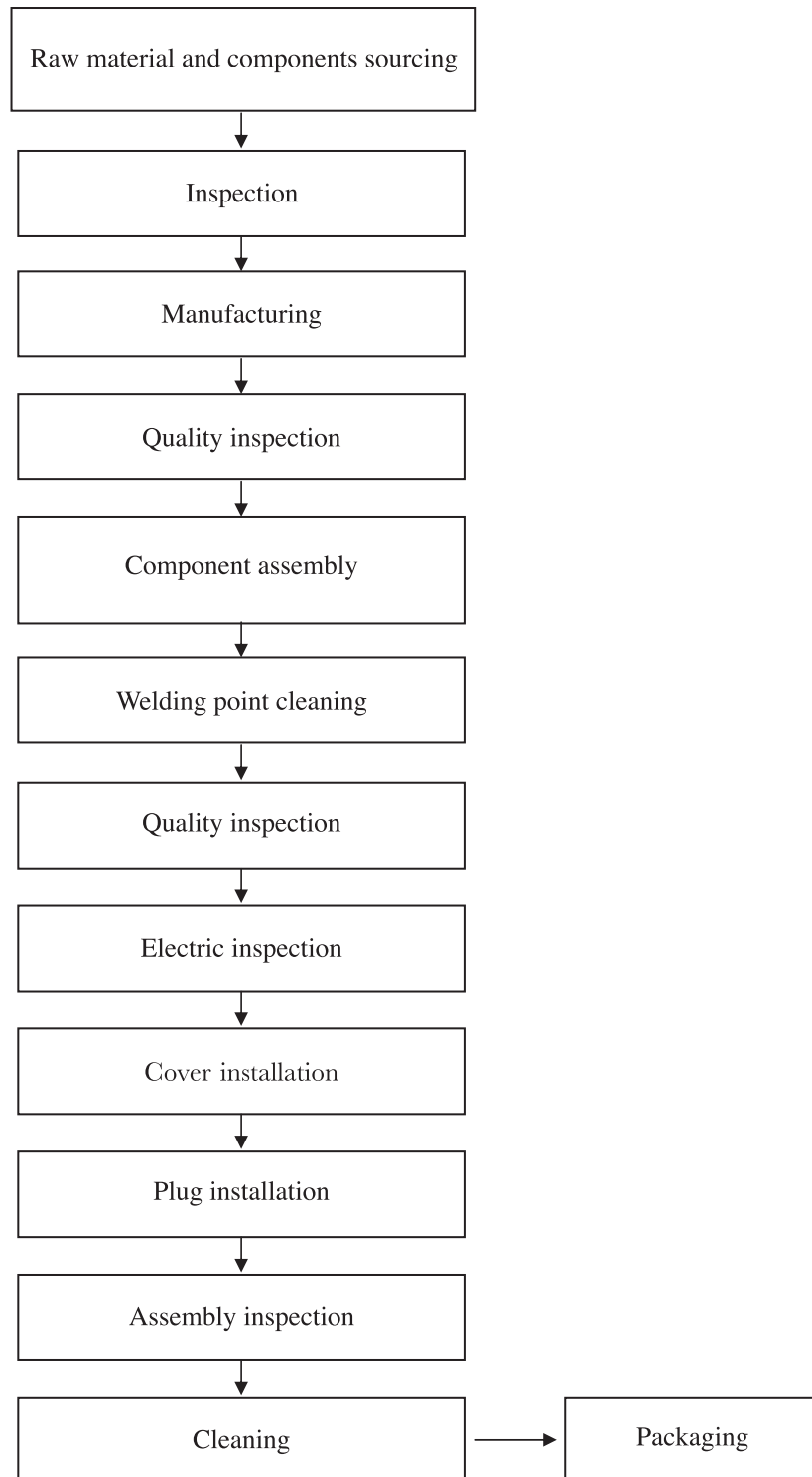
Electronic Control System Business

In general, the manufacturing of electronic control systems consists of designing and manufacturing of electronic speed actuators and electronic speed controllers. The following diagram illustrates the general production process for our electronic speed actuators:



BUSINESS

The following diagram illustrates the general production process for our electronic speed controllers:



BUSINESS

RESEARCH AND DEVELOPMENT

We place significant emphasis on the research and development of new products, technology and designs. Our strong research and development capabilities are demonstrated by our well-established in-house teams, the value of our intellectual properties and the proven performance of our products. Our research and development teams are focused on the continuous improvement of our existing technologies and products and the development of new technologies and products for the timely meeting of customer needs. We currently have three in-house research and development teams, comprising 13, 31 and 10 engineers, respectively, for the support of our power core, heat exchange system and electronic control system businesses, respectively. Our total research and development headcount accounted for more than 8% of our total number of staff as of the Latest Practicable Date. Key members of our research and development teams have on average 10 years of experience and most of them hold bachelor's degrees or above and are qualified as engineers or senior engineers in China. As of the Latest Practicable Date, our Group had 23 registered patents and 10 licensed patents by third parties and had submitted applications for the registration of 15 patents in China. We believe that certain of our patents are critical to our business. For example, we have employed our patents of water tank for multiple flow radiators (多流程散熱器水箱), gasket heat exchanger for new-type diesel generator sets (新型柴油發電機組組合熱交換器) and heat radiator for new-type diesel generator sets (新型柴油發電機組散熱器) for the development of heat exchange systems and employed our patents or licensed patents of stands for LED energy-saving lights (LED節能燈燈架), digital electronic speed controlling device for use in engines (用於發動機的數字式電子調速控制裝置).

The following table sets forth the expiry dates for each of the patents that are critical to our business:

Critical Patents	Expiry Date of the Patents	Expiry Date of the License Agreement
water tank for multiple flow radiators (多流程散熱器水箱)	November 1, 2019	—
gasket heat exchanger for new-type diesel generator sets (新型柴油發電機組組合熱交換器)	September 21, 2019	—
heat radiator for new-type diesel generator sets (新型柴油發電機組散熱器)	September 21, 2019	—
stands for LED energy-saving lights (LED節能燈燈架)	September 29, 2019	July 8, 2016
digital electronic speed controlling device for use in engines (用於發動機的數字式電子調速控制裝置)	August 3, 2020	—

Further, our strong research and development capabilities have also helped us secure the strategic alliance with Dongfeng Cummins to use its engines in our diesel generator cores.

In 2008, 2009 and 2010, we recorded research and development expenses of RMB0.4 million, RMB4.1 million and RMB3.9 million, respectively. These expenses may be lower than those incurred by some of our competitors. As a substantial portion of costs required for our research and

BUSINESS

development activities are related to running engine-related tests, we typically purchase test equipment to reduce our recurring research and development expenses. For example, we own eight sets of national-level engine test benches certified by AQSIQ. These equipment and machines have helped us control our research and development expenses while achieving desirable research results.

In-House Research and Development Activities

Power Core Business

The focus of our research and development activities for the power core business is to provide a comprehensive, customized diesel generator core solution for our customers. To achieve this purpose, our engineers are responsible for the following tasks:

- conducting research relating to requirements imposed by the government authorities and customer preferences with respect to, among others, functionality, environmental protection and safety of diesel generator cores;
- working closely with the other two research and development teams in the design of the heat exchange systems and electronic control systems for a given engine model and to satisfy the technical specifications provided by the customers, if any;
- running extensive tests on engines sourced by us to document key parameters and conducting necessary technical alteration of the engines to satisfy the needs of our customers;
- running steady loading and unloading tests, instantaneous loading and unloading tests and overload tests to ensure the compatibility and interoperability of all the devices and systems involved in the integration process; and
- designing customized components and parts of diesel generator cores to satisfy differentiated requirements of customers.

As of the Latest Practicable Date, our Group had seven registered patents, four licensed patents by third parties and has submitted application for the registration of 12 patents with respect to the integration of power cores.

Heat Exchange System Business

The focus of our research and development activities for the heat exchange system business is to design heat exchange systems that are adapted to diverse geographical and climate conditions and satisfy technical specifications provided by the customers. We are able to offer a wide range of heat exchange systems with the following major customized features:

High temperature	—	Designed with improvements to the cooling and radiation capabilities to enable the cooling system to continue functioning in environments from -40°C to 52°C
Remote control	—	Designed with remote controls to allow the heat exchange systems to function independently and conduct centralized and real-time monitoring of device conditions and other parameters of the heat exchange systems
High altitude	—	Designed with improvements to the intake system and cooling and radiation capabilities to adapt to the reduced air pressure and lower water boiling point

BUSINESS

In the designing of our heat exchange systems, our engineers have utilized the latest 3D software such as Solid EDGE and AutoCAD, and run extensive tests, including air volume test, noise level test, pressure test, durability test and comprehensive tests relating to the compatibility of heat exchange systems with engines.

As of the Latest Practicable Date, our Group had 13 registered patents, three patents licensed from third parties and had submitted applications for the registration of two patents in China with respect to the development of heat exchange systems.

Electronic Control System Business

The focus of our research and development activities for the electronic control system business is to design electronic control systems that offer functions such as precise and fast control of fuel injection quantity, a wide range of speed control to the engines and automatic parallel operation. We have updated the controlling model of our electronic control systems from analog control to digital control, which offers several advantages in terms of agility, accuracy, stability and reliability. Our research and development team is also responsible for the design of customized features. For example, some of our electronic speed systems are customized to provide specified alarm indications for maximum speed restrictions to protect the associated engines.

As of the Latest Practicable Date, our Group had three registered patents, three patents licensed from third parties and had submitted application for the registration of one patent in China with respect to the development of electronic control systems.

CUSTOMERS

As of the Latest Practicable Date, we had sold most of our products within China. Many of our customers are leading players in the markets in which they operate. The following table sets forth selected information with respect to our major customers during the Track Record Period:

<u>Major Products</u>	<u>Customer</u>
Diesel generator cores	<ul style="list-style-type: none">• approximately 160 customers for the year ended December 31, 2010;• many of our customers are major domestic suppliers of diesel power systems, which source our diesel generator cores for assembly into diesel power systems and further resale to end users across numerous industries;• the distribution network operated by our major customers generally target end users in industries such as rail, factories, commercial buildings, telecommunications infrastructure and mining and exploration industries; and• our customers typically have the skills and know-how to install our diesel generator cores into diesel power systems.

BUSINESS

Major Products	Customer
Oil hydraulic power drives	<ul style="list-style-type: none">• four customers for the year ended December 31, 2010;• our customers are domestic suppliers of industrial machineries, which source our oil hydraulic power drives for assembly into construction machines and further resale to end users;• the distribution network operated by our major customers generally target end users in the oil and gas drilling industry; and• our customers typically have the technical skills and know-how to install our oil hydraulic power drives into oil hydraulic machines, oil hydraulic blending machines and dredging pumps.
Engines solely for distribution purposes	<ul style="list-style-type: none">• approximately 115 customers for the year ended December 31, 2010; and• our customers include major domestic manufacturers of power cores and end users of engines, which source our engines for integration into power cores or self use.
Heat exchange systems serving engines with a power output ranging from 251 kW to 2,000 kW	<ul style="list-style-type: none">• approximately 80 customers for the year ended December 31, 2010; typically sold to domestic suppliers of diesel power systems and industrial machineries;• the distribution network operated by our major customers generally target end users in industries such as the electricity generation, oil and gas drilling, mining and exploration and industrial machinery; and• our customers typically have the skills and know-how to install our heat exchange systems into their diesel power systems or industrial machineries.
Electronic speed actuators	<ul style="list-style-type: none">• sold exclusively to ASIMCO; and• electronic speed actuators in the application of diesel generator cores are typically supplied to fuel system unit manufacturers for installation into the diesel generator engines. There are a limited number of fuel system unit manufacturers in China, among which ASIMCO is a large manufacturer serving major engine manufacturers. Given that ASIMCO provides stable demand for our electronic speed actuators in the Track Record Period, we did not secure any other customers during the same period.

During the Track Record Period, a majority of our heat exchange systems serving engines with a power output ranging from 20 kW to 250 kW and electronic speed controllers have been supplied internally for our diesel generator core business. Tianjin Lovol is expected to become our customer

BUSINESS

in 2011 pursuant to a one-year supply contract with us dated February 12, 2011. This supply contract does not include any take-or-pay obligations and therefore should not be regarded as a long-term agreement. This supply contract sets forth the general terms for the supply of electronic control systems to Tianjin Lovol, including terms of delivery, pricing principles, termination of supply, quality assurance, after-sales services and packaging criteria. This supply contract does not provide prices for specific products or a minimum supply and purchase amount. Under this supply contract, the purchase amount, models and delivery details shall be set forth in purchase orders to be placed by Tianjin Lovol with us, and the prices shall be agreed in a pricing supplemental agreement to be entered into between Tianjin Lovol and us.

Our customers include companies listed on the stock exchanges, private companies, foreign-owned enterprises and state-owned enterprises in China. A majority of the top 10 manufacturers of diesel generator power systems in China, as measured by revenue in 2010, are our customers. Our five largest customers in 2010 comprised Shanghai Pudong Machinery Equipments Co., Ltd.* (上海浦東機械設備成資公司), Shanghai Dingxin Electric Group Co., Ltd.* (上海鼎新電氣(集團)有限公司), Shenzhen Fudiankang Diesel Engine Co., Ltd. (深圳市富電康柴油發電機有限公司), VPower Engineering (Shenzhen) Ltd.* (偉能機電設備(深圳)有限公司) and Jiangsu Starlight Electricity Equipment Co., Ltd.* (江蘇星光發電設備有限公司). Most of these customers engage in both domestic and export business in respect of diesel generator power systems.

The following table sets forth the information on the revenue contributed by our five largest customers in 2010:

<u>Key customers</u>	<u>Revenue contribution in 2010</u>	<u>Percentage of our total revenue in 2010</u>
	(RMB'000)	(%)
Shanghai Pudong Machinery Equipments Co., Ltd.* (上海浦東機械設備成套公司)	68,762	6.2
Shanghai Dingxin Electric Group Electric Technology Co., Ltd.* (上海鼎新電氣集團電源科技有限公司)	60,959	5.5
Shenzhen Fudiankang Diesel Engine Co., Ltd.* (深圳市富電康柴油發電機有限公司)	47,262	4.3
VPower Engineering (Shenzhen) Ltd.* (偉能機電設備(深圳)有限公司)	39,282	3.5
Jiangsu Starlight Electricity Equipment Co., Ltd.* (江蘇星光發電設備有限公司)	34,329	3.1

We price our products on a cost-plus basis by considering the production costs and including an additional amount to achieve profitability and margins. We also take into account factors such as product capabilities, degree of competition, market demand and changes and improvements in technical innovations in pricing our products. For different types of products, we grant different credit periods to our customers. For details of our credit policy, see “Financial Information — Net Current Assets — Trade and bills receivables”. Our customers generally collect our products at our production facilities through transportation services arranged by them at their cost.

BUSINESS

For the years ended December 31, 2008, 2009 and 2010, sales to our five largest customers accounted for 27.0%, 21.7% and 22.6% of our turnover, respectively, and our largest customer accounted for 9.6%, 6.1% and 6.2% of our turnover for the same periods, respectively. Xiangfan Yundong Machinery & Electric Co., Ltd. (襄樊運東機電工程有限公司), or Xiangfan Yundong, was our fourth largest customer in 2008 and among our top 10 customers in 2009, accounting for 3.5% and 3.0% of our turnover for the same periods, respectively. Xiangfan Yundong was held as to 10.0% by Mr. Zhang Yu and as to 10.0% by Ms. Huang Fei, each being a Controlling Shareholder, prior to August 17, 2009. Save as disclosed above, none of our Directors or their associates, or any Shareholders, who, to the knowledge of our Directors, owns more than 5.0% of our issued share capital, has any interest in any of our five largest customers in 2008, 2009 and 2010. To the best knowledge of our Directors, none of Dongfeng Cummins, its subsidiaries, shareholders, directors or their respective associates holds an equity interest in any of our five largest customers in 2008, 2009 and 2010.

SUPPLY OF PARTS, COMPONENTS AND RAW MATERIALS

The principal parts, components and raw materials that we source externally for our production include the engines for our power core business, copper belts and steel plates for our heat exchange system business, and PCBs, chipsets and potentiometers for our electronic control system business. Some of the parts, for example, PCBs, have been specifically manufactured based on our designs, drawings, technical parameters and quality standards. For the years ended December 31, 2008, 2009 and 2010, we sourced substantially all of the parts, components and raw materials in the PRC and a small portion of raw materials, which were used for our manufacturing of electronic speed controllers, from overseas.

During the Track Record Period, most of the engines used in our diesel generator core business were provided by Dongfeng Cummins. For details, see “— Our Business Relationship with Dongfeng Cummins”. We source the other parts, components and raw materials from a relatively diversified pool of suppliers. We typically make payments to our suppliers by bank acceptance or transfer transmittal.

During the Track Record Period and up to the Latest Practicable Date, we did not experience (i) any significant price increases or a shortage in supply of the parts, components and raw materials, (ii) any quality defects in the engines, parts and components supplied by Dongfeng Cummins and other suppliers, or (iii) any decline in Dongfeng Cummins’ brand awareness and reputation, that had a material and adverse effect on our business operations.

We have maintained business relationship with our major suppliers for an average of over three years. For the years ended December 31, 2008, 2009 and 2010, purchases from our five largest suppliers accounted for 94.3%, 94.5% and 89.9%, respectively, of our total purchase amounts of all parts, components and raw materials, and our largest supplier, Dongfeng Cummins, accounted for 89.0%, 51.2% and 49.6%, respectively, of our total purchase amounts of all parts, components and raw materials for the respective periods. Taking into account the Dongfeng Cummins engines we purchased from Cummins Power Generation, our total purchase of Dongfeng Cummins engines amounted to approximately RMB755.9 million, RMB386.5 million and RMB632.7 million in 2008, 2009 and 2010, respectively, accounting for 89.0%, 67.8% and 68.2% of our total purchase amounts of all parts, components and raw materials for the same periods, respectively. Xiangfan

BUSINESS

Yuli Machinery Parts Co., Ltd. (襄樊宇立機械配件有限責任公司), or Xiangfan Yuli, was one of our five largest suppliers in 2008, 2009 and 2010, accounting for 3.6%, 1.3% and 1.2%, respectively, of our total purchase during the same periods. Xiangfan Yuli was controlled by Mr. Li, Mr. Luo, Mr. Zhang, Ms. Huang Fei and Ms. Huang Yue, collectively, each being a Controlling Shareholder, prior to its deregistration in March 2011. We elected to deregister Xiangfan Yuli in March 2011 as it was engaged in the distribution of engine components and parts, which is not one of our core businesses and typically has lower gross profit margins in China. Save as disclosed above, none of our Directors or their associates, or any Shareholders, who, to the knowledge of our Directors, owns more than 5.0% of our issued share capital, has any interest in any of our five largest suppliers in 2008, 2009 and 2010. To the best knowledge of our Directors, the major suppliers of our heat exchange system and electronic control system businesses during the Track Record Period and up to the Latest Practicable Date are independent of Dongfeng Cummins and Cummins Inc.

We entered into a framework agreement with Dongfeng Motor Engine in February 2011 for the supply of diesel industrial engines and diesel generator engines. However, this agreement does not include any take-or-pay obligations and therefore should not be regarded as a long-term agreement. Dongfeng Motor Engine is wholly-owned by Dongfeng Motor Co., Ltd. (東風汽車有限公司), a jointly-controlled entity of Dongfeng Motor Group Company Limited, and is principally engaged in manufacturing diesel engines with power output ranging from 70 kW to 330 kW.

Pursuant to this framework agreement, Dongfeng Motor Engine agrees to (i) supply all diesel generator engines and industrial diesel engines manufactured by it to us, based on our actual demand; and (ii) support our research and development in the integration of power cores with diesel generator engines and heavy industrial engines. Pursuant to this framework agreement, the engine model, delivery time and purchase amount will be determined by us in purchase orders to be placed with Dongfeng Motor Engine, while the purchase price, quality and other terms are to be agreed by Dongfeng Motor Engine and us in a separate purchase agreement. This framework agreement provides that it will be automatically terminated if Dongfeng Motor Engine and us do not take any measures to promote such proposed cooperation within one year.

We intend to source a steady supply of industrial diesel engines and diesel generator engines through this arrangement for the integration of industrial power drives. As of the Latest Practicable Date, we had conducted tests on certain models of the engines manufactured by Dongfeng Motor Engine to assess their technical parameters for integration purposes and we also carried out research and development activities so as to provide heat exchange system and electronic control system solutions for certain models of the engines manufactured by Dongfeng Motor Engine.

BUSINESS

Purchase of Diesel Engines from Dongfeng Cummins and Other Suppliers

The following table sets forth our purchase amount of diesel engines from relevant suppliers during the Track Record Period:

	Years ended December 31,					
	2008		2009		2010	
	RMB'000	% of total purchase amount ⁽¹⁾	RMB'000	% of total purchase amount ⁽¹⁾	RMB'000	% of total purchase amount ⁽¹⁾
Dongfeng Cummins	755,859	89.0%	386,485 ⁽²⁾	67.8%	632,682 ⁽³⁾	68.2%
Cummins Group						
Cummins Power Generation.	—	—	138,151 ⁽⁴⁾	24.3%	168,330 ⁽⁵⁾	18.1%
Cummins China	—	—	665	0.1%	10,849	1.2%
Sub-total	—	—	138,816	24.4%	179,209	19.3%
Xi'an Cummins	2,992	0.4%	6,419	1.1%	5,413	0.6%
Chongqing Cummins ⁽⁶⁾	—	—	1,169	0.2%	10,085	1.1%

Notes:

- (1) Represents percentage of our total purchase amount of all parts, components and raw materials, which was RMB849.7 million, RMB569.7 million and RMB927.7 million in 2008, 2009 and 2010, respectively.
- (2) Includes Dongfeng Cummins engines re-sold by Cummins Power Generation to us in an amount of RMB94.8 million.
- (3) Includes Dongfeng Cummins engines re-sold by Cummins Power Generation to us in an amount of RMB172.3 million.
- (4) Excludes Dongfeng Cummins engines re-sold by Cummins Power Generation to us in an amount of RMB94.8 million.
- (5) Excludes Dongfeng Cummins engines re-sold by Cummins Power Generation to us in an amount of RMB172.3 million.
- (6) Represents our aggregate purchase amount of Chongqing Cummins engines from certain distributors of Chongqing Cummins.

The following table illustrates certain information regarding our suppliers of diesel generator engines:

Entity	Headquarters	Shareholding	Engine features		
			Primary Use	Power output ⁽¹⁾	Brand name
Dongfeng Cummins	Xiangyang, Hubei province	a joint venture owned as to 50% by Cummins China and 50% by Dongfeng Automobile Co., Ltd. (東風汽車股份有限公司)	diesel generator engines for integration purposes	20 kW to 220 kW	Dongfeng Cummins
Cummins Power Generation	Wuhan, Hubei province	wholly-owned by Cummins China	diesel generator engines for distribution purposes	220 kW to 1,750 kW	Cummins

BUSINESS

Entity	Headquarters	Shareholding	Engine features		
			Primary Use	Power output ⁽¹⁾	Brand name
			diesel generator engines for integration purposes	20 kW to 220 kW	Dongfeng Cummins ⁽³⁾
Cummins China	Beijing	wholly-owned by Cummins Inc.	diesel generator engines for distribution purposes	220 kW to 1,750 kW	Cummins
Xi'an Cummins	Xi'an, Shaanxi province	a joint venture owned as to 37.5% by Cummins Co., Ltd., 12.5% by Cummins China, 25% by Shaanxi Automobile Group Co., Ltd. (陝西汽車集團有限責任公司) and 25% by Shaanxi Heavy-duty Automobile Co., Ltd. (陝西重型汽車有限公司)	diesel generator engines (model QSM11 only) for integration purposes	291 kW	Xi'an Cummins
Chongqing Cummins ⁽²⁾	Chongqing	a joint venture owned as to 50% by Cummins China and 50% by Chongqing Machinery & Electric Co., Ltd. (重慶機電股份有限公司)	industrial diesel engines for integration purposes	392 kW to 1,679 kW	Chongqing Cummins

Notes:

- (1) Represents power output ranges of diesel engines purchased by us during the Track Record Period.
- (2) Our purchase of Chongqing Cummins engines was made through distributors of Chongqing Cummins in China.
- (3) These diesel generator engines were purchased by Cummins Power Generation from Dongfeng Cummins and re-sold to us. For details, see “— Purchase of Dongfeng Cummins Engines from Cummins Power Generation” below.

We did not purchase diesel engines from any other suppliers other than those set out above during the Track Record Period as we have been satisfied with the quality of our current supply of diesel engines as well as the business relationship we have developed with our existing suppliers. It is also an organic extension of our business for us to trade engines under the brand name of “Cummins” and to source diesel engines under the brand names of “Xi’an Cummins” and “Chongqing Cummins” after we had developed our market recognition for integrating diesel generator cores with Dongfeng Cummins engines. The diesel engines we sourced under these brand names have similar core technology and therefore it is easier for us to leverage our knowledge on their technical features to develop new business based on these engines. We are also able to leverage our existing customer base, who are familiar with Dongfeng Cummins, to pursue new sales opportunities and provide more product options developed on diesel engines under the brand names of “Cummins”, “Xi’an Cummins” and “Chongqing Cummins”.

BUSINESS

Purchase of Diesel Generator Engines from Dongfeng Cummins

To the best knowledge of our Directors, during the Track Record Period, Dongfeng Cummins supplied most of its diesel generator engines with a power output of 20 kW to 220 kW to us and the remaining diesel generator engines with the same power output range to Cummins Power Generation. To the best knowledge of our Directors, these diesel generator engines manufactured by Dongfeng Cummins are protected under trademarks and patents owned by Dongfeng Cummins or its associates. We entered into an annual sale and purchase agreement with Dongfeng Cummins in the first half of each year between 2006 and 2011, which sets out the fixed purchase price for the entire term of such sale and purchase agreement, engine model, quantity and other terms. Pursuant to these agreements, we are entitled to receive a rebate from Dongfeng Cummins for certain engine models, generally ranging from RMB1,500 to RMB3,000 per unit by meeting target purchase volumes generally ranging from 3,500 to 26,000 units per annum. Under the agreements, we are also required to place an order with Dongfeng Cummins, setting forth the engine model, quantity and delivery time on a monthly basis. The annual sale and purchase agreement we entered into with Dongfeng Cummins in May 2011 will expire on December 31, 2011. We are generally provided a credit period of 30 days to 45 days for payment. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any interruption in the procurement of diesel generator engines from Dongfeng Cummins or any unusual and significant increase in pricing terms with Dongfeng Cummins.

Purchase of Dongfeng Cummins Engines from Cummins Power Generation

In 2009 and 2010, in addition to the Dongfeng Cummins engines we purchased from Dongfeng Cummins, we also purchased 3,880 units and 6,946 units of Dongfeng Cummins engines from Cummins Power Generation, respectively, representing a purchase amount of approximately RMB94.8 million and RMB172.3 million for the same periods, respectively. Taking into account the Dongfeng Cummins engines purchased from Cummins Power Generation, our total purchase of Dongfeng Cummins engines amounted to 27,347 units, 16,028 units and 25,481 units, representing an amount of approximately RMB755.9 million, RMB386.5 million and RMB632.7 million in 2008, 2009 and 2010, respectively, which accounted for 89.0%, 67.8% and 68.2% of our total purchase amounts of all parts, components and raw materials for the same periods, respectively.

In the second half of 2009, we agreed with Cummins Power Generation that it may make bulk purchases of diesel engines from Dongfeng Cummins for its manufacturing of diesel generator power systems and we agreed to purchase all of its unused Dongfeng Cummins engines. We entered into this arrangement as a commercial decision, according to which (i) Cummins Power Generation enjoyed bulk purchase discounts from Dongfeng Cummins; and (ii) we had a cooperation opportunity with Cummins Power Generation to distribute higher power diesel engines for it and may pursue other opportunities that may arise in the future. Further, we also consider such arrangement as an additional source to secure Dongfeng Cummins engines to meet our demand for power core integration.

Leveraging on the established business relationship with Cummins Power Generation, we and Cummins Power Generation also had discussions on cooperating with each other to develop diesel generator power systems based on engines provided by Dongfeng Cummins in 2010. Accordingly, our Group and Cummins Power Generation (both as customers) entered into an annual sale and purchase agreement with Dongfeng Cummins in May 2010 pursuant to which our Group and

BUSINESS

Cummins Power Generation jointly purchased diesel engines from Dongfeng Cummins. However, we did not continue such cooperation with Cummins Power Generation further after this joint purchase as we considered potential competition issue with our customers. Our purchase amount of engines from Cummins Power Generation for distribution purposes increased in 2010 as compared with 2009. Our Directors believe that our relationship with Cummins Power Generation has not been negatively affected by our decision to cease the cooperation plan for the development of diesel generator power systems. In addition, this decision did not breach any of our contractual obligations.

In 2009 and 2010, Cummins Power Generation re-sold its unused Dongfeng Cummins engines to us, which were subsequently used by us for our integration into diesel generator cores. The Dongfeng Cummins engines supplied by Cummins Power Generation to us were mostly sold at a mark-up of not more than 2% of its original purchase costs incurred by Cummins Power Generation in 2009 and 2010. Most models of these engines are the same as those we purchased from Dongfeng Cummins.

Our Directors are of the view that the above arrangements were in our best interest and the prices of Dongfeng Cummins engines we sourced from Cummins Power Generation were fair and reasonable. Since 2009, we and Cummins Power Generation had communicated closely with each other to monitor the level of demand for Dongfeng Cummins engines and the purchase orders placed by both of us with Dongfeng Cummins to ensure there is a sufficient supply of Dongfeng Cummins engines to meet the manufacturing needs of both parties.

OUR BUSINESS RELATIONSHIP WITH DONGFENG CUMMINS

Background Information on Dongfeng Cummins

Dongfeng Cummins was established in 1996 and is held as to 50% by Dongfeng Automobile Co., Ltd (a jointly-controlled entity of Dongfeng Motor Group Company Limited, a company listed on the Stock Exchange, stock code 489), and as to 50% by Cummins China (a subsidiary of Cummins Inc., one of the largest engine manufacturers worldwide listed on the New York Stock Exchange (NYSE: CMI)). Dongfeng Cummins is principally engaged in the manufacturing of advanced vehicle diesel engines, which are widely used in various vehicles and trucks, mid-to-high end coaches and other public transportation vehicles, engineering and machines, ships and power generating units. Dongfeng Cummins is a leading PRC producer of diesel engines, including both diesel generator engines and vehicle diesel engines.

History of Cooperation with Dongfeng Cummins

Diesel generator engines are key components of the diesel generator cores we produce. Since January 2006, we have been sourcing diesel generator engines from Dongfeng Cummins for the integration of diesel generator cores. During the Track Record Period, most of the diesel generator engines installed in our diesel generator cores were manufactured by Dongfeng Cummins.

Our introduction to Dongfeng Cummins came by way of the network of contacts maintained by our management team. Certain key management members of our Group, including Mr. Zhang, Mr. Luo and Mr. Li Yunfeng, had worked for either the Diesel Engine Factory of Dongfeng Motor Corporation (the predecessor of Dongfeng Cummins before its establishment in 2003) or Dongfeng

BUSINESS

Cummins (after its establishment in 2003) before joining our Group, and were previously involved in major operational aspects including research, development and manufacturing of Dongfeng Cummins engines. These members not only possess significant knowledge of various models of Dongfeng Cummins engines, but have also maintained strong relations with Dongfeng Cummins.

Reasons for Sourcing Diesel Generator Engines from Dongfeng Cummins

Our business relationship with Dongfeng Cummins has proven to be commercially successful. We sourced a majority of diesel generator engines from Dongfeng Cummins for our diesel generator core business in the Track Record Period in order to (i) take advantage of the lower unit costs of engines arising from our bulk purchases; (ii) maintain a stable supply of diesel generator engines; (iii) execute our business strategy of supplying mid- to high-end diesel generator cores by leveraging the brand awareness of Dongfeng Cummins; and (iv) leverage our existing customer relationships. In view of the established long term business relationship with Dongfeng Cummins and our proven cooperation history, our Directors believe we will be able to continue sourcing diesel generator engines from Dongfeng Cummins.

Strategic Alliance Agreement between Our Group and Dongfeng Cummins

We entered into a strategic alliance agreement with Dongfeng Cummins on March 4, 2011. Pursuant to this strategic alliance agreement, Dongfeng Cummins agrees to supply diesel generator engines manufactured by it to us on a priority basis, based on our actual demand, and the engine model, delivery time and purchase amount will be determined by us in purchase orders to be placed with Dongfeng Cummins, while the purchase price, unit specifications and other terms are to be separately agreed by Dongfeng Cummins and us. This strategic alliance agreement provides that it is effective for six years from March 4, 2011 to March 4, 2017 and will be renewed if agreed by both parties. This strategic alliance agreement is supplemented by a long-term supply contract we entered into with Dongfeng Cummins on May 24, 2011.

Long-term Supply Contract between Our Group and Dongfeng Cummins

In order to ensure a steady supply of diesel generator engines from Dongfeng Cummins, Xiangfan Kanghao entered into a six-year supply contract with Dongfeng Cummins on May 24, 2011, which provides that it is supplemental to the aforementioned strategic alliance agreement. The following sets forth the major terms of this long-term supply contract (the “**Long-term Supply Contract**”):

Take-or-pay obligations

Under the Long-term Supply Contract, both parties agree to discuss estimated annual sale and purchase volume of diesel generator engines in the first quarter of each calendar year. If the parties are unable to reach an agreement before the end of the first quarter on the amount to be supplied for that calendar year, (i) Dongfeng Cummins shall be obliged to supply up to 130% of the total diesel generator engines it supplied to our Group in the preceding year; and (ii) Xiangfan Kanghao shall be obliged to purchase not less than 70% of the total diesel generator engines it purchased from Dongfeng Cummins in the preceding year.

BUSINESS

Both parties agree that they will enter into an annual supply agreement in each given year to set out the fixed purchase price, engine model, quantity and other terms. The principal terms of the annual supply agreement shall not contradict the Long-term Supply Contract and, except for necessary adjustments, shall be consistent with the annual purchase agreement entered into by both parties in May 2011 (the “2011 Annual Purchase Agreement”).

Supply on a priority basis

Dongfeng Cummins will supply diesel generator engines manufactured by it with a power output range of 20 kW to 220 kW to Xiangfan Kanghao on a priority basis. Dongfeng Cummins agrees to communicate closely with Xiangfan Kanghao on a monthly basis in each year in respect of Xiangfan Kanghao’s actual demand for diesel generator engines and schedule its production level to satisfy such demand. Dongfeng Cummins further agrees that unless Xiangfan Kanghao’s demand for diesel generator engines is satisfied, it will not provide diesel generator engines to any third parties.

Dongfeng Cummins further agrees that if it supplies engines of same models to any third party, it shall promptly notify Xiangfan Kanghao in writing, and the prices and rebate it agrees with such other party shall not be more favorable than those offered to Xiangfan Kanghao during the relevant period.

Pricing and rebate

The Long-term Supply Contract includes a schedule setting forth the engine models and their respective prices (the “Pricing Schedule”). Both parties agree that, during 2011, Dongfeng Cummins will supply diesel generator engines to Xiangfan Kanghao in accordance with the Pricing Schedule.

From 2012 to 2014, the parties will negotiate and determine the pricing terms with reference to the Pricing Schedule, and for each model, its price will be fixed within a prescribed percentage range of the price set forth in the Pricing Schedule. From 2015 onwards, the parties will negotiate and determine the pricing terms with reference to that agreed in the annual purchase agreement to be entered into in 2014, and for each model, its price will be fixed within a prescribed percentage range of the price set forth in the annual purchase agreement to be entered into in 2014.

From 2012 and throughout the term of the Long-term Supply Contract, Dongfeng Cummins shall offer to Xiangfan Kanghao rebates on a similar basis and in an amount comparable to that agreed in the 2011 Annual Purchase Agreement, and shall set out the basis and amount of the rebate in the respective annual purchase agreements.

The Long-term Supply Contract also provides that in the event of a significant fluctuation in the market price, or a material change in the nature, model or quality, of diesel generator engines supplied by Dongfeng Cummins to Xiangfan Kanghao, the parties shall negotiate and agree in good faith the prices and rebates of diesel generator engines with reference to the then prevailing market prices.

The pricing and rebate clauses under the Long-term Supply Contract are consistent with those in the 2011 Annual Purchase Agreement, and the other major terms of the Long-term Supply Contract are

BUSINESS

substantially consistent with the annual purchase agreements we entered into with Dongfeng Cummins since 2006 except that the Long-term Supply Contract has a term of six-years and the parties have agreed a minimum quantity of diesel generator engines to be supplied by Dongfeng Cummins over such term.

Termination and renewal

The Long-term Supply Contract will be effective from the date of signing for a term of six years. Neither party has a right to unilaterally terminate the Long-term Supply Contract within this period. Prior to the expiry of the Long-term Supply Contract, the parties shall discuss the renewal of the Long-term Supply Contract and enter into a new long-term supply contract, if appropriate.

Remedies for breach of contract

As advised by our PRC legal advisors, Commerce & Finance Law Offices, (i) the Long-term Supply Contract is legally binding and enforceable against each party; and (ii) in the event of a breach of the Long-term Supply Contract by one party, the other party is entitled to undertake legal actions for specific performance of the contract against the defaulting party, recovery of foreseeable losses arising from the breach and other remedial measures. Our PRC legal advisors, Commerce & Finance Law Offices, further advised that the aforementioned foreseeable losses shall include benefits that could have been gained by a party assuming that the Long-term Supply Contract is duly performed by the other party.

Practicability of Sourcing Diesel Generator Engines from Alternative Suppliers

Taking into consideration our expertise, customer base and industry practice on rebates and transportation costs, our Directors are of the view that we are able to easily source diesel generator engines with comparable costs, quality and brand recognition from other qualified suppliers in the market, and in the event that we purchase diesel generator engines from such alternative suppliers, the gross profit margin for our diesel generator core business will not be materially and adversely affected.

Expertise. We are not contractually restricted from sourcing diesel generator engines from other suppliers. Our expertise in diesel generator cores integration business is not limited to Dongfeng Cummins engines and can be generally applied to diesel generator engines with different brands and models manufactured by other suppliers. Our production lines are flexible and can be adapted for the integration of diesel generator cores using different brands and models of diesel generator engines. As such, the cost incurred for production line modifications is insignificant. In addition, we have obtained the necessary patents and know-how required for the modification of different types of diesel engines. We have also offered heat exchange systems to match various models of diesel engines such as Cummins, Perkins, Caterpillar and Mitsubishi engines and our electronic control systems can match diesel generator engines which are not manufactured by Dongfeng Cummins, such as those manufactured by Tianjin Lovol.

Customer base. Most of our customers sourced diesel generator cores equipped with diesel generator engines of various brands and models and they did not specifically request that diesel generator cores supplied to them be equipped with Dongfeng Cummins engines. It is also common industry practice for manufacturers of diesel generator power systems to use a range of different branded diesel

BUSINESS

generator engines. Accordingly, our Group's sales to customers are driven by our ability to provide a comprehensive, customized diesel generator core solution, as opposed to relying on the quality or brand name of diesel generator engines sourced from any of our suppliers.

Rebates and transportation costs. The rebates offered by Dongfeng Cummins are commercially reasonable and comparable to market standard, and we do not foresee any practical obstacle to secure comparable rebates or discounts if we make bulk purchase of diesel generator engines from alternative suppliers. It is also market practice for suppliers of diesel generator engines to be responsible for arranging delivery of diesel generator engines to customers at their own costs. As such, transportation costs for sourcing diesel generator engines from alternative suppliers, if any, are not expected to have a material adverse effect on our profitability.

If we change our main supplier of diesel generator engines, we expect to leverage our existing research and development capabilities to provide diesel generator core solutions based on new engines, including designing heat exchange systems and electronic control systems to match the new diesel generator engines and running requisite tests, which is expected to take not more than three months. We may also need to incur expenses to launch certain marketing activities or offer incentive sales terms to maintain and expand our customer base. As a result, our financial performance during the transition period could be adversely affected. For more details, see "Risk Factor—We mainly source diesel generator engines from Dongfeng Cummins."

Our Plan to Diversify Supplier Base

We intend to diversify our supplier base. We have entered into discussions with alternative suppliers on the procurement of diesel generator engines and related pricing terms. These alternative suppliers are leading suppliers of diesel generator engines in China. We expect to gradually purchase diesel generator engines from new suppliers in the future. In addition, with the increasing significance of our heat exchange system and electronic control system businesses, we believe our reliance on Dongfeng Cummins will further decrease in the future. For the expansion of production capacity of heat exchange systems and electronic control systems, see "— Production — Production Capacities and Utilization Rates — Expansion of Production Capacities". We also intend to develop new diesel engine-related products with commercial vehicles applications in the future, including commercial vehicle heat exchange systems, CAN and after-treatment systems. For details, see "— Production — Development Plan of New Products".

COST CONTROL

We place strong emphasis on enhancing our cost competitiveness. We have strengthened our cost control in the production process by improving our production efficiency. We carry out research and development activities in our production process, with a focus on improving our manufacturing techniques and optimizing our production equipment, which have enabled us to improve production efficiency. For example, our design capability allows us to reduce the unit weight of heat exchange systems while improving functionality, which in turn enables us to reduce the unit cost of our raw materials.

BUSINESS

In addition, the scale of our production allows us to enjoy economies of scale. With a large scale of production, we are also better placed to negotiate with raw material suppliers to enjoy favorable prices and terms.

Further, we have also closely monitored the prices of copper belts and steel plates, our major raw materials in the heat exchange system segment, and have made bulk purchases from time to time according to our production plan when their prices were favorable in order to better manage our production costs.

SALES AND MARKETING

Our marketing strategy primarily involves direct marketing to approach our existing and potential customers. We aim to: (i) strengthen our ongoing business relationships with our existing customers; (ii) maintain a high level of customer satisfaction; and (iii) optimize our customer base by building and reinforcing our reputation in each of our business segments.

Many of our customers operate their own distribution networks to target end users across numerous industries. Their distribution capability directly affects our sales results and revenue growth. We are continuously optimizing our customer base to select customers with well-established distribution network, strong financial status and specialized end-user markets. In particular, we intend to expand the coverage of our products in select end user markets which we believe have significant potential for growth in the demand for our products, such as telecommunications and infrastructure. To achieve this purpose, we have secured certain customers that are focused on our targeted end user market to form part of our customer base. We believe that an increasingly diversified end user markets in which our products are sold will help to minimize the competition among our customers in a given end user market.

Due to the technology-oriented nature of our business, we place significant emphasis on our in-depth knowledge of the industry and related technologies in our marketing activities. To appeal to a potential customer, we usually start with extensive research to understand the customer's preference so as to develop solutions that meet or even exceed the expectation of the customer. Once the preparatory work is done, we directly promote our solutions and/or products to the potential customer. We believe that our preparatory research and product development allow us to approach potential customers effectively and help to develop their trust and reliance on us such that we are able to secure the business before our competitors do. In addition, a majority of the members of our sales and marketing division have a technical background and are familiar with the complicated specifications required for our solutions and products. We also remain in regular contact with our existing and potential customers to discuss, among other things, their development plans and technology trends in the industry.

In line with market practice, each significant part of the diesel generator cores integrated by us is branded under its original brand and the whole diesel generator core is not branded under a given brand. We are not obligated to obtain any authorization or permit from our suppliers in the marketing and sale of our diesel generator cores. Although we do not have any contractual obligations nor are we required under any applicable laws or regulations to sell the diesel generator cores under the brand name of the engines integrated in such diesel generator cores, we generally advise our customers of the brand of the diesel generator engines we use in our diesel generator cores

BUSINESS

and rely on the brand awareness of these engines to attract customers, which is also in line with market practice. For the risks associated with our reliance on the brand awareness of Dongfeng Cummins, see “Risk Factors — We mainly source diesel generator engines from Dongfeng Cummins.”

We entered into a cooperative agreement with Segma Power Products Company in 2008, as amended and supplemented by a trademark license agreement on March 1, 2011. Pursuant to the trademark license agreement, we are licensed to manufacture and sell all of our electronic speed actuators and electronic speed controllers under the brand name “Segma” from January 1, 2009 to December 31, 2011 for an annual license fee of approximately HK\$1.1 million, payable on a quarterly basis. This trademark license agreement does not have a termination clause. We plan to commence manufacturing and sale of all of our electronic speed actuators and electronic speed controllers under our own brand in the fourth quarter of 2011, for the purpose of establishing market recognition of our own brand, and this arrangement will not result in any breach of the trademark license agreement. Our sales and marketing of electronic control systems does not depend on the brand recognition of Segma as we appeal to our electronic control system customers based on our product quality and research and development capabilities. In addition, a substantial portion of our electronic speed controllers are expected to be supplied internally in the future to support our integration of power cores, which provides stable demand for our electronic speed controllers. Based on the aforementioned reasons, we believe that the demand for our electronic control systems will not be materially adversely affected in the future as a result of our proposed brand change.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any product defection or recall that materially adversely impact our reputation, business operations and financial condition.

AFTER-SALES SERVICES

We believe that providing customers with the most comprehensive and timely after-sales services is an important part of our business strategy to remain competitive.

As of the Latest Practicable Date, our after-sales services with respect to diesel generator cores and related heat exchange systems and electronic control systems had been primarily provided through a combination of our in-house after-sales department and 14 service centers throughout China which are operated by independent after-sales partners to solve power generating problems. In addition, there are over 400 service centers solving engine problems in China operated by Dongfeng Cummins or its approved service providers.

We select the third-party after-sales service providers upon stringent criteria such as their experience, service efficiency, technical capability and financial status. For the services rendered during the warranty periods, we usually reimburse our third-party after-sales service providers for a fee based on agreed-upon standards. In order to ensure that our brand is associated with high quality and both reliable and responsive service levels, we consistently provide training to the personnel of our third-party after-sales service providers.

BUSINESS

Our customers of diesel generator cores generally enjoy a warranty period until the earlier of (i) 12 months from the date on which the diesel generator core is delivered and (ii) the running of the diesel generator core for an aggregate of 750 hours, and in a few instances, the warranty periods may be 24 months from the date on which the diesel generator core is delivered. Our customers of oil hydraulic power drives generally enjoy a warranty period until the earlier of (i) 24 months from the date on which the oil hydraulic power drive is delivered and (ii) the running of the oil hydraulic power drive for an aggregate of 2,000 hours. Our customers of heat exchange systems serving engines with a power output ranging from 251 kW to 2,000 kW generally enjoy a warranty period of 12 months. We generally do not offer warranty periods for our electronic control systems. During the respective warranty periods for our products, we offer services such as inspection, maintenance, repair, replacement of parts and components and other services to ensure the quality of our products. As of December 31, 2008, 2009 and 2010, we made warranty provisions of RMB1.4 million, RMB1.1 million and RMB1.0 million, respectively. We typically determine the amount of our warranty provisions for a given year based on the percentage of our actual warranty expenses incurred in the preceding two years against the total turnover during the same period. Our warranty provisions in each year during the Track Record Period were sufficient in general to cover our actual warranty expenses. Following the expiration of the warranty period, we may provide repair and maintenance services and supply parts and components for a fee based on the services required. In addition, we provide emergency services to our customers and end users of diesel generator cores. The personnel of our third-party after-sales service providers are required to reach the site of the customers or the end users for emergency services within three hours if such site is located within 100 kilometers from the nearby services center and within 48 hours if such site is located within more than 500 kilometers from the nearby service center.

As after-sales services of diesel generator cores typically relate to technical support to ensure compatibility between diesel generator engines and other systems, we, as the integrator of the diesel generator cores, are well positioned to provide comprehensive after-sales services not only for diesel generator cores and components systems manufactured by us, but also for the engines equipped in the diesel generator cores. We have strong industry knowledge and expertise to select, and provide technical support and training to, qualified third party after-sales services providers so as to solve technical problems relating to the compatibility between diesel generator engines and other systems. We entered into after-sales service agreements with Dongfeng Cummins in 2008, 2009 and 2010. Pursuant to these agreements, we provided after-sales services for the engines equipped in our diesel generator cores from January 2008 to December 2010 and received a 3.0% discount of the purchase prices of such engines sourced by us as consideration, except that under the after-sales agreement we entered into with Dongfeng Cummins in 2010, we only provided after-sales services for engines equipped in our diesel generator cores used by end-users in overseas markets in the second half of 2010. We did not provide after-sales services for engines equipped in our diesel generator cores used by end-users in China in the second half of 2010 and therefore did not enjoy the 3.0% discount for these engines during the same period. This arrangement was due to a change of the internal policy of Dongfeng Cummins, which intended to establish after-sales services network for its own engines in China, and was not related to concerns on our service quality and performance in any respect. Based on our Director's best estimate, the aggregate discount we received from Dongfeng Cummins in connection with our provision of after-sales services for its engines equipped in our diesel generator cores was approximately RMB28.9 million, RMB15.7 million and RMB19.0 million in 2008, 2009 and 2010, respectively. During the periods in which we provided after-sales services for

BUSINESS

Dongfeng Cummins engines, these services have been provided through our after-sales services providers upon approval by Dongfeng Cummins. The after-sales service agreements and annual sale and purchase agreements we entered into with Dongfeng Cummins are negotiated and entered into separately and the execution of each agreement is not contingent on the execution of the other.

INTELLECTUAL PROPERTY

We believe in the importance of protecting the intellectual property rights of the products and technologies invented and developed by us. As of the Latest Practicable Date, we had 23 registered patents, 10 patents licenced from third parties and two registered trademarks and have submitted applications for registration of 15 patents in China. In Hong Kong, we have submitted two trademark applications, which are pending approval, and hold one trademark licensed from Segma Power Products Company, an Independent Third Party. We also own other intellectual property such as trade secrets, proprietary technologies, procedures and processes. Each of the key employees in our research and development teams has entered into a confidentiality agreement with us, under which such employee is bound by a non-disclosure obligation at any time in respect of any confidential information relating to our research and development practice and intellectual property rights.

Details of the registrations and applications for registration of our patents, trademarks and other intellectual property rights are set out in “Appendix VI — Statutory and General Information — Further Information about Our Business — Our intellectual property rights” to this prospectus.

During the Track Record Period, we did not have any knowledge of any counterfeiting of our products or infringement of our intellectual property rights by any third party, nor have we knowingly violated or been the subject of any claims relating to the intellectual property rights of any third party.

QUALITY ASSURANCE

We have implemented stringent quality control measures to identify and solve potential quality issues. Our senior management is actively involved in setting internal quality control policies, managing our quality control practices and overseeing the performance of the dedicated quality control teams of each of our business segments. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any product recall that adversely impacted our reputation, business operations or financial condition. Our quality control procedures start with quality assurance of raw materials, parts and components, which includes evaluation of our major suppliers on a regular basis and inspection of raw materials, parts and components upon their arrival at our facilities. We have also established quality control measures in all key stages of our production process, and tested all finished products before the delivery to customers. We have internal meetings on a regular basis to examine and analyze quality control issues and problems that are identified in order to continuously improve quality of our products. We have received qualification certifications such as ISO/TS16949:2002 and GB/T19001-2008 idt ISO9001:2008.

BUSINESS

COMPETITION

The industries in which we operate, and in particular, the industries which we intend to enter into, are competitive. We face direct competition in China across all product lines and price ranges. In China, our competitors primarily include Weifang Weichai-Dentz Diesel Engine Company Limited* (濰坊濰柴道依茨柴油機有限公司) and Shanghai Diesel Engine Co., Ltd.* (上海柴油機股份有限公司) for our integration of diesel generator cores; Chevron-Daye Powercool Co., Ltd.* (大冶祺峰動力製冷設備有限公司) and Nanning Baling Technology Inc.* (南寧八菱科技股份有限公司) for our heat exchange system business; and Governors America Corp., Shanghai Fortrust Power Electric Co., Ltd.* (上海孚創動力電器有限公司) and Datong Yun Si Da Technology Co., Ltd.* (大同市雲四達科技有限公司) for our electronic control system business. These competitors may offer competitive prices for their products and services with similar features to the products and services offered or to be offered by us. We intend to maintain our competitiveness over other competitors through the continuous investment of significant resources in research and development, sales and marketing and customer supports.

With respect to the diesel generator core market in China, it is in general dominated by international companies. Although the international market participants offer products in a wide power output ranging from below 0.4 kW up to 17,460 kW, their offerings in the lower power output range are limited. PRC companies such as our Group are able to hold market share due to the competitive advantage of a lower cost structure, as well as the greater ability to customize and cater for specific requirements to diesel generator cores for customers. As compared with international companies, our Group is also able to respond quickly to customer preferences. As international players focus on higher power output ranges, PRC companies may be able to further increase market share within the lower power output range market. In addition, the manufacturers of diesel generator cores typically have a long-term relationship with their customers, who are suppliers of diesel generator power systems. New entrants into the diesel generator core typically face an entry barrier of competing against existing players to build their relationship with potential customers.

The heat exchange system market in the diesel generator power system sector in China is highly concentrated, with the top seven market participants, including our Group, holding an estimated 53.6% market share in 2010. The entry barrier is relatively high because heat exchange systems used in diesel generator power systems generally require significant technical skills and know-how and only a few companies in China have such capabilities.

The electronic control system market in the diesel generator power system sector in China is clearly divided between high-end and lower-end quality products. The leading manufacturers in the market have their own brands and strong reputations while there are large number of small manufacturers at the low-end of the market. The high-end market, in which our Group operates, is highly concentrated and generally comprises leading market participants which are able to price their electronic control systems over RMB2,500 per set. The entry barrier is relatively low for the overall electronic control system market in the diesel generator power system sector in China. However, it is not easy for new entrants to obtain market share in the high-end market due to high market concentration.

BUSINESS

ENVIRONMENTAL AND SAFETY PROTECTION

Our production bases in the PRC and Hong Kong are required to comply with environmental protection and safety laws and regulations promulgated by the PRC government and Hong Kong government, respectively. We typically have one or two staff designated for monitoring compliance with environmental and safety issues in each of our operating entities, who are familiar with the applicable environmental protection and safety laws and are experienced in compliance with these laws. We generate solid waste, sewage and noise during the production processes of our major products. To minimize the impact of such emission on the environment, we have implemented a set of environmental protection measures. We utilize modern equipment, facilities and measures to minimize environmental pollution, such as using appropriate facilities to filter and then discharging the waste water to a centralized waste water treatment centre operated by the local government. In terms of solid waste, it is either collected by the collection centre operated by the local government or recycled by competent collection companies for further treatment. In addition, we have conducted assessments on the effect on environment for the construction of our production facilities, formulated environment pollution prevention and remedial plans and obtained approval from the environmental protection authorities for such assessments. After the completion of construction of production facilities, we must pass inspections for our environmental protection facilities by the environmental protection authorities. We are also required to apply for registration with relevant environmental protection authorities for discharge of pollutants and pollutant discharge permits, and pay pollutants discharge fees. We intend to follow all these procedures for our production facilities under construction in Wuhan as well as the production facilities we intend to build in Xiangyang, and continue to implement our environmental protection measures in the future.

Our subsidiaries Wuhan Hero City, Beworld and Wuhan Norman have applied for pollutants discharge permits which are currently pending approval. Due to the delays in filing applications for the pollutants discharge permits, Wuhan Hero City, Beworld and Wuhan Norman commenced operations prior to obtaining such permits. According to the confirmations issued by the Environmental Protection Bureau of Economic and Technology Development Zone of Wuhan, a competent government authority overseeing the environmental protection, on March 2, 2011, Wuhan Hero City and Beworld had complied with applicable environmental laws as of the date of the confirmations and will not be penalized for operating without pollutants discharge permits. The confirmations further provide that as the Environmental Protection Bureau of Economic and Technology Development Zone of Wuhan typically issues pollutants discharge permits in the fourth quarter of a given year, Wuhan Hero City and Beworld should expect to receive the pollutants discharge permits in the fourth quarter of 2011. According to confirmations issued by the Environmental Protection Bureau of Dongxihu District of Wuhan, a competent government authority overseeing the environmental protection, on February 17, 2011 and March 7, 2011, respectively, Wuhan Norman had complied with applicable environmental laws as of the date of the confirmation and will not be penalized for operating without pollutants discharge permits. The confirmations further provide that the Environmental Protection Bureau of Dongxihu District of Wuhan typically issues pollutants discharge permits in the second quarter of a given year.

BUSINESS

Commerce & Finance Law Offices, our PRC legal advisers, advised that each of the abovementioned PRC subsidiaries may be subject to a fine of up to a maximum of RMB100,000 and ordered to suspend its production for operating without pollutants discharge permits. According to the confirmations issued by relevant government authorities, Commerce & Finance Law Offices, our PRC legal advisers, are of the view that there is no material legal impediment for Wuhan Hero City, Beworld or Wuhan Norman to obtain the pollutants discharge permits, but the relevant PRC subsidiaries have to complete relevant procedures and the risks that each of these PRC subsidiaries could be penalized by relevant government authorities for operating without pollutants discharge permits are minimal.

Save as disclosed above, our Directors confirm that all the operating entities of our Group in the PRC and Hong Kong have complied with all applicable environmental and safety laws and regulations and we have not been alleged to have violated any environmental or safety laws, nor was any penalty imposed on our Group for violation of the environmental or safety laws in the PRC or in Hong Kong during the Track Record Period. Our Directors further confirm that our operating entities will not commence operations in the future unless we receive pollutants discharge permits and other permits, licences or approvals that are required under applicable laws. Our Directors further confirm that no major accident resulting in deaths or serious injuries of our workers occurred during the Track Record Period.

INSURANCE

We have in place insurance policy covering our properties such as vehicles. Our Directors believe that we have satisfied all the statutory requirements with respect to insurance coverage in each jurisdiction in which we operate and our insurance coverage is in line with the general practice in the industry and is adequate for our operations. During the Track Record Period and up to the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

We do not maintain any product liability insurance because we are not statutorily required under the laws of jurisdictions in which operate to maintain such insurance. As of the Latest Practicable Date, we had not been the subject of any product liability claim.

PROPERTIES

Owned Properties

As of the Latest Practicable Date, Wuhan Roll Technology, our wholly-owned subsidiary, owned a parcel of land with a site area of approximately 47,461 square meters in Wuhan, Hubei Province. The land use rights of the land have been granted for a term with the expiry date on March 4, 2059 for industrial use and we are currently constructing production facilities with an aggregate floor area of approximately 29,380 square meters on this parcel of land. For details, see “— Production — Production Facilities — Premises”.

Leased Properties

Currently all of our production and office facilities are situated on leased properties. As of the Latest Practicable Date, we leased an aggregate gross floor area of approximately 21,658 square meters which are primarily used for production or corporate purposes.

BUSINESS

The leases of some of our leased properties will expire before the end of 2012. We intend to move the related production facilities to our owned properties that are either currently under construction in Wuhan or planned to be constructed in Xiangyang. For details of our relocation plan, see “— Production — Production Facilities — Premises”. The constructions of new facilities in Wuhan and Xiangyang are expected to be completed by the end of 2011 and 2012, respectively. In the event that the leases expire prior to our completion of constructions, we plan to negotiate with our current lessors to renew the leases before their respective expiration dates.

In relation to the properties with an aggregate gross floor area of 9,742 square meters leased by Wuhan Hero City and Beworld, the lessor is in the process of obtaining the building ownership certificates. Commerce & Finance Law Offices, our PRC legal advisers, have advised us that under the PRC law, the relevant lease agreements for such leased properties are valid and binding. However, as advised by our PRC legal advisers, we may be subject to a fine of no more than RMB10,000 for each of such properties. To the best knowledge of our Directors, our Company had not received any penalty notice from the relevant authorities as of the Latest Practicable Date.

Our Directors believe that the lessors’ defective titles to our leased properties will not materially adversely affect our business operations on the following basis: (i) the fine that we might be subject to is not more than RMB20,000 in aggregate; (ii) the lease agreements we entered into are legally binding and enforceable despite the lessors’ defective titles; (iii) the likelihood for us to be forced to relocate due to the lessors’ defective titles is minimal; and (iii) we are currently constructing our own facilities to accommodate the production facilities of Wuhan Hero City and Beworld, which is expected to complete in 2011. For the details of our relocation plan, see “— Production — Production Facilities — Premises”. During the Track Record Period and up to the Latest Practicable Date, our business operations had not been disrupted due to our lessor’s lack of relevant title ownership certificates or the lessor’s failure to complete the registration in relation to the lease agreements as described above. Despite that, our Controlling Shareholders have provided an indemnity in favor of our Group from and against all actions, claims, losses, payments, charges, settlement payments, costs, penalties, damages or expenses which we may incur, suffer or accrue, directly or indirectly, that may arise from or in connection with the lessors’ defective titles to our leased properties.

COMPLIANCE AND LEGAL PROCEEDINGS

Save as disclosed in “— Environmental and Safety Protection” and “— Properties — Leased Properties” above, our Directors believe that we have all permits, licenses, qualifications and other government authorizations necessary to conduct our business and to use properties in the manner described in this prospectus and complies with the applicable laws in each jurisdiction it operates, except for authorizations the absence of which would not have, individually or in the aggregate, a material adverse effect on our business, results of operations and financial condition.

During the Track Record Period and up to the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS ACTING IN CONCERT

Our Controlling Shareholders, Mr. Li, Ms. Xu, Mr. Zhang, Mr. Luo, Mr. Fan, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao, have been jointly managing our Group during the Track Record Period. Throughout the Track Record Period, the voting rights held by our Controlling Shareholders in the principal operating subsidiaries of the Group in the PRC, were exercised collectively by them or through the companies controlled by them (by and on behalf of each of them).

As disclosed in the section of this prospectus headed “History, Reorganization and Corporate Structure”, our Controlling Shareholders acted together to establish Xiangfan Kanghao in December 2005 to engage in the integration of diesel generator cores driven by diesel generator engines provided by Dongfeng Cummins. In September 2007, Mr. Fan, Mr. Zhang, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao joined Xiangfan Hero City as shareholders in addition to Mr. Li, Ms. Xu and Mr. Luo.

Through such business relationships, our Controlling Shareholders developed mutual trust and understanding in respect of the management of Xiangfan Hero City and Xiangfan Kanghao on a collective basis with different roles. On such basis, our Controlling Shareholders entered into an oral agreement (the “**Oral Agreement**”) in July 2007 in relation to the common control and management of Xiangfan Hero City, Xiangfan Kanghao and the companies to be acquired thereafter. Commerce & Finance Law Offices, our PRC legal adviser, has advised that the Oral Agreement did not violate any mandatory laws or regulations in the PRC and has been legal, valid and enforceable under the PRC laws and regulations since July 2007.

On February 25, 2011, all of our Controlling Shareholders entered into a deed of acting in concert (“**Acting in Concert Deed**”) whereby, among other things, they confirmed that, during the Track Record Period, they had actively cooperated with each other and had adopted a consensus building approach to reach decisions on a unanimous basis, and vote as a group (by themselves and/or through companies controlled by them and/or their trustees) in respect of all corporate matters relating to our operations at the shareholders and board levels of each member company of our Group at that time. This is consistent with the Oral Agreement. Furthermore, Commerce & Finance Law Offices, our PRC legal adviser, has advised that such acting-in-concert agreement reached among our Controlling Shareholders as confirmed in the Acting in Concert Deed does not violate any PRC laws or regulations and, insofar as the PRC laws are concerned, is legal, valid and enforceable under the PRC laws and regulations since July 2007. Our Controlling Shareholders followed the following principles and mechanism during such decision-making process after they reached the Oral Agreement:

- (a) They held regular meetings to discuss routine and general corporate matters relating to our Group, including the adoption of annual accounts and the preparation of an annual budget and production plan. In addition, they held meetings to discuss any proposed decision or resolution important to our Group, including increases of capital, acquisitions of assets, equity interest and businesses, major expansions of business and operations, and the introduction of new investors; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) Such meetings were convened and coordinated by Mr. Li. At such meetings, the decisions were made after our Controlling Shareholders have fully expressed opinions and unanimous consent was achieved on the relevant matters, according to which each of our Controlling Shareholders (by themselves and/or through companies controlled by them and/or their trustees) voted at the shareholder and board level of each member company of our Group at the relevant time.

Our Controlling Shareholders further confirmed that they had been given sufficient information and time to consider and discuss the issues in order to reach unanimous decisions. They had consistently voted unanimously on each occasion, and none of them has exercised his or her voting rights independently without the consensus of the other members.

Our Controlling Shareholders have further jointly and severally undertaken that, during the period they (by themselves or together with their associates) remain in control of our Group (before and after the Reorganization), they will continue to follow the above-mentioned consensus building mechanism to reach decisions on a unanimous basis, and vote as a group (by themselves and/or through companies controlled by them and/or their trustees) in respect of all corporate matters relating to our operations at the shareholder and board level of each member company within our Group.

As such, Mr. Li, Ms. Xu, Mr. Zhang, Mr. Luo, Mr. Fan, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao, as a group of shareholders entitled to exercise more than 30% of the voting rights at general meeting of our Company, are together regarded as our Controlling Shareholders. Upon completion of the Global Offering and the Capitalization (and assuming the Over-allotment Option is not exercised), our Controlling Shareholders will together own 67.5% of the total issued share capital of our Company.

Commerce & Finance Law Offices, our PRC legal advisers, advised that the Acting in Concert Deed does not violate mandatory PRC laws or regulations and, insofar as matters of PRC laws are concerned, is valid and legally binding.

RETAINED BUSINESS

As of the Latest Practicable Date, our Controlling Shareholders have interests, individually or together, in certain companies that carry on business that do not form part of our Group (the “Retained Business”).

The companies carrying the Retained Business are listed as below:

<u>Name of the company</u>	<u>Nature of business</u>	<u>Percentage of shareholding</u>
Changyuan Donggu Industry	Manufacturing of engine parts (mainly including cylinder blocks, cylinder heads, connecting rods and flywheel houses)	Mr. Li: 65.49 % Mr. Zhang: 1.47% Mr. Luo: 1.39% Mr. Fan: 0.58% Ms. Huang Fei: 0.45% Ms. Huang Yue: 0.27% Mr. Gao: 0.14%

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Name of the company	Nature of business	Percentage of shareholding
Beijing Changyuan	Manufacturing of engine parts (mainly including cylinder blocks, cylinder heads, connecting rods and flywheel houses)	Changyuan Donggu Industry: 88%
Dongkang Power Technology (Beijing) Co., Ltd. (“ Dongkang Power Technology ”) (東康動力科技(北京)有限公司)	Trading of automotive engines	Mr. Li: 40% Ms. Shen Weihong (spouse of Mr. Fan): 10%
H.K. Changyuandonggu Economic Trading Limited (“ HK Changyuan Donggu ”) (香港長源東谷經貿有限公司)	Trading of machinery and equipment for automotive parts production	Mr. Li: 50% Ms. Xu: 50%
Gangbao Economic Trading Limited (“ Gangbao Trading ”) (港保經貿有限公司)	Trading of machinery and equipment for automobile production	Ms. Xu: 50%
Shiyan Gangbao Consulting Service Co., Ltd. (“ Shiyan Gangbao ”) (十堰市港保諮詢服務有限公司)	Provision of machinery equipment installation and testing services	Mr. Li: 50%
Dongxin Hengrui Wuhan Trading Development Co., Ltd. (“ Dongxin Hengrui ”) (東信恒瑞武漢貿易發展有限公司)	Trading of steel products and construction materials	Mr. Li: 20% Mr. Zhang: 10%

Reasons for not including the Retained Business in Our Group

Our principal business segments are (i) the integration of power cores (including diesel generator cores and oil hydraulic power drives) and distribution of industrial diesel engines and diesel generator engines; (ii) the manufacturing of heat exchange systems; and (iii) the manufacturing of electronic control systems. We also intend to develop new products in the future, including CAN and after-treatment systems.

The Retained Business is excluded from our Group because our Directors are of the view that there is a clear delineation between the Retained Business and our core business and the Retained Business is not related to our core business and does not compete, directly or indirectly, with our core business. Accordingly, the Directors do not consider it appropriate to inject the Retained Business into our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As mentioned above, Changyuan Donggu Industry and Beijing Changyuan (being a subsidiary of Changyuan Donggu Industry) engage in the production of engine parts (mainly including cylinder blocks, cylinder heads, connecting rods and flywheel houses) which are mainly sold to engine manufacturers. These products are used by engine manufacturers to manufacture diesel engines while diesel engines are key parts we use for the integration of diesel generator cores. As a result, the products of Changyuan Donggu Industry and Beijing Changyuan do not overlap with our existing products (namely power cores, heat exchange systems and electronic control systems) which are mainly sold to the suppliers of power systems, or the products we intend to develop (namely, commercial vehicle heat exchange systems, CAN and after-treatment systems), which are expected to match diesel engines targeting customers such as manufacturers of automobiles. Changyuan Donggu Industry and Beijing Changyuan also have access to a different group of customers and suppliers and apply different technologies in their production processes due to the different products manufactured by them. Based on the foregoing, we are satisfied that the operations of Changyuan Donggu Industry and Beijing Changyuan do not and will not compete with our operations.

The trading businesses operated by Dongkang Power Technology, HK Changyuan Donggu, Gangbao Trading and Dongxin Hengrui cover automobile engines, machinery and equipment and steel products and construction materials, whereas our distribution operation covers industrial diesel engines and diesel generator engines and, will cover CAN and after-treatment systems. For further details of our distribution operation for industrial diesel engines and diesel generator engines, please refer to the section headed “Business — Engine Distribution Business”. For further details of CAN and after-treatment systems, please refer to the section headed “Business — Production — Development Plan of New Products” in this prospectus. As such, there is a clear delineation between the trading business operated by Dongkang Power Technology, HK Changyuan Donggu, Gangbao Trading, Dongxin Hengrui and the distribution activities operated by us in terms of products being distributed. In addition, each of Dongkang Power, HK Changyuan Donggu, Gangbao Trading and Dongxin Hengrui has access to a different group of customers and suppliers due to the nature of its products. Based on the foregoing, we are satisfied that the trading businesses operated by Dongkang Power Technology, HK Changyuan Donggu, Gangbao Trading and Dongxin Hengrui do not and will not compete with our distribution operation.

Shiyan Gangbao engages in the provision of machinery equipment installation and testing services whereas we do not provide any similar services. Shiyan Gangbao has access to a different group of customers and suppliers due to the nature of its services. As such, there is a clear delineation between the service providing business operated by Shiyan Gangbao and us.

Other Companies in which Our Controlling Shareholders Had or Have an Interest

In addition to the companies that operate the Retained Business as mentioned above, certain of our Controlling Shareholders had held certain interest in Shiyan Changyuan Industry Co., Ltd.* (十堰市長源實業有限公司) (“**Shiyan Changyuan**”), Cangge Site Power Technology (Beijing) Co., Ltd. (康格思特動力科技(北京)有限公司) (“**Cangge Site**”), Xiangfan Yuli Machinery Parts Co., Ltd.* (襄樊宇立機械配件有限責任公司) (“**Xiangfan Yuli**”) and Xiangfan Yun Dong Machinery & Electric Co., Ltd. (襄樊運東機電工程有限公司) (“**Xiangfan Yundong**”) during the Track Record Period. Shiyan Changyuan, Cangge Site, and Xiangfan Yuli have been dissolved. The relevant Controlling Shareholders have also ceased to have any interest in Xiangfan Yundong since August 2009.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Hero City Investment is an investment holding company owned by Mr. Li and Ms. Xu, through which they held equity interest in our Group prior to the completion of the Reorganization. Wise Jade is an investment holding Company owned by Mr. Zhang, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao, through which they held equity interest in our Group prior to the completion of the Reorganization. Upon completion of the Reorganization, Hero City Investment and Wise Jade ceased to hold equity interest in other companies. As such, Hero City Investment and Wise Jade do not compete, directly or indirectly, with our operations.

RELIANCE ON AND INDEPENDENCE FROM THE COMPANIES CONTROLLED BY OUR CONTROLLING SHAREHOLDER

Having considered the following factors, which are discussed in further details below, we are satisfied that we can conduct our business independently of the Retained Business:

Management Independence

Our Board comprises six executive Directors and three independent non-executive Directors. Some of our executive Directors also hold directorships and management roles in the Retained Business. Details of such overlap are set out below:

<u>Name</u>	<u>Director/management positions in our Company</u>	<u>Director/management positions in the Retained Business</u>
Mr. Li	Chairman and executive Director	(1) Chairman and director of Changyuan Donggu Industry; (2) director of Dongkang Power Technology; (3) director of HK Changyuan Donggu; and (4) director of Shiyan Gangbao.
Ms. Xu	Executive Director	(1) director of HK Changyuan Donggu; and (2) director of Gangbao Trading.

Notwithstanding Mr. Li and Ms. Xu's directorships and management positions in the Retained Business, each of them is aware of his/her fiduciary duties as a Director of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and avoids any conflict between his/her duties as a Director and his/her personal interest. In relation to Mr. Li's role in Changyuan Donggu Industry, Mr. Li has confirmed that he will not be involved in the daily management of Changyuan Donggu Industry and will substantially devote his time to the management and operation of our Group.

In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates (“**Conflicting Transaction**”), the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in the quorum. The interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only. In the event that there is a Conflicting Transaction which shall be submitted to our independent non-executive Directors for their consideration and approval, they

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

have extensive experiences and knowledge to oversee such a Conflicting Transaction from different aspects. Mr. Sun Hongjun who has approximately 40 years of experience in the business development and planning in automobile and the related power core integration industry, including his various management positions in Dongfeng Motor Corporation, will oversee such a Conflicting Transaction from the aspect of its impact on our strategic planning and operation. Mr. Guo Miao who has approximately 40 years of experiences in accounting, finance and corporate finance, including his position as the head of the financial and accounting department of Dongfeng Motor Group Co., Ltd., a company listed on the main board of Hong Kong Stock Exchange, will, being the chairman of the audit committee of our Board, oversee such a Conflicting Transaction from the aspects of its impact on our financial positions and our compliance with accounting and financial reporting requirements. Mr. Cheung Wai Hung, Boswell who has approximately 15 years of experience in auditing, accounting and management, including the positions he held as the chief financial officers of various companies listed on the Hong Kong Stock Exchange and other recognized stock exchanges, will also oversee such a Conflicting Transaction from the aspects of its impact on our financial positions and our compliance with accounting and financial reporting requirements. As such, we are satisfied that the independence of our Board will not be compromised by the common directorships of the aforementioned Directors and all our Directors have sufficient industrial experience and knowledge to ensure our Board to make decisions in the best interest of our Group and our Shareholders as a whole. Furthermore, our daily operations will be managed by our senior management team, all of whom are independent from the active management of the Retained Business.

Operational Independence

The operation of our Group and that of the Retained Business is independent. Save for the leasing of the production, warehouse and office premises by Xiangfan Kanghao and Xiangfan Hero City (each being our subsidiary) from Changyuan Donggu Industry, we do not have any common production facilities or resources with the Retained Business. Details of such leasing arrangements are set out in the section headed “Continuing Connected Transactions” in this prospectus. Our Directors consider that the leasing arrangements are in the interest of our Shareholders as a whole and the rental under each of the leases is fair and reasonable. In addition, we intend to terminate such leasing arrangements not later than 2013 as we expect to relocate the operations of Xiangfan Hero City and Xiangfan Kanghao to our new plants. The rental payable by us to Changyuan Donggu Industry is not material as compared to our turnover or our total cost of sales. Furthermore, Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has confirmed that the rental payable under such lease arrangements is fair, reasonable and consistent with the prevailing market rates for similar properties in similar locations. In addition, all the lease agreements in relation to such premises leased from Changyuan Donggu Industry are, as advised by Commerce and Finance Law Offices, our PRC legal advisers, legal, valid and binding on the parties thereto. Accordingly, we are satisfied that we do not rely on Changyuan Donggu Industry in respect of land and property leases for our production facilities and overall operations.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

We have also been granted license to use four patents owned by Changyuan Donggu Industry. Details of such licensing arrangements are set out in the section headed “Continuing Connected Transactions”. These patents are not material to our production and we intend to terminate such licensing arrangements by the end of 2011 as we anticipate to be in possession of more updated patents and technology to be used in our production process.

We have independent access to customers and suppliers. We also hold all relevant licenses that are material to our business operations and have sufficient operational capacity in terms of capital, equipment and employees to operate our business independently from the Retained Business.

Based on the above reasons, our Directors are of the view that there is no operational dependence by us on the Retained Business.

Financial Independence

Our Directors confirm that we have the ability to operate independently from the Controlling Shareholders from a financial perspective. As of the Latest Practicable Date, there was not any outstanding borrowing, financial guarantee or indemnity from any of our Controlling Shareholders or any of their respective associates. Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the Global Offering as we expect that our working capital will be funded by our operating income and bank borrowings.

Administrative Independence

All essential administrative functions have been, and will be, carried out by our Group without support from the Retained Business. Our Group has its own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, research and development, human resources and information technology.

For the above reasons, our Directors believe we are capable of carrying on our business independently from Controlling Shareholders and their respective associates after the Listing.

NON-COMPETITION DEED

Our Controlling Shareholders and Yuan Tai Long (together, the “Covenantors”) have entered into a deed of non-competition (the “Non-competition Deed”) in favor of our Company, pursuant to which each of the Covenantors has undertaken to our Company that he/she/it would not, and that his/her or its associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on his/her or its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with our existing core business, namely, (i) the integration of power cores and distribution of industrial diesel engines and diesel generator engines, (ii) the manufacturing of heat exchange systems, and (iii) manufacturing of electronic control systems, as well as the business segments we intend to develop, namely, the production of CAN, after-treatment systems, and generators in certain applications (the “Restricted Business”).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Such non-competition undertaking does not apply in relation to:

- (a) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available to our Company, and our Company, after review and approval by our Directors or shareholders as required under the relevant laws and regulations, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business, provided that the principal terms by which any Covenantor (or his/her/its relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favorable than that made available to our Company; or
- (b) any interests in the shares or equity interest of any member of the Group; or
- (c) interests in the shares of a company which shares are listed on a recognised stock exchange, provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by any of the Covenantors and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Covenantors and/or their respective associates are not entitled to appoint a majority of the directors of that company.

The “restricted period” stated in the Non-competition Deed refers to the period during which (i) our Shares remain listed on the Hong Kong Stock Exchange; (ii) the relevant Covenantors and/or their respective associates, individually or jointly, are entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of our Company; and (iii) any Covenantor remains as a director of any member of our Group.

The Covenantors have further undertaken to procure that, during the restricted period, any business investment or other commercial opportunity in the PRC relating to the Restricted Business (the “**New Opportunity**”) identified by or offered to any of them, is first referred to us in the following manner:

- (a) The Covenantors are required to refer, or to procure the referral of, the New Opportunity to us, and shall give written notice to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the “**Offer Notice**”); and
- (b) The Covenantors will be entitled to pursue the New Opportunity only if (i) they have received a notice from us declining the New Opportunity and confirming that such New Opportunity would not constitute competition with our core business, or (ii) they have not received such notice from us within 15 business days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunity pursued by the Covenantors, they will refer the New Opportunity as so revised to us in the manner as set out above.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Upon receipt of the Offer Notice, we will seek opinions and decisions from our Board committee comprising independent non-executive Directors who do not have a material interest in the matter, as to whether (i) such New Opportunity would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity.

Under the Non-competition Deed, in the event that, during the restricted period, any of the Covenantors or any of his/her/its associate (except any member of our Group) intends to dispose of any of the Retained Business or any interest in the Retained Business, the Covenantors shall first offer to us the right to acquire such business or interest on the same price and other terms as offered by the intended buyer. The Covenantors or any of his/her/its associates (except any member of our Group) may only proceed with such disposal to any third party on terms not more favorable than those offered to us, following the rejection of such offer by us. We will also seek approval from our Board committee comprising independent non-executive Directors who do not have a material interest in the matter as to whether to pursue or decline such offer.

Our Directors consider that our independent non-executive Directors have sufficient experience in assessing whether or not to take up any New Opportunity or exercise the right of first refusal in respect of any Retained Business. Our Board committee comprising independent non-executive Directors will review, on an annual basis, the compliance with the Non-Competition Deed by the Covenantors, including New Opportunity and the exercise the right of first refusal by the Controlling Shareholders on the existing or future competing businesses. In any event, the committee formed by our independent non-executive Directors may appoint financial advisers or professional experts to provide advice, at the cost of our Company, in connection with the exercise or non-exercise of the option or right of first refusal under the Non-Competition Deed.

The Covenantors have further undertaken to:

- (a) procure all relevant information relating to the implementation of the Non-competition Deed in their possession and/or the possession of any of their associates to be provided to us;
- (b) allow, subject to confidentiality restrictions imposed by any third party, our representatives and those of our auditors to have access to such of their respective financial and corporate records as may be necessary for us to determine whether the non-competition undertakings have been complied with by the Covenantors and their respective associate;
- (c) provide us, within 20 business days from the receipt of our written request, with a written confirmation in respect of their compliance and that of their respective associates with the non-competition undertakings and consent to the inclusion of such confirmation in our annual report; and
- (d) provide all information necessary for the annual review by the Board committee comprising independent non-executive Directors and the enforcement of the Non-Competition Deed.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Covenantors (for themselves and on behalf of their respective associates (except for any member of our Group)) have also acknowledged that we may be required by the relevant laws, regulations, rules of the stock exchange(s) on which we may be listed and the regulatory bodies, to disclose, from time to time, information on the New Opportunity and the right of first refusal in respect of the Retained Business, including but not limited to disclosure via public announcements or our annual reports of decisions made by us to pursue or decline such New Opportunity or to exercise the right of first refusal and have agreed to such disclosure to the extent necessary to comply with any such requirement.

Save as disclosed in this prospectus, our Directors have not engaged in any businesses which compete or are likely to compete, either directly or indirectly, with our business.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions with Mr. Ye Zhongqiao and Changyuan Donggu Industry, each being a connected person of our Company as defined in the Hong Kong Listing Rules. Such arrangements will continue following the Listing and thereby constitute continuing connected transactions of our Company under the Hong Kong Listing Rules.

CONNECTED PERSONS

The following parties are our connected persons with whom we will continue to carry out transactions that will constitute continuing connected transactions as defined under the Hong Kong Listing Rules upon Listing:

- (a) Chuangyuan Donggu Industry, a company controlled by Mr. Li, a Controlling Shareholder and an executive Director, and therefore is a connected person by virtue of Rule 14A.11 (4) of the Hong Kong Listing Rules; and
- (b) Mr. Ye Zhongqiao, a director of Ascend and Wuhan Norman, subsidiaries of our Company, and is therefore a connected person by virtue of Rule 14A.11 (1) of the Hong Kong Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Patent License Agreements

Pursuant to four patent license agreements all dated October 1, 2009 entered into between Changyuan Donggu Industry and Xiangfan Kanghao (“Kanghao Patent License Agreements”), Changyuan Donggu Industry has granted Xiangfan Kanghao an exclusive right to use four patents owned by Changyuan Donggu Industry for a total royalty payment of RMB80,000 each year for a term from October 1, 2009 till September 30, 2014. Xiangfan Kanghao and Changyuan Donggu Industry entered into a supplement agreement on May 27, 2011, pursuant to which Xiangfan Kanghao has a right to terminate the Kanghao Patent License Agreements with a one-month prior written notice. We expect to terminate the Kanghao Patent License Agreements by December 31, 2011.

Wuhan Norman entered into a patent transfer agreement (the “Wuhan Norman License Transfer and Licensing Agreement”) with Mr. Ye Zhongqiao on February 23, 2011, pursuant to which Mr. Ye Zhongqiao has agreed to transfer three registered patents to Wuhan Norman for nil consideration and grant an exclusive right to Wuhan Norman to use such three patents during the transition period for nil consideration until the transfer is approved and registered with the relevant PRC authorities.

Based on the applicable percentage ratios of licensing arrangements under Kanghao Patent Licensing Agreements and Wuhan Norman License Transfer and Licensing Agreement, such transactions will be exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have also entered into lease arrangements with Changyuan Donggu Industry which will constitute continuing connected transactions and which are subject to the reporting, annual review and announcement requirements, but which are exempt from the independent shareholder approval requirement under Chapter 14A of the Hong Kong Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Property Lease Agreements

Terms of the Lease Agreements

Xiangfan Kanghao and Xiangfan Hero City, each being our subsidiary, have been using the premises owned by Changyuan Donggu Industry as their production, warehouse and office premises under lease arrangements since December 2005 and January 2008, respectively. Xiangfan Kanghao and Xiangfan Hero City entered into lease agreements with Changyuan Donggu Industry in respect of each of three years ended December 31, 2008, 2009 and 2010 (the “**Initial Lease Agreements**”). Xiangfan Kanghao and Xiangfan Hero City entered into supplemental lease agreements with Changyuan Donggu Industry on May 5, 2011 (the “**Supplemental Lease Agreements**”, together with the Initial Lease Agreements, the “**Lease Agreements**”), pursuant to which the term of such lease arrangements is extended to December 31, 2013. Furthermore, pursuant to the Supplemental Lease Agreements, such lease arrangements are renewable at the request of Xiangfan Kanghao and Xiangfan Hero City, respectively, with a one-month prior written notice, for a further term of three years at the then market rate. The lease arrangements are also terminable by Xiangfan Kanghao and Xiangfan Hero City, respectively, by giving no less than one month prior written notice to Changyuan Donggu Industry. Each of Xiangfan Kanghao and Xiangfan Hero City has been given the right of first refusal in the event that Changyuan Donggu Industry intends to sell the leased properties.

Details of the properties (the “**Leased Properties**”) leased by Xiangfan Kanghao and Xiangfan Hero City from Changyuan Donggu Industry under the Lease Agreements are set out below:

No	Property	Gross floor area (sq.m)	Lessor	Lessee	Purpose of occupancy	Monthly rental
1	Land and buildings located at Renmin Road East, Xiangyang District, Xiangyang City, Hubei Province, PRC	7,068	Changyuan Donggu Industry	Xiangfan Kanghao	Production, warehouse and office premises	RMB12 per square meter
2	Land and buildings located at Renmin Road East, Xiangyang District, Xiangyang City, Hubei Province, PRC	987.6	Changyuan Donggu Industry	Xiangfan Hero City	Production, warehouse and office premises	RMB12 per square meter

CONTINUING CONNECTED TRANSACTIONS

No	Property	Gross floor area (sq.m)	Lessor	Lessee	Purpose of occupancy	Monthly rental
3	Land and buildings located at Yuanlin Road High & New Technology Industrial Development Zone, Xiangyang City, Hubei Province, PRC	1,011.5	Changyuan Donggu Industry	Xiangfan Hero City	Production, warehouse and office premises	RMB12 per square meter

The purpose of such lease arrangements is to enable our Group to continue to carry out its operations at the above premises which are currently owned by Chuangyuan Donggu Industry.

Historical rental

For each of the three years ended December 31, 2008, 2009 and 2010, the aggregate rental paid by the Xiangfan Kanghao and Xiangfan Hero City to Chuangyuan Donggu Industry in respect of the Leased Properties is set out below:

No	Property	Aggregate annual rental		
		December 31, 2008 (RMB)	Years ended December 31, 2009 (RMB)	December 31, 2010 (RMB)
1	Land and buildings located at Renmin Road East, Xiangyang District, Xiangyang City, Hubei Province, PRC	1,017,792	1,017,792	1,017,792
2	Land and buildings located at Renmin Road East, Xiangyang District, Xiangyang City, Hubei Province, PRC	142,215	142,215	142,215
3	Land and buildings located at Yuanlin Road High & New Technology Industrial Development Zone, Xiangyang City, Hubei Province, PRC.....	145,656	145,656	145,656
Total		<u>1,305,663</u>	<u>1,305,663</u>	<u>1,305,663</u>

CONTINUING CONNECTED TRANSACTIONS

Maximum Annual Rent Payable

Based on the term regarding the monthly rental payable in respect of the Leased Properties under the Leased Agreements and the historical rental paid for each of the three years ending December 31, 2013, our Directors expect that the rental (exclusive of utilities and other expenses) to be paid by Xiangfan Kanghao and Xiangfan Hero City, respectively, to Chuangyuan Donggu Industry in respect of the Leased Properties for each of the three years ending December 31, 2011, 2012 and 2013 will not exceed the following amounts:

No	Property	Aggregate annual rental		
		December 31, 2011 (RMB)	Years ending December 31, 2012 (RMB)	December 31, 2013 (RMB)
1	Land and buildings located at Renmin Road East, Xiangyang District, Xiangyang City, Hubei Province, PRC	1,020,000	1,020,000	1,020,000
2	Land and buildings located at Renmin Road East, Xiangyang District, Xiangyang City, Hubei Province, PRC	150,000	150,000	150,000
3	Land and buildings located at Yuanlin Road High & New Technology Industrial Development Zone, Xiangyang City, Hubei Province, PRC.....	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
Total	<u><u>1,320,000</u></u>	<u><u>1,320,000</u></u>	<u><u>1,320,000</u></u>

APPLICATION FOR WAIVER UNDER THE HONG KONG LISTING RULES

Our Directors, including our independent non-executive Directors, consider that the transactions under the Lease Agreements have been entered into in the ordinary course of business of our Group and are based on normal commercial terms after arm's length negotiations. Such transactions are in the interest of our Company and our Shareholders as a whole and the rental under each of the Lease Agreements is fair and reasonable. The terms and conditions of the Lease Agreements are no less favorable to us than those offered by Chuangyuan Donggu Industry to Independent Third Parties. Our Directors also confirm that each of the proposed annual caps set out herein is fair and reasonable and in the interest of the Shareholder as a whole.

Jones Lang LaSalle Sallmanns Limited, our independent property valuer, has confirmed that the rental payable under the Leased Agreements is fair, reasonable and consistent with the prevailing market rates for similar properties in similar locations.

CONTINUING CONNECTED TRANSACTIONS

Based on the applicable percentage ratios, upon Listing, the transactions under the Lease Agreements will constitute continuing connected transactions of our Group which are subject to the reporting, annual review and announcement requirements under the Hong Kong Listing Rules. As such transactions will occur on a recurring basis, our Directors consider that strict compliance with the announcement requirement under the Hong Kong Listing Rules would be unduly burdensome and impractical. Accordingly, we have applied to, and have received from, the Hong Kong Stock Exchange a waiver under Rule 14A.42 (3) of the Hong Kong Listing Rules from strict compliance with the announcement requirement under the Chapter 14A of the Hong Kong Listing Rules.

We will comply with the reporting and annual review requirements under Chapter 14A of the Hong Kong Listing Rules in relation to the transactions under the Leased Agreements, and will also comply with the relevant rules of Chapter 14A of the Hong Kong Listing Rules if the waiver from the Hong Kong Stock Exchange expires or if any of the annual caps set out above is exceeded, or when any of the Lease Agreements is renewed or when there is a material change to the terms of the any of the Lease Agreements.

Confirmation from the Sole Sponsor

Based on information reviewed, confirmation from the Directors and the independent property valuer, the Sole Sponsor is of the view that (i) the transactions under the Lease Agreements for which waiver is sought are on normal commercial terms and have been entered into in the ordinary and usual course of business of our Group, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and (ii) the proposed annual caps of the transactions under the Lease Agreements are fair and reasonable and in the interest of the Shareholders as a whole.

WAIVERS

The Company has applied for, and the Stock Exchange has granted the following waivers from strict compliance with the Hong Kong Listing Rules.

MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Hong Kong Listing Rules, an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. We do not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Hong Kong Listing Rules. We have thus applied for a waiver from strict compliance with Rule 8.12 of the Hong Kong Listing Rules on the basis that, as our principal business operations are located in the PRC, our management is best able to attend to its functions by being based in the PRC. We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Hong Kong Listing Rules subject to the following conditions:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Hong Kong Listing Rules who will act as our principal communication channel with the Stock Exchange, and will ensure that they comply with the Hong Kong Listing Rules at all times. The two authorized representatives are Mr. Luo, our executive Director, and Mr. Kwok For Chi, our company secretary. Mr. Kwok is an ordinary resident in Hong Kong. Each of the authorized representatives is authorized to communicate on behalf of our Company with the Stock Exchange and will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange, and will be readily contactable by telephone, facsimile or e-mail;
- (b) both the authorized representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. We will implement a policy whereby each Director will provide his mobile phone number, office phone number, fax number and e-mail address to the authorized representatives and if any Director expects to travel or be out of office, he or she will provide the phone number of the place of his/ her accommodation to the authorised representatives. Each Director will provide his mobile phone number, office phone number, fax number and e-mail address to the Stock Exchange to ensure that he will be readily contactable when necessary to deal promptly with enquiries from the Stock Exchange;
- (c) each Director who is not an ordinary resident in Hong Kong has confirmed that he/she possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required; and
- (d) in compliance with Rule 3A.19 of the Hong Kong Listing Rules, we have appointed a compliance adviser for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Hong Kong Listing Rules to provide us with advice on compliance with the Hong Kong Listing Rules, as well as all other applicable laws, rules, codes and guidelines. Our compliance adviser will act as an additional channel of communication between the Company and the Stock Exchange.

WAIVERS

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which constitute continuing connected transactions of our Company under the Hong Kong Listing Rules. Among such transactions, the lease arrangements between Xiangfan Hero City, Xiangfan Kanghao and Changyuan Donggu Industry constitute continuing connected transactions that are subject to reporting, annual review and announcement requirements under the Hong Kong Listing Rules. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirement under Rule 14A.42(3) the Hong Kong Listing Rules for such continuing connected transactions. Further details are set out under the section headed “Continuing Connected Transactions” in this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD OF DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business, and consists of nine Directors including six executive Directors and three independent non-executive Directors. We have entered into service contracts with each of our Directors.

The following table sets forth certain information in respect of members of our Board.

Executive Directors:

Name	Age	Position in the Company
Li Zuoyuan	62	Chairman and Executive Director
Xu Nengchen	37	Executive Director
Luo Huibin	44	Executive Director and Executive Vice President
Zhang Yu	43	Executive Director, Chief Executive Officer and Vice President
Fan Xiao	39	Executive Director and Executive Vice President
Huang Fei	32	Executive Director and Vice President

Independent non-executive Directors:

Name	Age	Position in the Company
Sun Hongjun	69	Independent Non-Executive Director
Guo Miao	62	Independent Non-Executive Director
Cheung Wai Hung, Boswell	40	Independent Non-Executive Director

Mr. Li Zuoyuan (李佐元), aged 62, is the chairman of our Board and an executive Director. Mr. Li is in charge of our overall strategic and business planning and of our Board decision making. Mr. Li was appointed as a Director on January 10, 2011.

Mr. Li is a founder and a Controlling Shareholder of our Group.

Mr. Li has approximately 35 years of experience in the power core and engines manufacturing industry. Prior to joining our Group, Mr. Li served as the director of the manufacturing and engineering department of the Second Factory of Dongfeng Motor Corporation* (東風汽車公司鑄造二廠) (also known as The Second Plant for Commercial Vehicle of Dongfeng Motor Company Limited (東風汽車有限公司商用車鑄造二廠) (the “Second Factory of Dongfeng Motor”) since May 2004) from June 1983 to June 1988, and was in charge of the production and engineering projects. He served as an assistant engineer and engineer of the Second Factory of Dongfeng Motor, from July 1979 to May 1983, responsible for the automatic control of electric equipments. After leaving Dongfeng Motor Corporation in 1988, Mr. Li devoted all his time to establish his own business. Mr. Li established Shiyan Changyuan Industry Co., Ltd.* (十堰市長源實業有限公司) (“**Shiyan Changyuan**”) in January 1993 to focus on the business of providing electric equipments installation and testing services. Mr. Li and his family found Changyuan Donggu Industry in December 2001, to mainly engage in the production of automotive engine parts. Mr. Li served as the chairman of Changyuan Donggu Industry and has been supervising the overall strategic planning and business

DIRECTORS, SENIOR MANAGEMENT AND STAFF

planning of Changyuan Donggu Industry. In July 2004, Mr. Li established Dongkang Nengqiang (now known as Xiangfan Hero City) together with Mr. Luo and another Independent Third Party. In December 2005, Mr. Li and certain other Controlling Shareholders established Xiangfan Kanghao.

Mr. Li received his bachelor's degree in industrial and corporate automation from Huazhong University of Engineering* (華中工學院) (currently known as Huazhong University of Science and Technology* (華中科技大學)) in July 1979.

Mr. Li is the husband of Ms. Xu.

Mr. Li has not held any directorship in any other listed companies in the past three years immediately preceding the date of this prospectus.

For details of Mr. Li's interests in the share capital of our Company, please refer to the section headed "Statutory and General Information — Further Information about our Directors and Substantial Shareholders".

Save as disclosed herein, there are no other matters in relation to Mr. Li which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Ms. Xu Nengchen (徐能琛), aged 37, is an executive Director. Ms. Xu is responsible for our financial and human resources management. Ms. Xu was appointed as a Director on January 10, 2011.

Ms. Xu is a Controlling Shareholder of our Group.

Ms. Xu has approximately 13 years of experience in the financial and human resources management. Prior to joining our Group, Ms. Xu has been managing her own business since November 2002. Ms. Xu served as the manager of Changyuan Donggu Industry from December 2001 to November 2002 and was responsible for import and export trading. She served as the general manager of Shiyan Changyuan from August 1997 to November 2001. Ms. Xu joined our Group as a Controlling Shareholders in December 2006.

Ms. Xu received her bachelor's degree in financial accounting from Zhongnan University of Economy and Law* (中南財經政法大學) in July 1999 and received a college diploma in international trade from Hubei University* (湖北大學) in July 1995.

Ms. Xu is the wife of Mr. Li.

Ms. Xu has not held any directorship in any other listed companies in the past three years immediately preceding the date of this prospectus.

For details of Ms. Xu's interests in the share capital of our Company, please refer to the section headed "Statutory and General Information — Further Information about our Directors and Substantial Shareholders".

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Save as disclosed herein, there are no other matters in relation to Ms. Xu which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Business Licenses Revocation Incidents

Mr. Li was a director and the legal representative of Wuhan Changyuan Cable Company Limited* (武漢長源電纜有限公司) (“**Wuhan Changyuan**”), Wuhan Donggu Automobile Spare Parts Company Limited* (武漢東谷汽車零配件有限公司) (“**Wuhan Donggu**”) and Wuhan Xigu Trade and Development Company Limited* (武漢西谷經貿發展有限公司) (“**Wuhan Xigu**”). He also owned the major equity interest in Wuhan Changyuan, Wuhan Donggu and Wuhan Xigu and 74% equity interest in Wuhan Donggu Science and Technology Company Limited* (武漢東谷科技發展有限公司) (“**Donggu Science**”, together with Wuhan Changyuan, Wuhan Donggu and Wuhan Xigu, the “**Four Companies**”). Ms. Xu was a director and the legal representative of Donggu Science, who also owned 26% equity interest of Donggu Science.

Mr. Li and Ms. Xu confirmed that the Four Companies were originally established for the purpose of engaging in the manufacturing and distribution of automobile parts. However, the Four Companies had not engaged in any business activities, nor generated any revenue or profit since their establishment on April 11, 2000, December 1, 2000, May 28, 2001 and November 14, 2000, respectively. Therefore they had not been in default or delay in any tax payment and never received any notice of outstanding taxes or any documents related to tax penalty, tax treatment or tax investigation. The inactivity of the Four Companies since their establishment led to the administrative oversight of their management, and the Four Companies did not make annual filings with the local administrations of industry and commerce (the “**AICs**”). As a result, their business licenses were revoked by the relevant local AICs on February 20, 2003, April 29, 2005, February 20, 2003 and April 29, 2005, respectively.

Commerce & Finance Law Offices, our PRC legal advisers, based on (i) the confirmation of Mr. Li and Ms. Xu as mentioned above, (ii) the search conducted through the information platform maintained by the national tax authority of Hubei Province which does not reveal any record of default in tax payment by the Four Companies, (iii) the confirmations issued by the relevant local tax authorities, and (iv) the fact that Four Companies were de-registered in 2003 and 2005, respectively, are of the view that Mr. Li and/or Ms. Xu would not be imposed any penalty or punishment by relevant PRC authorities as the legal representatives, directors and shareholders of the Four Companies.

We have formulated and adopted some specific internal guidelines to strengthen our internal control system and corporate governance measures, such as requiring the finance department to closely monitor the annual filings with local authorities, to ensure no similar incidents will occur in the future within our Group.

Mr. Luo Huibin (羅會斌), aged 44, is an executive Director and an Executive Vice President of our Group. Mr. Luo is responsible for our policy implementation, business and management planning and decision making. Mr. Luo was appointed as a Director on January 10, 2011.

Mr. Luo is a founder and a Controlling Shareholder of our Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

In July 2004, Mr. Luo, Mr. Li and another Independent Third Party individual established Dongkang Nengqiang (now known as Xiangfan Hero City) and has been the managing director of Xiangfan Hero City, mainly responsible for the manufacturing of engines, engine parts and power cores and research and development of engine products. In December 2005, Mr. Luo and certain other Controlling Shareholders established Xiangfan Kanghao.

Mr. Luo has approximately 20 years of experience in the power core and engine manufacturing industry. Prior to joining our Group, Mr. Luo served as the general manager of Hubei Tianlun Machinery Co., Ltd.* (湖北天輪機械有限公司), a company mainly engaged in the production of engine parts, from May 2002 to June 2004. Mr. Luo held several positions in the Diesel Engine Factory of Dongfeng Motor Corporation* (東風汽車公司柴油發動機廠) (“**Dongfeng Diesel Engine Plant**”), including the assistant engineer and engineer from July 1988 to July 1994 and the production manager from August 1994 to October 1999, and was responsible for the know-how design and quality improvement. Mr. Luo was the head of the technology department of Dongfeng Diesel Engine Plant from November 1999 to May 2002.

Mr. Luo received his bachelor’s degree in machinery manufacturing know-how and equipment from Northeast Heavy Machinery Institute* (東北重型機械學院) (now known as Yanshan University* (燕山大學)) in July 1988, and received a master degree in power engineering from Huazhong University of Science and Technology* (華中科技大學) in June 2004. Mr. Luo was granted the certificate of senior engineer by Dongfeng Motor Corporation in April 2001. Mr Luo was also the member of the Standing Committee of Chinese People’s Political Consultative Conference of Xiantao City, Hubei Province from February 2004 to February 2005.

Mr. Luo has not held any directorship in any other listed companies in the past three years immediately preceding the date of this prospectus.

For details of Mr. Luo’s interests in the share capital of our Company, please refer to the section headed “Statutory and General Information — Further Information about our Directors and Substantial Shareholders”.

Save as disclosed herein, there are no other matters in relation to Mr. Luo which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Zhang Yu (張宇), aged 43, is an executive Director and the Chief Executive Officer and a Vice President of our Group. He is also a director of Xiangfan Kanghao. Mr. Zhang is responsible for our overall operational planning and management. Mr. Zhang was appointed as a Director on January 10, 2011. Mr. Zhang has also served as the general manager and a director of Xiangfan Kanghao and a director of Ascend and Wuhan Norman since their establishment.

Mr. Zhang is a founder and a Controlling Shareholder of our Group.

Mr. Zhang has approximately 20 years of experience in the engine manufacturing industry. Prior to joining our Group, Mr. Zhang served as the general manager of Xiangfan Kangchen from April 2004 to December 2005. Mr. Zhang served as the engine quality assurance (“EQA”) manager of Dongfeng Cummins from April 2003 to March 2004. Mr. Zhang served as the quality engineer and quality

DIRECTORS, SENIOR MANAGEMENT AND STAFF

audit supervisor of Dongfeng Diesel Engine Factory from May 1992 to March 2003. Mr. Zhang served as the assistant development engineer for engine products of the technology centre of Dongfeng Diesel Engine Plant. Mr. Zhang and certain other Controlling Shareholders established Xiangfan Kanghao in December 2005.

Mr. Zhang received his bachelor's degree in internal combustion engine from Huazhong University of Science and Technology* (華中理工大學) in July 1989. Mr. Zhang was granted the certificate of senior engineer by Dongfeng Motor Corporation in April 2003. Mr. Zhang was a joint inventor of three utility model patents obtained in the PRC in 2009 on the products of Leakage Prevention High-pressure Double-layered Oil Pipes for Diesel Engines* (柴油發動機防泄漏雙層高壓油管), Sea-water-type Heat Exchanger for Marine Engines* (海水型船用柴油發動機散熱器) and Double-starter structure array for engines* (發動機雙啟動器佈置結構), all of which are registered and used by Xiangfan Kanghao.

Mr. Zhang has not held any directorship in any other listed companies in the past three years immediately preceding the date of this prospectus.

For details of Mr. Zhang's interests in the share capital of our Company, please refer to the section headed "Statutory and General Information — Further Information about our Directors and Substantial Shareholders".

Save as disclosed herein, there are no other matters in relation to Mr. Zhang which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Fan Xiao (凡曉), aged 39, is an executive Director and an Executive Vice President of our Group. Mr. Fan is responsible for our development of new projects, and marketing planning as well as the overall management of Xiangfan Kanghao. Mr. Fan was appointed as a Director on January 10, 2011.

Mr. Fan is a founder and a Controlling Shareholder of our Group.

Mr. Fan has approximately 16 years of experience in the engine manufacturing and distribution industry. Mr. Fan joined Dongkang Nengqiang (now known as Xiangfan Hero City) in May 2005 as the marketing manager. Mr. Fan and certain other Controlling Shareholders established Xiangfan Kanghao in December 2005. Prior to joining our Group, Mr. Fan operated a number of family-owned companies which were mainly engaged in the trading and distribution of engine parts and oilfield services equipment parts from January 2000 to April 2005. Mr. Fan held several positions in Beijing Internal Combustion Engine Group* (北京內燃機集團), mainly engaging in marketing, sales and after sales services, from August 1994 to October 1999, including the general manager of the northwest center of Beijing Internal Combustion Engine Group in 1996 and the deputy factory director of Beijing Auto Electrical Engineering Factory* (北京市汽車電機廠), one of the subsidiary of Beijing Internal Combustion Engine Group, in 1998. Mr. Fan and certain other Controlling Shareholders established Xiangfan Kanhao in December 2005.

Mr. Fan received his bachelor's degree in industrial accounting from Beijing Institute of Machinery* (北京機械工業學院) in July 1994.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Fan has not held any directorship in any other listed companies in the past three years immediately preceding the date of this prospectus.

For details of Mr. Fan's interests in the share capital of our Company, please refer to the section headed "Statutory and General Information — Further Information about our Directors and Substantial Shareholders".

Save as disclosed herein, there are no other matters in relation to Mr. Fan which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Ms. Huang Fei (黃菲), aged 32, is an executive Director and a Vice President of our Group. She is also the general manager of Xiangfan Kanghao. Ms. Huang is responsible for the daily operation and overall management of Xiangfan Kanghao. Ms. Huang Fei was appointed as a Director on January 10, 2011.

Ms. Huang Fei is a founder and a Controlling Shareholder of our Group.

Ms. Huang Fei has approximately eight years of experience in the power generation engine industry. Prior to joining our Group, Ms. Huang Fei served as the deputy general manager of Xiangfan Kanghao from January 2006 to December 2008. She also served as the general manager of Xiangfan Kanghao since January 2009. Ms. Huang Fei served as the head of the marketing department of Xiangfan Kangchen from March 2003 to December 2005. Ms. Huang served as the chief accounting manager of Xiangfan Leqi Electric Equipment Production Co., Ltd.* (襄樊樂奇電器製造有限公司), a company engaging in the manufacturing and research and development of the electric automatic equipment, from February 2002 to December 2002. Ms. Huang Fei also served as the sales personnel and chief accounting manager of Xiangfan Luoshen Automobile Glass Co., Ltd.* (襄樊洛神汽車玻璃有限公司) from June 1998 to January 2002. Ms. Huang Fei and certain other Controlling Shareholders established Xiangfan Kanghao in December 2005.

Ms. Huang Fei received the college diploma in computer science from Beijing Institute of Technology* (北京理工大學) in July 1998.

Ms. Huang Fei has not held any directorship in any other listed companies in the past three years immediately preceding the date of this prospectus.

For details of Ms. Huang's interests in the share capital of our Company, please refer to the section headed "Statutory and General Information — Further Information about our Directors and Substantial Shareholders".

Save as disclosed herein, there are no other matters in relation to Ms. Huang which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Sun Hongjun (孫宏俊), aged 69, is an independent non-executive Director appointed on June 8, 2011.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Sun has approximately 40 years of experience in the automobile industry. Mr. Sun held several positions in Dongfeng Motor Corporation from 1968 to 2005, including the vice supervisor, the first vice factory director and the factory director from August 1968 to December 1983, the assistant to the factory director and the secretary of the Party Committee of Hubei Institute of Automotive Industry* (湖北汽車工業學院) from December 1983 to June 1985, the deputy factory director from June 1985 to July 1992, the secretary of the Party Committee of Dongfeng Motor Corporation from July 1992 to September 1997 and the Chairman of Dongfeng Motor Corporation from September 1997 to November 2001. He retired from Dongfeng Motor Corporation in 2005.

Mr. Sun graduated from Nanjing Agricultural Machine Institute* (南京農機學院) (now known as Jiangsu University* (江蘇大學)) with a major in agricultural machinery in January 1968. Mr. Sun was the representative of the 15th National Congress of the Communist Party of China from 1997 to 2002 and was granted the senior economist qualification by Dongfeng Motor Corporation in June 1989.

Mr. Sun has not held any directorship in any other listed companies in the past three years immediately preceding the date of this prospectus.

Save as disclosed herein, there are no other matters in relation to Mr. Sun which are required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

Mr. Guo Miao (郭淼), aged 62, is an independent non-executive Director appointed on June 8, 2011.

Mr. Guo has approximately 40 years of experiences in accounting, finance and corporate finance. Prior to joining our Group, Mr. Guo served as the statistician and accountant of No. 53 Group of Heilongjiang Province Production and Construction Group* (黑龍江省生產建設兵團53團) from September 1968 to March 1976. Mr. Guo also held several positions in Dongfeng Motor Corporation from March 1976 to February 2009, including the clerk of the No. Five Seven Office from March 1976 to March 1979, the assistant accountant, the accountant and senior accountant of financial and accounting department from March 1979 to February 1994 and the head of the financial and accounting department and the vice general accountant from February 1994 to February 2009. Mr. Guo also served as the head of the financial and accounting department of Dongfeng Motor Group Company Limited (HK: 489), a company listed on the Main Board of Hong Kong Stock Exchange from December 2005 till his retirement in February 2009.

Mr. Guo received his diploma in accounting from Heilongjiang Province Zhaoguang Machine Institute* (黑龍江趙光機校) in August 1968 and completed the correspondence course in industrial accounting from Hubei Institute of Finance and Economics* (湖北財經學院) (now known as Zhongnan University of Economics and Law) in June 1985. Mr. Guo also served as the executive member of Hubei Province General Accounting Association in July 2004.

Mr. Guo has not held any directorship in any other listed companies in the past three years immediately preceding the date of this prospectus.

Save as disclosed herein, there are no other matters in relation to Mr. Guo which are required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Cheung Wai Hung, Boswell (張偉雄), aged 40, is an independent non-executive Director appointed on June 8, 2011.

Mr. Cheung has approximately 15 years of experience in auditing, accounting and management. Mr. Cheung served as the chief financial officer and company secretary of Far East Consortium International Limited (HK: 35), a company listed on the Main Board of Hong Kong Stock Exchange, since October 2010. Mr. Cheung served as the chief operating officer and company secretary of Fook Woo Group Holdings Limited (HK: 923), a company listed on the Main Board of Hong Kong Stock Exchange, from October 2009 to October 2010. Mr. Cheung served as the senior financial strategy adviser of China Pacific Insurance (Group) Company Limited (HK: 2601; SH 601601), a company listed on the Main Board of Hong Kong Stock Exchange and the Shanghai Stock Exchange from January 2002 to March 2003. Mr. Cheung also held several positions in Bright International Group Limited (HK: 1163), a company listed on the Main Board of Hong Kong Stock Exchange, including the non-executive director from February 2002 to April 2004, the executive director from August 1999 to February 2002 and chief financial officer from June 1998 to August 1999. Mr. Cheung worked with Deloitte Touche Tohmatsu and Ernst & Young from December 1994 to January 1997 and January 1997 to May 1998, respectively.

Mr. Cheung received his bachelor degree in accounting from The University of Abertay Dundee in November 1992, received his master degree in Business Administration from University of Leicester in July 1995 and received his master degree in professional accounting from the Southern Cross University in Australia in September 2007. Mr. Cheung is also a Chartered Marketer of the Chartered Institute of Marketing in the United Kingdom, a non-practicing member of the HKICPA and a qualified accountant of CPA Australia.

Save as disclosed herein, there are no other matters in relation to Mr. Cheung which are required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

SENIOR MANAGEMENT

The following table sets forth certain information concerning the Group's senior management.

Name	Age	Position in the Group
Kwok For Chi	41	Chief Financial Officer and Company Secretary
Gao Yongchun	43	Vice General Manager of Xiangfan Hero City and Xiangfan Kanghao
Huang Yue	35	Vice Operation General Manager of Xiangfan Kanghao
Li Yunfeng	42	Chief Technical Officer

Mr. Kwok For Chi (郭科志), aged 41, is the Chief Financial Officer of our Group and our Company Secretary. Mr. Kwok joined our Group in December 2010 and is responsible for the financial management and reporting as well as legal compliance. Mr. Kwok has approximately 16 years of experience in financial management and auditing. Prior to joining our Group, Mr. Kwok served as the financial controller of Beijing Huaxia Real Estate Development Co., Ltd.* (北京華夏創業房地產

DIRECTORS, SENIOR MANAGEMENT AND STAFF

開發有限公司) from 2007 to 2008. Mr. Kwok served as the group controller of the Finance and Investment Centre of Hopson Development Holdings Limited (HK: 754), a company listed on the Main board of the Hong Kong Stock Exchange, from April 2008 to November 2009. Mr. Kwok also worked with KPMG from August 1994 to October 2006.

Mr. Kwok received his bachelor's degree in business and administration from the Hong Kong University of Science and Technology in November 1994. Mr. Kwok is a member of the Hong Kong Institute of Certified Public Accountant.

Mr. Gao Yongchun (高永春), aged 43, is the vice general manager of Xiangfan Hero City and Xiangfan Kanghao. Mr. Gao is also a founder and a Controlling Shareholder of our Group. Mr. Gao has been the vice general manager of Xiangfan Kanghao since April 2007, responsible for its marketing and sales. Mr. Gao has served as a director of Xiangfan Hero City in 2009 and as a director of Chongqing Langyu from June 2009 to October 2010. Mr. Gao has approximately 6 years of experience in sales and marketing of engine products. Prior to joining our Group, Mr. Gao served as the vice general manager of Hangzhou Yinpeng Power Equipment Co., Ltd.* (杭州銀鵬動力設備有限公司), a company engaged in the distribution of engine products, from February 2006 to April 2007. Mr. Gao served as sales manager of Xiangfan Kangchen from October 2004 to January 2006, and was responsible for the sales and marketing of automobile engines in the East China.

Mr. Gao received a diploma in logistics management from the Business Management Institution of People's Liberation Army* (中國人民解放軍企業管理學院) in July 1990.

Ms. Huang Yue (黃越), aged 35, is the vice operation general manager and the chief financial officer of Xiangfan Kanghao. Ms. Huang Yue is also a founder and a Controlling Shareholder of our Group. Ms. Huang Yue has served as a director of Xiangfan Kanghao since June 2008, and is responsible for its financial management, tax planning and internal control. Ms. Huang has approximately 15 years of experience in the financial management. Prior to joining our Group, Ms. Huang also served as the financial manager in Xiangfan Yuli from October 2004 to December 2005. Ms. Huang served as the vice human resources manager in Xiangfan Yijia Co., Ltd.* (襄樊益家公司), a company engaged in commodity trading, from March 2003 to September 2004. Ms. Huang also served as an accountant in the insurance department of Ping An Insurance Xiangfan Branch* (中國平安保險襄樊公司) from September 2001 to January 2003. Ms. Huang worked as an accountant in a knitgoods trading company from November 1995 to August 2001.

Ms. Huang received a diploma in sales and marketing from Hubei Economic Management Institute* (湖北經濟管理學院) in August 1995 and received her bachelor's degree in accounting from Zhongnan University of Economics and Law* (中南財經政法大學) in June 2005.

Mr. Li Yunfeng (李雲峰), aged 42, is the Chief Technical Officer of our Group and the vice general manager and the head of technical department of Xiangfan Kanghao. Mr. Li Yunfeng joined our Group in March 2008 as a vice general manager. He is responsible for our research and development. Mr. Li Yunfeng has approximately 20 years of experience in the research and development of engines and related products. Prior to joining our Group, Mr. Li Yunfeng worked with Dongfeng Diesel

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Engine Plant at various positions from 1991 to 2008, including as a quality engineer from July 1991 to July 1998, the product engineer and technical supervisor from July 1998 to February 2004, the quality audit supervisor from February 2004 to December 2004 and the quality assurance manager from December 2004 to March 2008.

Mr. Li Yunfeng received his bachelor's degree in machinery production technique and equipment from Wuhan Institute of Technology* (武漢工學院) (now known as the Wuhan University of Technology* (武漢理工大學)) in June 1991 and his master's degree in power engineering from Tsinghua University* (清華大學) in January 2007. Mr. Li Yunfeng was granted the certificate of senior engineer in December 2002 by Dongfeng Motor Corporation.

COMPANY SECRETARY

Mr. Kwok For Chi is our Company Secretary in Hong Kong pursuant to Rule 8.17 of the Hong Kong Listing Rules. For details of Mr. Kwok's background, please refer to the section headed "— Senior Management."

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and other allowances and benefits in kind. We reimburse our Directors for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations.

During the three years ended December 31, 2008, 2009 and 2010, the aggregate amount of compensation paid (including basic salary, stock-based compensation and retirement benefit contribution) to our Directors were RMB398,000, RMB381,000 and RMB339,000, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or joining us or as a compensation for loss of office in respect of the Track Record Period. Further, none of our Directors had waived any remuneration during the same period.

Except as disclosed above, no other payments have been made or are payable, in respect of the Track Record Period, by the Group to or on behalf of any of the Directors.

AUDIT COMMITTEE

We have established an audit committee in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Hong Kong Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system and provide advice and comments to our Board. The audit committee consists of three members, namely Mr. Guo Miao, Mr. Sun Hongjun and Mr. Cheung Wai Hung. The chairman of the audit committee is Mr. Guo Miao, an independent non-executive Director.

REMUNERATION AND NOMINATION COMMITTEE

We have established a remuneration and nomination committee in compliance with the Code of Corporate Governance Practices which consists of three members, namely Mr. Guo Miao, Mr. Sun Hongjun and Mr. Li. The chairman of the remuneration and nomination committee is Mr. Li.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The primary duties of the remuneration and nomination committee are to:

- (a) make recommendations to our Directors on our policy and structure for all remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration;
- (b) determine the terms of the specific remuneration package of each executive Director and senior management;
- (c) review and approve performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time;
- (d) review the structure, size and composition of our Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (e) identify, select or make recommendations to our Board on the selection of individuals nominated for directorships;
- (f) assess the independence of our independent non-executive Directors; and
- (g) make recommendations to the Board on relevant matters relating to the appointment or reappointment of our Directors and succession planning for our Directors.

EMPLOYEES

As of the Latest Practicable Date, we had a total of 420 full-time employees. The following table sets forth a breakdown of our employees by functions as of such date:

Functions	Number of employees
Management	25
Manufacturing	226
Design, Research and Development	36
Quality Management	31
Sales and Marketing	26
Accounts	30
Administration and Human Resources	30
Aftersales	5
Procurement	11
Total	420

We continue to provide training opportunities to improve and upgrade the management and professional skills of our employees. During the Track Record Period, we have not experienced any significant problems with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff.

As required by the PRC laws and regulations, we made contributions to mandatory social security and housing funds for our employees in China to provide for retirement, medical, work-related injury, maternity, unemployment and housing benefits. As a few employees of Chongqing Langyu

DIRECTORS, SENIOR MANAGEMENT AND STAFF

have not completed the administrative process to set up their social insurance and housing fund accounts with us, we are not able to make contributions to their social insurance and housing fund accounts. Chongqing Langyu has begun making contributions for such employees since April 2011.

Commerce & Finance Law Offices, our PRC legal advisers, advised that Chongqing Langyu has an obligation to make full contributions to the mandatory social security and housing funds for such four employees since the respective commencement date of their employment with Chongqing Langyu. In addition, Chongqing Langyu may be subject to a late payment fee due to its default in making such contributions in time. Pursuant to the relevant PRC laws and regulations, our Directors estimate that, as of the Latest Practicable Date, the total amount of the outstanding payments to the mandatory social security and housing funds for such four employees and the late payment fees which may be imposed on Chongqing Langyu was approximately RMB60,291. As such, our Directors consider that the amount of such outstanding payments and potential penalty is insignificant and would not have significant financial impact on our operations. In addition, our Controlling Shareholders have provided an indemnity in favor of our Group from and against, among others all actions, claims, losses, payments, charges, costs, penalties, damages or expenses which we may incur, suffer or accrue, directly or indirectly, that may arise from or in connection with the non-compliance of the social insurance and housing fund contributions.

Save as disclosed above, we are in compliance with the PRC laws and regulations relating to mandatory social security funds in all material aspects.

COMPLIANCE ADVISER

We have appointed Somerley Limited as its compliance adviser (the “**Compliance Adviser**”) pursuant to Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the Compliance Adviser will advise us as follows:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction (as defined under the Hong Kong Listing Rules), is contemplated including share issues and share repurchases;
- (3) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in the prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and end on the date of dispatch of our annual report in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreements.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is not exercised), the following persons:

- will have interests or short positions in any Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or
- 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:

Name	Nature of Interest	Approximate Number of Shares	Approximate Percentage of Shareholding ⁽¹⁾
Yuan Tai Long ^(Note 2) . . .	Beneficial owner	540,000,000	67.5%
Mr. Li	Interest of a controlled corporation	540,000,000	67.5%
Ms. Xu	Interest of a controlled corporation	540,000,000	67.5%
Mr. Luo	Interest of a controlled corporation	540,000,000	67.5%
Mr. Zhang	Interest of a controlled corporation	540,000,000	67.5%
Mr. Fan	Interest of a controlled corporation	540,000,000	67.5%
Ms. Huang Fei	Interest of a controlled corporation	540,000,000	67.5%
Mr. Gao	Interest of a controlled corporation	540,000,000	67.5%
Ms. Huang Yue	Interest of a controlled corporation	540,000,000	67.5%

Notes:

- (1) Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Mr. Gao and Ms. Huang Yue are, pursuant to an oral agreement entered into amongst themselves in July, 2007 (as confirmed by a deed dated February 25, 2011), parties acting in concert (for the purposes of the Takeovers Code). As such, they together control the 67.5% interest in the share capital of our Company through Yuan Tai Long. Based on the foregoing, each of Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Mr. Gao, Ms. Huang Yue and Yuan Tai Long is deemed to be interested in such 67.5% interest in the share capital of our Company.
- (2) Yuan Tai Long is held as to 26.83% by Mr. Li, 26.83% by Ms. Xu, 17.06% by Mr. Luo, 11.99% by Mr. Zhang, 8.4% by Mr. Fan, 3.71% by Ms. Huang Fei, 2.78% by Mr. Gao and 2.4% by Ms. Huang Yue.

SUBSTANTIAL SHAREHOLDERS

In addition to the above and so far as our Directors are aware, immediately following completion of the Global Offering, the following entities are directly interested in 10% or more of the nominal value of any class of equity capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

Name of Subsidiaries	Substantial Shareholder of such subsidiary	Approximate Percentage of Shareholding
Beworld.	Wei Qun (衛群)	10%
Chongqing Langyu	Wang Zhengchang (王正長)	45%

Save as disclosed herein, our Directors are not aware of any other person who will, immediately following completion of the Global Offering and the Capitalization Issue but without taking into account or the Shares that may be issued pursuant to the exercise of the Over-allotment Option, options which may be granted under the Share Option Scheme or the stock borrowing arrangements set out under the paragraph headed “Stabilization” in the “Structure of the Global Offering” section, have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company 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 members of our Group.

For details of the lock-up arrangements restricting some of our Shareholders from selling or otherwise disposing of our Shares, please refer to the section headed “Underwriting” in this prospectus.

The existing Shareholders have no different voting rights in the Shares from those of other Shareholders.

SHARE CAPITAL

SHARE CAPITAL

The following is a description of our authorized share capital and our share capital in issue and to be issued as fully paid or credited as fully paid immediately after the completion of the Capitalization Issue and the Global Offering:

Authorised share capital:	US\$
5,000,000,000 Shares of par value of US\$0.01 each	50,000,000
Issued share capital in issue at the date of this prospectus:	
1,000,000 Shares of par value of US\$0.01 each	10,000
Shares to be issued:	
599,000,000 Shares of par value of US\$0.01 each to be issued pursuant to the Capitalization Issue	5,990,000
200,000,000 Shares of par value of US\$0.01 each to be issued in the Global Offering (assuming that the Over-allotment Option is not exercised)	2,000,000
Total issued share capital (assuming that the Over-allotment Option is not exercised):	
800,000,000 Shares of par value of US\$0.01 each	8,000,000
39,000,000 Shares of par value of US\$0.01 each to be issued pursuant to the exercise of the Over-allotment Option	390,000
Total issued share capital (assuming that the Over-allotment Option is exercised):	
839,000,000 Shares of par value of US\$0.01 each	8,390,000

According to Rule 8.08 of the Hong Kong Listing Rules, at the time of the Listing and at all times thereafter, we must maintain the minimum prescribed percentage of 25% of our issued share capital in the hands of the public.

ASSUMPTIONS

The above table assumes the Global Offering and the Capitalization Issue become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued pursuant to Over-allotment Option or the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to the Directors to allot and issue or repurchase Shares referred to in the paragraph headed “Issuing Mandate” or the paragraph headed “Repurchase Mandate” below, as the case may be.

SHARE CAPITAL

RANKING

The Offer Shares, including the Shares issuable pursuant to the Over-allotment Option, will rank pari passu in all respects with all other Shares in issue as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme in which certain eligible participants may be granted options to acquire Shares. Our Directors believe that the Share Option Scheme will assist in our recruitment and retention of quality executives and employees. A summary of the principal terms of the Share Option Scheme is set out in the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus.

ISSUING MANDATE

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue plus the aggregate nominal amount of our share capital repurchased by us under the repurchase mandate described below.

This mandate shall expire at the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our next annual general meeting is required to be held by the Articles, the Companies Law or any applicable laws of the Cayman Islands; and
- (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please see the paragraph headed “Resolutions of our Sole Shareholder” in Appendix VI to this prospectus.

REPURCHASE MANDATE

The Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase an aggregate nominal amount of Shares which shall not exceed 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue.

This mandate relates only to repurchases made on the Stock Exchange or any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and which are made in accordance with the Hong Kong Listing Rules. A summary of the relevant Hong Kong Listing Rules is set out in the section headed “Repurchase of our own securities” in Appendix VI to this prospectus.

SHARE CAPITAL

This mandate will expire at the earliest of:

- (i) the conclusion of our next annual general meeting;
- (ii) the expiration of the period within which our next annual general meeting is required to be held by the Articles or any applicable laws to be held; or
- (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

For further information about this repurchase mandate, please refer to the paragraph headed “Resolutions of Our Sole Shareholder” in Appendix VI to this prospectus.

FINANCIAL INFORMATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our combined financial information as of and for each of the years ended December 31, 2008, 2009 and 2010 and the accompanying notes, all included in the Accountants' Report set out in Appendix I to this prospectus. We have prepared our financial information in accordance with IFRS.

The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are the largest manufacturer and integrator of mid-range diesel generator cores (with a power output range of 20 kW to 220 kW) in China throughout the period from 2008 to 2010, and a leading manufacturer and integrator of all ranges of diesel generator cores in China, ranking 3rd in 2008, 5th in 2009 and 2nd in 2010, in terms of revenue, according to Frost & Sullivan. Our diesel generator cores are widely used in both permanently-installed and mobile power systems that serve rail, factories, commercial buildings, telecommunications infrastructure and mining and exploration industries across China. We are also the 4th largest and the 2nd largest manufacturer of electronic control systems in the diesel generator power system sector in China in terms of revenue in 2009 and 2010, respectively, and a leading manufacturer of heat exchange systems in the diesel generator power system sector in China, ranking 7th in both 2008 and 2009 and 6th in 2010 in terms of revenue, according to Frost & Sullivan. Both of our heat exchange systems and electronic control systems are core components of a diesel generator core. Revenues derived from both our external sales and internal sales for these two products are used in determining the above rankings.

We report our financial results in three segments as described below.

- *Power core segment.* Our power core products include diesel generator cores and oil hydraulic power drives. We have been integrating diesel generator cores since January 2006. Our diesel generator cores have more than 125 varieties and our oil hydraulic power drives have more than 20 models. We are also involved in the distribution of industrial diesel engines, diesel generator engines and engine parts to customers.
- *Heat exchange system segment.* We commenced manufacturing heat exchange systems in 2008. Our heat exchange systems are used both in our diesel generator cores for generator power systems and in other engine applications, serving engines with a power output range of 20 kW to 2,000 kW. During the Track Record Period, a majority of our heat exchange systems that serve engines with a power output range of 20 kW to 250 kW were supplied for internal integration, while most of our heat exchange systems that serve engines with a power output range of 251 kW to 2,000 kW were sold to external customers.
- *Electronic control system segment.* We commenced manufacturing electronic control systems in 2009. Our electronic control systems are used both in our diesel generator cores for generator power systems and in other select applications. These systems

FINANCIAL INFORMATION

typically consist of electronic speed actuators and electronic speed controllers. We typically sold our electronic speed actuators to ASIMCO and supplied all of our electronic speed controllers for internal integration of diesel generator cores. We distributed a small portion of electronic speed actuators to ASIMCO in 2008.

We sold most of our products in China during the Track Record Period. For the years ended December 31, 2008, 2009 and 2010, our revenue before inter-segment elimination was RMB1,014.2 million, RMB676.1 million and RMB1,208.7 million, respectively, our turnover was RMB1,005.2 million, RMB640.6 million and RMB1,109.9 million, respectively, and our profit attributable to equity shareholders of our Company was RMB74.6 million, RMB49.8 million and RMB100.6 million, respectively.

BASIS OF PRESENTATION

Our Company was established in the Cayman Islands on January 10, 2011 with limited liability as part of the Reorganization in preparation for the Listing of our shares on the Main Board of the Stock Exchange. Our Controlling Shareholders, Mr. Li, Ms. Xu, Mr. Zhang, Mr. Luo, Mr. Fan, Ms. Huang Fei, Ms. Huang Yue and Mr. Gao, have been jointly managing our Group during the Track Record Period. For details of concert party arrangements among our Controlling Shareholders, see “Relationship with Controlling Shareholder — Controlling Shareholders Acting in Concert”.

As there was no change of Controlling Shareholders before and after the Reorganization, the financial information has been prepared using merger basis of accounting as if the Reorganization had occurred as of the beginning of the earliest period presented. The net assets of the companies now comprising the Group are combined using the existing book values from the Controlling Shareholders’ perspective.

Our combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements, as set out in section B of Appendix I to this prospectus, respectively, include the results of operations of our Group for the Track Record Period (or where the companies were established or acquired on a date later than January 1, 2008, for the period from their respective dates of establishment or acquisition to December 31, 2010) as if the current group structure had been in existence throughout the Track Record Period. The combined balance sheets as of December 31, 2008, 2009 and 2010, as set out in section B of Appendix I to this prospectus, have been prepared to present the state of affairs of our Group as of those dates as if the current group structure had been in existence as of the respective dates.

Our financial information has been prepared in accordance with IFRS throughout the Track Record Period. All material intra-group transactions and balances have been eliminated in our combined financial statements.

FINANCIAL INFORMATION

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe the most significant factors affecting our results of operations and financial condition are as follows:

Electricity Demand in China

We derive a majority of our turnover from the design, manufacturing and sale of diesel generator cores and related heat exchange systems and electronic control systems in China. Electricity demand in China is subject to cyclical fluctuations and to a variety of factors, including macroeconomic trends, population growth, rapid urbanization, increased fixed asset investment and technology development in China. While this activity has significantly contributed to the growth in demand for our products and our profitability, an economic slowdown in China, as was the case in 2009, could curtail demand for our products and negatively affect our profitability.

In addition to macroeconomic trends, our financial performance can also be affected by the occurrence of extraordinary and unexpected natural events. When natural disasters occur in China and other countries, such as the Sichuan earthquake which occurred in May 2008 and the 9.0 magnitude earthquake in Japan in March 2011, diesel generator power systems become vital for supplying emergency electricity. As a result of the Sichuan earthquake which resulted in large-scale destruction of infrastructure, demand for our diesel generator cores spiked. We also experienced increased demand for our power core products during the heavy snow storms that hit southern and central China during January 2008. While management expected turnover to increase in 2008 as a result of China's growing economy, it is believed that these disruptive events contributed significantly to our strong performance in 2008.

Overall demand for our products in China can also be significantly affected by public policy and regulatory developments. For example, pursuant to the Notice of Improving Electricity Operations in 2010 (關於做好2010年電力運行工作的通知) issued by NDRC, certain premises such as schools, shopping malls, hotels, airports and railway stations are encouraged to install emergency power systems. As a further example, the State Council issued the Opinions on Strengthening Power Systems Against Disaster in 2008 (關於加強電力系統抗災能力建設的若干意見) whereby all provinces, autonomous regions and municipalities, all departments and committees of the State Council and directly affiliated institutions must establish action plans in response to potential large area power outages with the ability to conduct "isolated operations" and "black start" under special circumstances. A key component of these plans has been the installation of appropriate emergency power supply, primarily through diesel generator power systems. As PRC regulations governing building standards and public safety continue to develop, we expect government policy to continue to drive demand for our power core products.

Our Major Supplier

Dongfeng Cummins was our largest supplier during the Track Record Period. Our purchase from Dongfeng Cummins accounted for approximately 89.0%, 51.2% and 49.6% of our total purchases amounts of all parts, components and raw materials for the years ended December 31, 2008, 2009 and 2010, respectively. Taking into account the Dongfeng Cummins engines we purchased from Cummins Power Generation, our total purchase of Dongfeng Cummins engines amounted to approximately RMB755.9 million, RMB386.5 million and RMB632.7 million in 2008, 2009 and 2010, respectively, accounting for 89.0%, 67.8% and 68.2% of our total purchase amounts of all

FINANCIAL INFORMATION

parts, components and raw materials for the same periods, respectively. Although we have maintained a stable relationship with Dongfeng Cummins and believe that we are able to purchase diesel generator engines on reasonable commercial terms from other qualified suppliers when necessary, our results of operations could be materially affected if we were to encounter any shortages in our procurement of diesel generator engines for our diesel generator core business. In addition, although there was no material fluctuation in the prices of diesel generator engines provided by Dongfeng Cummins during the Track Record Period, any increases in the cost of diesel generator engines in the future may affect our profitability if we cannot pass on the price increases to our customers.

Going forward, we believe that the impact of any fluctuation in the prices of diesel generator engines provided by Dongfeng Cummins will be limited mainly on account of (i) our strategic alliance agreement with Dongfeng Cummins pursuant to which Dongfeng Cummins has agreed to supply its diesel generator engines to us on a priority basis, subject to our actual demand, on prices to be agreed between Dongfeng Cummins and us; (ii) a Long-term Supply Contract with Dongfeng Cummins which supplements the strategic alliance agreement and stipulates a six-year supply of diesel generator engines by Dongfeng Cummins; and (iii) our expectation that our reliance on Dongfeng Cummins will be reduced as a result of our expansion of our heat exchange system and electronic control system businesses and our development of power cores in other applications.

Change in Prices of Metals

Metal-based raw materials such as copper belts and steel plates are required for the manufacture of our heat exchange systems. These metal-based raw materials are subject to pricing cyclicity and periodic supply shortages in China. During the Track Record Period, we closely monitored the prices of copper belts and steel plates and made bulk purchases from time to time in accordance with our production plan when their prices were favorable, in order to better manage our production costs. However, the prices of metal-based raw materials are subject to market fluctuations from time to time and to the extent we cannot pass on the price increases in these raw materials and components to our customers, our business operations and financial performance could be adversely affected.

Taxation

Our profitability and financial performance is affected by the level of taxation that we pay on our profit and the preferential tax treatments to which we are entitled. On March 16, 2007, the National People's Congress of the PRC promulgated The Enterprise Income Tax Law of the PRC, which took effect on January 1, 2008. The implementation of this tax law has an effect on the level of taxation that we pay on our profit and the preferential tax treatments to which we are entitled. In accordance with the aforementioned law and regulations, a unified enterprise income tax rate of 25% has been applied equally to both domestic enterprises and foreign-invested enterprises. Enterprises that are currently entitled to exemptions or reductions from the standard rate for a fixed term may continue to enjoy such treatment until the fixed term expires. Upon the expiry of the existing preferential tax treatments, our PRC subsidiaries will be subject to a higher enterprise income tax rate and our financial performance will be affected.

FINANCIAL INFORMATION

The following table sets forth the applicable tax rate for each of our Subsidiaries during the Track Record Period and estimated tax rates for 2011 and 2012:

Year	Xiangfan		Wuhan		Wuhan Norman	Chongqing Langyu	Wuhan Roll	
	Hero City	Xiangfan Kanghao	Hero City	Beworld			Technology	Ascend
2008	0.0%	0.0%	25%	25%	—	25%	25%	—
2009	12.5%	12.5%	25%	25%	25%	25%	25%	16.5%
2010	12.5%	12.5%	15%	15%	25%	25%	25%	16.5%
2011 (estimated) ..	12.5%	12.5%	15%	15%	25%	25%	25%	16.5%
2012 (estimated) ..	25%	25%	15%	15%	25%	25%	25%	16.5%

For further details of the tax reductions currently applicable to certain of our Group Companies, see “— Principle Income Statement Items — Income tax.”

Business and Product Mix

Our results of operations are significantly affected by the relative contributors of our power core, heat exchange system and electronic control system businesses, as well as varying demand for the individual products that we offer through each of these segments. The addition of our heat exchange system and electronic control system businesses has increased our gross profit margin as these two reportable segments’ gross profit margins were 30.4% and 65.8%, respectively, in 2010, as compared to a reportable segment gross profit margin of 9.7% for our power core segment. We expect that the growth of our heat exchange system and electronic control system businesses will continue to positively impact our gross profit margin going forward.

The individual products offered by our three business segments vary significantly in terms of specifications and technology and as a result they have different ASPs and gross profit margins. In general, power cores, heat exchange systems and electronic control systems that are designed for higher power systems have higher profit margins. This is due to the increased precision and specialized know-how involved in the manufacturing of these products, as well as less relative competition as such products tend to be produced and sold by global manufacturers as opposed to smaller regional manufacturers. As a result, fluctuations in demand for larger power systems can have an impact on our profit margins.

CRITICAL ACCOUNTING POLICIES

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

We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations.

FINANCIAL INFORMATION

We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognized for 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.

Revenue Recognition

Sale of goods

We recognize revenue from the sale of goods when a customer has accepted the related risks and rewards of ownership, provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, which generally occurs when the product is sold and delivered to our customers. For goods that require acceptance testing, we recognize revenue when customers have confirmed acceptance of the goods. Revenue excludes value added tax or other sales taxes and is calculated after deduction of any trade discounts and rebates. Deposits and installments received prior to the date of revenue recognition are included in the balance sheet under receipt in advance under trade and other payables.

Interest income

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

Property, Plant and Equipment and Depreciation

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses.

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

We calculate depreciation to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Leasehold improvements	shorter of 5 years or unexpired term of the lease
Plant and machinery	5 to 10 years
Motor vehicles	5 years
Furniture, fixtures and other equipment	5 years

We review both the useful life of an asset and its residual value, if any, annually.

Impairment of Assets

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

FINANCIAL INFORMATION

is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

Impairment of investments in equity securities and receivables

Investments in equity securities and receivables that are stated at cost or amortized cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to our attention about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized.

Impairment of other assets

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

- property, plant and equipment;
- construction in progress; and
- lease prepayments.

If any such indication exists, the asset's recoverable amount is estimated.

Estimates in determining impairment of investments in equity securities and receivables and other assets

Our management's judgment is required in the area of asset impairment particularly in assessing:

(i) whether an event has occurred that may indicate that the related asset values may not be collected or recoverable; (ii) whether the carrying value of an asset can be supported by the collectible or recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairments, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. If there is a significant adverse change in the projected performance and the

FINANCIAL INFORMATION

resulting future cash flow projections and the discount rates, it will be necessary to take an impairment charge to the income statement, which will affect our financial condition and results of operations only when the resulting net present value used in the impairment test is lower than the book value of the assets.

Inventories

Inventories are stated at the lower of cost and net realizable value.

The cost of inventories is calculated using the weighted average cost formula, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

Income Tax Provisions

The determination of income tax provisions involves judgment on the future tax treatment of certain transactions. Our management carefully evaluates the tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in tax legislation and tax practices.

FINANCIAL INFORMATION

SUMMARY OF OPERATING RESULTS

The following table sets out a summary of our combined income statements for the years ended December 31, 2008, 2009 and 2010, which are derived from the Accountants' Report as set out in Appendix I to this prospectus.

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Turnover	1,005,202	640,593	1,109,946
Cost of sales	(857,936)	(542,430)	(945,722)
Gross profit	147,266	98,163	164,224
Other revenue	994	1,367	1,267
Other net income/(loss)	927	61	(1,219)
Selling and distribution expenses	(11,307)	(8,040)	(12,625)
Administrative expenses	(14,193)	(16,851)	(25,014)
Profit from operations	123,687	74,700	126,633
Finance costs	(6,821)	(8,549)	(8,511)
Share of profit less losses of an associate	(434)	167	143
Share of profits less losses of jointly controlled entities	(311)	751	6,275
Profit before taxation	116,121	67,069	124,540
Income tax	(7,547)	(14,189)	(22,161)
Profit for the year	108,574	52,880	102,379
Attributable to:			
Equity shareholders of the Company	74,605	49,811	100,628
Non-controlling interests	33,969	3,069	1,751
Profit for the year	108,574	52,880	102,379

FINANCIAL INFORMATION

PRINCIPAL INCOME STATEMENT ITEMS

Turnover

Our turnover consists of sales derived from our three business segments, namely the power core, heat exchange system and electronic control system segments. Turnover represents the sales value of goods sold less any trade discounts and rebates.

The following table sets forth the revenue, before inter-segment elimination, attributable to each of our three business segments:

	Years ended December 31,					
	2008		2009		2010	
	Revenue	%	Revenue	%	Revenue	%
	(RMB'000, except percentages)					
Reportable segment revenue						
Power core segment	1,000,046	98.6	615,554	91.1	1,064,474	88.1
Heat exchange system segment . .	10,491	1.0	23,175	3.4	45,933	3.8
Electronic control system segment . .	3,696	0.4	37,344	5.5	98,311	8.1
Subtotal	<u>1,014,233</u>	<u>100.0</u>	<u>676,073</u>	<u>100.0</u>	<u>1,208,718</u>	<u>100.0</u>
Inter-segment elimination ⁽¹⁾ . . .	<u>(9,031)</u>	—	<u>(35,480)</u>	—	<u>(98,772)</u>	—
Turnover ⁽²⁾	<u><u>1,005,202</u></u>	—	<u><u>640,593</u></u>	—	<u><u>1,109,946</u></u>	—

Notes:

(1) Revenue before inter-segment elimination represents reportable segment revenue.

(2) Turnover represents the revenue from external customers.

Our inter-segment elimination relates to our intra-group transactions and balances. During the Track Record Period, our internal sales primarily comprised (i) supply of heat exchange systems to support our power core integration business; (ii) supply of electronic speed controllers to support our power core integration business; and (iii) internal sales of scrap materials from Xiangfan Kanghao to Wuhan Hero City for the latter to sell to external customers. With respect to our internal sales of heat exchange systems and electronic speed controllers, our relevant operating entities typically placed orders internally on a monthly basis, setting forth the volume and delivery time. Our operating entities are aware of the internal sales price of our products as we typically price our products for internal sales at the beginning of a given year and such fixed prices are generally followed for a year unless the prevailing market prices of products with similar specifications significantly change. We price our products for internal sales on a cost-plus basis, after making reference to the then prevailing market price of products with similar specifications. During the

FINANCIAL INFORMATION

Track Record Period and up to the Latest Practicable Date, we had not received any notice, order, letter or any correspondence, issued by any government authority or on behalf of such authority, to challenge our pricing terms for internal sales under the applicable laws and regulations governing transfer pricing.

Cost of sales

Our cost of sales consists of raw materials costs, manufacturing costs and direct labor costs. Raw materials costs primarily include our costs incurred for the purchase of engines and related components for our power core business, copper belts and steel plates for our heat exchange system business, PCBs, chipsets and potentiometers for our electronic control system business. Manufacturing costs primarily include consumables, maintenance expenses and depreciation relating primarily to plant and equipment we own. Direct labor costs primarily include the compensation and benefits we provide to our manufacturing employees.

The table below sets forth, for the periods indicated, the components of our cost of sales and the components as a percentage of total cost of sales.

	Years ended December 31,					
	2008		2009		2010	
	Cost of sales	%	Cost of sales	%	Cost of sales	%
	(RMB'000, except percentages)					
Raw materials cost .	851,528	99.3	532,448	98.2	931,883	98.5
Engines	748,388	87.2	490,623	90.5	860,577	91.0
Others	103,140	12.1	41,825	7.7	71,306	7.5
Manufacturing costs	3,546	0.4	6,983	1.3	8,670	0.9
Direct labour costs .	2,862	0.3	2,999	0.5	5,169	0.6
Total	857,936	100.0	542,430	100.0	945,722	100.0

Other revenue and other net income/(loss)

Other revenue mainly represents interest income. Other net income/(loss) represents gains or losses realized on the disposal of interests in jointly controlled entities, associates and subsidiaries, lease prepayments and property, plant and equipment.

Selling and distribution expenses

Selling and distribution expenses mainly represent transportation costs for the delivery of our products to our customers, expenses for providing after-sales services, salary and welfare expenses for employees involved in selling and distribution activities, and other operating expenses, including travelling expenses, business development expenses, advertising and promotion expenses, and other miscellaneous expenses.

FINANCIAL INFORMATION

Administrative expenses

Administrative expenses mainly represent salary and welfare expenses for management and administrative personnel, research and development costs, office expenses, professional fees, business development expenses, rental fees, other taxes and other administrative expenses.

Finance costs

Finance costs mainly represent interest on bank borrowings and a loan from Changyuan Donggu Industry, a related company.

Share of profits/losses of an associate

Share of profits less losses of an associate mainly represents our proportionate share of the profits and losses of Xiamen Hero City Machinery & Electric Equipment Co., Ltd.* (廈門朗弘機電設備有限公司) under the equity method of accounting. We acquired a 45.0% equity interest in its registered capital in August 2008 and disposed of the entirety of such equity interest in May 2010.

Share of profits/losses of jointly controlled entities

Share of profits less losses of jointly controlled entities represents our proportionate share of the profits and losses of jointly controlled entities under the equity method of accounting. These jointly controlled entities include Hubei Langtong, in which we held a 50.0% equity interest during the Track Record Period; Wuhan Kanghao Machine & Electricity Engineering Co., Ltd.* (武漢康豪機電工程有限公司), in which we owned a 55.0% equity interest throughout 2008 and 2009 and with respect of which we disposed of the entire equity interest owned by us in December 2010; and Beworld, which was a jointly controlled entity of our Group in 2008, 2009 and 2010 until December 31, 2010. Beworld became a subsidiary of our Group on December 31, 2010 when our Group obtained an effective control over the majority of its board. In May 2011, Xiangfan Kanghao acquired a 39.0% equity interest in Beworld. Upon completion of this acquisition, our equity interest in Beworld increased from 51.0% as of December 31, 2010 to 90.0% as of the Latest Practicable Date.

Income tax

Income tax expenses mainly represent the income tax charged on our Group's PRC subsidiaries, profits tax charged on our Group's Hong Kong subsidiary and related deferred tax expenses. We were not subject to any income tax in the Cayman Islands or the BVI during the Track Record Period.

Our subsidiaries located in the PRC were subject to a statutory income tax rate of 25.0% in 2008 and thereafter under the current PRC income tax laws, except for the following PRC preferential tax treatments available to some of our subsidiaries:

- Each of Xiangfan Kanghao and Xiangfan Hero City, based on their qualification as manufacturing foreign investment enterprises, was exempt from corporate income tax for the first and the second years starting from the first profitable year from PRC tax perspective, and thereafter subject to a 50% reduction of the applicable corporate income tax rates for the following three years. Both Xiangfan Kanghao and Xiangfan Hero City commenced their tax

FINANCIAL INFORMATION

holidays in 2007. As a result, each of Xiangfan Kanghao and Xiangfan Hero City was exempted from income tax for the year ended December 31, 2008 and has been subject to an income tax at the rate of 12.5% from 2009 to 2011, respectively. They will be subject to income tax at the rate of 25% from 2012 onwards, respectively.

- Each of Wuhan Hero City and Beworld, based on their qualification as high and new technology enterprises (高新技術企業), is subject to income tax at the rate of 15% in 2010, 2011 and 2012.

Our subsidiary located in Hong Kong was subject to Hong Kong profits tax at the rate of 16.5% on all assessable profits arising in or derived from Hong Kong. Ascend commenced operations in March 2009 and was subject to Hong Kong profits tax at the rate of 16.5% in 2009 and 2010.

According to the PRC EIT Law and its implementation rules, PRC-resident enterprises are subject to a withholding tax of 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on January 1, 2008. Distributions of earnings generated prior to January 1, 2008 are exempt from such withholding tax. Deferred tax liabilities have been provided for in this regard, as if the current group structure had been in existence as of the respective dates, based on the expected dividends to be distributed from our foreign-invested enterprises in the foreseeable future in respect of the profits generated from January 1, 2008. Deferred tax liabilities are realized and transferred to retained earnings upon the distribution of dividends from the foreign-invested enterprises.

ANALYSIS OF BUSINESS AND PRODUCT MIX

Our results of operations are significantly affected by the relative contributions of our power core, heat exchange system and electronic control system businesses, which we report as three segments.

Power Core Segment

Our operations within this segment are composed of two sub-segments: power core integration and engine distribution. We offer diesel generator cores and oil hydraulic power drives in the power core integration sub-segment and distribute engines and engine parts in the engine distribution sub-segment. Our integration of power cores has generally achieved a higher gross profit margin as compared to the distribution of engines and engine parts.

FINANCIAL INFORMATION

The following table sets forth, for the periods indicated, the reportable revenue and gross profit of our power core segment.

	Years ended December 31,					
	2008		2009		2010	
	Revenue	%	Revenue	%	Revenue	%
	(RMB'000, except percentages)					
Power core integration						
Diesel generator cores	967,199	96.7	492,560	80.0	827,276	77.7
Oil hydraulic power drives	—	—	2,761	0.5	40,873	3.8
Subtotal	967,199	96.7	495,321	80.5	868,149	81.5
Engine distribution	32,847	3.3	120,233	19.5	196,325	18.5
Reportable segment revenue	1,000,046	100.0	615,554	100.0	1,064,474	100.0
Inter-segment elimination ⁽¹⁾ .	(145)	—	(25)	—	(25)	—
Revenue from external customers	999,901	—	615,529	—	1,064,449	—
Reportable segment gross profit	147,315	—	75,318	—	103,342	—

Note:

- (1) Represents primarily internal sales of scrap materials from Xiangfan Kanghao to Wuhan Hero City for the latter to sell to external customers.

The following table sets forth, for the periods indicated, the ASP, sales volume and gross profit margin of our products within power core segment.

	Years ended December 31,								
	2008			2009			2010		
	ASP ⁽¹⁾	Sales Volume ⁽²⁾	Gross profit margin	ASP ⁽¹⁾	Sales Volume ⁽²⁾	Gross profit margin	ASP ⁽¹⁾	Sales Volume ⁽²⁾	Gross profit margin
	(RMB per unit)	(unit)	(%)	(RMB per unit)	(unit)	(%)	(RMB per unit)	(unit)	(%)
Diesel generator cores	34,288	28,208	14.9%	32,078	15,355	13.2%	32,111	25,760	10.5%
Oil hydraulic power drives	—	—	—	230,116	12	14.5%	425,765	96	10.7%
Engines solely for distribution purposes	56,341	583	10.3%	273,880	439	8.4%	684,061	287	6.6%
Power core segment ⁽³⁾	34,735	28,791	14.7%	38,944	15,806	12.2%	40,717	26,143	9.7%

Notes:

- (1) Calculated by dividing reportable revenue derived from a given product category, which includes revenue derived from both external sales and internal sales, by the sales volume as described in note (2) below.

FINANCIAL INFORMATION

- (2) Represents the sum of (i) the number of products sold externally; and (ii) the number of products sold internally, if any, under a given product category.
- (3) Represents weighted ASP for segment, which is equivalent to total reportable segment revenue divided by total segment sales volume.

The ASP of power core products is generally determined by their power outputs and technology specifications. Diesel generator cores, oil hydraulic power drives and engines with higher power outputs, complex technology specifications or higher level of customization typically generated higher ASPs than those with lower power outputs, less complex technology specifications or less level of customization. In addition, oil hydraulic power drives integrated by us and engines distributed by us typically represented high power outputs with complex technology specifications and therefore, had higher ASPs than our diesel generator cores.

Diesel generator cores

ASP. The ASP of our diesel generator cores increased in 2010 as compared to 2009, primarily reflecting an increased proportion of sales of higher value-added and higher-power diesel generator cores which in general had higher selling prices. The ASP of our diesel generator cores decreased in 2009 as compared to 2008 primarily reflecting an increased proportion of sales of diesel generator cores with a power output range of 20 kW to 60 kW, which in general had lower selling prices, and a decreased proportion of sales of diesel generator cores with a power output range of 61 kW to 220 kW, which in general had higher selling prices, as a result of changes in customer demand, and to a lesser extent, that we offered certain discounts to our customers in 2009 to price our diesel generator cores more competitively due to decreased market demand as a result of the economic downturn.

Sales Volume. The sales volume of our diesel generator cores increased in 2010 as compared to 2009, primarily due to increased market demand as a result of improved industry conditions and a robust recovery in the overall economy. The sales volume of our diesel generator cores decreased in 2009 as compared to 2008, primarily due to decreased market demand as a result of the global economic downturn, and to a lesser extent, the non-recurring nature of a certain portion of our 2008 sales on account of the Sichuan earthquake in May 2008 and the winter snow storms across Southern China during January 2008.

Gross profit margin. The gross profit margin of our diesel generator cores decreased in 2010 as compared to 2009, primarily due to (i) a decrease in the rebate we received from Dongfeng Cummins for purchase of engines, primarily because the rebate from Dongfeng Cummins for an engine model decreased from RMB3,000 per unit in 2009 to RMB2,000 per unit in 2010; and (ii) we did not enjoy the 3.0% discount of the purchase prices for Dongfeng Cummins engines equipped in our diesel generator cores used by end-users in China in the second half of 2010. The gross profit margin of our diesel generator cores decreased in 2009 as compared to 2008, primarily due to (i) a decrease in the rebate we received from Dongfeng Cummins for purchase of engines, primarily because we did not meet the purchase target in 2009 as a result of the decreased market demand for our products in the economic downturn; and (ii) certain discounts we offered to customers in 2009 to cope with decreased market demand in the economic downturn, which resulted in a decrease in our ASP.

FINANCIAL INFORMATION

Oil hydraulic power drives

ASP. The ASP of our oil hydraulic power drives increased significantly during the Track Record Period, primarily reflecting increased customer demand for high-power oil hydraulic power drives with a power output range of over 1,000 kW for the same period.

Sales Volume. The sales volume of our oil hydraulic power drives increased in 2010 as compared to 2009, primarily due to increased market demand as a result of improved industry conditions and the fact that we only commenced integration of oil hydraulic power drives in July 2009.

Gross profit margin. The gross profit margin of our oil hydraulic power drives decreased in 2010 as compared to 2009, primarily because the increase in the cost of sales outpaced the increase in the revenue, mainly resulting from our use of higher-power engines in oil hydraulic power drives in 2010. Some of these engines were over RMB1.0 million per unit, and therefore the value added by us through our integration of engines with other systems was relatively low as compared to the cost of these engines.

Engines solely for distribution purposes

ASP. The ASP of engines distributed by us increased significantly during the Track Record Period, primarily reflecting increased customer demand for high-power engines with a power output range of over 800 kW for the same period.

Sales volume. The sales volume of engines distributed by us decreased during the Track Record Period, reflecting primarily our business strategy of focusing on the integration of diesel generator cores and oil hydraulic power drives within this business segment.

Gross profit margin. The gross profit margin for our engine distribution business decreased during the Track Record Period, primarily due to a decreased proportion of sales of engines with applications in ships, which represented higher gross profit margin. The decreased sales of these engines were primarily due to (i) declined market demand in 2009 as a result of the economic downturn; and (ii) that it is not part of our business strategy to develop distribution business related to engines with applications in ships.

As a result of the foregoing, the weighted ASP of our power core segment increased from RMB34,735 per unit in 2008 to RMB38,944 per unit in 2009 and further to RMB40,717 per unit in 2010. Although the aggregate sales volume of our power core segment decreased from 28,791 units in 2008 to 15,806 units in 2009, such aggregate sales volume increased to 26,143 units in 2010.

Heat Exchange System Segment

We offer two major types of heat exchange systems in China: heat exchange systems for engines with a power output range of 20 kW to 250 kW, which are primarily sold internally to our power core business, and heat exchange systems for engines with a power output range of 251 kW to 2,000 kW, which were sold to external customers. Revenue derived from sales of heat exchange systems with

FINANCIAL INFORMATION

a power output range of 251 to 2,000 kW, which amounted to RMB20.7 million and RMB43.9 million in 2009 and 2010 respectively, was not recorded as revenue in the combined financial statements for the Track Record Period because Beworld, the operating entity in the manufacturing of these products, only became a subsidiary of the Group on December 31, 2010.

The following table sets forth, for the periods indicated, the reportable revenue and gross profit of our heat exchange system segment.

	Years ended December 31,		
	2008	2009	2010
	Revenue	Revenue	Revenue
	(RMB'000)		
Reportable segment revenue	10,491	23,175	45,933
Inter-segment elimination ⁽¹⁾	<u>(8,886)</u>	<u>(19,921)</u>	<u>(31,441)</u>
Revenue from external customers	<u>1,605</u>	<u>3,254</u>	<u>14,492</u>
Reportable segment gross profit	<u>969</u>	<u>7,791</u>	<u>13,964</u>

Note:

- (1) Represents primarily intra-group sales of heat exchange systems for engines with a power output range of 20 kW to 250 kW to serve our integration of diesel generator cores.

The following table sets forth, for the periods indicated, the ASP, sales volume and gross profit margin of our products within heat exchange system segment.

	Years ended December 31,								
	2008			2009			2010		
	ASP	Sales Volume	Gross profit margin	ASP	Sales Volume	Gross profit margin	ASP	Sales Volume	Gross profit margin
	(RMB per unit)	(unit)	(%)	(RMB per unit)	(unit)	(%)	(RMB per unit)	(unit)	(%)
Internal sales	2,661	3,339	9.2%	2,299	8,665	34.7%	2,282	13,778	31.5%
External sales	<u>2,836</u>	<u>566</u>	<u>9.0%</u>	<u>2,333</u>	<u>1,395</u>	<u>26.7%</u>	<u>2,293</u>	<u>6,321</u>	<u>28.0%</u>
Heat exchange system segment	<u>2,687⁽¹⁾</u>	<u>3,905⁽²⁾</u>	<u>9.2%⁽³⁾</u>	<u>2,304⁽¹⁾</u>	<u>10,060⁽²⁾</u>	<u>33.6%⁽³⁾</u>	<u>2,285⁽¹⁾</u>	<u>20,099⁽²⁾</u>	<u>30.4%⁽³⁾</u>

Notes:

- (1) Calculated by dividing reportable revenue derived from a given product category, which includes revenue derived from both external sales and internal sales, by the sales volume as described in note (2) below.
- (2) Represents the sum of (i) the number of products sold externally; and (ii) the number of products sold internally, if any, under a given product category.
- (3) Represents reportable segment gross profit margin.

FINANCIAL INFORMATION

Internal sales

ASP. The ASP of our heat exchange systems for internal sales remained relatively stable in 2010 as compared to 2009. The ASP of our heat exchange systems for internal sales decreased in 2009 as compared to 2008, primarily because we only commenced our heat exchange system business in April 2008 and our product offering in 2008 was limited to certain models of heat exchange systems while we expanded in 2009 to provide a wider range of products, which had a lower ASP due to change of product mix.

Sales volume. The internal sales volume of our heat exchange systems increased during the Track Record Period, primarily due to increased internal demand arising from the expansion of our power core segment. The increase in the internal sales volume of our heat exchange systems in 2009 was also because our operating entity Wuhan Hero City only commenced manufacturing heat exchange systems in April 2008.

Gross profit margin. The gross profit margin for our heat exchange systems for internal sales decreased in 2010 as compared to 2009, primarily due to an increase in the steel and copper prices as a result of the overall economy recovery. The gross profit margin for our heat exchange systems for internal sales significantly increased in 2009 as compared to 2008, primarily due to our increased economies of scale.

External sales

ASP. The ASP of our heat exchange systems for external sales decreased in the Track Record Period, which was primarily due to our efforts to price our products competitively to compete with other major players.

Sales volume. The external sales volume of our heat exchange systems increased during the Track Record Period, primarily due to our business expansion as a result of enhanced market recognition of our products. The increase in the external sales volume of our heat exchange systems in 2009 was also because our operating entity Wuhan Hero City only commenced manufacturing of heat exchange systems in April 2008.

Gross profit margin. The gross profit margin for our heat exchange systems for external sales increased in 2010 as compared to 2009, primarily due to our increased economies of scale, the effects of which were partially offset by an increase in the steel and copper prices as a result of the overall economy recovery. The gross profit margin for our heat exchange systems for external sales increased in 2009 as compared to 2008, primarily due to our increased sales of more advanced and more customized heat exchange systems, as well as our increased economies of scale.

As a result of the foregoing, the ASP of our heat exchange system segment decreased from RMB2,687 per unit in 2008 to RMB2,304 per unit in 2009, and further to RMB2,285 per unit in 2010. The sales volume of our heat exchange system segment increased from 3,905 units in 2008 to 10,060 units in 2009 and further to 20,099 units in 2010.

FINANCIAL INFORMATION

Electronic Control System Segment

The electronic control system offered by us comprises an electronic speed actuator and an electronic speed controller. During the Track Record Period, all of our electronic speed controllers were used internally for integration into our diesel generator cores while all of our electronic speed actuators were sold to an outside customer.

The following table sets forth, for the periods indicated, the reportable revenue and gross profit of our electronic control system segment.

	Years ended December 31,					
	2008		2009		2010	
	Revenue	%	Revenue	%	Revenue	%
	(RMB'000, except percentages)					
Electronic speed actuators . .	3,696	100.0%	16,934	45.3%	31,005	31.5%
Electronic speed controllers .	—	0.0%	20,410	54.7%	67,306	68.5%
Reportable segment revenue .	3,696	100.0%	37,344	100.0%	98,311	100.0%
Inter-segment elimination ⁽¹⁾ .	—	—	(15,534)	—	(67,306)	—
Revenue from external customers	<u>3,696</u>	<u>—</u>	<u>21,810</u>	<u>—</u>	<u>31,005</u>	<u>—</u>
Reportable segment gross profit	<u>45</u>	<u>—</u>	<u>19,562</u>	<u>—</u>	<u>64,691</u>	<u>—</u>

Note:

(1) Represents primarily intra-group sales of electronic speed controllers to serve our integration of diesel generator cores.

The following table sets forth, for the periods indicated, the ASP, sales volume and gross profit margin of our products within electronic control system segment.

	Years ended December 31,								
	2008			2009			2010		
	ASP	Sales Volume	Gross profit margin	ASP	Sales Volume	Gross profit margin	ASP	Sales Volume	Gross profit margin
	(RMB per unit)	(unit)	(%)	(RMB per unit)	(unit)	(%)	(RMB per unit)	(unit)	(%)
Electronic speed actuators ⁽¹⁾	1,680	2,200	1.2% ⁽²⁾	1,380	12,271	28.7%	1,250	24,804	41.0%
Electronic speed controllers									
Internal sales	—	—	—	1,710	9,084	71.2%	2,056	32,740	77.2%
External sales	—	—	—	1,710	2,850	71.2%	—	—	—
Subtotal	—	—	—	1,710	11,934	71.2%	2,056	32,740 ⁽³⁾	77.2%
Electronic control system segment ⁽⁴⁾ .	<u>1,680⁽⁵⁾</u>	<u>2,200⁽⁶⁾</u>	<u>1.2%</u>	<u>1,543⁽⁵⁾</u>	<u>24,205⁽⁶⁾</u>	<u>52.4%</u>	<u>1,708⁽⁵⁾</u>	<u>57,544⁽⁶⁾</u>	<u>65.8%</u>

FINANCIAL INFORMATION

Notes:

- (1) All of our electronic speed actuators were sold externally during the Track Record Period.
- (2) The gross profit margin for our electronic control system in 2008 represents our resale of electronic speed actuators, which were purchased by us for distribution purposes, to ASIMCO. This distribution of electronic speed actuators represented significantly lower gross profit margin as compared to our manufacturing and sales of electronic control systems which began in March 2009.
- (3) Approximately 6,000 units of electronic speed controllers out of the total 32,740 units in 2010 were reclassified as inventory in our combined financial information for the year ended December 31, 2010.
- (4) Represents weighted ASP for segment, which is equivalent to total reportable segment revenue divided by total segment sales volume.
- (5) Calculated by dividing reportable revenue derived from a given product category, which includes revenue derived from both external sales and internal sales, by the sales volume as described in note (6) below.
- (6) Represents the sum of (i) the number of products sold externally; and (ii) the number of products sold internally, if any, under a given product category.

Electronic speed actuators

We only commenced manufacturing of our electronic control systems in March 2009 and the ASP and sales volume of electronic speed actuators in 2008 in this segment relate to the distribution of the electronic speed actuators to ASIMCO. All of our electronic speed actuators were sold externally during the Track Record Period.

ASP. The ASP of our electronic speed actuators decreased in 2010 as compared to 2009, primarily because we distributed electronic speed actuators in 2009, which represented higher ASP as compared with electronic speed actuators manufactured by us, prior to our commencement of sales of electronic speed actuators manufactured by us, whereas we did not distribute electronic speed actuators in 2010.

Sales volume. The sales volumes of our electronic speed actuators increased in 2010 as compared to 2009, primarily due to the expansion of our electronic control system segment.

Gross profit margin. The gross profit margin of our electronic speed actuators increased in 2010 as compared to 2009, primarily because we distributed electronic speed actuators in 2009, which represented lower gross profit margin, prior to our commencement of sales of electronic speed actuators manufactured by us, whereas we did not distribute electronic speed actuators in 2010.

Electronic speed controllers

We supplied most of electronic speed controllers internally during the Track Record Period.

ASP. The ASP of our electronic speed controllers for internal sales increased in 2010 as compared to 2009, primarily due to improved product quality and technical specifications as a result of our research and development efforts and enhanced expertise. We made reference to the then prevailing market price of products with similar specifications before we adjusted the price in 2010.

Sales volume. The internal sales volume of our electronic speed controllers increased in 2010 as compared to 2009, primarily due to increased internal demand arising from the expansion of our power core segment.

FINANCIAL INFORMATION

Gross profit margin. The gross profit margin of our electronic speed controllers for internal sales increased in 2010 as compared to 2009, primarily due to an increase in the ASP, as well as our increased economies of scale.

Ascend, our operating entity in Hong Kong, supplied a portion of electronic speed controllers to an independent trading company in 2009, which were subsequently repurchased by Xiangfan Kanghao for integration into diesel generator cores. We made this arrangement because Xiangfan Kanghao was in the process of completing import procedures for direct import of goods in 2009. We ceased this practice immediately after Xiangfan Kanghao completed all import procedures in November 2009.

As a result of the foregoing, although the weighted ASP of our electronic control system segment slightly decreased from RMB1,680 per unit in 2008 to RMB1,543 per unit in 2009, such weighted ASP increased to RMB1,708 per unit in 2010. The aggregate sales volume of our electronic control system segment increased from 2,200 units in 2008 to 24,205 units in 2009 and further to 57,544 units in 2010.

We intend to expand our heat exchange system and electronic control system businesses, and further strengthen our position in our power core business. While the three segments may continue to vary in their relative significance to our business from time to time, we expect our heat exchange system and electronic control system businesses to gradually increase in their relative significance.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended December 31, 2010 compared with the year ended December 31, 2009

Turnover

Our revenue before inter-segment eliminations increased by RMB532.6 million, or 78.8%, from RMB676.1 million in 2009 to RMB1,208.7 million in 2010. The increase was mainly attributable to increased revenues in our power core, heat exchange system and electronic control system segments.

Our total inter-segment revenue increased by RMB63.3 million, or 178.3%, from RMB35.5 million in 2009 to RMB98.8 million in 2010. This was due to an increase in the supply of heat exchange systems and electronic control systems to our power core business.

Our total turnover increased by RMB469.3 million, or 73.3%, from RMB640.6 million in 2009 to RMB1,109.9 million in 2010 as a result of the reasons described above.

- **Power core segment.** Reportable segment revenue in our power core segment increased by RMB448.9 million, or 72.9%, from RMB615.6 million in 2009 to RMB1,064.5 million in 2010. Such increase primarily reflected an increase in revenue derived from integration of power cores from RMB495.3 million in 2009 to RMB868.1 million in 2010 and an increase in revenue derived from distribution of engines and engine parts from RMB120.2 million in 2009 to RMB196.3 million in 2010.

FINANCIAL INFORMATION

- The increase in reportable segment revenue derived from the integration of power cores was driven principally by a 68.0% increase in the reportable revenue derived from our sales of diesel generator cores and a 1,380.4% increase in the reportable revenue derived from our sales of oil hydraulic power drives. The increased sales of diesel generator cores was mainly due to a 67.8% increase in sales volume, reflecting primarily an increased market demand as a result of improved industry conditions and a robust recovery in the overall economy, and a 0.1% increase in ASP, reflecting an increased proportion of sales of higher value-added and higher-power diesel generator cores which in general had higher selling prices. The increased sales of oil hydraulic power drives was mainly due to a 700.0% increase in sales volume, reflecting primarily increased market demand as a result of improved industry condition and that we only commenced integration of oil hydraulic power drives in July 2009, as well as a 85.0% increase in ASP, reflecting primarily differences in product varieties due to an increase in customer demand for high-power oil hydraulic power drives with a power output range of over 1,000 kW.
- The increase in reportable segment revenue derived from the distribution of engines and engine parts was mainly due to a 149.8% increase in the ASP of engines distributed by us, reflecting primarily an increased proportion of sales of higher-power engines with a power output range of over 800 kW, which in general had higher selling prices, the effects of which were partially offset by a 34.6% decrease in sales volume as a result of our business strategy of focusing more of our attention and resources on power core integration within this segment.

Inter-segment revenue for our power core segment remained stable at RMB25,000 in both 2009 and 2010. This amount is primarily attributable to the internal sales of scrap materials from Xiangfan Kanghao to Wuhan Hero City for the latter to sell to external customers.

Revenue from external customers for our power core segment increased by RMB448.9 million, or 72.9%, from RMB615.5 million in 2009 to RMB1,064.4 million in 2010.

- **Heat exchange system segment.** Reportable segment revenue derived from our heat exchange system segment increased by RMB22.7 million, or 97.8%, from RMB23.2 million in 2009 to RMB45.9 million in 2010. Such increase reflected primarily a 99.8% increase in sales volume driven by increased market demand from external customers and demand from our power core segment, the effects of which were partially offset by a 0.8% decrease in ASP, primarily due to a decrease in the ASP of our heat exchange systems for external sales as a result of our efforts to price our products competitively to compete with other major players.

Inter-segment revenue for our heat exchange system segment increased by RMB11.5 million, or 57.8%, from RMB19.9 million in 2009 to RMB31.4 million in 2010. This was due to an increase in internal sales of heat exchange systems to supply our power core segment.

Revenue from external customers for our heat exchange system segment increased by RMB11.2 million, or 339.4%, from RMB3.3 million in 2009 to RMB14.5 million in 2010, mainly attributable to the increased sales volume in line with our business expansion as a result of enhanced market recognition of our products.

FINANCIAL INFORMATION

- **Electronic control system segment.** Reportable segment revenue derived from our electronic control system segment increased by RMB61.0 million, or 163.5%, from RMB37.3 million in 2009 to RMB98.3 million in 2010. Such increase reflected primarily a 137.7% increase in sales volume, driven principally by the expansion of our electronic control system segment, as well as an increase in internal sales to support the expansion of our power core segment, and a 10.7% increase in ASP, primarily reflecting an increase in the price of electronic speed controllers for internal sales, primarily due to improved product quality and technical specifications as a result of our research and development efforts and enhanced expertise. The foregoing effects were partially offset by a decrease in the ASP of our electronic speed actuators in 2010, primarily because we distributed electronic speed actuators in 2009, which represented higher ASP as compared with electronic speed actuators manufactured by us, prior to our commencement of sales of electronic speed actuators manufactured by us, whereas we did not distribute electronic speed actuators in 2010.

Inter-segment revenue for our electronic control system segment increased by RMB51.8 million, or 334.2%, from RMB15.5 million in 2009 to RMB67.3 million in 2010. This was due to an increase in internal sales of electronic control systems to supply our power core segment.

Revenue from external customers for our electronic control system segment, increased by RMB9.2 million, or 42.2%, from RMB21.8 million in 2009 to RMB31.0 million in 2010, which was primarily attributable to the increase in our sales of electronic speed actuators from RMB16.9 million in 2009 to RMB31.0 million in 2010.

Cost of sales

Our cost of sales increased by RMB403.3 million, or 74.4%, from RMB542.4 million in 2009 to RMB945.7 million in 2010. The increase was mainly attributable to increases in the cost of engines purchased.

- **Raw materials.** The cost of sales attributable to raw materials increased by RMB399.5 million, or 75.0%, from RMB532.4 million in 2009 to RMB931.9 million in 2010.
 - The cost of sales attributable to the purchase of engines increased by RMB370.0 million, or 75.4%, from RMB490.6 million in 2009 to RMB860.6 million in 2010. The change was primarily attributable to the growth of our power core integration business.
 - The cost of sales attributable to the purchase of other raw materials increased by RMB29.5 million, or 70.6%, from RMB41.8 million in 2009 to RMB71.3 million in 2010. The change was attributable to increased demand within our heat exchange systems and electronic control systems segments.
- **Manufacturing cost.** The cost of sales attributable to manufacturing cost increased by RMB1.7 million, or 24.3%, from RMB7.0 million in 2009 to RMB8.7 million in 2010. The change was attributable to the fact that we commenced manufacturing of electronic control systems in March 2009.

FINANCIAL INFORMATION

- **Direct labour costs.** The cost of sales attributable to direct labour cost increased by RMB2.2 million, or 73.3%, from RMB3.0 million in 2009 to RMB5.2 million in 2010. The change was attributable to the fact that we commenced manufacturing electronic control systems in March 2009.

Gross profit and gross profit margin

As a result of the foregoing, our reportable segment gross profit increased by RMB79.3 million, or 77.2%, from RMB102.7 million in 2009 to RMB182.0 million in 2010, and our reportable segment gross profit margin decreased from 15.2% in 2009 to 15.1% in 2010.

Our gross profit increased by RMB66.0 million, or 67.2%, from RMB98.2 million in 2009 to RMB164.2 million in 2010, and our gross profit margin decreased from 15.3% in 2009 to 14.8% in 2010.

- **Power core segment.** Reportable segment gross profit from our power core segment increased by RMB28.0 million, or 37.2%, from RMB75.3 million in 2009 to RMB103.3 million in 2010. Reportable segment gross profit margin for our power core business decreased from 12.2% in 2009 to 9.7% in 2010. This was mainly due to decreased gross profit margins of our diesel generator core integration, oil hydraulic power drive integration and distribution of engines and engine parts.
 - Reportable segment gross profit margin for our integration of diesel generator cores decreased from 13.2% in 2009 to 10.5% in 2010, mainly due to (i) a decrease in the rebate we received from Dongfeng Cummins for purchase of engines, primarily because the rebate from Dongfeng Cummins for an engine model decreased from RMB3,000 per unit in 2009 to RMB2,000 per unit in 2010; and (ii) we did not enjoy the 3.0% discount of the purchase prices for Dongfeng Cummins engines used in our diesel generator cores sold in China in the second half of 2010.
 - Reportable segment gross profit margin for our integration of oil hydraulic power drives decreased from 14.5% in 2009 to 10.7% in 2010, primarily because the increase in the cost of sales outpaced the increase in the revenue, mainly resulting from our use of higher-power engines in oil hydraulic power drives in 2010. Some of these engines were over RMB1.0 million per unit, and therefore the value added by us through our integration of engines with other systems was relatively low as compared to the cost of these engines.
 - Reportable segment gross profit margin for our distribution of engines and engine parts decreased from 8.4% in 2009 to 6.6% in 2010, mainly due to a decreased proportion of sales of engines with applications in ships, which represented higher gross profit margin. The decreased sales of these engines in 2010 was primarily because it is not part of our business strategy to develop distribution business related to engines with applications in ships.
- **Heat exchange system segment.** Reportable segment gross profit from our heat exchange system segment increased by RMB6.2 million, or 79.5%, from RMB7.8 million in 2009 to RMB14.0 million in 2010. Reportable segment gross profit margin for our heat exchange

FINANCIAL INFORMATION

system business decreased from 33.6% in 2009 to 30.4% in 2010. Such decrease was mainly due to a decrease in the gross profit margin of our heat exchange systems for internal sales, primarily reflecting an increase in the steel and copper prices as a result of the overall economy recovery.

- **Electronic control system segment.** Reportable segment gross profit from our electronic control system segment increased by RMB45.1 million, or 230.1%, from RMB19.6 million in 2009 to RMB64.7 million in 2010. Reportable segment gross profit margin for our electronic control system business increased from 52.4% in 2009 to 65.8% in 2010. Such increase was mainly due to an increase in the gross profit margin of our electronic speed actuators, primarily because we distributed electronic speed actuators in 2009, which represented lower gross profit margin, prior to our commencement of sales of electronic speed actuators manufactured by us, whereas we did not distribute electronic speed actuators in 2010. The foregoing effects were further enhanced by an increase in the gross profit margin of our electronic speed controllers, primarily due to an increase in the ASP, as well as our increased economies of scale.

Other revenue

Our other revenue decreased by RMB0.1 million, or 7.1%, from RMB1.4 million in 2009 to RMB1.3 million in 2010. The decrease was mainly due to a decrease in interest income from related parties from RMB1.0 million in 2009 to RMB0.9 million in 2010. The effects of the foregoing, however, were partially offset by an increase in interest income from bank deposits, reflecting an increased average daily bank balance as a result of increased sales collection and expansion of our operations.

Other net income/(loss)

Our other net income was RMB61,000 in 2009 while we recorded other net loss of RMB1.2 million in 2010. The difference primarily reflected our loss on the sales of scrap raw materials and loss on the disposal of interests in jointly controlled entities in 2010, the effects of which were partially offset by our gain on disposal of an associate in 2010.

We recorded a loss of RMB1.2 million on sales of scrap raw materials in 2010. We recorded a loss of RMB117,000 on the disposal of equity interest in jointly controlled entities and a gain of RMB124,000 on the disposal of our 45.0% equity interest in an associate in 2010, respectively. We did not dispose of any associates or jointly controlled entities in 2009.

Selling and distribution expenses

Selling and distribution expenses increased by RMB4.6 million, or 57.5%, from RMB8.0 million in 2009 to RMB12.6 million in 2010. The increase was mainly due to increases in transportation costs for delivery of our products to customers, expenses for providing after-sales services, and salary and welfare expenses for employees involved in selling and distribution activities, as a result of expansion in our operations.

Administrative expenses

Administrative expenses increased by RMB8.1 million, or 47.9%, from RMB16.9 million in 2009 to RMB25.0 million in 2010. The increase in administrative expenses was mainly due to increases in rental expenses, office expenses, travelling and business development expenses, research and

FINANCIAL INFORMATION

development costs, consulting fees and other taxes, as a result of expansion in our operations. The effects of the foregoing, however, were partially offset by a decrease in salary and welfare expenses for management and administrative personnel reflecting primarily a reduction in the number of administrative staff due to our efforts to optimize internal administration.

Finance costs

Finance costs decreased by RMB0.1 million, or 1.2%, from RMB8.6 million in 2009 to RMB8.5 million in 2010. The decrease was mainly due to a decrease in interest payment on a loan from Changyuan Donggu Industry, a related party, from RMB4.2 million in 2009 to RMB0.7 million in 2010, because the amount due to Changyuan Donggu Industry decreased from RMB58.0 million in 2009 to nil in 2010. The effects of the foregoing, however, were partially offset by an increase in interest on short-term bank borrowings from RMB4.2 million in 2009 to RMB7.8 million in 2010, reflecting primarily an increase in the average daily aggregate amount outstanding to satisfy our increased working capital needs for expansion of operations, and a general increase in interest rates. The effective weighted average interest rates we paid for our bank loans increased from 5.31% in 2009 to 5.51% in 2010.

Share of profits/losses of an associate

Share of profit of an associate decreased by RMB0.1 million, or 50.0%, from RMB0.2 million in 2009 to RMB0.1 million in 2010, mainly reflecting our share of profit of Xiamen Hero City Machinery & Electric Equipment Co., Ltd. (廈門朗弘機電設備有限公司) during the same period.

Share of profits/losses of jointly controlled entities

Share of profit of jointly controlled entities increased by RMB5.5 million, or 687.5%, from RMB0.8 million in 2009 to RMB6.3 million in 2010, mainly reflecting our share of profit of Hubei Langtong, Wuhan Kanghao Machine & Electricity Engineering Co., Ltd. (武漢康豪機電工程有限公司) and Beworld during the same period.

Profit before taxation

As a result of the aforesaid factors, our profit before taxation increased by RMB57.4 million, or 85.5%, from RMB67.1 million in 2009 to RMB124.5 million in 2010.

Income tax

Income tax expenses increased by RMB8.0 million, or 56.3%, from RMB14.2 million in 2009 to RMB22.2 million in 2010. The increase was mainly due to an increase in taxable income in 2010. Our effective tax rate decreased from 21.2% in 2009 to 17.8% in 2010. If PRC dividend withholding tax, which amounted to RMB5.5 million and RMB6.5 million in 2009 and 2010, respectively, was not taken into consideration, our effective tax rate would be adjusted to 13.0% and 12.6% in 2009 and 2010, respectively. Such decrease in adjusted effective tax rate was primarily due to the preferential tax rate of 15% that each of Wuhan Hero City and Beworld became subject to as of January 1, 2010, the effects of which were partially offset by an increase in the proportion of profit contributed by Ascend in 2010, which was subject to a tax rate of 16.5%, while Xiangfan Kanghao and Xiangfan Hero City, each subject to a tax rate of 12.5% in 2009, contributed a higher portion of our profit in 2009.

FINANCIAL INFORMATION

Profit for the year attributable to equity Shareholders of the Company

As a result for the above factors, profit for the year attributable to our equity shareholders increased by RMB50.8 million, or 102.0%, from RMB49.8 million in 2009 to RMB100.6 million in 2010.

Year ended December 31, 2009 compared with the year ended December 31, 2008

Turnover

Our reportable segment revenue decreased by RMB338.1 million, or 33.3%, from RMB1,014.2 million in 2008 to RMB676.1 million in 2009. The decrease was mainly attributable to a decrease in revenue in our power core business, the effects of which were partially offset by an increase in revenue in our heat exchange system and electronic control system segments.

Inter-segment revenue increased by RMB26.5 million, or 294.4%, from RMB9.0 million in 2008 to RMB35.5 million in 2009. This was due to an increase in supply of heat exchange systems and electronic control systems to our power core business.

Turnover decreased by RMB364.6 million, or 36.3%, from RMB1,005.2 million in 2008 to RMB640.6 million in 2009 as a result of the reasons described above.

- **Power core segment.** Reportable segment revenue in our power core segment decreased by RMB384.4 million, or 38.4%, from RMB1,000.0 million in 2008 to RMB615.6 million in 2009. Such decrease primarily reflected a decrease in revenue derived from integration of diesel generator cores from RMB967.2 million in 2008 to RMB495.3 million in 2009, the effects of which were partially offset by an increase in revenue derived from distribution of engines and engine parts from RMB32.8 million in 2008 to RMB120.2 million in 2009.
 - The decrease in revenue derived from integration of power cores was driven principally by a 49.1% decrease in the reportable revenue derived from our sales of diesel generator cores, the effects of which were partially offset by the reportable revenue derived from our sales of oil hydraulic power drives in 2009 whereas we did not record any reportable revenue for sales of oil hydraulic power drives in 2008. The decreased sales of diesel generator cores was mainly due to a 45.6% decrease in sales volume, primarily as a result of the global economic downturn, and a 6.4% decrease in ASP, primarily reflecting a decrease in the ASP of our diesel generator cores. The decrease in the ASP of diesel generator cores was mainly due to an increased proportion of sales of diesel generator cores with a power output range of 20 kW to 60 kW, which in general had lower selling prices, and a decreased proportion of sales of diesel generator cores with a power output range of 61 kW to 220 kW, which in general had higher selling prices, as a result of changes in customer demand, and to a lesser extent, the fact that we offered certain discounts to our customers in 2009 to price our diesel generator cores more competitively due to decreased market demand as a result of the economic downturn. To a lesser extent, the decreased sales volume was also due to the non-recurring nature of a certain portion of our 2008 sales on account of the Sichuan earthquake in May 2008 and the winter snow storms across Southern China during January 2008. These natural disasters in 2008 generated extraordinary market demand for standby and emergency electricity supply which did not exist in 2009.

FINANCIAL INFORMATION

- The increase in revenue derived from distribution of engines and engine parts was mainly due to a 386.1% increase in ASP, as a result of our commencement of distribution of engines provided by Cummins Power Generation in 2009. Such engines in general were higher-power engines and thus had higher selling prices. The effects of the foregoing, however, were partially offset by a 24.7% decrease in sales volume, reflecting primarily our business strategy of focusing on the integration of diesel generator cores and oil hydraulic power drives within this business segment.

Inter-segment revenue decreased by RMB120,000, or 82.8%, from RMB145,000 in 2008 to RMB25,000 in 2009. This was due to a decrease in internal sales of power core units caused by lower market demand experienced by Xiangfan Hero City.

Revenue from sales to external customers for our power core segment decreased by RMB384.4 million, or 38.4%, from RMB999.9 million in 2008 to RMB615.5 million in 2009.

- **Heat exchange system segment.** Reportable segment revenue derived from our heat exchange system segment increased by RMB12.7 million, or 121.0%, from RMB10.5 million in 2008 to RMB23.2 million in 2009. Such increase reflected primarily a 105.1% increase in sales volumes, primarily because our operating entity Wuhan Hero City only commenced manufacturing heat exchange systems in April 2008, the effects of which were partially offset by a 14.3% decrease in ASP, reflecting primarily decreases in ASPs of heat exchange systems for both internal sales and external sales. The decrease in ASP for internal sales was primarily because we only commenced our heat exchange system business in April 2008 and our product offering in 2008 was limited to certain models of heat exchange systems while we expanded in 2009 to provide a wider range of products, which had a lower ASP due to change of product mix. The decrease in ASP for external sales was primarily because we priced our products more competitively to compete with other major players.

Inter-segment revenue increased by RMB11.0 million, or 123.6%, from RMB8.9 million in 2008 to RMB19.9 million in 2009. This was due to an increase in internal sales of heat exchange systems to supply our power core segment.

As a result, revenue from external customers for our heat exchange system segment increased by RMB1.7 million, or 106.3%, from RMB1.6 million in 2008 to RMB3.3 million in 2009.

- **Electronic control system segment.** Reportable segment revenue derived from our electronic control system segment increased by RMB33.6 million, or 908.1%, from RMB3.7 million in 2008 to RMB37.3 million in 2009. Such increase reflected primarily a 921.8% increase in sales volume, driven principally by our commencement of manufacturing and sales of electronic control systems in March 2009 to supply external customers as well as our power core segment. The effects of the foregoing, however, were partially offset by a 1.1% decrease in ASP. Our reportable segment revenue in this segment in 2008 was derived from the distribution of electronic speed actuators to ASIMCO.

Inter-segment revenue increased by RMB15.5 million from nil in 2008 to RMB15.5 million in 2009. This was due to commencement of internal sales of electronic control systems to supply our power core segment from March 2009.

FINANCIAL INFORMATION

As a result, revenue from external customers for our electronic control system segment increased by RMB18.1 million, or 489.2%, from RMB3.7 million in 2008 to RMB21.8 million in 2009.

Cost of sales

Our cost of sales decreased by RMB315.5 million, or 36.8%, from RMB857.9 million in 2008 to RMB542.4 million in 2009. The decrease was mainly attributable to a decrease in the cost of engines purchased following the decreased demand for our products.

- **Raw materials.** The cost of sales attributable to raw materials decreased by RMB319.1 million, or 37.5%, from RMB851.5 million in 2008 to RMB532.4 million in 2009.
 - The cost of sales attributable to the purchase of engines decreased by RMB257.8 million, or 34.4%, from RMB748.4 million in 2008 to RMB490.6 million in 2009. The change was attributable to the decrease in the volume of engines purchased. The average purchase price of engines in 2009 had remained relatively stable when compared to 2008.
 - The cost of sales attributable to the purchase of other raw materials decreased by RMB61.3 million, or 59.5%, from RMB103.1 million in 2008 to RMB41.8 million in 2009. The change was attributable to decreases in the demand experienced by our heat exchange system and electronic control system segments.
- **Manufacturing costs.** The cost of sales attributable to manufacturing costs increased by RMB3.5 million, or 100.0%, from RMB3.5 million in 2008 to RMB7.0 million in 2009. The change was primarily attributable to the commencement of our electronic control system business in March 2009 and, to a lesser extent, the increased demand experienced across our three segments.
- **Direct labor costs.** The cost of sales attributable to direct labor cost increased by RMB0.1 million, or 3.4%, from RMB2.9 million in 2008 to RMB3.0 million in 2009. The change was primarily attributable to the commencement of our electronic control system business in March 2009 and, to a lesser extent, the increased demand experienced across our three segments.

Reportable segment gross profit and gross profit margin

As a result of the foregoing, our reportable segment gross profit decreased by RMB45.6 million, or 30.7%, from RMB148.3 million in 2008 to RMB102.7 million in 2009, and our reportable segment gross profit margin increased from 14.6% in 2008 to 15.2% in 2009.

Our gross profit decreased by RMB49.1 million from RMB147.3 million in 2008 to RMB98.2 million in 2009. Our gross profit margin increased from 14.7% in 2008 to 15.3% in 2009.

- **Power core segment.** Reportable segment gross profit from our power core segment decreased by RMB72.0 million, or 48.9%, from RMB147.3 million in 2008 to RMB75.3 million in 2009. Reportable gross profit margin for our power core business decreased slightly from 14.7% in 2008 to 12.2% in 2009.
 - Reportable gross profit margin for our integration of diesel generator cores decreased from 14.9% in 2008 to 13.2% in 2009. Such decrease was primarily due to (i) a decrease in the rebate we received from Dongfeng Cummins for purchase of engines, primarily

FINANCIAL INFORMATION

because we did not meet the purchase target in 2009 as a result of the decreased market demand for our products in the economic downturn; and (ii) certain discounts we offered to customers in 2009 to cope with decreased market demand in the economic downturn, which resulted in a decrease in our ASP.

- Reportable gross profit margin for our integration of oil hydraulic power drives was 14.5% in 2009 and we did not have this business in 2008.
- Reportable gross profit margin of our distribution of engines and engine parts decreased from 10.3% in 2008 to 8.4% in 2009. Such decrease was mainly due to a decreased proportion of sales of engines with applications in ships, which represented higher gross profit margin. The decreased sales of these engines in 2009 was primarily due to (i) declined market demand in 2009 as a result of the economic downturn; and (ii) that it is not part of our business strategy to develop distribution business related to engines with applications in ships.
- **Heat exchange system segment.** Reportable segment gross profit in our heat exchange system segment increased by RMB6.8 million, or 680.0%, from RMB1.0 million in 2008 to RMB7.8 million in 2009. Reportable gross profit margin for our heat exchange system segment increased from 9.2% in 2008 to 33.6% in 2009. Such increase was mainly due to our increased economies of scale.
- **Electronic control system segment.** Reportable segment gross profit from our electronic control system segment increased from RMB45,000 in 2008 to RMB19.6 million in 2009. Reportable gross profit margin for our electronic control system segment increased from 1.2% in 2008 to 52.4% in 2009. We only commenced manufacturing and sales of electronic control systems in March 2009. The reportable gross profit and reportable gross profit margin recorded in 2008 mainly reflected our resale of electronic speed actuators, which were purchased by us for distribution purposes, to ASIMCO. This distribution of electronic speed actuators represented significantly lower gross profit margin as compared to our manufacturing and sales of electronic control systems.

Other revenue

Our other revenue increased by RMB0.4 million, or 40.0%, from RMB1.0 million in 2008 to RMB1.4 million in 2009. Such increase was mainly due to an increase in interest income from bank deposits reflecting an increased average daily bank balance.

Other net income/(loss)

Our other net income decreased by RMB0.8 million, or 93.4%, from RMB0.9 million in 2008 to RMB61,000 in 2009. The decrease was primarily due to a gain of RMB0.6 million we recorded in connection with our disposal of our 88.0% equity interest in Beijing Changyuan, a gain of RMB0.3 million relating to our disposal of property, plant and equipment, and a gain of RMB0.2 million relating to our disposal of lease prepayments in 2008 while we did not record similar gains in 2009 (other than a gain of RMB3,000 for disposal of property, plant and equipment).

Selling and distribution expenses

Selling and distribution expenses decreased by RMB3.3 million, or 29.2%, from RMB11.3 million in 2008 to RMB8.0 million in 2009. The decrease was mainly due to decreases in transportation

FINANCIAL INFORMATION

costs for delivery of our products to our customers, expenses for providing after-sales services and other operating expenses including travelling expenses and business development expenses as a result of decreased sales of our diesel generator cores, the effects of which were partially offset by an increase in salary and welfare expenses for employees involved in selling and distribution activities as we commenced operations of electronic control systems and oil hydraulic power drives in March 2009 and July 2009, respectively.

Administrative expenses

Administrative expenses increased by RMB2.7 million, or 19.0%, from RMB14.2 million in 2008 to RMB16.9 million in 2009. The increase was mainly due to increases in salary and welfare expenses for management and administrative personnel, research and development costs, rental expenses, and travelling and business development expenses as we commenced operations of our electronic control system and oil hydraulic power drive businesses in March 2009 and July 2009, respectively. The effects of the foregoing, however, were partially offset by a decrease in bad debt expenses, reflecting primarily our better management of trade receivables; and a decrease in other taxes, reflecting primarily our decreased sales of diesel generator cores.

Finance costs

Finance costs increased by RMB1.7 million, or 25.0%, from RMB6.8 million in 2008 to RMB8.5 million in 2009. The increase was mainly due to an increase in interest on bank borrowings from RMB2.9 million in 2008 to RMB4.2 million in 2009, reflecting primarily an increase in the average daily aggregate amount outstanding to satisfy our increased working capital needs for expansion of operations; and an increase in interest expense on loans from related parties from RMB3.9 million in 2008 to RMB4.4 million in 2009, because the average interest rate of the loan due to Changyuan Donggu Industry increased from 5.35% in 2008 to 5.58% in 2009. The effective weighted average interest rates we paid for our bank loans decreased from 5.49% in 2008 to 5.31% in 2009.

Share of profits/losses of an associate

We recorded a share of loss of RMB0.4 million of an associate in 2008 and share of profit of RMB0.2 million of an associate in 2009.

Share of profits/losses of jointly controlled entities

We recorded a share of loss of RMB0.3 million of jointly controlled entities in 2008 and share of profit of RMB0.8 million of jointly controlled entities in 2009. The difference primarily reflected our share of profit of Hubei Langtong, Wuhan Kanghao Machine & Electricity Engineering Co., Ltd. (武漢康豪機電工程有限公司) and Beworld during the period.

Profit before taxation

As a result of the aforesaid factors, our profit before taxation decreased by RMB49.0 million, or 42.2%, from RMB116.1 million in 2008 to RMB67.1 million in 2009.

Income tax

Income tax expenses increased by RMB6.7 million, or 89.3%, from RMB7.5 million in 2008 to RMB14.2 million in 2009. The increase was mainly due to an increase in our effective tax rate from 6.5% in 2008 to 21.2% in 2009 because each of Xiangfan Kanghao and Xiangfan Hero City was exempted from income tax for the year ended December 31, 2008 and was subject to income tax at the rate of 12.5% in 2009.

FINANCIAL INFORMATION

Profit for the year attributable to equity Shareholders of the Company

As a result for the above factors, profit for the year attributable to our equity shareholders decreased by RMB24.8 million, or 33.2%, from RMB74.6 million in 2008 to RMB49.8 million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital needs primarily through cash flow from operating activities, bank loans and the use of trade and other payables. Our primary uses of cash are for our working capital needs and capital expenditures.

Upon the completion of the Global Offering, we expect to meet our working capital needs primarily through cash flows from operating activities, bank loans, the use of trade and other payables and the net proceeds to our Company from the Global Offering. We are satisfied after due and careful inquiry that we have available sufficient working capital for the present requirements, which is for at least the next 12 months from the date of this prospectus.

Cash flows

The following table presents the cash flows during the Track Record Period:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash inflow from operating activities	105,106	37,461	73,742
Net cash (outflow)/inflow from investing activities . . .	(69,337)	4,456	18,321
Net cash outflow from financing activities	(34,443)	(9,659)	(67,680)
Net increase in cash and cash equivalents	1,326	32,258	24,383
Cash and cash equivalents at the beginning of the year	<u>33,148</u>	<u>34,474</u>	<u>66,732</u>
Cash and cash equivalents at the end of the year	<u><u>34,474</u></u>	<u><u>66,732</u></u>	<u><u>91,115</u></u>

Cash flows from operating activities

Our cash from operating activities reflects profit before taxation for the year, adjusted for (i) non-cash items such as depreciation of property, plant and equipment, amortization of prepaid lease payments and share of results of an associate and jointly controlled entities; (ii) the effect of change in working capital, such as increases or decreases in inventories, trade and other receivables and trade and other payables; and (iii) interest income and expense and income taxes paid.

We had a net cash generated from operating activities of RMB73.7 million in 2010, primarily resulting from cash generated from operations of RMB91.7 million, partly offset by income tax payment of RMB18.0 million. Our cash generated from operations consisted of cash flow from operating activities of RMB128.0 million before net negative changes in working capital of RMB36.3 million. Net negative changes in working capital primarily consisted of: (i) an increase in

FINANCIAL INFORMATION

trade and bills receivables of RMB28.0 million, (ii) a decrease in trade and other payables of RMB19.9 million, (iii) an increase in prepayment and other receivables of RMB2.6 million and (iv) a decrease in trade-related amounts due to related parties of RMB1.8 million, the effects of which were partially offset by a decrease in inventories of RMB15.4 million. The increase in trade and bills receivables primarily reflected our increase in sales as a result of our expansion of operations. The decrease in trade and other payables was primarily due to our settlement of trade payables with certain major suppliers before the year end. The increase in prepayment and other receivables primarily reflected our increased prepayments for purchase of raw materials in line with our business expansion. The decrease in amounts due to related parties primarily reflected our repayment of loan to Changyuan Donggu Industry. The decrease in inventories primarily reflected our better management of inventories.

We had a net cash generated from operating activities of RMB37.5 million in 2009, primarily resulting from cash generated from operations of RMB47.8 million, partly offset by income tax paid of RMB10.3 million. Our cash generated from operations consisted of cash flow from operating activities of RMB76.2 million before net negative changes in working capital of RMB28.4 million. Net negative changes in working capital primarily consisted of: (i) an increase in prepayments and other receivables of RMB42.4 million and (ii) an increase in inventories of RMB38.3 million, the effects of which were partially offset by (i) an increase in trade and other payables of RMB32.7 million, (ii) a decrease in trade and bills receivables of RMB16.5 million and (iii) an increase in trade-related amounts due to related parties of RMB2.8 million. The increase in prepayments and other receivables primarily reflected the rebates receivable from Dongfeng Cummins for meeting agreed purchase amount targets. The increase in inventories primarily reflected our increased purchase of parts, components and raw materials as a result of our business expansion. The increase in trade and other payables primarily reflected our introduction of new distribution business by purchasing engines from Cummins Power Generation, who offered longer payment terms. The decrease in trade and bills receivables primarily reflected our declined sales of diesel generator cores as a result of the global economic downturn. The increase in trade-related amounts due to related parties primarily reflected our increased purchase of spare parts of diesel generator cores from Xiangfan Yuli Machinery Parts Co., Ltd. (襄樊宇立機械配件有限責任公司).

We had a net cash generated from operating activities of RMB105.1 million in 2008, primarily resulting from cash generated from operations of RMB105.1 million. Our cash generated from operating activities consisted of cash flow from operating activities of RMB125.6 million before net negative changes in working capital of RMB20.5 million. Net negative changes in working capital primarily consisted of: (i) a decrease in trade and other payables of RMB20.0 million, (ii) an increase in prepayments and other receivables of RMB6.9 million and (iii) an increase in trade-related amounts due from related parties of RMB1.2 million, the effects of which were partially offset by (i) an increase in trade-related amounts due to related parties of RMB4.5 million and (ii) a decrease in inventories of RMB3.7 million. The decrease in trade and other payables primarily reflected our settlement of certain trade payables with certain suppliers before the year end. The increase in prepayments and other receivables primarily reflected our increased prepayment for purchase of parts, components and raw materials in line with our expansion of operations. The increase in trade-related amounts due from related parties primarily reflected our increased sales of certain heat exchange systems to Beworld. The increase in trade-related amounts due to related parties primarily

FINANCIAL INFORMATION

reflected our purchase of spare parts of diesel generator cores from Xiangfan Yuli Machinery Parts Co., Ltd. (襄樊宇立機械配件有限責任公司). The decrease in inventories primarily reflected our increase sales of diesel generator cores as a result of the strong market demand for our diesel generator cores.

Cash flows from investing activities

Our cash inflows from investing activities during the Track Record Period mainly consisted of proceeds from disposal of subsidiaries and interest in associates, property, plant and equipment and construction in progress and lease prepayments, and interest income. Our cash outflows from investing activities during the Track Record Period mainly consisted of purchases of property, plant and equipment, payment for construction in progress, lease prepayments and investments in associates and jointly controlled entities.

We had a net cash inflow from investing activities of RMB18.3 million in 2010, primarily resulting from a decrease in non-trade related amounts due from related parties of RMB14.6 million, reflecting primarily the repayment of a loan due to us by Xiamen Hero City Machinery & Electric Co., Ltd. (廈門朗弘機電設備有限公司), and proceeds of RMB4.5 million from the disposal of investment in Xiamen Hero City Machinery & Electric Equipment Co., Ltd. (廈門朗弘機電設備有限公司), the effects of which were partially offset by payment of RMB2.1 million for the purchase of property, plant and equipment, and payment of RMB1.4 million for construction of new plant on the parcel of land owned by Wuhan Roll Technology.

We had a net cash inflow from investing activities of RMB4.5 million in 2009, primarily resulting from a decrease in non-trade related amounts due from related parties of RMB8.3 million, reflecting primarily repayment of advance by certain Controlling Shareholders, and an interest income of RMB1.3 million, the effects of which were partially offset by payment of RMB4.7 million for purchase of property, plant and equipment.

We had a net cash outflow from investing activities of RMB69.3 million in 2008, primarily resulting from an increase in non-trade related amounts due from related parties of RMB73.2 million, a lease prepayment of RMB23.5 million by Beijing Changyuan, a then-subsiary of which we disposed in August 2008, payment of RMB11.7 million for purchase of property, plant and equipment and payment of RMB10.6 million for construction in progress by Beijing Changyuan, the effects of which were partially offset by proceeds of RMB43.9 million from the disposal of our 88.0% equity interest in Beijing Changyuan, proceeds of RMB11.2 million from the disposal of lease prepayments by Wuhan Roll Technology relating to the re-designation of land by government, and proceeds of RMB9.5 million from disposal of property, plant and equipment.

Cash flow from financing activities

Our cash inflows from financing activities during the Track Record Period mainly consisted of proceeds from borrowings and capital injection from equity shareholders. Our cash outflows from financing activities during the Track Record Period mainly consisted of repayment of bank loans, payment of interest expenses, payment for acquisition of non-controlling interest and dividends paid to equity shareholders and non-controlling equity shareholders.

FINANCIAL INFORMATION

We had a net cash outflow from financing activities of RMB67.7 million in 2010, primarily resulting from the repayment of bank loans of RMB135.5 million, a decrease in non-trade related amounts due to related parties of RMB63.9 million, dividends of RMB57.1 million paid to equity shareholders, and interest paid by us of RMB8.5 million, the effects of which were partially offset by proceeds of RMB167.0 million from bank loans and proceeds of RMB31.0 million from a capital injection.

We had a net cash outflow from financing activities of RMB9.7 million in 2009, primarily resulting from repayment of bank loans of RMB110.0 million, dividends of RMB59.5 million paid to equity shareholders, dividends of RMB10.4 million paid to non-controlling equity shareholders and interest paid of RMB8.6 million, the effects of which were partially offset by proceeds of RMB163.5 million from bank loans and an increase of RMB14.9 million in amounts due to related parties.

We had a net cash outflow from financing activities of RMB34.4 million in 2008, primarily resulting from dividends of RMB32.1 million paid to equity shareholders, dividends of RMB27.6 million paid to non-controlling equity shareholders, repayment of bank loans of RMB10.0 million, interest paid by us of RMB6.8 million, and a payment of RMB1.3 million for the acquisition of non-controlling interests, the effects of which were partially offset by an increase in non-trade related amounts due to related parties of RMB20.6 million, proceeds of RMB15.0 million from bank loans and proceeds from a capital injection of RMB7.0 million.

CAPITAL EXPENDITURES

Our capital expenditures were RMB45.8 million, RMB16.6 million and RMB3.4 million in 2008, 2009 and 2010, respectively.

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	11,686	4,749	2,054
Construction in progress	10,604	18	1,350
Lease prepayment for acquisition of land use right . . .	23,528	11,879	—
	<u>45,818</u>	<u>16,646</u>	<u>3,404</u>

Capital expenditures for the purchase of property, plant and equipment during the Track Record Period primarily went towards the expansion of our production capacity and technology upgrades. Capital expenditures for construction in progress during 2010 primarily went towards the construction of new plant on the parcel of land owned by Wuhan Roll Technology. Lease prepayment for acquisition of land use rights in 2008 primarily went towards the payment of a land premium of RMB23.5 million by Beijing Changyuan, a then-subsiary which we disposed of in August 2008. Lease prepayment for land use rights in 2009 was primarily attributable to the payment of land premium of the land lot of Wuhan Roll Technology.

FINANCIAL INFORMATION

We expect our capital expenditures in 2011 and 2012 to be approximately RMB243.8 million and RMB453.7 million, respectively, and intend to finance these capital expenditures primarily through internal cash flows and proceeds from the Global Offering. The table below sets forth, for the periods indicated, our planned major capital expenditure projects:

	Years ending December 31,	
	2011	2012
	(RMB in millions)	
<i>Power core segment</i>		
Construction of new facilities in Xiangyang	174.0	123.0
Acquisition of land in Xiangyang	23.9	19.0
Purchase of equipment to increase integration capacity of diesel generator cores and industrial power cores	21.9	11.7
	219.8	153.7
<i>Heat exchange system segment</i>		
Construction of new facilities in Wuhan and purchase of equipment to increase production capacity of heat exchange systems serving power cores	24.0	—
Purchase of property, plant and equipment for manufacturing of commercial vehicle heat exchange systems	—	300.0
	24.0	300.0
Total	243.8	453.7

We may incur additional capital expenditures from time to time as we pursue new opportunities to expand our production capacities, and actual expenditures may differ significantly from our current plans. Our planned capital expenditure projects may also be changed due to changes in business plans such as potential acquisitions, individual project progress, and market conditions and outlook. Further, our ability to obtain sufficient funding for our planned capital expenditure projects in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other condition in the PRC, Hong Kong and other jurisdictions in which we may operate.

WORKING CAPITAL

Taking into account of the net proceeds available to us from the Global Offering, our cash at bank and in hand, our available banking facilities and our future operating cash flows, our Directors are of the opinion that we have sufficient working capital to meet our requirements for at least the next 12 months from the date of this prospectus.

FINANCIAL INFORMATION

NET CURRENT ASSETS

The table below sets forth, as of the dates indicated, our current assets, current liabilities and net current assets:

	As of December 31,			As of April 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets				
Inventories	36,492	74,129	65,827	76,942
Trade and bills receivables	40,976	24,499	68,940	93,778
Prepayments and other receivables	6,222	48,618	53,394	73,808
Amounts due from related parties	94,693	85,642	59,575	26,862
Restricted bank deposits	—	225	—	—
Cash and cash equivalents	<u>34,474</u>	<u>66,732</u>	<u>91,115</u>	<u>80,763</u>
Total current assets	<u>212,857</u>	<u>299,845</u>	<u>338,851</u>	<u>352,153</u>
Current liabilities				
Bank loans	15,000	68,500	100,000	150,000
Trade and other payables	77,933	110,617	104,801	134,428
Amounts due to related parties	68,356	84,934	19,322	16,815
Income tax payables	—	7,558	15,097	13,628
Warranty provisions	<u>1,397</u>	<u>1,140</u>	<u>1,006</u>	<u>795</u>
Total current liabilities	<u>162,686</u>	<u>272,749</u>	<u>240,226</u>	<u>315,666</u>
Net current assets	<u>50,171</u>	<u>27,096</u>	<u>98,625</u>	<u>36,487</u>

As of April 30, 2011, our current assets of RMB352.2 million comprised trade and bills receivables of RMB93.8 million, inventories of RMB76.9 million, prepayments and other receivables of RMB73.8 million, amounts due from related parties of RMB26.9 million and cash and cash equivalents of RMB80.8 million. As of April 30, 2011, our current liabilities of RMB315.7 million comprised bank loans of RMB150.0 million, trade and other payables of RMB134.4 million, amounts due to related parties of RMB16.8 million, income tax payables of RMB13.6 million and warranty provisions of RMB0.8 million.

Our net current assets increased from RMB27.1 million as of December 31, 2009 to RMB98.6 million as of December 31, 2010. The increase was mainly due to a decrease in amounts due to related parties of RMB65.6 million, primarily reflecting our repayment of loan to Changyuan Donggu Industry in 2010, an increase in trade and bills receivables of RMB44.4 million, primarily reflecting our increase in sales as a result of our expansion of operations, and an increase in cash and cash equivalents of RMB24.4 million. The effects of foregoing factors, however, were partially offset by an increase in bank loans of RMB31.5 million as a result of our expansion of operations, a decrease in amounts due from related parties of RMB26.1 million, primarily reflecting the

FINANCIAL INFORMATION

repayment of loan to us by Xiamen Hero City Machinery & Electric Co., Ltd. in 2010 and a decrease in inventories of RMB8.3 million, primarily reflecting a decrease in finished goods of engines we had for distribution purposes due to our strategy to scale back our distribution business and a decrease in raw materials due to our increased production of diesel generator cores and other products.

Our net current assets decreased from RMB50.2 million as of December 31, 2008 to RMB27.1 million as of December 31, 2009. The decrease was mainly due to an increase in bank loans of RMB53.5 million as a result of our expansion of operations, an increase in trade and other payables of RMB32.7 million, primarily reflecting increased purchases of parts, components and raw materials from suppliers which offered longer payment terms, and a decrease in trade and bills receivables of RMB16.5 million, primarily reflecting our declined sales of diesel generator cores as a result of the global economic downturn. The effects of the foregoing factors, however, were partially offset by an increase in prepayments and other receivables of RMB42.4 million, primarily reflecting the rebates receivable from Dongfeng Cummins for meeting agreed purchase amount targets in 2009, and an increase in inventories of RMB37.6 million, primarily reflecting an increase in finished goods due to our commencement of distribution of engines provided by Cummins Power Generation in 2009, which required longer inventory turnover days, and an increase in raw materials due to our expansion into the electronic control system business in 2009.

Trade and bills receivables

The following table sets forth, as of the dates indicated, trade and bills receivables:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables	10,899	10,376	34,177
Bill receivables	30,997	15,052	35,692
Less: Allowance for doubtful debts	(920)	(929)	(929)
	40,976	24,499	68,940

Our trade and bills receivables primarily represented receivables for the goods sold and rendered to our customers after deducting an allowance for doubtful debts. Our trade and bills receivables decreased from RMB41.0 million as of December 31, 2008 to RMB24.5 million as of December 31, 2009, primarily reflecting a decline in sales of diesel generator cores as a result of the global economic downturn. Our trade and bills receivables increased from RMB24.5 million as of December 31, 2009 to RMB68.9 million as of December 31, 2010, primarily reflecting an increase in sales as a result of our expansion in operations.

We typically do not grant any credit period for our sales of diesel generator cores, oil hydraulic power drives and a portion of engines distributed by us, and we require our customers to fully settle the purchase price before our delivery of these products. We grant a credit period of approximately

FINANCIAL INFORMATION

40 days to our customers for distribution of certain models of engines. With respect to our sale of heat exchange systems, we usually grant our customers an average credit period of 30 to 60 days. With respect to our sale of electronic speed actuators to ASIMCO, we usually do not grant any credit period.

The following table sets forth, for the periods indicated, our average trade and bills receivables turnover days:

	Years ended December 31,		
	2008	2009	2010
Average trade and bills receivables turnover days ⁽¹⁾ . .	14.9	18.7	15.4

Note:

- (1) The average trade and bills receivables turnover days for a certain period is the average of opening and closing trade and bills receivables balances divided by turnover for that period and multiplied by 365 days for a year.

Our fluctuation in average trade and bills receivables turnover days during the Track Record Period primarily reflected our offer of longer credit terms to customers due to the economic downturn in 2009. This trend was reversed in 2010.

The following table sets forth, as of the dates indicated, an aging analysis of our trade and bills receivables (net of allowance for doubtful debts):

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current	39,414	21,078	60,696
Less than 3 months past due	1,184	2,178	7,070
More than 3 months but within 6 months past due . .	377	1,193	237
More than 6 months but within 12 months past due .	1	50	55
More than 12 months but less than 24 months past due	—	—	882
Amounts past due	1,562	3,421	8,244
	40,976	24,499	68,940

Our management monitors the recoverability of overdue trade and bills receivables, and, when there is objective evidence that our Group may not be able to collect, our management provides for impairment of these receivables. The impairment provision for these accounts amounted to RMB0.9 million, RMB0.9 million and RMB0.9 million as of December 31, 2008, 2009 and 2010, respectively. Further details are set out in Note 19 of Section C of the Accountants' Report.

FINANCIAL INFORMATION

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a wide range of customers that have a good track record with our Group. Based on past experience, our management believes that no additional impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Prepayments and other receivables

The following table sets forth, as of the dates indicated, prepayments and other receivables:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Prepayments for purchase of raw materials	5,474	10,438	13,904
Volume rebates receivable from a supplier	—	34,728	33,564
Other receivables	748	3,452	5,926
	<u>6,222</u>	<u>48,618</u>	<u>53,394</u>

Prepayments for purchase of raw materials primarily consisted of advances and deposits paid to suppliers. Volume rebates receivable from a supplier primarily consisted of rebates receivable from Dongfeng Cummins for meeting agreed purchase amount targets. Other receivables primarily consisted of security deposits for purchase of diesel engines.

Our aggregate prepayments and other receivables increased from RMB6.2 million as of December 31, 2008 to RMB48.6 million as of December 31, 2009, primarily reflecting the rebates receivable from Dongfeng Cummins for meeting agreed purchase amount targets in 2009. Our aggregate prepayments and other receivables increased from RMB48.6 million as of December 31, 2009 to RMB53.4 million as of December 31, 2010, primarily reflecting our increased deposits for purchase of diesel generator engines as a result of our expansion in operations.

Trade and other payables

The following table sets forth, as of the dates indicated, our trade and other payables:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables	41,775	83,322	35,245
Receipt in advance	1,640	14,429	27,635
Other taxes payables	12,582	2,029	18,780
Other payables and accruals	21,936	10,837	23,141
	<u>77,933</u>	<u>110,617</u>	<u>104,801</u>

FINANCIAL INFORMATION

Trade payables primarily related to the purchases of raw materials from our suppliers. Receipts in advance mainly represent the prepayments received from customers for purchase of our products according to the sales contracts. Other taxes payables and other payables and accruals primarily consisted of rebates to customers, other tax payables and salary and staff welfare expenses payables.

Our aggregate trade and other payables increased from RMB77.9 million as of December 31, 2008 to RMB110.6 million as of December 31, 2009, primarily reflecting our increased purchases of parts, components and raw materials from suppliers which offered longer payment terms. Our aggregate trade and other payables decreased from RMB110.6 million as of December 31, 2009 to RMB104.8 million as of December 31, 2010, primarily reflecting increased purchases of parts, components and raw materials from suppliers which offered shorter payment terms.

We have usually been granted an average credit period of 30 days for our sourcing of engines in the integration of power cores, as well as for procurement of raw materials used in manufacturing of electronic speed actuators. We usually settle the contract price with our suppliers when copper belts and steel plates used in our manufacturing of heat exchange systems, and the raw materials used in our manufacturing of electronic speed controllers, are delivered to us.

The following table sets forth, for the periods indicated, our average trade payables turnover days:

	Years ended December 31,		
	2008	2009	2010
Average trade payables turnover days ⁽¹⁾	21.3	42.1	22.9

Note:

(1) The average trade payables turnover days for a certain period is the average of opening and closing trade payables balances divided by cost of sales for that period and multiplied by 365 days for a year.

The fluctuation in our average trade payables turnover days during the Track Record Period was mainly affected by the difference in the payment terms offered by our suppliers, which was relatively longer in 2009 as a result of the economic downturn and was relatively shorter in 2010 as a result of the recovery of the economy.

The following table sets forth, as of the dates indicated, an aging analysis of trade payables:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	41,663	82,447	34,117
Due after 1 month but within 3 months	112	875	1,128
	41,775	83,322	35,245

FINANCIAL INFORMATION

Inventories

The following table sets forth, as of the dates indicated, a summary of our balance of inventories:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	22,507	36,788	22,542
Work in progress	760	4,351	7,443
Finished goods	13,225	32,990	35,842
	36,492	74,129	65,827

Our inventories increased from RMB36.5 million as of December 31, 2008 to RMB74.1 million as of December 31, 2009, primarily reflecting an increase in finished goods due to our commencement of distribution of engines provided by Cummins Power Generation in 2009, which required longer inventory turnover days, and an increase in raw materials due to our expansion into the electronic control system business in 2009. Our inventories decreased from RMB74.1 million as of December 31, 2009 to RMB65.8 million as of December 31, 2010, primarily reflecting a decrease in finished goods of engines we had for distribution purposes due to our strategy to scale back our distribution business and a decrease in raw materials due to our increased production of diesel generator cores and other products.

The following table sets forth, for the periods indicated, our average inventory turnover days:

	Years ended December 31,		
	2008	2009	2010
Average inventory turnover days ⁽¹⁾	16.3	37.2	27.0

Note:

- (1) The average inventory turnover days for a certain period is the average of opening and closing inventory balances divided by the cost of sales for that period and multiplied by 365 days for a year.

Our inventory turnover days increased in 2009, primarily reflecting our purchase of engines from Cummins Power Generation for distribution purposes, which generally led to higher average inventory turnover days. Our inventory turnover days decreased in 2010, primarily reflecting the strong market demand and increase in sales of our products.

FINANCIAL INFORMATION

Subsequent utilization of inventories and subsequent settlement of trade receivables

The following table sets forth information regarding our subsequent utilization of inventories and subsequent settlement of trade receivables:

	As of December 31, 2010	Subsequent utilization/ settlement by April 30, 2011
	RMB'000	RMB'000
Inventories	65,827	61,406
Trade receivables	34,177	32,729
Bill receivables	35,692	35,692

INDEBTEDNESS

Borrowings

All of our borrowings are dominated in RMB. The table below sets forth, as of the dates indicated, our loans and borrowings:

	As of December 31,			As of April 30,
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans				
— Unsecured	15,000	68,500	100,000	150,000
Loan from related parties	<u>63,296</u>	<u>61,305</u>	<u>2,134</u>	<u>16,815</u>
	<u>78,296</u>	<u>129,805</u>	<u>102,134</u>	<u>166,815</u>

As of April 30, 2011, our borrowings comprised bank loans of RMB150.0 million and loans from related parties of RMB16.8 million.

The bank borrowings outstanding as of December 31, 2010 consisted of various loans from commercial banks in China in the aggregate amount of RMB100.0 million. All bank loans are repayable within one year from the respective drawdown dates. As of December 31, 2010, none of our bank loans were guaranteed. The bank loans carried a weighted average interest rate of 5.49%, 5.31% and 5.51% per annum in 2008, 2009 and 2010, respectively.

The loan from related parties outstanding as of December 31, 2008 and 2009 was made by Changyuan Donggu Industry carrying an interest rate of 5.35% and 5.58% per annum in 2008 and 2009, respectively. This amount was fully repaid in 2010. The loan from related parties as of December 31, 2010 was interest free, made by Hero City Investments Limited and fully settled prior to April 30, 2011.

FINANCIAL INFORMATION

Financial ratios

The following table sets forth, as of the dates indicated, our current ratios and gearing ratios:

	As of December 31,		
	2008	2009	2010
Current ratio ⁽¹⁾	1.3	1.1	1.4
Gearing ratio ⁽²⁾	0.5	1.1	0.1

Notes:

- (1) Current ratio is the ratio of total current assets to total current liabilities.
- (2) Gearing ratio is calculated as net debt divided by total equity attributable to equity shareholders of the Company. Net debt includes interest-bearing borrowings, less cash and cash equivalents.

COMMITMENTS

The following capital commitments were outstanding as of the dates indicated below:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Contracted for	<u>25</u>	<u>1,053</u>	<u>15,504</u>

The capital commitments as of December 31, 2010 primarily related to the construction of a new office complex and manufacturing facilities in Wuhan.

Operating lease commitments

We had total future minimum lease payments under non-cancellable operating leases that are payable as follows:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 year	934	4,639	2,569
After 1 year but within 5 years	<u>1,270</u>	<u>433</u>	<u>313</u>
	<u>2,204</u>	<u>5,072</u>	<u>2,882</u>

Our operating lease commitments as of December 31, 2010 primarily related to the lease agreement in respect of the leasing of production facilities. Leases for properties are generally negotiated for terms of one to two years.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

As of December 31, 2008, 2009 and 2010, we did not have any significant contingent liabilities and we confirm that as of the Latest Practicable Date that there have been no material changes to our contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we have not entered into any off-balance sheet transactions or arrangements.

RELATED PARTY BALANCES

Details of our balances with related parties during the Track Record Period are set out as follows.

Amounts due from related parties

The following table sets forth, as of the dates indicated, amounts due to us from related parties:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade related			
Xiangfan Yuli ⁽¹⁾	98	80	10
Beworld ⁽²⁾	1,111	355	—
Hubei Langtong ⁽³⁾	—	31	31
	<u>1,209</u>	<u>466</u>	<u>41</u>
Non-trade related			
Controlling Shareholders — interest-free advance . .	61,543	36,291	30,966
Dongkang Power — interest-bearing loan ⁽⁴⁾	4,673	3,401	9,901
Hubei Langtong — interest-free loan	1,000	2,000	1,000
Xiamen Hero City — interest-bearing loan ⁽⁵⁾	10,000	20,629	—
Wuhan Kanghao — interest-bearing loan ⁽⁶⁾	2,700	1,900	—
Beworld — interest-bearing loan ⁽⁷⁾	4,700	4,650	—
Beijing Changyuan — interest-free advance	8,433	16,201	15,265
Hero City Investments Limited — interest-free advance	435	—	2,297
Cangge Site — interest-free advance ⁽⁸⁾	—	104	105
	<u>93,484</u>	<u>85,176</u>	<u>59,534</u>
Total	<u>94,693</u>	<u>85,642</u>	<u>59,575</u>

FINANCIAL INFORMATION

Notes:

- (1) Sale of spare parts of diesel generator cores to Xiangfan Yuli Machinery Parts Co., Ltd. (襄樊宇立機械配件有限責任公司).
- (2) Sale of heat exchange systems that serve engines with a power output range of 20 kW to 250 kW to Beworld.
- (3) Sale of heat exchange systems that serve engines with a power output range of 20 kW to 250 kW to Hubei Langtong.
- (4) Dongkang Power Technology (Beijing) Co., Ltd. (東康動力科技(北京)有限公司). This loan carried an interest rate of 5.35%, 5.58% and 5.85% per annum as of December 31, 2008, 2009 and 2010, respectively.
- (5) Xiamen Hero City Machinery & Electric Co., Ltd. (廈門朗弘機電設備有限公司). This loan carried an interest rate of 7.47% and 5.31% per annum as of December 31, 2008 and 2009, respectively.
- (6) Wuhan Kanghao Machine & Electricity Engineering Co., Ltd. (武漢康豪機電工程有限公司). This loan carried an interest rate of 5.35% and 5.58% as of December 31, 2008 and 2009, respectively.
- (7) This loan carried an interest rate of 5.35% and 5.58% as of December 31, 2008 and 2009, respectively.
- (8) Cangge Site Power Technology (Beijing) Co., Ltd. (康格思特動力科技(北京)有限公司).

Amounts due to related parties

The following table sets forth, as of the dates indicated, outstanding amounts payable by us to related parties:

	As of December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade related			
Xiangfan Yuli ⁽¹⁾	3,413	7,354	5,594
Wuhan Kanghao ⁽²⁾	1,092	—	—
	<u>4,505</u>	<u>7,354</u>	<u>5,594</u>
Non-trade related			
Chanyuan Donggu Industry			
— interest-bearing loan	52,590	57,959	—
— interest-free advance	10,048	3,346	—
— rental payable ⁽³⁾	555	825	825
Beijing Changyuan ⁽⁴⁾			
— rental payable	—	1,200	—
Cangge Site ⁽⁵⁾			
— interest-free advance	658	—	—
Hero City Investments ⁽⁶⁾			
— interest-free advance	—	—	2,134
— dividend payable	—	—	6,644
Wise Jade Investments ⁽⁷⁾			
— dividend payable	—	14,250	4,125
	<u>63,851</u>	<u>77,580</u>	<u>13,728</u>
Total	<u><u>68,356</u></u>	<u><u>84,934</u></u>	<u><u>19,322</u></u>

FINANCIAL INFORMATION

Notes:

- (1) Purchase of spare parts of diesel generator cores from Xiangfan Yuli Machinery Parts Co., Ltd. (襄樊宇立機械配件有限公司).
- (2) Purchase of spare parts of radiators from Wuhan Kanghao Machine & Electricity Engineering Co., Ltd. (武漢康豪機電工程有限公司).
- (3) Lease of land and buildings from Xiangfan Changyuan Donggu Industrial & Trade Co., Ltd. (襄樊市長源東谷實業有限公司).
- (4) Lease of land and buildings from Beijing Changyuan Hero City Technology Co., Ltd. (北京長源朗弘科技有限公司).
- (5) Cangge Site Power Technology (Beijing) Co., Ltd. (康格思特動力科技(北京)有限公司).
- (6) Hero City Investments Limited.
- (7) Wise Jade Investments Limited.

All non-trade related-party balances will be settled before the Listing.

MARKET RISKS

We are exposed to various types of market risks in the normal course of business, including interest rate risks, foreign exchange risks and inflation risks.

Foreign Currency Exchange Rate Risk

We conducted our business primarily in China with most of the transactions denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorized to buy and sell foreign exchange. In July 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. An appreciation of RMB may affect the value of the proceeds from the Global Offering, which will be denominated in HK dollars.

Interest Rate Risk

Our income and operating cash flows are substantially independent of changes in market interest rates. Our exposure to changes in interest rates is mainly attributable to our bank loans, details of which have been disclosed in Note 28 of Section C of the Accountants' Report set out in Appendix I to this prospectus. As of April 30, 2011, we had total interest bearing bank loans of RMB150.0 million, as described above in "— Indebtedness." Upward fluctuations in interest rates will increase the costs of both our existing and new debt. We have not entered into any interest rate hedging contracts or any other derivative financial instruments.

Credit Risk

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to honor its contractual obligations, and arises principally from our trade and other receivables and other financial assets. The carrying amount of pledged deposits, cash and at bank and in hand, trade receivables, bills receivable and other receivables included in our combined balance sheet

FINANCIAL INFORMATION

represents our maximum exposure to credit risk in relation to our financial assets. We have policies in place to ensure that credit sales of products are made to customers with an appropriate credit history and we perform periodic credit evaluations of our customers. Our historical experience in the collection of trade and other receivables falls within the recorded allowances and our Directors are of the opinion that adequate provisions for uncollectible trade receivables has been made in the financial statements.

DIVIDEND POLICY

Dividends may be paid out of our distributable profits as permitted under applicable law, subject to the Articles. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Historical dividend distributions should not be used as a reference or basis to determine the amount of dividends, if any, that may be declared or paid by us in the future.

A decision to declare or to pay any dividends in the future, and the amount of any dividends, depend on a number of factors, including our results of operations, financial condition, the payments by our subsidiaries of cash dividends to us, future prospects and other factors that our Directors may consider important.

Subject to the factors described above, we currently intend to recommend a distribution to all Shareholders in an amount representing not less than 25.0% of the distributable net profit attributable to the equity Shareholders of our Company for the year ending December 31, 2011 following the Global Offering. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to the Shareholders by any means which our Directors consider appropriate.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Company since December 31, 2010 (being the date to which our latest combined financial results were prepared as set out in the “Accountants’ Report” in Appendix I to this prospectus).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Hong Kong Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

FINANCIAL INFORMATION

PROFIT FORECAST

The following unaudited pro forma forecast earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 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 Global Offering.

For the six months ending June 30, 2011

Unaudited forecast combined profit attributable
to equity shareholders of our Company⁽¹⁾⁽²⁾⁽⁴⁾ not less than RMB85 million
(approximately HK\$102 million)

Unaudited pro forma forecast earnings per Share⁽³⁾⁽⁴⁾ not less than RMB0.106
(approximately HK\$0.127)

Notes:

- (1) The bases on which the above profit forecast for the six months ending June 30, 2011 has been prepared are summarized in Appendix III to this prospectus.
- (2) The unaudited forecast combined profit attributable to equity shareholders of our Company for the six months ending June 30, 2011 prepared by our Directors is based on, in the absence of unforeseen circumstances, the unaudited management accounts of our Group for the three months ended March 31, 2011 and a forecast of the combined results of our Group for the remaining three months ending June 30, 2011. We have undertaken to the Hong Kong Stock Exchange that our interim report for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Hong Kong Listing Rules. The forecast has been prepared on the basis consistent in all material respects with the accounting policies presently adopted by us as summarized in the Accountants' Report as set out in Appendix I to this prospectus.
- (3) The calculation of the unaudited pro forma forecast earnings per Share is based on the unaudited forecast combined profit attributable to the equity shareholders of our Company for the six months ending June 30, 2011, assuming the Global Offering had been completed on January 1, 2011 and a total of 800,000,000 Shares were in issue during the entire period, taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or under the Share Option Scheme.
- (4) For the purpose of the unaudited forecast combined profit attributable to the equity shareholders of our Company and the unaudited pro forma forecast earnings per Share, the translation of Renminbi into HK dollars was made at the rate of RMB0.8337 to HK\$1.00.

FINANCIAL INFORMATION

PROPERTY INTERESTS AND PROPERTY VALUATION

Particulars of our Company's property interests are set out in Appendix IV to this prospectus. Jones Lang LaSalle Sallmanns Limited has valued the property interests of our Company as of March 31, 2011. A summary of values and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are included in Appendix IV to this prospectus.

The table below sets forth the reconciliation of the aggregate amount of net book value of our Group's property interests from our combined financial information as of December 31, 2010 to the unaudited net book value of our Group's property interests as of March 31, 2011:

	<u>RMB'000</u>
Net book value of property interests of our Group as of December 31, 2010	12,934
Less: Amortization during the period from January 1, 2011 to March 31, 2011 (Unaudited)	(59)
Add: Additions during the period from January 1, 2011 to March 31, 2011 (Unaudited).	<u>9,358</u>
Net book value of property interests of our Group as of March 31, 2011	<u>22,233</u>
Valuation of properties as of March 31, 2011 as set out in Appendix IV to this prospectus	<u>27,928</u>
Valuation plus	<u><u>5,695</u></u>

Note:

- (1) Property interests include land use rights for the land of approximately 47,461 square meters owned by Wuhan Roll Technology and construction in progress.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is based on the combined net assets derived from the financial information of the Group as of December 31, 2010, as set out in Appendix I to this prospectus and adjusted as follows:

	Combined net tangible assets attributable to equity owners of the Company as of December 31, 2010 ⁽¹⁾	Estimated net proceeds to our Company from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of the Company	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB ⁽³⁾	HK\$
Based on the Offer Price of HK\$2.72 per Share	<u>131,073</u>	<u>406,997</u>	<u>538,070</u>	<u>0.67</u>	<u>0.80</u>
Based on the Offer Price of HK\$3.62 per Share	<u>131,073</u>	<u>549,548</u>	<u>680,621</u>	<u>0.85</u>	<u>1.02</u>

Notes:

- (1) The combined net tangible assets attributable to the equity shareholders of our Company as of December 31, 2010 was based on the combined net assets attributable to the equity shareholders of our Company of RMB131,073,000. The combined net assets attributable to the equity shareholders of our Company were extracted from the accountants report as set out in Appendix I to this prospectus.
- (2) The estimated net proceeds to our Company from the Global Offering are based on the indicative Offer Prices of HK\$2.72 and HK\$3.62 per Share, respectively, after deduction of the underwriting fees and other relevant expenses payable by our Company. The estimated net proceeds from the Global Offering are converted to Hong Kong dollars at an exchange rate of RMB0.8337 to HK\$1.00.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the above paragraphs and on the assumption of a total of 800,000,000 Shares based on the indicative Offer Prices of HK\$2.72 and HK\$3.62 per Share, being the number of Shares in issue upon completion of the Global Offering (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Capitalization Issue and the Global Offering, which takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or under the Share Option Scheme. The unaudited pro forma adjusted net tangible assets per Share is converted to Hong Kong dollars at an exchange rate of RMB0.8337 to HK\$1.00.
- (4) Details of the valuation of our Group's properties as of March 31, 2011 are set out in the property valuation report as set out in Appendix IV to this prospectus. The revaluation surplus or deficit of these properties will not be included in our Group's financial information for the six months ending June 30, 2011. The above adjustments do not take into account the revaluation surplus or deficit. If the revaluation surplus was recorded in our Group's financial information, the annual amortization and depreciation expenses would increase by approximately RMB208,000.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section entitled “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 our Company from the Global Offering (after deducting underwriting commissions, incentive fees (if any) and estimated expenses in connection with the Global Offering payable by us and assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$3.17 per Offer Share, being the mid-point of the indicative offer price range stated in this prospectus) will be approximately HK\$573.7 million. We currently intend to apply such net proceeds for the following purposes:

- approximately 35.0%, or approximately HK\$200.8 million, for the expansion of our production capacity of power core business, of which
 - approximately HK\$42.9 million will be used for the acquisition of land use rights;
 - approximately HK\$124.3 million will be used for the construction of production facilities in Xiangyang, Hubei Province;
 - approximately HK\$30.2 million will be used for the purchase of production lines, assembly lines and equipment to increase our integration capacity of diesel generator cores; and
 - approximately HK\$3.4 million will be used for the purchase of equipment to increase our integration capacity of industrial power cores.

As a result of the aforementioned efforts, we expect our production capacity for diesel generator cores to increase from 28,000 units in 2010 to 36,000 units in 2011 and further to 45,000 units in 2012, and our production capacity for industrial power cores to increase from 105 units in 2010 to 150 units in 2011 and further to 5,000 units in 2012 (excluding production capacity of Hubei Langtong in each case). Benefiting from our growing market recognition in China and well-established sales network as well as the positive impact of macroeconomic trend in China on the market demand for diesel generator cores and industrial power cores, our Directors believe that there is sufficient market demand in the future to support our planned capacity expansions;

- approximately 35.0%, or approximately HK\$200.8 million, for the expansion of our production capacity of heat exchange system business, of which
 - approximately HK\$176.8 million will be used for the purchase of property, plant and equipment to manufacture commercial vehicle heat exchange systems; and
 - approximately HK\$24.0 million will be used for the purchase of equipment to increase our production capacity of heat exchange systems serving power cores.
- approximately 10.0%, or approximately HK\$57.4 million, for the development of new products, including air-to-air aftercoolers, radiating pipes, CAN and after-treatment systems. For details of the development of these new products, see “Business — Production — Development Plan of New Products” in this prospectus;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10.0%, or approximately HK\$57.4 million, for acquisition purposes, including acquisition of or investment in equity interests in entities or business that are related to our existing or new businesses; and
- approximately 10.0%, or approximately HK\$57.3 million for general working capital purposes.

We estimate that the Selling Shareholder will receive net proceeds from the Global Offering of approximately HK\$177.9 million, after deducting the underwriting commissions and fees payable by the Selling Shareholder in respect of the Sale Shares (assuming an Offer Price of HK\$3.17 per Offer Share, being the mid-point of our indicative Offer Price range). We will not receive the net proceeds from the sale of Sale Shares by the Selling Shareholder in the Global Offering.

To the extent our net proceeds are either more or less than the amounts set out above, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis. Any additional net proceeds that we would receive from any exercise, in full or in part, of the Over-allotment Option may be applied in the manner and the proportions stated above.

To the extent that our net proceeds are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit the net proceeds into short-term interest bearing deposits and/or money market instruments.

Our plan to use a portion of net proceeds for acquisition purposes is contingent on the identification of compelling acquisition targets and the completion of acquisitions on commercially viable terms. As of the Latest Practicable Date, we had not identified any acquisition target. Our plan to use a portion of net proceeds for development of CAN and after-treatment systems is contingent on our technology development and the then prevailing market conditions. To the extent that we are not able to apply any portion of our net proceeds for acquisition purposes or for development of CAN or after-treatment systems, we intend to adjust our allocation of the net proceeds for the other purposes as described above on a pro rata basis and make an appropriate announcement.

UNDERWRITING

HONG KONG UNDERWRITERS

Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

UBS AG, Hong Kong Branch

Hong Kong Co-Managers

VC Brokerage Limited

Guotai Junan Securities (Hong Kong) Limited

Hong Kong Underwriters

UBS AG, Hong Kong Branch

VC Brokerage Limited

Guotai Junan Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

We, the Controlling Shareholders, the Hong Kong Underwriters and the Sole Global Coordinator, among others, entered into the Hong Kong Underwriting Agreement on June 16, 2011. Under the Hong Kong Underwriting Agreement, we are offering the Hong Kong Public Offer Shares for subscription by the public in Hong Kong at the Offer Price, on the terms and subject to the conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholder and us agreeing to the Offer Price), the Hong Kong Underwriters have agreed severally and not jointly to procure subscribers for, or themselves to subscribe for, their respective proportions of the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional.

UNDERWRITING

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe for the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any event or series of event or circumstance in the nature of *force majeure* (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, the United States, the United Kingdom, the European Union, Japan, Singapore or any other jurisdiction relevant to any member of the Group or the Global Offering (each a “**Relevant Jurisdiction**”); or
 - (ii) any change, or any development involving a prospective change, or any event or series of events or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any Relevant Jurisdiction; or
 - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent administrative, governmental or regulatory commission or authority), New York (imposed at Federal or New York State level or other competent administrative, governmental or regulatory commission or authority), London, Germany, France, the PRC, the European Union, Japan, Cayman Islands, BVI or any other jurisdiction relevant to any member of the Group declared by the relevant authorities, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or
 - (v) any new laws or regulations, or any change or any development involving a prospective change in or in the interpretation or application thereof by any court or other competent administrative, governmental or regulatory commission or authority of existing laws or regulations, in each case, in or affecting any of the Relevant Jurisdictions; or
 - (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the United States the United Kingdom, the European Union, Japan, the PRC, Cayman Islands, BVI or any other jurisdiction relevant to any member of the Group; or

UNDERWRITING

- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of exchange control), currency exchange rates or foreign investment regulations (including, without limitation, 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 a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in any of the Relevant Jurisdictions; or
- (viii) any litigation or claim of any third party being threatened or instigated against any member of the Group or any of the Controlling Shareholders relating specifically to his interest in the Group or the Global Offering; or
- (ix) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of the Company; or
- (x) the chairman or the chief executive officer of the Company vacating his office; or
- (xi) an administrative, governmental or regulatory commission or authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take such action, against any member of the Group or any Director; or
- (xii) a contravention by any member of Group of the Hong Kong Listing Rules or applicable laws or regulations; or
- (xiii) a prohibition on the Company or any of the Controlling Shareholders for whatever reason from offering, allotting, issuing or selling any of the Shares (including any Shares which may be issued pursuant to exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Hong Kong Listing Rules or any other applicable laws or regulations; or
- (xv) except with the approval of the Sole Sponsor and the Sole Global Coordinator, the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Hong Kong Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvi) an order or petition for the winding up of or liquidation of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group; or
- (xvii) a valid demand by any creditor for repayment or payment of any of the members of Group's indebtednesses, or in respect of which any member of the Group is liable, prior to its stated maturity,

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator (1) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, trading, management, prospects, profits and losses, results of operations, financial position, or performance of the Group as a whole; or (2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong

UNDERWRITING

Kong Public Offer or the level of interest under the International Offer; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering or delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms; or

- (b) there has come to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters:
- (i) that any statement contained in this prospectus, the Application Forms, or any other notices and documents relating to the Global Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in this prospectus, the Application Forms, or any other notices and documents relating to the Global Offering (including any supplement or amendment thereto) is not fair and honest in any material respect and based on reasonable assumptions; or
 - (ii) that any matter not having been disclosed in this prospectus and the Application Forms has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus and the Application Forms (including any supplement or amendment thereto); or
 - (iii) any breach of any of the obligations or undertakings imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Sole Sponsor, the Sole Global Coordinator, the Hong Kong Underwriters or the International Underwriters); or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability of any of the Indemnifying Parties (as defined under the Hong Kong Underwriting Agreement); or
 - (v) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, trading, management, prospects, profits and losses, results of operations, financial positions, or performance of the Group as a whole; or
 - (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the Warranties (as defined under the Hong Kong Underwriting Agreement); or
 - (vii) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any Shares which may be issued pursuant to exercise of the Over-allotment Option) under the Global Offering 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; or
 - (viii) the Company withdraws this prospectus and the Application Forms (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

UNDERWRITING

Undertakings

Undertakings to the Hong Kong Stock Exchange under the Hong Kong Listing Rules

(A) Undertaking by us

Under Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that we will not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except under the Global Offering (including the exercise of the Over-allotment Option) or pursuant to the exercise of the Share Option Scheme or for the circumstances provided under Rule 10.08 of the Hong Kong Listing Rules.

(B) Undertaking by the Controlling Shareholders

In accordance with Rule 10.07(1)(a) of the Hong Kong Listing Rules, each of our Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and our Company that except pursuant to the Global Offering, the proposed sale of the Sale Shares and the Stock Borrowing Agreement, (a) he will not and will procure that the relevant registered holders will not, at any time during the period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date, 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 is/they are shown by this prospectus to be the beneficial owners; or (b) he/they will not and will procure that the relevant registered holders will not, at any time during the period of six months from the date on which the period referred to in paragraph (a) above expires, 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 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/they will then cease to be a Controlling Shareholder of our Company.

Note (2) of Rule 10.07 of the Hong Kong Listing Rules provides that the rule does not prevent a Controlling Shareholder from using the Shares owned by him as securities (including a charge or a pledge) in favour of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Each of our Controlling Shareholders has further undertaken to the Hong Kong Stock Exchange and our Company that he will, from the date of this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

- (a) any pledges or charges of any Shares or other securities of our Company beneficially owned by him/it in favour 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, whether verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or other securities will be disposed of.

UNDERWRITING

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by any of our Controlling Shareholders and disclose such matters by way of an announcement as soon as possible after being so informed by any of our Controlling Shareholders.

Undertakings under the Hong Kong Underwriting Agreement

(A) Undertaking by us

We have undertaken to each of the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that, except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-Allotment Option), the Capitalization Issue or options to be granted under the Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “First Six-Month Period”), we shall not, and shall procure each other member of the Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any shares, capital, or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any debt capital or securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, or any shares or capital of such other member of the Group, as applicable), or deposit any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, with a depository in connection with the issue of depository receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any shares, capital or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any debt capital or securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares or capital of such other member of the Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

UNDERWRITING

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or other securities of the Company or shares, capital or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-month Period).

In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-Month Period**”), the Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

The Controlling Shareholders undertake to each of the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor to procure the Company to comply with the undertakings in this section (A).

(B) Undertaking by the Controlling Shareholders

Each of the Controlling Shareholders undertakes to each of the Company, the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and except for the offer and sale of the Offer Shares pursuant to the Global Offering or lending of Shares under the Stock Borrowing Agreement) and unless in compliance with the requirements of the Hong Kong Listing Rules:

- (a) it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including, without limitation, any debt capital or securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of the Company with a depository in connection with the issue of depository receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of the Company or any interest therein in (including, without limitation, any debt capital or securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in sub-paragraph (i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period); and

UNDERWRITING

- (b) it will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Hong Kong Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company,

provided that nothing in section (B) shall prevent the Controlling Shareholders (i) from purchasing additional Shares, and disposing of such additional Shares so purchased, subject to compliance with the requirements of Rule 8.08 of the Hong Kong Listing Rules to maintain an open market in the securities and a sufficient public float; or (ii) from using the Shares beneficially owned by any of them as security (including a charge or a pledge) in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, subject to compliance with the requirements of Rule 10.07 of the Hong Kong Listing Rules and paragraph (d) below; and

- (d) it will, at any time within the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months after the Listing Date:
 - (i) upon any pledge or charge in favour of any person, entity or institution of any Shares or securities or interests in the Shares or securities of the Company beneficially owned by it for a bona fide commercial loan, immediately inform the Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
 - (ii) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or securities of the Company will be disposed of, immediately inform the Company and the Sole Global Coordinator in writing of such indications,

provided that, upon receipt of such information from the Controlling Shareholders, the Sole Sponsor and the Sole Global Coordinator shall treat such information as confidential until we make a public disclosure of such information in accordance with the Hong Kong Listing Rules, or such information has come into the public domain through no fault of the Sole Sponsor and the Sole Global Coordinator, whichever is the earlier.

We have agreed and undertaken to the Sole Global Coordinator, the Sole Sponsor and each of the Hong Kong Underwriters, that, upon receiving such information in writing from the Controlling Shareholders, we will, as soon as practicable, notify the Hong Kong Stock Exchange and make an announcement in accordance with the Hong Kong Listing Rules.

Indemnity

We and the Controlling Shareholders have agreed to, jointly and severally, indemnify the Hong Kong Underwriters against certain losses or liabilities which they may suffer, including losses or liabilities arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us or the Controlling Shareholders of the Hong Kong Underwriting Agreement.

UNDERWRITING

International Offer

International Underwriting Agreement

In connection with the International Offer, we, the Selling Shareholder and the Controlling Shareholders expect to enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally and not jointly to procure purchasers for, or themselves purchase, their respective proportions of the International Offer Shares being offered under the International Offer.

Under the International Underwriting Agreement, we expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the date of the International Underwriting Agreement up to (and including) the date which is the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer, to require us to allot and issue up to 39,000,000 additional Shares, representing in aggregate 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be issued at the Offer Price and will be solely for the purpose of covering over-allocations, if any, in the International Offer.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that if the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

We and the Controlling Shareholders will agree to, jointly and severally, indemnify the International Underwriters against certain losses or liabilities which they may suffer, including losses or liabilities arising from their performance of their obligations under the International Underwriting Agreement and breach of us or the Controlling Shareholders of the International Underwriting Agreement, including liabilities under the Securities Act.

Commissions and expenses

The Hong Kong Underwriters will receive a gross commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares (excluding any International Offer Shares reallocated to the Hong Kong Public Offer and any Hong Kong Public Offer Shares reallocated to the International Offer) initially offered under the Hong Kong Public Offer. For International Offer Shares reallocated to the Hong Kong Public Offer or unsubscribed Hong Kong Public Offer Shares reallocated to the International Offer, we and the Selling Shareholder will pay an underwriting commission at the rate applicable to the International Offer and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by (i) our Company with respect to the new Offer Shares to be issued by us (including pursuant to the exercise of the Over-allotment Option) and (ii) by the Selling Shareholder with respect to the Sale Shares being offered for sale by it. We may also in our sole discretion pay the Sole Global Coordinator or any or all of the Underwriters an additional incentive fee of up to 2.5% of the aggregate sale proceeds from the new Offer Shares issued and offered by the Company under the Global Offering (including pursuant to the exercise of the Over-allotment Option).

UNDERWRITING

The aggregate commissions, including the incentive fees (if any), together with listing fees, SFC transaction levy and Hong Kong Stock Exchange trading fee in respect of the new Shares offered by us and the Sale Shares to be sold by the Selling Shareholder, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$72.6 million (assuming an Offer Price of HK\$3.17, which is the midpoint of the indicative offer price range and assuming that the Over-allotment Option is not exercised).

Underwriters' interest in our Group

Save for their obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and, if applicable, the Stock Borrowing Agreement that may be entered into between UBS AG, Hong Kong Branch as the stabilizing manager or its agent with Yuan Tai Long, none of the Underwriters has any shareholding interests in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Sole Sponsor's independence

The Sole Sponsor confirms that it satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Hong Kong Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$3.62 and is expected to be not less than HK\$2.72, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offer as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offer, you must pay the maximum Offer Price of HK\$3.62 per Offer Share plus a 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. This means that, for every board lot of 1,000 Offer Shares, you should pay HK\$3,656.49 at the time of your application.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$3.62, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. Please refer to the section headed “How to Apply for the Hong Kong Public Offer Shares” in this prospectus for further details.

DETERMINATION OF THE OFFER PRICE

We expect the Offer Price to be fixed by agreement among us, the Selling Shareholder and the Sole Global Coordinator, on behalf of the Underwriters, on the Price Determination Date when market demand for the Offer Shares will be determined. We expect the Price Determination Date to be on or around June 23, 2011 and in any event, no later than June 24, 2011. The Offer Price will not be more than HK\$3.62 per Offer Share and is expected to be not less than HK\$2.72 per Offer Share. You should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with consents from the Company and the Selling Shareholder, reduce the number of Offer Shares and/or the indicative offer price range below that described in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer publish a notice in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of the reduction in the number of Offer Shares and/or the indicative offer price range. Applicants under the Hong Kong Public Offer should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares and/ or the indicative offer price range being offered under the Global Offering is so reduced.

Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon among the Sole Global Coordinator, on behalf of the Underwriters, the Selling Shareholder and us, will be fixed within such revised offer price range. In this notice, we will also confirm or revise, as appropriate, the working capital statement as currently disclosed in the section headed “Financial Information — Working Capital” in this prospectus, the offering statistics as currently disclosed in the section headed “Summary” in this prospectus, the use of proceeds in the section headed “Future Plans and Use of Proceeds” in this prospectus and any other financial information which may change as a result of such reduction. If we do not publish a notice in the South China Morning Post (in English) or the Hong Kong

STRUCTURE OF THE GLOBAL OFFERING

Economic Times (in Chinese) of a reduction in the number of Offer Shares and/or the indicative offer price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon by us, the Selling Shareholder, and the Sole Global Coordinator (on behalf of the Underwriters), will be within the indicative offer price range as stated in this prospectus.

If we and the Selling Shareholder are unable to reach an agreement with the Sole Global Coordinator, on behalf of the Underwriters, on the Offer Price by June 23, 2011, the Global Offering will not proceed and will lapse. We expect to publish an announcement of the Offer Price, together with the level of interest in the International Offer, the level of application of the Hong Kong Public Offer and basis of allotment of the Hong Kong Public Offer Shares, on June 27, 2011.

THE GLOBAL OFFERING

Our Global Offering consists of the Hong Kong Public Offer and the International Offer. We and the Selling Shareholder intend to initially make available up to 260,000,000 Offer Shares under the Global Offering, of which 234,000,000 Offer Shares will be conditionally placed at the Offer Price pursuant to the International Offer and the remaining 26,000,000 Offer Shares will be offered to the public in Hong Kong at the Offer Price under the Hong Kong Public Offer subject, in each case, to reallocation on the basis described under the paragraph headed “— The Hong Kong Public Offer” below.

The 260,000,000 Offer Shares initially made available in the Global Offering will represent approximately 32.5% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option.

You may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Offer, but you may not apply in both offerings for the Offer Shares. In other words, you may only apply for and receive either Hong Kong Public Offer Shares under the Hong Kong Public Offer or International Offer Shares under the International Offer, but not under both offerings. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Offer will involve selective marketing of the International Offer Shares to QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements of the Securities Act, as well as to institutional and professional investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the Offer Shares under the International Offer they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

Allocation of the International Offer Shares to investors under the International Offer will be determined by the Sole Global Coordinator and will be based on a number of factors including the

STRUCTURE OF THE GLOBAL OFFERING

level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is likely to buy further, and/or hold or sell its International Offer Shares after the listing of our Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of an appropriate shareholder base to our benefit and the benefit of our Shareholders as a whole.

Allocation of Hong Kong Public Offer Shares to investors under the Hong Kong Public Offer will be based 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 Public Offer Shares validly applied for by applicants. Although we may, if necessary, allocate the Hong Kong Public Offer Shares on the basis 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 Public Offer Shares and that those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

Over-allotment and Stabilization

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offering price of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and may be discontinued at any time, and is required to be brought to an end after a limited period.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimizing any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

The Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in our Shares, and there is no certainty as to the extent

STRUCTURE OF THE GLOBAL OFFERING

to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager or any person acting for it and selling in the open market, which may have an adverse impact on the market price of our Shares.

In connection with the Global Offering, we intend to grant the Over-allotment Option to the International Underwriters, exercisable by the Stabilizing Manager (in consultation with the Sole Global Coordinator). The Over-allotment Option gives the Stabilizing Manager the right, exercisable at any time from the day on which trading of our Shares commences on the Stock Exchange until 30 days after the last day for lodging of applications under the Hong Kong Public Offer, to require us to issue and allot up to an aggregate of 39,000,000 additional Shares, representing in aggregate 15% of the initial size of the Global Offering at the Offer Price to, among other things, cover over-allocations in the International Offer, if any. The Stabilizing Manager may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. If the Stabilizing Manager (in consultation with the Sole Global Coordinator) exercise the Over-allotment Option in full, the additional Offer Shares will represent approximately 4.65% of our enlarged issued share capital following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, we will make an announcement.

Stock Borrowing Agreement

In order to facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 39,000,000 Shares from Yuan Tai Long (being the maximum number of Shares which may be issued upon exercise of the Over-allotment Option) pursuant to the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising the Over-allotment Option.

If the Stock Borrowing Agreement is entered into, it will only be effected by the Stabilizing Manager or its agent for settlement of over-allocation in the International Offer. The same number of Shares so borrowed must be returned to Yuan Tai Long or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; or (ii) the day on which the Over-allotment Option is exercised in full. The Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Yuan Tai Long by the Stabilizing Manager or its agent in relation to such stock.

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters and the International Offer is expected to be fully underwritten by the International Underwriters. The Hong Kong Public Offer and the International Offer are subject to the conditions described in the section headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus. In particular, we, the Selling Shareholder and the Sole Global Coordinator, on behalf of the Underwriters, must agree on the Offer Price for the Global Offering. The Hong Kong Underwriting Agreement has been entered into on June 16, 2011 and, subject to an agreement on the Offer Price between the Sole Global Coordinator, on behalf of the Hong Kong Underwriters, the Selling

STRUCTURE OF THE GLOBAL OFFERING

Shareholder and us for purposes of the Hong Kong Public Offer. The International Underwriting Agreement (including the agreement on the Offer Price between the Selling Shareholder, us and the Sole Global Coordinator, on behalf of the International Underwriters for purposes of the International Offer) is expected to be entered into on the Price Determination Date, which is expected to be on June 23, 2011, and in any event on or before June 24, 2011. The Hong Kong Underwriting Agreement and the International Underwriting Agreement are inter-conditional upon each other.

Conditions of the Global Offering

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- the Listing Committee granting the listing of and permission to deal in our Shares in issue and to be issued as described in this prospectus (including any additional Shares issuable pursuant to the exercise of the Over-allotment Option), and such listing and permission not having been subsequently revoked prior to the commencement of dealings in our Shares on the Stock Exchange;
- the Offer Price having been duly determined between us, the Selling Shareholder and the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offer and the International Offer is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the day after such lapse.

In the above situation, we will return all application monies to the applicants, without interest and on the terms described in the sections headed “How to Apply for the Hong Kong Public Offer Shares — Publication of Results; Refund of Application Monies; and Despatch/Collection of Share Certificates/e-Auto Refund payment instructions/Refund Cheques” in this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving banker or other banks licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE OF THE GLOBAL OFFERING

We expect to despatch share certificates for the Offer Shares on Monday, June 27, 2011. Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms at or before 8:00 a.m. on the Listing Date, which is currently expected to be on June 28, 2011. 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.

THE HONG KONG PUBLIC OFFER

The Hong Kong Public Offer is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions provided in the Hong Kong Underwriting Agreement and described in the paragraph headed “— The Global Offering — Conditions of the Global Offering” above) for the subscription in Hong Kong of, initially, 26,000,000 Offer Shares to be offered by us at the Offer Price (representing 10% of the total number of the Offer Shares initially available under the Global Offering). Subject to the reallocation of Offer Shares between the International Offer and the Hong Kong Public Offer described below, the Hong Kong Public Offer Shares will represent 3.25% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The total number of the Hong Kong Public Offer Shares available under the Hong Kong Public Offer is to be divided equally into two pools for allocation purposes:

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and
- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy 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 the Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly. For the purpose of this sub-section only, the “subscription price” for the Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Public Offer Shares from either pool A or pool B but not from both pools. We will reject multiple applications between the two pools and reject multiple applications within pool A or pool B. In addition, any application for more than 50% of the 26,000,000 Offer Shares initially offered in the Hong Kong Public Offer (that is, 13,000,000 Offer Shares) will be rejected. Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offer, and such applicant’s application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. We and the Hong Kong Underwriters will take reasonable steps to identify and

STRUCTURE OF THE GLOBAL OFFERING

reject applications under the Hong Kong Public Offer from investors who have indicated interest in or have received Offer Shares in the International Offer, and to identify and reject indications of interest in the International Offer from investors who have applied for or have received Offer Shares in the Hong Kong Public Offer.

The allocation of the Offer Shares between the Hong Kong Public Offer and the International Offer is subject to the following adjustments in the event of over-subscription under the Hong Kong Public Offer:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then International Offer Shares will be reallocated to the Hong Kong Public Offer from the International Offer, so that the total number of the Hong Kong Public Offer Shares available under the Hong Kong Public Offer will be 78,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then the number of International Offer Shares to be reallocated to the Hong Kong Public Offer from the International Offer will be increased so that the total number of the Hong Kong Public Offer Shares available under the Hong Kong Public Offer will be 104,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then the number of International Offer Shares to be reallocated to the Hong Kong Public Offer from the International Offer will be increased, so that the total number of the Hong Kong Public Offer Shares available under the Hong Kong Public Offer will be 130,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

If the Hong Kong Public Offer is not fully subscribed, however, the Sole Global Coordinator may reallocate to the International Offer all or any unsubscribed Hong Kong Public Offer Shares in such numbers as they deem appropriate. In addition to any reallocation which may be required under the Hong Kong Listing Rules as set out above, the Sole Global Coordinator may, at its discretion, reallocate Shares initially allocated for the International Offer to the Hong Kong Public Offer to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offer, regardless of whether the such reallocation requirement is triggered.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offer.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFER

The number of the Offer Shares to be initially offered for sale under the International Offer will be 234,000,000 Offer Shares, comprising 174,000,000 Offer Shares to be offered by us and 60,000,000 Shares to be offered by the Selling Shareholder, representing 90% of the Offer Shares initially available under the Global Offering and 29.25% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

Pursuant to the International Offer, the International Offer Shares will be conditionally placed on our behalf by the International Underwriters or through selling agents appointed by them. International Offer Shares will be placed with QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements of the Securities Act, as well as with certain professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Offer is subject to the Hong Kong Public Offer becoming unconditional.

The Sole Global Coordinator, on behalf of the Underwriters, may require any investor who has been offered Offer Shares under the International Offer and who has made an application under the Hong Kong Public Offer to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that such investor is excluded from any application of Hong Kong Public Offer Shares under the Hong Kong Public Offer.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

METHODS OF APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

There are three ways to make an application for the Hong Kong Public Offer Shares. You may (i) use a **white** or **yellow** Application Form; (ii) apply online through the designated website of the **HK eIPO White Form** Service Provider, referred to in this prospectus as the **HK eIPO White Form** service (www.hkeipo.hk); or (iii) **electronically instruct** HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or applying online through **HK eIPO White Form** service or by giving **electronic application instructions** to HKSCC.

WHO CAN APPLY FOR HONG KONG PUBLIC OFFER SHARES

- You may apply for the Hong Kong Public 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; and
 - are outside the United States.
- 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 Sole Bookrunner (or its respective agents or nominees) may accept it at its 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.

WHICH APPLICATION METHOD TO USE

- Use a **white** Application Form or **HK eIPO White Form** service (www.hkeipo.hk) if you want the Hong Kong Public Offer Shares issued in your own name in physical certificate(s).

If you wish to apply for Hong Kong Public Offer Shares online through the **HK eIPO White Form** service (www.hkeipo.hk) 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.
- Use a **yellow** Application Form if you want the Hong Kong Public Offer Shares issued 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. Instead of using a **yellow** Application Form, you may **electronically instruct** HKSCC to cause HKSCC Nominees to apply for Hong Kong Public Offer Shares on your behalf via CCASS. Any Hong Kong Public 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.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Our Offer Shares are not available to existing beneficial owners of Shares in our Company, our Directors, chief executive officer or any of their respective associates (as defined in the Hong Kong Listing Rules) or a person who is not outside the United States and will not be acquiring the Hong Kong Public Offer Shares in an offshore transaction (as defined in Regulation S) or persons who do not have a Hong Kong address.

WHERE TO COLLECT APPLICATION FORMS

You can collect a **white** Application Form and our prospectus during normal business hours from 9:00 a.m. on Friday, June 17, 2011 till 12:00 noon on Wednesday, June 22, 2011 from:

Any of the following addresses of the Hong Kong Underwriters:

UBS AG, Hong Kong Branch at 52/E, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

or any of the following branches and sub-branches of the receiving banks for the Hong Kong Public Offer:

Bank of China (Hong Kong) Limited:

District	Branch Name	Branch Address
Hong Kong	Bank of China Tower Branch	3/F, 1 Garden Road
Kowloon	Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
	Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok
New Territories . .	Tai Po Branch	68-70 Po Heung Street, Tai Po Market
	Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II

Bank of Communications Co., Ltd. Hong Kong Branch:

District	Branch Name	Branch Address
Hong Kong	Central District Sub-Branch	G/F., Far East Consortium Bldg, 125A Des Voeux Road C., Central
	Wanchai Sub-Branch	G/F., 32-34 Johnston Road
Kowloon	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road

You can collect a **yellow** Application Form and our prospectus during normal business hours from 9:00 a.m. on Friday, June 17, 2011 till 12:00 noon on Wednesday, June 22, 2011 from:

- the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and this prospectus available.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

HOW TO COMPLETE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may 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 in the Application Form.

- (a) Obtain an Application Form as described in the paragraph headed "Where to collect the Application Forms" above.
- (b) Complete the Application Form in English in ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.
- (c) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker's cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker's cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the collection boxes by the time and at one of the branches and sub-branches of the receiving banks as described in the sub-paragraph headed "Where to collect Application Forms" above.

You should note that by completing and submitting the **WHITE** and **YELLOW** Application Forms, among other things:

- (a) you agree with our Company and each of our Shareholders, and our Company agrees with each of our Shareholders, to observe and comply with the Companies Law, the Hong Kong Companies Ordinance, the Memorandum and the Articles;
- (b) you confirm that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (c) you agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not contained in this prospectus (and any supplement thereto);
- (d) you undertake and confirm that you (if the application is made for your benefit) or the person(s) or whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor otherwise participated in the International Offer; and
- (e) you agree to, disclose to our Company, and/or our Company's Hong Kong Share Registrar, receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Underwriters and their respective advisers and agents any personal data which they require about you and the person(s) for whose benefit you have made the application.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

In order for the **YELLOW** Application Forms to be valid:

- (a) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):
 - i. 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 in the Application Form.
- (b) If the application is made by an individual CCASS Investor Participant:
 - i. the Application Form must contain the CCASS Investor Participant's name and Hong Kong identity card number; and
 - ii. the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.
- (c) If the application is made by a joint individual CCASS Investor Participant:
 - i. the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all joint CCASS Investor Participants; and
 - ii. the participant I.D. must be inserted in the appropriate box in the Application Form.
- (d) If the application is made by a corporate CCASS Investor Participant:
 - i. the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
 - ii. the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters render the application invalid.

If your application is made through a duly authorized attorney, we and the Sole Global Coordinator will have discretion to accept it, subject to any conditions we think fit, including evidence of authority of your attorney. We and the Sole Global Coordinator, in the capacity as our agent, will have full discretion to reject or accept any application, in full or in parts without assigning any reason.

MINIMUM SUBSCRIPTION AMOUNT AND PERMITTED NUMBERS

You may use the Application Forms to subscribe for a minimum of 1,000 Hong Kong Public Offer Shares or for one of the numbers set forth in the table in the Application Forms.

You may give, if you are a CCASS Investor Participant, or cause your broker or custodian, who is a CCASS Clearing Participant or a CCASS Custodian Participant, to give **electronic application instructions** for a minimum of 1,000 Hong Kong Public Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set forth in the table in the Application Forms.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

HOW MANY APPLICATIONS MAY YOU MAKE

You may make one application for our Offer Shares. You may, however, make more than one application for Hong Kong Public Offer Shares only if you are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner (or in the case of joint beneficial owners, for each such beneficial owner). If you do not include this information, the application will be treated as being made for your benefit. Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that, by completing and delivering an Application Form or by giving an electronic application instruction, you:

- (if the application is made for your own benefit) warrant that this 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 designated **HK eIPO White Form Service Provider** through **HK eIPO White Form service** (www.hkeipo.hk); and
- (if you are an agent for another person) warrant that you have made reasonable inquiries of that other person that this 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 via CCASS or to the designated **HK eIPO White Form Service Provider** through **HK eIPO White Form service** (www.hkeipo.hk), and that you are duly authorized to sign the Application Form as that other person’s agent.

Except where you are a nominee and provide the information required to be provided in your applications, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form Service Provider** through **HK eIPO White Form service** (www.hkeipo.hk);
- both apply (whether individually or jointly) on a **white** Application Form and a **yellow** Application Form or apply on a **white** or **yellow** Application Form and by giving **electronic application instructions** to HKSCC via CCASS or to the designated **HK eIPO White Form Service Provider** through **HK eIPO White Form service** (www.hkeipo.hk);
- apply (whether individually or jointly) on a **white** or **yellow** Application Form or by giving an **electronic application instruction** to HKSCC via CCASS or to the designated **HK eIPO White Form Service Provider** through **HK eIPO White Form service** (www.hkeipo.hk) for more than 50% of the Hong Kong Public Offer Shares initially offered for public subscription under the Hong Kong Public Offer; or
- have applied for or taken up, or have indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) any Offer Shares under the International Offer.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for Hong Kong Public Offer Shares, an actual application will be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** 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 **HK eIPO White Form** service by giving **electronic application instructions** through the designated website at www.hkeipo.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **HK eIPO White Form** service and one or more applications by any other means, all of your applications are liable to be rejected.

All of your applications will also be rejected as multiple applications if more than one application is made for your benefit, including any application made by HKSCC Nominees acting on **electronic application instructions**. If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities, and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” in relation to a company means you:

- control the composition of the board of directors of that company;
- control more than half of the voting power of that company; or
- 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 profits or capital).

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 Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public 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 application instruction** to make an application for the Hong Kong Public 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.

TIME FOR THE PUBLIC TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Completed **white** or **yellow** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, June 22, 2011, or, if the application lists are not open on that day due to bad weather, then by 12:00 noon on the next business day when such lists are open as described in the paragraph headed “— Effect of Bad Weather on the Opening of the Application Lists” below.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches and sub-branches of the receiving banks listed above in the paragraph headed “— Where to Collect Application Forms” at the following times:

- Friday, June 17, 2011 — 9:00 a.m. to 5:00 p.m.
- Saturday, June 18, 2011 — 9:00 a.m. to 1:00 p.m.
- Monday, June 20, 2011 — 9:00 a.m. to 5:00 p.m.
- Tuesday, June 21, 2011 — 9:00 a.m. to 5:00 p.m.
- Wednesday, June 22, 2011 — 9:00 a.m. to 12:00 noon

The application lists will be open between 11:45 a.m. and 12:00 noon on Wednesday, June 22, 2011.

No proceedings will be taken on applications for our Shares and no allotment of any such Shares will be made until the closing of the application lists.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open 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, June 22, 2011. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

In the event of the above-mentioned tropical cyclone or rainstorm on June 22, 2011, the latest time for lodging your Application Forms and for inputting your **electronic application instructions** will be postponed accordingly 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.

PUBLICATION OF RESULTS

We expect to publish the final Offer Price, the level of application in Hong Kong Public Offer and the basis of allotment under the Hong Kong Public Offer in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website at www.xingyuanpower.com and the website of the Stock Exchange at www.hkexnews.hk on Monday, June 27, 2011.

The results of allocations 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 allocations for the Hong Kong Public Offer will be available from our Company’s website at www.xingyuanpower.com and the website of the Stock Exchange at www.hkexnews.hk on Monday, June 27, 2011;
- Results of allocations for the Hong Kong Public Offer will be available from the results of allocations website at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Monday, June 27, 2011 to 12:00 midnight on Sunday, July 3, 2011. The user of the results of allocations website at www.tricor.com.hk/ipo/result 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 allocations will be available from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their application has been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, June 27, 2011 to Thursday, June 30, 2011; and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Monday, June 27, 2011 to Wednesday, June 29, 2011 at the branches and sub-branches of the receiving banks at the addresses set out in the paragraph headed “— Where to Collect Application Forms” above.

THE PRICE OF THE HONG KONG PUBLIC OFFER SHARES

You must pay the maximum indicative offer price of HK\$3.62 per Share, with 1% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, in full when you apply for the Hong Kong Public Offer Shares. As such, for every board lot of 1,000 Shares, you must pay HK\$3,656.49 at the time of application. The Application Forms contain tables showing the exact amount payable for certain numbers of a board lot of Shares up to 13,000,000 Offer Shares. You must pay the amount payable upon application for the Shares by cheque or banker's cashier order in accordance with the terms contained in the Application Form.

If your application is successful, the brokerage fee will be paid to participants of the Stock Exchange or the Stock Exchange (as the case may be); the Stock Exchange trading fee will be paid to the Stock Exchange; and the SFC transaction levy will be collected by the Stock Exchange on behalf of the SFC.

REFUND OF APPLICATION MONIES

If:

- the Offer Price, as finally determined, is less than HK\$3.62 per Share (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee) that you initially paid upon application;
- if your application is partially unsuccessful;
- if your application is wholly unsuccessful;
- the conditions of the Global Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — The Global Offering — Conditions of the Global Offering” in this prospectus; or
- any application is revoked or any allocation pursuant thereto has become void,

we will, in each case, refund the difference per Offer Share and/or your surplus application monies or your application monies, including the 1% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy that you paid to the extent attributable to the surplus application monies. We will not pay interest on any refunded amount. 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 PUBLIC OFFER SHARES

Refund cheques will be crossed “Account Payee Only” made out to you, or if you are joint applicants, to the first-named applicant on your Application Form. 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 purposes. 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.

DESPATCH/COLLECTION OF SHARE CERTIFICATES/e-AUTO REFUND PAYMENT INSTRUCTIONS/ REFUND CHEQUES

No temporary documents of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application. Subject to the provisions below relating to personal collection, share certificates and refund cheques will be sent to you in due course by ordinary post, at your own risk, to the address specified in your application:

- for applications on **white** Application Forms: (i) share certificate(s) for the Hong Kong Public Offer Shares you have applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Public Offer Shares you have successfully applied for, if the application is partially successful, and/or
- for applications on **white** or **yellow** Application Forms, a refund cheque or refund cheques crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Share paid on application in the event that the Offer Price is less than the initial price per Share paid on application, in each case including the related 1% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, but without interest.

For wholly successful and partially successful applications on **yellow** Application Forms, share certificates that the applicants have successfully applied for will be deposited into CCASS as described in the paragraph headed “— Despatch/Collection of Share Certificates/e-Auto Refund payment instructions/Refund Cheques — Personal collection for yellow Application Forms” below.

Subject to personal collection mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful under **white** or **yellow** Application Forms or the difference between the Offer Price and the initial price per Share paid on application, in each case including 1% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy, as well as share certificates for wholly and partially successful applications under **white** Application Forms are expected to be posted on or around Monday, June 27, 2011 or, for electronic applicants, are expected to be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, June 27, 2011. No interest will be paid thereon. We reserve the right to retain any share certificates and any surplus application monies pending clearance of your cheque(s).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Our share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Tuesday, June 28, 2011 provided that:

- the Global Offering has become unconditional in all respects; and
- the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offer — Grounds for termination” in this prospectus has not been exercised.

Personal collection for white Application Forms

If you have (i) applied for 1,000,000 Hong Kong Public Offer Shares or more on a **white** Application Form, (ii) indicated your intention in your Application Form to collect your refund cheque(s) (if applicable) and/or share certificate(s) (if applicable) for Hong Kong Public Offer Shares from our Hong Kong Share Registrar, and (iii) provided all information required by your Application Form, you may collect (if applicable) refund cheque(s) and (if applicable) share certificate(s) for Hong Kong Public Offer Shares from our Hong Kong Share Registrar, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, June 27, 2011 or any other date as notified by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques. If you are an individual and have elected for personal collection, you may not authorise any other person to make collection on your behalf. If you are a corporate applicant and have elected 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 our Hong Kong Share Registrar. If you do not collect your refund cheque(s) and share certificate(s) personally within the time specified for collection, they will be promptly sent by ordinary post to the address on your Application Form and at your own risk.

If you have applied for less than 1,000,000 Hong Kong Public Offer Shares or if you have applied for 1,000,000 Hong Kong Public Offer Shares or more, but have not indicated in your Application Form that you wish to collect your share certificate(s) (if applicable) and/or refund cheque(s) (if applicable) in person, your share certificate(s) (if applicable) and/or refund cheque(s) (if applicable) will be sent to the address on your Application Form on Monday, June 27, 2011 by ordinary post and at your own risk.

Personal collection for yellow Application Forms

If you have (i) applied for 1,000,000 Hong Kong Public Offer Shares or more on a **yellow** Application Form, (ii) indicated your intention in your Application Form to collect your refund cheque(s) from our Hong Kong Share Registrar, and (iii) provided all information required by your Application Form, you may collect (if applicable) refund cheque(s) from our Hong Kong Share Registrar in the same way as applicants using **white** Application Forms as described above.

If you have applied for less than 1,000,000 Hong Kong Public Offer Shares or if you have applied for 1,000,000 Hong Kong Public Offer Shares or more, but have not indicated in your Application Form that you wish to collect your refund cheque(s) in person, your refund cheque(s) (if applicable) will be sent to the address on your Application Form on Monday, June 27, 2011 by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you have applied for Hong Kong Public Offer Shares using a yellow Application Form and your application is wholly or partially successful, your share certificate(s) for Hong Kong Public Offer Shares you have successfully applied for will be issued in the name of HKSCC Nominees and deposited directly 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 Monday, June 27, 2011, or, under contingent situations, on any other date as will be determined by HKSCC or HKSCC Nominees.

If You Have Applied Through a Designated CCASS Participant (Other Than a CCASS Investor Participant)

For Offer Shares credited to the stock account of your designated CCASS Participant (other than CCASS Investor Participant), you can check the number of Offer Shares allotted to you with that CCASS Participant.

If You Have Applied as a CCASS Investor Participant

The results of CCASS Investor Participants' applications together with the results of the public offer is expected to be made available in the manner described in the paragraph headed "How to Apply for the Hong Kong Public Offer Shares — Publication of Results" above on Monday, June 27, 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, June 27, 2011 or any other date HKSCC or HKSCC Nominees chooses. Immediately after the credit of the Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and 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 Offer Shares credited to your stock account.

If you apply by giving electronic application instructions to HKSCC via CCASS and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of your CCASS Investor Participant stock account or the stock account of the CCASS Participant that you have instructed to give the **electronic application instruction** on your behalf on Monday, June 27, 2011 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

The application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the beneficial owner, if supplied), your Hong Kong identity card or passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer is expected to be made available in the manner described in the paragraph headed "— Publication of Results" above on Monday, June 27, 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, June 27, 2011 or any other date HKSCC or HKSCC Nominees chooses.

If you have applied through a designated CCASS Participant (other than a CCASS Investor Participant) for Hong Kong Public Offer Shares to be credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund (if any) payable to you with that CCASS Participant.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you have applied as a CCASS Investor Participant, you can also check the number of Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System on Monday, June 27, 2011. Immediately following the credit of the Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will make available to you an activity statement showing the number of Offer Shares credited to your stock account and the amount of refund money credited to your designated bank account (if any).

If You Have Applied Through HK eIPO White Form Service

If you have applied for 1,000,000 Hong Kong Public Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk and your application is wholly or partially successful, you may collect your share certificate(s) in person from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, June 27, 2011, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you have applied through the **HK eIPO White Form** service and paid the application monies from a single bank account, refund monies (if any) will be despatched to your application payment bank account in the form of e-Auto Refund payment instructions; If you have applied through **HK eIPO White Form** service and paid the application monies from multiple bank accounts, refund monies (if any) will be despatched to the address as specified on your **HK eIPO White Form** application in the form of refund cheque(s), by ordinary post and at your own risk.

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 **HK eIPO White Form** Service Provider promptly thereafter by ordinary post and at your own risk.

If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your share certificate(s) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk on Monday, June 27, 2011 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **HK eIPO White Form** Service Provider set out in the paragraph headed “— How to Apply Using HK eIPO White Form — Additional Information for Applicants Applying Through HK eIPO White Form” below.

HOW TO APPLY USING HK eIPO WHITE FORM

You may apply through **HK eIPO White Form** by submitting an application through the designated website at www.hkeipo.hk. If you apply through **HK eIPO White Form**, the Shares will be issued in your own name.

Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **HK eIPO White Form** Service Provider and may not be submitted to us.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

The designated **HK eIPO White Form Service Provider** may impose additional terms and conditions upon you for the use of the **HK eIPO White Form service**. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated **HK eIPO White Form Service Provider** through the **HK eIPO White Form service**, you are deemed to have authorized the designated **HK eIPO White Form Service Provider** to transfer the details of your application to our company and our Hong Kong Share Registrar.

You may submit an application through the **HK eIPO White Form service** in respect of a minimum of a board lot of 1,000 Hong Kong Public Offer Shares. Each **electronic application instruction** in respect of more than a board lot of 1,000 Hong Kong Public 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.hkeipo.hk.

You should give **electronic application instructions** through **HK eIPO White Form** at the times set out in the paragraph headed “— How to Apply Using HK eIPO White Form — Time for Applying Through HK eIPO White Form Service” below. You should make payment for your application made by **HK eIPO White Form service** in accordance with the methods and instructions set out in the designated website at www.hkeipo.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, June 22, 2011 or such later time as described under the paragraph headed “— Effect of Bad Weather on the Opening of the Application Lists” in this prospectus above for further details, the designated **HK eIPO White Form 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.hkeipo.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 **HK eIPO White Form 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 **HK eIPO White Form service**, 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**. Please refer to the paragraph headed “— How Many Applications You May Make” above for further details.

Warning: The application for Hong Kong Public Offer Shares through the **HK eIPO White Form service** is only a facility provided by the designated **HK eIPO White Form Service Provider** to public investors. Our Company, our Directors, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **HK eIPO White Form service** will be submitted to us or that you will be allotted any Hong Kong Public Offer Shares.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Time for Applying Through HK eIPO White Form Service

You may submit your application to the designated **HK eIPO White Form Service Provider** through the designated website at www.hkeipo.hk from 9:00 a.m. on Friday, June 17, 2011 until 11:30 a.m. on Wednesday, June 22, 2011 or such later time as described under the paragraph headed “— Effect of Bad Weather on the Opening of the Application Lists” above (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, June 22, 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 “— Effect of Bad Weather on the Opening of the Application Lists” above.

You will not be permitted to submit your application to the designated **HK eIPO White Form Service Provider** through the designated website at www.hkeipo.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.

Additional Information for Applicants Applying Through HK eIPO White Form

For the purposes of allocating Hong Kong Public Offer Shares, each applicant giving **electronic application instructions** through **HK eIPO White Form service** to the **HK eIPO White Form Service Provider** through the designated website at www.hkeipo.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form Service Provider**, the designated **HK eIPO White Form Service Provider** may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form Service Provider** on the designated website at www.hkeipo.hk.

HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) in accordance with the procedures contained in HKSCC’s “Operating Guide for Investor Participants” in effect from time to time.

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2nd Floor, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

and complete an input request form. Our prospectuses are available for collection at the above address.

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 Public Offer Shares on your behalf.

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 broker or custodian, to us and our Hong Kong Share Registrar.

Application for Hong Kong Public Offer Shares by HKSCC Nominees on Your Behalf

When you **electronically instruct** HKSCC to cause HKSCC Nominees to apply for Hong Kong Public Offer Shares on your behalf via CCASS, HKSCC Nominees will sign and submit a **white** Application Form on your behalf. In so doing,

- (i) HKSCC Nominees is only acting as a nominee for you and will not be, and you will be, however, liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;
- (ii) HKSCC Nominees, on your behalf:
 - agrees that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted the **electronic application instruction** on your behalf;
 - undertakes and agrees to accept the Hong Kong Public Offer Shares in respect of which you have given the **electronic application instruction** or any lesser number of such Offer Shares;
 - undertakes and confirms that you have not applied for or taken up any International Offer Shares under the International Offer nor otherwise participated in the International Offer;
 - (if the **electronic application instruction** is given for your own benefit) declares that only one set of **electronic application instruction** has been given for your benefit;
 - (if you are an agent for another person) declares that you have only given one set of **electronic application instruction** for the benefit of such other person and that you are duly authorized to give the instruction as such other person's agent;
 - understands that the above declaration will be relied upon by us, our Directors and the Sole Global Coordinator when deciding whether or not to make any allotment of Hong Kong Public Offer Shares in respect of the **electronic application instruction** given by you and that you are subject to prosecution for making any false declaration;
 - authorises us to place the name of HKSCC Nominees in our register of members as the holder of the Hong Kong Public Offer Shares allotted in respect of your **electronic application instruction** and to send share certificate(s) and/or refund money in accordance with the arrangements separately agreed between us and HKSCC;
 - confirms that you have read the terms and conditions and application procedures described in this prospectus and agrees to be bound by them;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- confirms that you have only relied on the information and representations contained in this prospectus in giving your **electronic application instruction** or instructing your broker or custodian to give the **electronic application instruction** on your behalf;
- agrees that we, the Hong Kong Underwriters and any other parties involved in the Hong Kong Public Offer are liable only for the information and representations contained in this prospectus;
- agrees to disclose your personal data to us and our Hong Kong Share Registrar, the Sole Global Coordinator, the Underwriters, receiving bankers, advisers and agents and any additional information which we or they may require about you;
- agrees (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;
- agrees that any application made by HKSCC Nominees on your behalf pursuant to **electronic application instructions** given by you is irrevocable 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), such agreement to take effect as a collateral contract with us and to become binding when you give such instruction. This collateral contract will be in consideration of our agreement not to offer any Hong Kong Public Offer Shares to any person 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) and our agreement to offer Hong Kong Public Offer Shares by means of one of the procedures described in this prospectus. However, HKSCC Nominees may revoke such application before the fifth business day after the time of the opening of the application lists if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section to exclude or limit the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees has been accepted, neither such application nor your **electronic application instruction** can be revoked, and that acceptance of such application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by us;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read together with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Public Offer Shares; and
- agrees 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.

EFFECT OF YOUR ELECTRONIC APPLICATION INSTRUCTION TO HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian, who is a CCASS Clearing Participant or a CCASS Custodian Participant, to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have taken the following actions. Neither HKSCC nor HKSCC Nominees shall be liable to us or to any other person in connection with the following actions:

- you have instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- you have instructed and authorized HKSCC to arrange payment of the maximum indicative offer price, with brokerage fee, transaction levy and trading fee, by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum indicative offer price per Hong Kong Public Offer Share you initially paid on application, refund of the application money or the relevant portion of it by crediting your designated bank account; and
- you have instructed and authorized HKSCC to cause HKSCC Nominees to take on your behalf the actions it is stated to take on your behalf in the **white** Application Form.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, June 17, 2011	— 9:00 a.m. to 8:30 p.m. ⁽¹⁾
Saturday, June 18, 2011	— 8:00 a.m. to 1:00 p.m. ⁽¹⁾
Monday, June 20, 2011	— 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Tuesday, June 21, 2011	— 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Wednesday, June 22, 2011	— 8:00 a.m. ⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, June 17, 2011 until 12:00 noon on Wednesday, June 22, 2011 (24 hours daily, except the last application day).

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public 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 such instruction is given will be treated as an applicant.

Section 40 of the Companies Ordinance

For the avoidance of doubt, we 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.

Personal Data

The section of the Application Form captioned “Personal Data” applies to any personal data held by us and our Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, the Sole Global Coordinator, the

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Sole Sponsor and the Underwriters take no responsibility for the application, including the procedures and processes of the application, and provide no assurance that any CCASS Participant will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised to allow ample time, and not to wait until the last minute, to input their **electronic application instructions** into the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **white** or **yellow** Application Form; or (ii) visit HKSCC's Customer Service Centre to complete an input request form for **electronic application instruction** before 12:00 noon on Wednesday, June 22, 2011.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Public Offer Shares are set out in notes attached to the Application Forms and, whether you are making your application by an Application Form or by **electronic application instruction** to HKSCC or the designated **HK eIPO White Form** Service Provider, you should read them carefully. In particular, you should note the following situations in which Hong Kong Public Offer Shares will not be allotted to you.

You May Only Revoke Your Application under Limited Circumstances

By completing and submitting an Application Form or **electronic application instructions** to HKSCC or the designated **HK eIPO White Form** Service Provider, your application or the application made by HKSCC Nominees or the designated **HK eIPO White Form** Service Provider on your behalf may not be revoked on or before the fifth day after the time of opening the application lists. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our agreement not to offer any Hong Kong Public Offer Shares to any person 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) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees or the designated **HK eIPO White Form** Service Provider on your behalf may only be revoked on or before the fifth day after the time of opening the application lists if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under such section to exclude or limit the responsibility of that person for 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 procedures provided, all applications that have been submitted will 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

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

HKSCC Nominees or the designated **HK eIPO White Form Service Provider** on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications that are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment 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.

Your Application May Be Accepted or Rejected at Our Discretion or Our Agent's Discretion

We and our agents (including the Sole Global Coordinator) or the designated **HK eIPO White Form Service Provider** (where applicable) have full discretion to reject or accept any application, or to accept only part of an application. We, the Sole Global Coordinator, the Sole Bookrunner and the Hong Kong Underwriters, in their capacity as our agents, and our and their respective agents and nominees, do not have to provide any reason for any rejection or acceptance.

Your Application Will Be Rejected if You Do Not Comply with Certain Conditions

Your application will be rejected if:

- you have made multiple applications or are suspected of having made multiple applications, including having indicated an interest for, or being placed (including conditionally and/or provisionally), any Offer Shares under the International Offer;
- your Application Form is not completed in accordance with the instructions as stated on such form;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.hkeipo.hk;
- your payment is not made correctly;
- you pay by cheque or banker's cashier order and such cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Offer. By filling in any of the Application Forms or applying by giving **electronic application instructions** to HKSCC or to the designated **HK eIPO White Form Service Provider** through the **HK eIPO White Form** service, you agree not to apply for Hong Kong Public Offer Shares as well as Offer Shares in the International Offer. 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 International Offer, and to identify and reject indications of interest in the International Offer from investors who have received Hong Kong Public Offer Shares in the Hong Kong Public Offer;
- if you apply for more than 50% of the Hong Kong Public Offer Shares initially being offered in the Hong Kong Public (that is 13,000,000 Offer Shares); and
- your application for Offer Shares is not in one of the numbers set out in the table in the Application Form.

Your Application Will Not Be Accepted under Certain Circumstances

Your application or HKSCC Nominee's application on your behalf will not be accepted if either:

- any Underwriting Agreement does not become unconditional; or
- any Underwriting Agreement is terminated in accordance with its terms.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Your Allotment of Hong Kong Public Offer Shares Will Be Void under Certain Circumstances

Your allotment of Hong Kong Public Offer Shares or the allotment of Hong Kong Public Offer Shares to HKSCC Nominees (if you give **electronic application instructions** or apply by a **yellow Application Form**) will be void if the Listing Committee does not grant permission to list our Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of such longer period within three weeks of the closing of the application lists.

DEALINGS AND SETTLEMENT

Commencement of Dealings in Our Shares on the Stock Exchange

Dealings in our Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Tuesday, June 28, 2011.

Our Shares will be traded on the Stock Exchange in board lots of 1,000 Shares. The stock code of our Shares is 01156.

Our Shares Will Be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply 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 any other date HKSCC chooses. Settlement of transactions between participants of the 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.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

You should seek advice of your stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect your rights and interests.

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



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

June 17, 2011

The Directors
Xing Yuan Power Holdings Company Limited

UBS AG, Hong Kong Branch

Dear Sirs,

Introduction

We set out below our report on the financial information relating to Xing Yuan Power Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and combined cash flow statements of the Group, for each of the years ended December 31, 2008, 2009 and 2010 (the "Relevant Period"), and the combined balance sheets of the Group as at December 31, 2008, 2009 and 2010, together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated June 17, 2011 (the "Prospectus").

The Company was incorporated in the Cayman Islands on January 10, 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to and upon the completion of a group reorganization on February 18, 2011 (the "Reorganization") as detailed in the section headed "History, Reorganization and Group Structure" in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganization.

As at the date of this report, no audited financial statements have been prepared for the Company, Rui Man Di Holding Limited and Neng Yuan Power Science and Technology Group Limited, as they either have not carried on any business since their respective dates of incorporation other than the Reorganization, or are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

All companies now comprising the Group have adopted December 31 as their financial year end date, except for Ascend Compliments Limited had adopted March 31, 2009 as its financial period end date for the period from February 28, 2008 (date of incorporation) to March 31, 2009. Details of the companies now comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 1(b) of Section C. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards or the relevant accounting rules and regulations applicable to the entities in the People's Republic of China (the "PRC") in which they were incorporated and/or established.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended December 31, 2008, 2009 and 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

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

Basis of opinion

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

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

Opinion

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

A BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on January 10, 2011. To rationalise the corporate structure in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("SEHK"), the Company underwent the Reorganization as detailed in the section headed "History, Reorganization and Group Structure" in the Prospectus. The Group is principally engaged in the manufacture, integration and sale of diesel generator cores, manufacture and sale of heat exchange systems and electronic control systems.

Pursuant to the concert party arrangement which was in existence during the Relevant Period as detailed in the section headed "Relationship with Our Controlling Shareholders" in the Prospectus, the companies that took part in the Reorganization now comprising the Group were controlled by the same group of equity owners, namely Mr. Li Zuoyuan, Ms. Xu Nengchen, Mr. Luo Huibin, Mr. Fan Xiao, Mr. Zhang Yu, Mr. Gao Yongchun, Ms. Huang Fei and Ms. Huang Yue (collectively referred to as the "Controlling Shareholders") before and after the Reorganization. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholders and, therefore, the Reorganization is considered to be a business combination of entities under common control. The Financial Information has been prepared using the merger basis of accounting as if the Reorganization had occurred as of the beginning of the earliest period presented. The net assets of the companies now comprising the Group are combined using the existing book values from the Controlling Shareholders' perspective.

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

All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Rui Man Di Holding Limited	British Virgin Islands ("BVI") January 4, 2011	1,000,000 ordinary shares of US\$0.01 each	100%	—	Investment holding
Neng Yuan Power Science and Technology Group Limited	Hong Kong January 14, 2011	1 ordinary share of HK\$10	—	100%	Investment holding
Xiangfan Hero City Machinery & Electric Co., Limited (襄樊朗弘機電有限公司) (note (i))	The PRC July 21, 2004	RMB22,000,000	—	100%	Sale of diesel generator cores
Xiangfan Kanghao M&E Engineering Co., Ltd. (襄樊康豪機電工程有限公司) (note (i))	The PRC December 7, 2005	RMB15,000,000	—	100%	Integration and sale of diesel generator cores
Wuhan Hero City Thermal-Sys Co., Ltd. (武漢朗弘熱力技術有限公司) (note (i))	The PRC December 27 2007	RMB4,000,000	—	92.5%	Manufacturing and sale of heat exchange systems
Beworld Thermal-Sys (Wuhan) Co., Ltd. (倍沃得熱力技術(武漢)有限公司) (note (i))	The PRC December 28, 2007	RMB2,000,000	—	90%	Manufacturing and sales of heat exchange systems
Chongqing Langyu Power Equipment Co., Ltd. (重慶朗譽動力設備有限公司) (note (i))	The PRC June 22, 2009	RMB1,000,000	—	55%	Integration and sale of oil hydraulic generator cores
Ascend Compliments Limited	Hong Kong February 28, 2008	10,000 ordinary shares of HK\$1 each	—	100%	Manufacturing and sale of electronic speed controllers
Wuhan Norman Technology Co., Ltd. (武漢諾爾曼科技有限公司) (note (i))	The PRC July 25, 2008	RMB5,000,000	—	90%	Manufacturing and sale of electronic speed actuators
Wuhan Roll Technology Co., Ltd. (武漢羅爾科技有限公司) (note (i))	The PRC August 1, 2007	RMB19,000,000	—	100%	Property holding

During the Relevant Period, the Group disposed of its indirect interests in the following subsidiary, which is a private company and the particulars are set out below:

Name of company	Place and date of establishment	Fully paid up/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Beijing Changyuan Hero City Technology Co., Ltd. (北京長源朗弘科技有限公司) (notes (i) & (ii))	The PRC October 31, 2007	RMB50,000,000	—	70%	Manufacturing and sale of engine parts

Notes:

- (i) The English translation of the company names is for reference only. The official names of these companies are in Chinese.
- (ii) Pursuant to the share transfer agreement dated August 20, 2008, Xiangfan Kanghao M&E Engineering Co., Ltd. disposed of its 88% equity interest (the Group's effective equity interest of 70%) in Beijing Changyuan Hero City Technology Co., Ltd. to a related party at a consideration of RMB44,000,000. Further details of the transaction are set out in note 4 of Section C.

B COMBINED FINANCIAL INFORMATION

1 Combined income statements

	Section C Note	Years ended December 31		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Turnover	5	1,005,202	640,593	1,109,946
Cost of sales		<u>(857,936)</u>	<u>(542,430)</u>	<u>(945,722)</u>
Gross profit		147,266	98,163	164,224
Other revenue	6	994	1,367	1,267
Other net income/(loss)	6	927	61	(1,219)
Selling and distribution expenses		(11,307)	(8,040)	(12,625)
Administrative expenses		<u>(14,193)</u>	<u>(16,851)</u>	<u>(25,014)</u>
Profit from operations		123,687	74,700	126,633
Finance costs	7(a)	(6,821)	(8,549)	(8,511)
Share of profits less losses of an associate		(434)	167	143
Share of profits less losses of jointly controlled entities		<u>(311)</u>	<u>751</u>	<u>6,275</u>
Profit before taxation	7	116,121	67,069	124,540
Income tax	8(a)	<u>(7,547)</u>	<u>(14,189)</u>	<u>(22,161)</u>
Profit for the year		<u>108,574</u>	<u>52,880</u>	<u>102,379</u>
Attributable to:				
Equity shareholders of the Company		74,605	49,811	100,628
Non-controlling interests		<u>33,969</u>	<u>3,069</u>	<u>1,751</u>
Profit for the year		<u>108,574</u>	<u>52,880</u>	<u>102,379</u>
Basic and diluted earnings per share (RMB)	11	<u>0.124</u>	<u>0.083</u>	<u>0.168</u>

The accompanying notes form part of the Financial Information.

2 Combined statements of comprehensive income

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit for the year	108,574	52,880	102,379
Other comprehensive income for the year			
Exchange differences on translation of financial statements of entities outside the Mainland China, net of nil tax	6	(14)	(334)
Total comprehensive income for the year	<u>108,580</u>	<u>52,866</u>	<u>102,045</u>
Attributable to:			
Equity shareholders of the Company	74,611	49,797	100,294
Non-controlling interests	<u>33,969</u>	<u>3,069</u>	<u>1,751</u>
Total comprehensive income for the year	<u>108,580</u>	<u>52,866</u>	<u>102,045</u>

The accompanying notes form part of the Financial Information.

3 Combined balance sheets

	Section C Note	As at December 31		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	12	8,856	11,636	15,864
Construction in progress	14	90	—	1,392
Lease prepayments	13	—	11,740	11,542
Prepayment for acquisition of leasehold land		11,416	—	—
Interest in an associate	15	4,066	4,233	—
Interests in jointly controlled entities	16	6,671	7,422	9,606
Deferred tax assets	17(b)	378	1,748	5,931
Total non-current assets		<u>31,477</u>	<u>36,779</u>	<u>44,335</u>
Current assets				
Inventories	18	36,492	74,129	65,827
Trade and bills receivables	19	40,976	24,499	68,940
Prepayments and other receivables	20	6,222	48,618	53,394
Amounts due from related parties	31(c)	94,693	85,642	59,575
Restricted bank deposits	21	—	225	—
Cash and cash equivalents	22	34,474	66,732	91,115
Total current assets		<u>212,857</u>	<u>299,845</u>	<u>338,851</u>
Current liabilities				
Bank loans	23	15,000	68,500	100,000
Trade and other payables	24	77,933	110,617	104,801
Amounts due to related parties	31(c)	68,356	84,934	19,322
Income tax payables	17(a)	—	7,558	15,097
Warranty provisions	25	1,397	1,140	1,006
Total current liabilities		<u>162,686</u>	<u>272,749</u>	<u>240,226</u>
Net current assets		<u>50,171</u>	<u>27,096</u>	<u>98,625</u>
Total assets less current liabilities		81,648	63,875	142,960
Non-current liabilities				
Deferred tax liabilities	17(b)	7,800	5,500	6,500
NET ASSETS		<u>73,848</u>	<u>58,375</u>	<u>136,460</u>
EQUITY				
Capital	26	9,972	10,522	42,522
Reserves	27	53,536	44,032	88,551
Total equity attributable to equity				
shareholders of the Company		63,508	54,554	131,073
Non-controlling interests		10,340	3,821	5,387
TOTAL EQUITY		<u>73,848</u>	<u>58,375</u>	<u>136,460</u>

The accompanying notes form part of the Financial Information.

4 Combined statements of changes in equity

Section C Note	Attributable to equity shareholders of the Company							Total equity RMB'000	
	PRC			Non-					
	Capital RMB'000 (note 26)	statutory reserves RMB'000 (note 27(b))	Capital reserve RMB'000 (note 27(c))	Other reserves RMB'000 (note 27(d))	Translation reserve RMB'000 (note 27(e))	Retained earnings RMB'000	Total controlling interests RMB'000		
At January 1, 2008	4,263	881	—	—	—	8,986	14,130	4,311	18,441
Profit for the year	—	—	—	—	—	74,605	74,605	33,969	108,574
Other comprehensive income	—	—	—	—	6	—	6	—	6
Total comprehensive income	—	—	—	—	6	74,605	74,611	33,969	108,580
Dividends declared	—	—	—	—	—	(32,127)	(32,127)	(27,592)	(59,719)
Capital injection	5,709	—	—	—	—	—	5,709	1,300	7,009
Appropriation to statutory reserves	—	1,000	—	—	—	(1,000)	—	—	—
Acquisition of non-controlling interests	—	—	—	1,185	—	—	1,185	(2,448)	(1,263)
Partial disposal of equity interest in subsidiaries to non-controlling interests	—	—	—	—	—	—	—	800	800
At December 31, 2008	9,972	1,881	—	1,185	6	50,464	63,508	10,340	73,848

Section C Note	Attributable to equity shareholders of the Company									
	PRC					Non-				
	Capital	statutory	Capital	Other	Translation	Retained	Total	controlling	Total	equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(note 26)	(note 27(b))	(note 27(c))	(note 27(d))	(note 27(e))	(note 27(e))	(note 27(e))	(note 27(e))	(note 27(e))	(note 27(e))	(note 27(e))
At January 1, 2009	9,972	1,881	—	1,185	6	50,464	63,508	10,340	73,848	
Profit for the year	—	—	—	—	—	49,811	49,811	3,069	52,880	
Other comprehensive income	—	—	—	—	(14)	—	(14)	—	(14)	
Total comprehensive income	—	—	—	—	(14)	49,811	49,797	3,069	52,866	
Dividends declared	—	—	—	—	—	(59,534)	(59,534)	(10,415)	(69,949)	
Capital injection	550	—	—	—	—	—	550	450	1,000	
Waive of loan by the equity shareholders	—	—	1,069	—	—	—	1,069	56	1,125	
Acquisition of non-controlling interests	—	—	—	599	—	—	599	(1,214)	(615)	
Partial disposal of equity interest in subsidiaries to non-controlling interests	—	—	—	(1,435)	—	—	(1,435)	1,535	100	
At December 31, 2009	10,522	1,881	1,069	349	(8)	40,741	54,554	3,821	58,375	

Section C Note	Attributable to equity shareholders of the Company									
	PRC					Non-				
	Capital	statutory	Capital	Other	Translation	Retained	Total	controlling	Total	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(note 26)	(note 27(b))	(note 27(c))	(note 27(d))	(note 27(e))	(note 27(f))	(note 27(g))	(note 27(h))	(note 27(i))	(note 27(j))	(note 27(k))
At January 1, 2010	10,522	1,881	1,069	349	(8)	40,741	54,554	3,821	58,375	
Profit for the year	—	—	—	—	—	100,628	100,628	1,751	102,379	
Other comprehensive income	—	—	—	—	(334)	—	(334)	—	(334)	
Total comprehensive income	—	—	—	—	(334)	100,628	100,294	1,751	102,045	
Dividends declared	—	—	—	—	—	(57,057)	(57,057)	—	(57,057)	
Capital injection	31,000	—	—	—	—	—	31,000	—	31,000	
Appropriation to statutory reserves	—	7,276	—	—	—	(7,276)	—	—	—	
Acquisition of a subsidiary	—	—	—	—	—	—	—	2,857	2,857	
Acquisition of non-controlling interests	—	—	—	2,282	—	—	2,282	(3,042)	(760)	
Capitalization of capital reserve of a subsidiary.	1,000	—	(1,000)	—	—	—	—	—	—	
At December 31, 2010	42,522	9,157	69	2,631	(342)	77,036	131,073	5,387	136,460	

The accompanying notes form part of the Financial Information.

5 Combined cash flow statements

	Section C Note	Years ended December 31		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Operating activities				
Cash generated from operations	22(b)	105,106	47,759	91,741
Income tax paid				
- Hong Kong profits tax paid		—	—	(3,553)
- PRC income tax paid		—	(10,298)	(14,446)
Net cash generated from operating activities . .		105,106	37,461	73,742
Investing activities				
Disposal of a subsidiary, net of cash disposed of	4	43,884	—	—
Acquisition of a subsidiary, net of cash generated	3(a)	—	—	502
Proceeds from disposal of property, plant and equipment		9,508	104	24
Proceeds from disposal of construction in progress		1,109	—	—
Proceeds from disposal of lease prepayments .		11,167	—	—
Proceeds from disposal of investment in an associate	15	—	—	4,500
Proceeds from disposal of interest in an jointly controlled entity	16	—	—	1,020
Payment for purchase of property, plant and equipment		(11,686)	(4,749)	(2,054)
Payment for construction in progress		(10,604)	(18)	(1,350)
Payment for lease prepayments		(23,528)	(463)	—
Payment for prepayment for the acquisition of leasehold land		(11,416)	—	—
Payment for investment in an associate		(4,500)	—	—
Payment for investment in jointly controlled entities		(900)	—	(20)
Interest received		796	1,274	1,143
(Increase)/decrease in amounts due from related parties (non-trade related)		(73,167)	8,308	14,556
Net cash (used in)/generated from investing activities		(69,337)	4,456	18,321

	Section C Note	Years ended December 31		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Financing activities				
Proceeds from bank loans		15,000	163,500	167,000
Repayment of bank loans		(10,000)	(110,000)	(135,500)
Proceeds from capital injection		7,009	1,000	31,000
Payment for acquisition of non-controlling interests		(1,263)	(615)	(760)
Proceeds for partial disposal of equity interest in subsidiaries to non-controlling interests		800	100	—
Increase/(decrease) in amounts due to related parties (non-trade related)		20,551	14,854	(63,852)
Interest paid		(6,821)	(8,549)	(8,511)
Dividends paid to non-controlling interests		(27,592)	(10,415)	—
Dividends paid to equity shareholders of the Company		<u>(32,127)</u>	<u>(59,534)</u>	<u>(57,057)</u>
Net cash used in financing activities		<u>(34,443)</u>	<u>(9,659)</u>	<u>(67,680)</u>
Net increase in cash and cash equivalents		1,326	32,258	24,383
Cash and cash equivalents at the beginning of the year		<u>33,148</u>	<u>34,474</u>	<u>66,732</u>
Cash and cash equivalents at the end of the year	22(a)	<u>34,474</u>	<u>66,732</u>	<u>91,115</u>

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

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

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting year ended December 31, 2010. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning January 1, 2010 are set out in note 34.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

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

(b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

Details of the companies comprising of the Group that are subject to statutory audit during the Relevant Period and the names of the respective auditors are set out below:

Name of company	Financial period	Statutory auditors
Xiangfan Hero City Machinery & Electric Co., Limited (襄樊朗弘機電有限公司) (note)	Year ended December 31, 2008	Accounting Company of Limited Liability Xiangfan Fazheng 襄樊法正會計師事務有限責任公司
	Year ended December 31, 2009	Hubei Da Xin Zheng Ze Accounting Business Co., Ltd 湖北大信正則會計師事務有限公司
	Year ended December 31, 2010	Xiangfan Huaju Accountant Office Ltd 襄樊華炬會計師事務有限公司
Xiangfan Kanghao M&E Engineering Co., Ltd. (襄樊康豪機電工程有限公司) (note)	Years ended December 31, 2008, 2009 and 2010	Accounting Company of Limited Liability Xiangfan Fazheng 襄樊法正會計師事務有限責任公司

Name of company	Financial period	Statutory auditors
Wuhan Hero City Thermal-Sys Co., Ltd. (武漢朗弘熱力技術有限公司) (note)	Years ended December 31, 2008 and 2009	Hubei Chang Jiang Accountants Affairs Co., Ltd. 湖北長江會計師事務所有限公司
	Year ended December 31, 2010	Wuhan Zhonggu Certified Public Accountants Co., Ltd. 武漢中谷會計師事務所有限公司
Beworld Thermal-Sys (Wuhan) Co., Ltd. (倍沃得熱力技術(武漢)有限公司) (note)	Years ended December 31, 2008 and 2009	Hubei Chang Jiang Accountants Affairs Co., Ltd. 湖北長江會計師事務所有限公司
	Year ended December 31, 2010	Wuhan Zhonggu Certified Public Accountants Co., Ltd. 武漢中谷會計師事務所有限公司
Chongqing Langyu Power Equipment Co., Ltd. (重慶朗譽動力設備有限公司) (note)	Period from June 22, 2009 (date of establishment) to December 31, 2009 and year ended December 31, 2010	Chongqing Jinzhou Certified Public Accountants Co., Ltd. 重慶金洲會計師事務所有限公司
Ascend Compliments Limited	Period from February 28, 2008 (date of incorporation) to March 31, 2009, period from April 1, 2009 to December 31, 2009 and year ended December 31, 2010	SBC CPA Limited
Wuhan Norman Technology Co., Ltd. (武漢諾爾曼科技有限公司) (note)	Period from July 25, 2008 (date of incorporation) to December 31, 2008 and year ended December 31, 2009	Hubei Chang Jiang Accountants Affairs Co., Ltd. 湖北長江會計師事務所有限公司
	Year ended December 31, 2010	Wuhan Zhonggu Certified Public Accountants Co., Ltd. 武漢中谷會計師事務所有限公司
Wuhan Roll Technology Co., Ltd. (武漢羅爾科技有限公司) (note)	Year ended December 31, 2008	Wuhan Wallac Certified Public Accountants 武漢華萊士會計師事務所

Name of company	Financial period	Statutory auditors
	Year ended December 31, 2009	Hubei Aobo Accountant Affairs Co., Ltd. 湖北奧博會計師事務所有限公司
	Year ended December 31, 2010	Wuhan Zhongchangda Certified Public Accountants Co., Ltd. 武漢中昌達會計師事務所有限責任公司

Note:

The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(c) Basis of measurement

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

Items included in the financial statements of each of the Group's entities are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand except per share data. RMB is the functional currency and the reporting currency for the entities established in the PRC. The functional currency of the Company is Hong Kong dollar.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with IFRSs requires management to make judgements, 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 judgements 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.

Judgement made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 33.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Financial statements of the subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

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

Non-controlling interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined income statement and the combined statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the combined balance sheet in accordance with note 1(p).

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss.

(f) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Transaction costs in connection with a business combination are expensed as incurred.

Merger accounting is adopted for common control combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling interest.

The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

(g) Associate and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and the other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the Financial Information under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investees' net assets and any impairment loss relating to the investment (see notes 1(m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in the combined income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the combined statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealized profits and losses resulting from transactions between the Group and its associate and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss.

(h) Other financial assets

Other financial assets include loans to other parties and are recognized initially at fair value. Subsequent to initial recognition, other financial assets are carried at amortized cost using the effective interest method.

(i) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see note 1(m)).

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

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

- Leasehold improvements	Shorter of 5 years or unexpired term of the lease
- Plant and machinery	5 to 10 years
- Motor vehicles	5 years
- Furniture, fixtures and other equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(m)). The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)). Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(k) Lease prepayments

Lease prepayments represent the cost of land use rights paid to the PRC governmental authorities. Lease prepayments are carried at cost less accumulated amortization and impairment losses (see note 1(m)). Amortization is charged to profit or loss on a straight-line basis over the respective period of the rights.

(l) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made.

(m) Impairment of assets**(i) Impairment of investments in equity securities and receivables**

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

- For investments in associates and jointly controlled entities recognized using the equity method (see note 1(g)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(m)(ii).
- For receivables carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses recognized in respect of trade debtors and bills receivable are included within trade and bills receivables, whose recovery is considered doubtful but not remote. In this case, the

impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) Impairment of other assets

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

- property, plant and equipment;
- construction in progress; and
- lease prepayments

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(n) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(o) Trade and other receivables

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

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plans

Obligations for contributions to local defined contribution retirement plans pursuant to the relevant labour rules and regulations in the PRC are recognized as an expense in profit or loss when they are due, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

(t) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(u) Provisions and contingent liabilities

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

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

(v) Revenue recognition

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

(i) Sale of goods

Revenue is recognized when the customer has accepted the goods and the related risks and rewards of ownership. For goods that require acceptance testing, revenue is recognized when customers confirmed acceptance of the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and rebates. Deposits and instalments received prior to the date of revenue recognition are included in the balance sheet under receipt in advance under trade and other payables.

(ii) Interest income

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

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the Mainland China are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

(x) Borrowing costs

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

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

(y) Related parties

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

(z) Segment reporting

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

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

2 Operating segments

The Group manages its businesses by lines of businesses. In a manner consistent with the way in which information is reported internally to the Group's senior executive management which has been identified as the chief operating decision-maker for the purpose of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments:

- Power core business:
Manufacture, integration and sale of diesel generator cores in the PRC
- Heat exchange system business:
Design, manufacturing and sale of heat exchange system in the PRC
- Electronic control system business:
Design, manufacturing and sale of electronic control system in Hong Kong and the PRC

For the purpose of assessing segment performance and allocating resources among segments, the senior executive management assesses the performance of the operating segments based on turnover, gross profit and profit before taxation. The Group does not allocate its share of results of an associate and jointly controlled entities (except Hubei Langtong Power Technology Co., Ltd. ("Hubei Langtong") and Beworld Thermal-Sys (Wuhan) Co., Ltd. ("Beworld") are included in the power core business and heat exchange system business respectively) to its segments, as the senior executive management does not use this information to allocate resources to or evaluate the performance of the operating segments. Segment assets and liabilities are not regularly reported to the Group's senior executive management and therefore information of reportable segment assets and liabilities are not presented in the Financial Information. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

(a) Information about reportable segments

Year ended December 31, 2008

	Heat exchange system					Total
	Power core	Heat exchange system with Beworld at 100%	Adjustments to reflect the Group's equity share in Beworld	Sub-total	Electronic control system	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	999,901	11,279	(9,674)	1,605	3,696	1,005,202
Inter-segment revenue	145	8,886	—	8,886	—	9,031
Reportable segment revenue	<u>1,000,046</u>	<u>20,165</u>	<u>(9,674)</u>	<u>10,491</u>	<u>3,696</u>	<u>1,014,233</u>
Reportable segment gross profit	<u>147,315</u>	<u>2,621</u>	<u>(1,652)</u>	<u>969</u>	<u>45</u>	<u>148,329</u>
Share of profit before taxation of Hubei Langtong	<u>567</u>					<u>567</u>
Reportable segment profit/(loss) before taxation	<u>121,043</u>	<u>(1,350)</u>	<u>645</u>	<u>(705)</u>	<u>(1,456)</u>	<u>118,882</u>
Depreciation and amortization	1,558	300	(151)	149	6	1,713
Interest income	392	3	—	3	—	395
Finance costs	<u>6,819</u>	<u>22</u>	<u>(20)</u>	<u>2</u>	<u>—</u>	<u>6,821</u>

Year ended December 31, 2009

	Heat exchange system					Total
	Power core	Heat exchange system with Beworld at 100%	Adjustments to reflect the Group's equity share in Beworld	Sub-total	Electronic control system	
		RMB'000	RMB'000	RMB'000	RMB'000	
Revenue from external customers	615,529	23,774	(20,520)	3,254	21,810	640,593
Inter-segment revenue	<u>25</u>	<u>20,146</u>	<u>(225)</u>	<u>19,921</u>	<u>15,534</u>	<u>35,480</u>
Reportable segment revenue	<u>615,554</u>	<u>43,920</u>	<u>(20,745)</u>	<u>23,175</u>	<u>37,344</u>	<u>676,073</u>
Reportable segment gross profit	<u>75,318</u>	<u>13,910</u>	<u>(6,119)</u>	<u>7,791</u>	<u>19,562</u>	<u>102,671</u>
Share of profit before taxation of Hubei Langtong . .	<u>1,549</u>					<u>1,549</u>
Reportable segment profit before taxation	<u>46,312</u>	<u>3,673</u>	<u>(1,077)</u>	<u>2,596</u>	<u>23,353</u>	<u>72,261</u>
Depreciation and amortization	772	808	(430)	378	659	1,809
Interest income	892	2	—	2	—	894
Finance costs	<u>8,029</u>	<u>826</u>	<u>(306)</u>	<u>520</u>	<u>—</u>	<u>8,549</u>

Year ended December 31, 2010

	Heat exchange system					Total
	Power core	Heat exchange system with Beworld at 100%	Adjustments to reflect the Group's equity share in Beworld	Sub-total	Electronic control system	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	1,064,449	57,075	(42,583)	14,492	31,005	1,109,946
Inter-segment revenue	25	32,732	(1,291)	31,441	67,306	98,772
Reportable segment revenue	<u>1,064,474</u>	<u>89,807</u>	<u>(43,874)</u>	<u>45,933</u>	<u>98,311</u>	<u>1,208,718</u>
Reportable segment gross profit	<u>103,342</u>	<u>26,720</u>	<u>(12,756)</u>	<u>13,964</u>	<u>64,691</u>	<u>181,997</u>
Share of profit before taxation of Hubei Langtong . .	<u>4,615</u>					<u>4,615</u>
Reportable segment profit before taxation	<u>65,783</u>	<u>11,214</u>	<u>(2,534)</u>	<u>8,680</u>	<u>68,001</u>	<u>142,464</u>
Depreciation and amortization	694	1,150	(655)	495	978	2,167
Interest income	843	284	—	284	16	1,143
Finance costs	<u>8,097</u>	<u>393</u>	<u>—</u>	<u>393</u>	<u>21</u>	<u>8,511</u>

Beworld has been included in the heat exchange system segment, although it is a jointly controlled entity for the years ended December 31, 2008, 2009 and 2010. Beworld became a subsidiary of the Group on December 31, 2010. The senior executive management reviews the turnover, gross profit and profit before taxation of Beworld as part of its resource allocation and performance assessment. Full information on turnover, gross profit and profit before taxation of Beworld has been included in the above, although these amounts do not appear in the Group's combined income statements on a line by line basis. Adjustments are also presented in the above to reflect the Group's equity shares of Beworld in the combined income statements.

(b) Reconciliation of reportable segment revenues and profit or loss

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue			
Total reportable segment revenue	1,014,233	676,073	1,208,718
Elimination of inter-segment revenue	<u>(9,031)</u>	<u>(35,480)</u>	<u>(98,772)</u>
Combined revenue	<u>1,005,202</u>	<u>640,593</u>	<u>1,109,946</u>
Profit			
Reportable segment profit before taxation	118,882	72,261	142,464
Elimination of inter-segment profits	<u>(1,063)</u>	<u>(4,508)</u>	<u>(16,720)</u>
Reportable segment profit, derived from the Group's external customers and jointly controlled entities (Beworld and Hubei Langtong)	117,819	67,753	125,744
Unallocated amounts:			
Other revenue of head office	191	1	16
Unallocated head office and corporate expenses . .	(1,334)	(904)	(1,673)
Share of profits less losses of an associate	(434)	167	143
Share of profits less losses of jointly controlled entities (other than Beworld and Hubei Langtong)	<u>(121)</u>	<u>52</u>	<u>310</u>
Combined profit before taxation	<u>116,121</u>	<u>67,069</u>	<u>124,540</u>

(c) Geographical information

The Group's customer base is diversified and no revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue during the Relevant Period. Details of concentration of credit risk arising from customers are set out in note 28(a).

The Group does not allocate any specific assets or expenditures for property, plant and equipment to the operating segments as the chief operating decision maker does not use the information to measure the performance of the reportable segments.

All of the Group's turnover from external customers is attributable to the PRC.

The following table sets out information about the geographical location of the Group's property plant and equipment, construction in progress, lease prepayments, prepayment for acquisition of leasehold land and interests in associate and jointly controlled entities ("specified non-current assets"). The geographical location of the specified non-current assets is based on the location of the asset, in the case of property, plant and equipment, construction in progress, lease prepayments and prepayment for acquisition of leasehold land, and the location of operations, in the case of interests in associate and jointly controlled entities.

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The PRC (place of domicile)	31,014	33,530	36,889
Hong Kong	85	1,501	1,515
	<u>31,099</u>	<u>35,031</u>	<u>38,404</u>

3 Acquisitions of a subsidiary and non-controlling interests

(a) Acquisition of Beworld

On April 7, 2010, the Group acquired additional 1% equity interest in Beworld for RMB20,000 in cash, increasing the Group's equity interest in Beworld from 50% to 51%. Notwithstanding the increase in shareholding to 51%, Beworld was not accounted for as a subsidiary as the Group exercised joint control over the financial and operating policies of Beworld with the joint venture partner in accordance with the Articles of Association. As a result, the Group's equity interest in Beworld was accounted for in the Financial Information under the equity method. On December 31, 2010, the Group obtained an effective control over the majority of the board of directors of Beworld (three out of five board seats) due to the change in the composition of the board of directors of Beworld. Beworld was then accounted for and combined into the Financial Information of the Group as a subsidiary.

If the acquisition had been occurred on January 1, 2010, the directors of the Company estimated that the Group's combined revenue would have been RMB1,152,529,000, after eliminating the intra-group transactions, and the Group's combined profit for the year ended December 31, 2010 would have been RMB104,361,000.

The identifiable assets and liabilities as of December 31, 2010 arising from the acquisition are as follows:

	Identifiable assets acquired and liabilities assumed
	RMB'000
Property, plant and equipment (note 12)	4,582
Construction in progress (note 14)	42
Trade and bills receivables	16,410
Prepayments and other receivables	2,475
Inventories	7,128
Cash and cash equivalents	502
Amounts due from related parties	73
Trade and other payables	(14,101)
Amounts due to related parties	(11,086)
Income tax payables (note 17(a))	(194)
Net assets	5,831
Non-controlling interests	(2,857)
Net identifiable assets acquired	<u>2,974</u>
Consideration:	
Fair value of previously held equity interest in Beworld at the acquisition date	<u>2,974</u>
Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiary:	
Cash and cash equivalents acquired and cash inflow on acquisition	<u>502</u>

(b) Acquisition of non-controlling interests of Xiangfan Kanghao M&E Engineering Co., Ltd. ("Xiangfan Kanghao")

- (i) Pursuant to a board resolution passed by Xiangfan Kanghao on April 18, 2008, Xiangfan Kanghao distributed approximately RMB2,580,000 to two of its then equity holders (who held 21% in aggregate of the equity interest in Xiangfan Kanghao). These then equity shareholders disposed of their 13% and 8% equity interest in Xiangfan Kanghao to the Group and other individuals respectively on May 4, 2008.

On May 4, 2008, the Group acquired additional 13% equity interest in Xiangfan Kanghao for RMB390,000 in cash, increasing the Group's equity interest in Xiangfan Kanghao from 58.75% to 71.75%. The carrying amount of Xiangfan Kanghao's net assets on the date of acquisition was RMB10,723,000. The Group recognized a decrease in non-controlling interests of RMB134,000 and a decrease in other reserves of RMB256,000.

- (ii) Pursuant to a board resolution passed by Xiangfan Kanghao on May 30, 2008, Xiangfan Kanghao distributed approximately RMB2,454,000 to one of its then equity holders (who held 7.75% equity interest in Xiangfan Kanghao). This then equity shareholder disposed of his 7.75% equity interest in Xiangfan Kanghao to the Group on June 13, 2008.

On June 13, 2008, the Group acquired additional 7.75% equity interest in Xiangfan Kanghao for RMB233,000 in cash, increasing the Group's equity interest in Xiangfan Kanghao from 71.75% to 79.5%. The carrying amount of Xiangfan Kanghao's net assets on the date of acquisition was RMB49,673,000. The Group recognized a decrease in non-controlling interests of RMB1,786,000 and an increase in other reserves of RMB1,553,000.

- (iii) Pursuant to a board resolution passed by Xiangfan Kanghao on March 3, 2009, Xiangfan Kanghao distributed approximately RMB9,461,000 to two of its then equity holders (who held 20.5% in aggregate of the equity interest in Xiangfan Kanghao). These then equity shareholders disposed of their 20.5% equity interest in Xiangfan Kanghao to the Group on April 7, 2009.

On April 7, 2009, the Group acquired additional 20.5% equity interest in Xiangfan Kanghao for RMB615,000 in cash, increasing the Group's equity interest in Xiangfan Kanghao from 79.5% to 100%. The carrying amount of Xiangfan Kanghao's net liabilities on the date of acquisition was RMB3,338,000. The Group recognized a decrease in non-controlling interests of RMB1,255,000 and an increase in other reserves of RMB640,000.

The following table summarizes the effect of the Group's share of equity interest in Xiangfan Kanghao during the years ended December 31, 2008, 2009 and 2010:

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The Group's share of equity interest at January 1 . . .	6,138	40,654	25,285
Capital injection	—	—	12,000
Effect of increase in the Group's share of equity interest	1,920	1,255	—
Effect of dividend declared	(32,127)	(53,112)	(20,539)
Share of total comprehensive income.	<u>64,723</u>	<u>36,488</u>	<u>62,532</u>
The Group's share of equity interest at December 31	<u>40,654</u>	<u>25,285</u>	<u>79,278</u>

(c) Acquisition of non-controlling interests of Xiangfan Hero City Machinery & Electric Co., Ltd. ("Xiangfan Hero City")

- i. On June 1, 2009, the Group disposed of 5% equity interest in Xiangfan Hero City for RMB100,000 in cash, decreasing the Group's equity interest in Xiangfan Hero City from 100% to 95%. The carrying amount of Xiangfan Hero City's net assets on the date of disposal was RMB30,695,000. The Group recognized an increase in non-controlling interests of RMB1,535,000 and a decrease in other reserves of RMB1,435,000.
- ii. On April 21, 2010, the Group acquired additional 5% equity interest in Xiangfan Hero City for RMB100,000 in cash, increasing the Group's equity interest in Xiangfan Hero City from 95% to 100%. The carrying amount of Xiangfan Hero City's net assets on the date of acquisition was RMB29,170,000. The Group recognized a decrease in non-controlling interests of RMB1,458,000 and an increase in other reserves of RMB1,358,000.

The following table summarizes the effect of the Group's share of equity interest in Xiangfan Hero City during the years ended December 31, 2008, 2009 and 2010:

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The Group's share of equity interest at January 1 . . .	8,057	29,117	27,008
Increase in capital reserve	—	1,069	—
Capital injection	—	—	19,000
Effect of increase in the Group's share of equity interest	—	(1,535)	1,458
Effect of dividend declared	—	(12,822)	(23,750)
Share of total comprehensive income	<u>21,060</u>	<u>11,179</u>	<u>8,849</u>
The Group's share of equity interest at December 31	<u>29,117</u>	<u>27,008</u>	<u>32,565</u>

(d) Disposal of equity interest and acquisition of non-controlling interests of Wuhan Hero City Thermal-sys Co., Ltd. ("Wuhan Hero City")

- i. On February 28, 2008, the Group disposed of 40% equity interest in Wuhan Hero City for RMB800,000 in cash, decreasing the Group's equity interest in Wuhan Hero City from 100% to 60%. The carrying amount of Wuhan Hero City's net assets on the date of disposal was RMB2,000,000. The Group recognized an increase in non-controlling interests of RMB800,000.
- ii. On December 23, 2008, the Group acquired additional 16% equity interest in Wuhan Hero City for RMB640,000 in cash, increasing the Group's equity interest in Wuhan Hero City from 60% to 76%. The carrying amount of Wuhan Hero City's net assets on the date of acquisition was RMB3,300,000. The Group recognized a decrease in non-controlling interests of RMB528,000 and a decrease in other reserves of RMB112,000.
- iii. On June 1, 2009, the Group's equity interest in Xiangfan Hero City (who holds 25% equity interest in Wuhan Hero City) decreased from 100% to 95%. As a result, the Group's effective equity interest in Wuhan Hero City decreased from 76% to 74.75%. The Group recognized an increase in non-controlling interests of RMB41,000.
- iv. On April 21, 2010, the Group's equity interest in Xiangfan Hero City (who holds 25% equity interest in Wuhan Hero City) increased from 95% to 100%. As a result, the Group's effective equity interest in Wuhan Hero City increased from 74.75% to 76%. The Group recognized a decrease in non-controlling interests of RMB66,000.
- v. On May 7, 2010, the Group acquired additional 9% equity interest in Wuhan Hero City for RMB360,000 in cash, increasing the Group's equity interest in Wuhan Hero City from 76% to 85%. The carrying amount of Wuhan Hero City's net assets on the date of acquisition was RMB5,280,000. The Group recognized a decrease in non-controlling interests of RMB475,000 and an increase in other reserves of RMB115,000.

- vi. On November 26, 2010, the Group acquired additional 7.5% equity interest in Wuhan Hero City for RMB300,000 in cash, increasing the Group's equity interest in Wuhan Hero City from 85% to 92.5%. The carrying amount of Wuhan Hero City's net assets on the date of acquisition was RMB10,127,000. The Group's recognized a decrease in non-controlling interests of RMB760,000 and an increase in other reserves of RMB460,000.

The following table summarises the effect of the Group's share of equity interest in Wuhan Hero City during the years ended December 31, 2008, 2009 and 2010:

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The Group's share of equity interest at January 1 . . .	2,000	2,508	3,995
Capital injection	1,200	—	—
Effect of change in the Group's share of equity interest	(272)	(41)	1,301
Share of total comprehensive income	<u>(420)</u>	<u>1,528</u>	<u>4,651</u>
The Group's share of equity interest at December 31	<u>2,508</u>	<u>3,995</u>	<u>9,947</u>

(e) Acquisition of non-controlling interests of Ascend Compliments Limited ("Ascend")

On July 23, 2010, the Group acquired additional 2% equity interest in Ascend for RMB184 in cash, increasing the Group's equity interest from 98% to 100%. The carrying amount of Ascend's net assets on the date of acquisition was RMB14,154,000. The Group recognized a decrease in non-controlling interests of RMB283,080 and an increase in other reserves of RMB282,896.

The following table summarizes the effect of the Group's share of equity interest in Ascend during the years ended December 31, 2008, 2009 and 2010:

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
The Group's share of equity interest at January 1 . . .	—	(676)	8,483
Capital injection	9	—	—
Effect of change in the Group's share of equity interest	—	—	283
Movement in exchange reserve	6	(14)	(332)
Effect of dividend declared	—	—	(18,268)
Share of total comprehensive income	<u>(691)</u>	<u>9,173</u>	<u>33,764</u>
The Group's share of equity interest at December 31	<u>(676)</u>	<u>8,483</u>	<u>23,930</u>

4 Disposal of a subsidiary

Pursuant to the share transfer agreement dated August 20, 2008, the Group disposed of its equity interest in Beijing Changyuan Hero City Technology Co., Ltd. to Xiangfan Changyuan Donggu Industry & Trade Co., Ltd., a related company, following the strategy of focusing the Group's core business on integration, manufacture and sale of diesel generator cores.

	As at the date of disposal
	RMB'000
Effect of disposal of assets and liabilities on the combined balance sheet of the Group	
Property, plant and equipment (note 12)	312
Construction in progress (note 14)	9,584
Lease prepayments (note 13)	23,528
Prepayments and other receivables	18,674
Cash and cash equivalents	116
Trade and other payables.	<u>(8,849)</u>
Net assets	43,365
Gain on disposal recognized in other net income/(loss) (note 6)	<u>635</u>
Consideration received, satisfied in cash in 2008.	<u>44,000</u>
Analysis of the net inflow of cash and cash equivalents in respect of the disposal:	
Cash consideration received.	44,000
Cash and cash equivalents disposed of	<u>(116)</u>
Net inflow of cash and cash equivalents in respect of the disposal	<u>43,884</u>

The disposed subsidiary had not yet commenced commercial production and did not generate revenue during the Relevant Period before the disposal and did not represent a separate major line of business or geographical area of operations of the Group. It was not classified as discontinued operation as it did not fulfil the relevant requirements under IFRS 5.

5 Turnover

The Group is principally engaged in the integration, manufacture and sale of diesel generator cores, manufacture and sale of heat exchange systems and electronic control systems.

Turnover represents the sales value of goods supplied to customers. Turnover excludes value added tax or other sales taxes and is after deduction of any trade discounts and rebates.

The Group's customer base is diversified and no revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue during the Relevant Period.

6 Other revenue and net income/(loss)

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Other revenue			
Interest income	796	1,274	1,143
Others	198	93	124
	<u>994</u>	<u>1,367</u>	<u>1,267</u>
Other net income/(loss)			
Loss on disposal of interests in jointly controlled entities	—	—	(117)
Gain on disposal of an associate (note 15)	—	—	124
Gain on disposal of a subsidiary (note 4)	635	—	—
Gain on disposal of property, plant and equipment.	277	3	—
Gain on disposal of lease prepayments	242	—	—
Others	(227)	58	(1,226)
	<u>927</u>	<u>61</u>	<u>(1,219)</u>

7 Profit before taxation

Profit before taxation is arrived at after charging:

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
<i>(a) Finance costs</i>			
Interest on bank borrowings wholly repayable within five years.	2,913	4,187	7,823
Interest on loans from related parties	3,908	4,362	688
	<u>6,821</u>	<u>8,549</u>	<u>8,511</u>
<i>(b) Staff costs</i>			
Salaries, wages, bonuses and benefits	8,315	10,033	17,154
Contributions to defined contribution retirement plans	427	672	1,004
	<u>8,742</u>	<u>10,705</u>	<u>18,158</u>

Staff costs include directors' and senior management's remuneration.

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement scheme (the "Scheme") organized by the local authorities whereby the subsidiaries are required to make contributions to the Scheme based on certain percentages of the eligible employee's salaries.

The PRC local government authority is responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

Staff members employed by the Group in Hong Kong are required to join the Group's mandatory provident fund plan under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The mandatory provident fund plan is a defined contribution retirement plan administered by an independent corporate trustee. Under the plan, the Group and the employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the plan vest immediately.

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
<i>(c) Other items</i>			
Cost of inventories (note 18)	857,936	542,430	945,722
Depreciation of property, plant and equipment (note 12)	1,867	1,976	2,351
Amortization			
- Lease prepayments (note 13)	223	139	198
Operating lease charges in respect of properties	1,891	4,434	7,155
Auditors' remuneration	18	15	29
Research and development costs	439	4,093	3,855
Impairment loss			
- on trade and bills receivables (note 19(b))	920	9	—
- on other receivables	711	—	314
Increase in provisions (note 25)	<u>2,152</u>	<u>1,403</u>	<u>2,399</u>

Note: Cost of inventories includes RMB3,947,000, RMB3,940,000 and RMB6,580,000 for the years ended December 31, 2008, 2009 and 2010, respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed above.

8 Income tax in the combined income statement

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

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current tax - Hong Kong Profits Tax			
Provision for the year	—	1,767	6,706
Current tax - PRC income tax			
Provision for the year	—	16,092	18,638
Deferred tax			
Origination and reversal of temporary differences. . .	<u>7,547</u>	<u>(3,670)</u>	<u>(3,183)</u>
Total income tax expenses	<u>7,547</u>	<u>14,189</u>	<u>22,161</u>

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

	Note	Years ended December 31		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Profit before taxation		<u>116,121</u>	<u>67,069</u>	<u>124,540</u>
Notional tax on profit before taxation calculated at the standard tax rate applicable at the jurisdictions concerned . . .	(i) to (iii)	28,950	16,072	29,445
Tax effect of PRC tax holiday		(29,413)	(7,609)	(13,817)
Tax effect of non-deductible expenses		210	542	40
Tax effect of utilization of unused tax losses not previously recognized for deferred tax purposes .		—	(316)	(7)
PRC dividend withholding tax		<u>7,800</u>	<u>5,500</u>	<u>6,500</u>
Income tax expenses		<u>7,547</u>	<u>14,189</u>	<u>22,161</u>

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) The provision for Hong Kong Profits Tax for each of the years ended December 31, 2008, 2009 and 2010 is calculated at 16.5% of the estimated assessable profits for the respective years.

- (iii) The PRC statutory income tax rate is 25% effective from January 1, 2008 pursuant to the Corporate Income Tax Law of the PRC passed by the Tenth National People's Congress on March 16, 2007 (the "New Tax Law"). There are transitional preferential tax treatments available under the New Tax Law and its relevant regulations.
- (iv) Some of the Group's PRC subsidiaries are entitled to the following PRC preferential tax treatments:
Xiangfan Kanghao and Xiangfan Hero City, being manufacturing foreign investment enterprises ("FIE"), were each entitled to a two-year full exemption from income tax followed by a three-year 50% reduction in income tax ("tax holiday"). Both Xiangfan Kanghao and Xiangfan Hero City started their tax holiday in 2007 and the tax holidays were grandfathered. As a result, they are exempted from income tax for 2008 and are subject to income tax at 12.5% from 2009 to 2011 and at 25% from 2012 onwards.
- (v) According to the New Tax Law and its implementation rules, non-PRC-resident enterprises are levied withholding tax at 10%, unless reduced by tax treaties of similar arrangements, on dividends from their PRC investees for earnings accumulated beginning on January 1, 2008. Distributions of earnings generated prior to January 1, 2008 are exempted from such withholding tax. Deferred tax liabilities have been provided based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated from January 1, 2008 onwards. Dividends are distributed by the Group net of the PRC dividend withholding tax.

9 Directors' remuneration

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

	Year ended December 31, 2008				
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Li Zuoyuan	—	—	—	—	—
Ms. Xu Nengchen	—	—	—	—	—
Mr. Luo Huibin	—	78	—	—	78
Mr. Zhang Yu	—	97	4	7	108
Mr. Fan Xiao	—	104	3	6	113
Ms. Huang Fei	—	89	3	7	99
Sub-total	—	368	10	20	398
Independent non-executive directors					
Mr. Sun Hongjun	—	—	—	—	—
Mr. Guo Miao	—	—	—	—	—
Mr. Cheung Wai Hung	—	—	—	—	—
Sub-total	—	—	—	—	—
Total	—	368	10	20	398

Year ended December 31, 2009

	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Li Zuoyuan	—	—	—	—	—
Ms. Xu Nengchen	—	—	—	—	—
Mr. Luo Huibin	—	78	—	—	78
Mr. Zhang Yu	—	95	4	10	109
Mr. Fan Xiao	—	80	3	10	93
Ms. Huang Fei	—	87	4	10	101
Sub-total	—	340	11	30	381
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Independent non-executive directors					
Mr. Sun Hongjun	—	—	—	—	—
Mr. Guo Miao	—	—	—	—	—
Mr. Cheung Wai Hung . .	—	—	—	—	—
Sub-total	—	—	—	—	—
	-----	-----	-----	-----	-----
Total	—	340	11	30	381
	=====	=====	=====	=====	=====

Year ended December 31, 2010

	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Li Zuoyuan	—	—	—	—	—
Ms. Xu Nengchen	—	—	—	—	—
Mr. Luo Huibin	—	48	—	—	48
Mr. Zhang Yu	—	89	5	7	101
Mr. Fan Xiao	—	85	4	7	96
Ms. Huang Fei	—	82	5	7	94
Sub-total	—	304	14	21	339
	-----	-----	-----	-----	-----
Independent non-executive directors					
Mr. Sun Hongjun	—	—	—	—	—
Mr. Guo Miao	—	—	—	—	—
Mr. Cheung Wai Hung	—	—	—	—	—
Sub-total	—	—	—	—	—
	-----	-----	-----	-----	-----
Total	—	304	14	21	339
	=====	=====	=====	=====	=====

During the Relevant Period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 10 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three, none, none of them for the years ended December 31, 2008, 2009 and 2010 respectively are directors of the Company whose remuneration is disclosed in note 9 above. The emoluments in respect of the other two, five, five individuals for the years ended December 31, 2008, 2009 and 2010 are as follows:

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Salaries, allowance and benefits in kind	428	949	1,006
Contribution to defined contribution retirement plans	4	45	59
Discretionary bonuses	—	10	—
Total	<u>432</u>	<u>1,004</u>	<u>1,065</u>

The emoluments of the above individuals with the highest emoluments are within the following bands:

	Years ended December 31		
	2008	2009	2010
	Number of individuals	Number of individuals	Number of individuals
HK\$			
Nil - 1,000,000	<u>2</u>	<u>5</u>	<u>5</u>

11 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company during the Relevant Period and the 600,000,000 shares in issue as at the date of the completion of the capitalization issue of shares as if the shares were outstanding throughout the entire Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period and, therefore, diluted earnings per share are the same as the basic earnings per share.

12 Property, plant and equipment

	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At January 1, 2008	61	7,609	865	528	9,063
Additions	212	8,948	2,185	341	11,686
Transfer from construction in progress (note 14)	—	733	—	—	733
Disposals					
- Direct	—	(10,174)	—	—	(10,174)
- Disposal of a subsidiary	—	(99)	(233)	(5)	(337)
At December 31, 2008	273	7,017	2,817	864	10,971
At January 1, 2009	273	7,017	2,817	864	10,971
Additions	446	3,704	262	337	4,749
Transfer from construction in progress (note 14)	7	101	—	—	108
Disposals	—	(88)	—	(24)	(112)
At December 31, 2009	726	10,734	3,079	1,177	15,716
At January 1, 2010	726	10,734	3,079	1,177	15,716
Additions					
- Direct	457	1,214	240	143	2,054
- Acquisition of a subsidiary (note 3(a)) .	—	4,355	—	227	4,582
Disposals	—	(6)	(35)	—	(41)
Exchange adjustments	(5)	(46)	—	—	(51)
At December 31, 2010	1,178	16,251	3,284	1,547	22,260

	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation:					
At January 1, 2008	16	860	213	127	1,216
Charge for the year	13	1,422	287	145	1,867
Written back on disposal					
- Direct	—	(943)	—	—	(943)
- Disposal of a subsidiary	—	(6)	(19)	—	(25)
At December 31, 2008.....	<u>29</u>	<u>1,333</u>	<u>481</u>	<u>272</u>	<u>2,115</u>
At January 1, 2009	29	1,333	481	272	2,115
Charge for the year	98	1,286	368	224	1,976
Written back on disposal.....	—	(4)	—	(7)	(11)
At December 31, 2009.....	<u>127</u>	<u>2,615</u>	<u>849</u>	<u>489</u>	<u>4,080</u>
At January 1, 2010	127	2,615	849	489	4,080
Charge for the year	204	1,486	404	257	2,351
Written back on disposal.....	—	—	(17)	—	(17)
Exchange adjustments	(1)	(17)	—	—	(18)
At December 31, 2010.....	<u>330</u>	<u>4,084</u>	<u>1,236</u>	<u>746</u>	<u>6,396</u>
Net book value:					
At December 31, 2008.....	<u>244</u>	<u>5,684</u>	<u>2,336</u>	<u>592</u>	<u>8,856</u>
At December 31, 2009.....	<u>599</u>	<u>8,119</u>	<u>2,230</u>	<u>688</u>	<u>11,636</u>
At December 31, 2010.....	<u>848</u>	<u>12,167</u>	<u>2,048</u>	<u>801</u>	<u>15,864</u>

13 Lease prepayments

	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cost:			
At January 1	11,167	—	11,879
Additions	23,528	11,879	—
Disposals			
- Direct	(11,167)	—	—
- Disposal of a subsidiary (note 4)	(23,528)	—	—
At December 31	<u>—</u>	<u>11,879</u>	<u>11,879</u>
Accumulated amortization:			
At January 1	19	—	139
Charge for the year	223	139	198
Written back on disposals	(242)	—	—
At December 31	<u>—</u>	<u>139</u>	<u>337</u>
Carrying amount:			
At December 31	<u>—</u>	<u>11,740</u>	<u>11,542</u>

Interest in leasehold land at December 31, 2009 and 2010 represent prepayments of land use rights premium to the PRC authorities by the Group. The Group's leasehold land is located in the PRC, on which its manufacturing plants were being built. The Group's leasehold land is held under medium-term lease.

14 Construction in progress

	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Balance at January 1	912	90	—
Additions			
- Direct	10,604	18	1,350
- Acquisition of a subsidiary (note 3(a))	—	—	42
Transfer to property, plant and equipment (note 12).	(733)	(108)	—
Disposals			
- Direct	(1,109)	—	—
- Disposal of a subsidiary (note 4)	(9,584)	—	—
Balance at December 31	<u>90</u>	<u>—</u>	<u>1,392</u>

15 Interest in an associate

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Share of net assets	4,066	4,233	—

Details of the associate are as follows:

Name of associate	Place of establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest	Principal activities
			Group's effective interest	
Xiamen Hero City Machinery & Electric Equipment Co., Ltd. (廈門朗弘機電設備有限公司) (notes (i) & (ii))	The PRC	RMB10,000,000	2008: 45% 2009: 45% 2010: —	Manufacture and sale of machinery and electric products and maintaining machinery and electric project

Notes:

- (i) The English translation of the company name is for reference only. The official name of this company is in Chinese.
- (ii) The Group acquired 45% equity interest in Xiamen Hero City Machinery & Electric Equipment Co., Ltd. ("Xiamen Hero City") at a consideration of RMB4,500,000 in August 2008. The Group disposed of its entire equity interest in Xiamen Hero City to an independent third party for RMB4,500,000 in May 2010, resulting in gain on disposal of RMB124,000.

Summary financial information of the associate

	Assets	Liabilities	Equity	Revenue	Loss
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2008					
100 per cent	21,980	12,944	9,036	11,549	(964)
Group effective interest	<u>9,891</u>	<u>5,825</u>	<u>4,066</u>	<u>5,197</u>	<u>(434)</u>

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenue</u>	<u>Profit</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009					
100 per cent	30,200	20,793	9,407	55,380	371
Group effective interest	<u>13,590</u>	<u>9,357</u>	<u>4,233</u>	<u>24,921</u>	<u>167</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenue</u>	<u>Profit</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010					
100 per cent	—	—	—	26,521	318
Group effective interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,934</u>	<u>143</u>

16 Interests in jointly controlled entities

	<u>As at December 31</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000
Share of net assets	<u>6,671</u>	<u>7,422</u>	<u>9,606</u>

The following contains the particulars of the jointly controlled entities during the Relevant Period, all of which are unlisted corporate entities:

<u>Name of joint venture</u>	<u>Form of business structure</u>	<u>Place of establishment and operation</u>	<u>Particulars of issued and paid up capital</u>	<u>Group's effective interest</u>	<u>Principal activities</u>
Hubei Langtong Power Technology Co., Ltd. (湖北朗通動力科技有限公司) (notes (i) & (ii))	Established	The PRC	RMB10,000,000	50%	Distribution of machinery engines
Wuhan Kanghao Machine & Electricity Engineering Co., Ltd. (武漢康豪機電工程有限公司) (notes (i) & (iii))	Established	The PRC	RMB2,000,000	2008: 55% 2009: 55% 2010: —	Sale of heat exchange systems
Beworld Thermal-Sys (Wuhan) Co., Ltd. (倍沃得熱力技術(武漢)有限公司) (notes (i) & (iv))	Established	The PRC	RMB2,000,000	2008: 50% 2009: 50% 2010: 51% (note (iv))	Manufacture and sale of heat exchange systems

Notes:

- (i) The English translation of the company name is for reference only. The official names of these companies are in Chinese.
- (ii) Details of the company held by Hubei Langtong are as follows:

Name of company	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
				Group's effective interest	Held by the jointly controlled entity	
Xiamen Langdong Machinery & Electric Equipment Co., Ltd. (廈門朗東機電設備有限公司) (notes (i) & (v))	Established	The PRC	RMB2,000,000	2008: 32.5% 2009: 50% 2010: 50%	2008: 65% 2009: 100% 2010: 100%	Manufacture, sale, installation and maintenance of machinery equipment

- (iii) Wuhan Kanghao Machine & Electricity Engineering Co., Ltd. ("Wuhan Kanghao") was established by the Group and a PRC joint venture partner on January 30, 2008. The Group owned 55% equity interest in Wuhan Kanghao. Prior to December 31, 2010, the Group exercises joint control over the financial and operating policies of Wuhan Kanghao with the PRC joint venture partner in accordance with the Articles of Association, and accordingly, Wuhan Kanghao has not been accounted for as a subsidiary. On June 3, 2010, the Group disposed of 4% equity interest in Wuhan Kanghao at a consideration of RMB80,000 in cash, decreasing the Group's equity interests in Wuhan Kanghao from 55% to 51%. On December 30, 2010, the Group disposed of its entire 51% equity interest in Wuhan Kanghao to an independent third party at a consideration of RMB1,020,000, resulting in loss on disposal of RMB117,000.
- (iv) Prior to December 31, 2010, the Group exercised joint control over the financial and operating policies of Beworld with the joint venture partner in accordance with the Articles of Association. As a result, the Group's equity interest in Beworld has been accounted for in the Financial Information under the equity method up to December 30, 2010. On December 31, 2010, the Group obtained an effective control over the majority of the board of directors of Beworld. Beworld has become a subsidiary of the Group as from December 31, 2010.
- (v) Subsequent to December 31, 2010, Hubei Langtong disposed of its entire equity interest in Xiamen Langdong Machinery & Electric Equipment Co., Ltd to an independent third party at a consideration of RMB590,000.

Summary financial information on jointly controlled entities - the Group's effective interest:

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-current assets	2,269	2,569	2,275
Current assets	9,749	16,903	39,826
Non-current liabilities	—	—	—
Current liabilities	(5,347)	(12,050)	(32,495)
Net assets	<u>6,671</u>	<u>7,422</u>	<u>9,606</u>
	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Income	45,621	72,503	205,599
Expenses	(45,932)	(71,752)	(199,324)
(Loss)/profit for the year	<u>(311)</u>	<u>751</u>	<u>6,275</u>

17 Income tax in the combined balance sheets

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

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Provision for Hong Kong Profits Tax for the year . . .	—	1,767	6,706
Provisional profits tax paid	—	—	(1,789)
Exchange adjustment	—	(3)	—
	<u>—</u>	<u>1,764</u>	<u>4,917</u>
Provision for PRC income tax for the year	—	16,092	18,638
Acquisition of Beworld (note 3(a))	—	—	194
PRC income tax paid	—	(10,298)	(8,652)
	<u>—</u>	<u>5,794</u>	<u>10,180</u>
Income tax payable	<u>—</u>	<u>7,558</u>	<u>15,097</u>

(b) Recognized deferred tax assets/(liabilities):

The components of deferred tax assets/(liabilities) recognized in the combined balance sheets and the movements during the Relevant Period are as follows:

	PRC dividend withholding tax	Unrealized profits from intra-group transactions	Provision for warranty	Provision for doubtful debts	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax asset arising from:					
At January 1, 2008	—	—	125	—	125
(Charged)/credited to profit or loss	(7,800)	—	50	203	(7,547)
At December 31, 2008	<u>(7,800)</u>	<u>—</u>	<u>175</u>	<u>203</u>	<u>(7,422)</u>
At January 1, 2009	(7,800)	—	175	203	(7,422)
Credited/(charged) to profit or loss	2,300	1,400	(31)	1	3,670
At December 31, 2009	<u>(5,500)</u>	<u>1,400</u>	<u>144</u>	<u>204</u>	<u>(3,752)</u>
At January 1, 2010	(5,500)	1,400	144	204	(3,752)
(Charged)/credited to profit or loss	(1,000)	4,200	(17)	—	3,183
At December 31, 2010	<u>(6,500)</u>	<u>5,600</u>	<u>127</u>	<u>204</u>	<u>(569)</u>
As at December 31					
	2008	2009	2010		
	RMB'000	RMB'000	RMB'000		

Reconciliation to the balance sheets:

Net deferred tax assets recognized in the balance sheets	378	1,748	5,931
Net deferred tax liabilities recognized in the balance sheet	<u>(7,800)</u>	<u>(5,500)</u>	<u>(6,500)</u>
	<u>(7,422)</u>	<u>(3,752)</u>	<u>(569)</u>

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in note 1(t), the Group has not recognized deferred tax assets in respect of unused tax losses of RMB1,304,000, RMB29,000 and RMB Nil as at December 31, 2008, 2009 and 2010 respectively.

(d) Deferred tax liabilities not recognized

At December 31, 2008, 2009 and 2010, temporary differences related to certain undistributed profits of PRC subsidiaries amounting to RMB Nil, RMB1,352,000 and RMB15,277,000 have not been recognized in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these retained profits will not be distributed from these PRC subsidiaries in the foreseeable future.

18 Inventories

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	22,507	36,788	22,542
Work in progress	760	4,351	7,443
Finished goods	<u>13,225</u>	<u>32,990</u>	<u>35,842</u>
	<u>36,492</u>	<u>74,129</u>	<u>65,827</u>

An analysis of the amount of inventories recognized as an expense is as follows:

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Carrying amount of inventories	857,750	541,776	945,722
Write-down of inventories	<u>186</u>	<u>654</u>	<u>—</u>
	<u>857,936</u>	<u>542,430</u>	<u>945,722</u>

19 Trade and bills receivables

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables	10,899	10,376	34,177
Bills receivables	30,997	15,052	35,692
Less: Allowance for doubtful debts	<u>(920)</u>	<u>(929)</u>	<u>(929)</u>
	<u>40,976</u>	<u>24,499</u>	<u>68,940</u>

All of the trade receivables are expected to be recovered within one year.

(a) Ageing analysis

An ageing analysis of trade and bills receivables (net of allowance for doubtful debt) by due date is as follows:

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current	39,414	21,078	60,696
Within 3 months past due	1,184	2,178	7,070
More than 3 months but within 6 months past due .	377	1,193	237
More than 6 months but within 12 months past due	1	50	55
More than 12 months but less than 24 months past due	—	—	882
Amounts past due	1,562	3,421	8,244
	<u>40,976</u>	<u>24,499</u>	<u>68,940</u>

The Group's credit policies are set out in note 28(a).

(b) Impairment of trade and bills receivables

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

The movement in the allowance for doubtful debts during the Relevant Period is as follow:

	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At January 1	—	920	929
Impairment loss recognized (note 7 (c))	920	9	—
At December 31	<u>920</u>	<u>929</u>	<u>929</u>

At December 31, 2008, 2009 and 2010, the Group's trade and bills receivables of RMB920,000, RMB929,000 and RMB929,000 were individually determined to be impaired. The individually impaired receivables related to a number of customers and management assessed that the receivables were not recoverable. Consequently, specific allowances for doubtful debts were recognized at December 31, 2008, 2009 and 2010. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are set out in note 19(a).

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

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

20 Prepayments and other receivables

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Prepayments for purchase of raw materials	5,474	10,438	13,904
Volume rebates receivable from a supplier.	—	34,728	33,564
Others	748	3,452	5,926
	<u>6,222</u>	<u>48,618</u>	<u>53,394</u>

All of the prepayments and other receivables are expected to be recovered or recognized as expense within one year.

21 Restricted bank deposits

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Pledged for issuing bank acceptances.	—	225	—

22 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash on hand	45	254	102
Cash at bank.	34,429	66,478	91,013
	<u>34,474</u>	<u>66,732</u>	<u>91,115</u>

Majority of the cash at bank and on hand are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operating activities:

	Note	Years ended December 31		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Operating activities				
Profit before taxation		116,121	67,069	124,540
Adjustments for:				
Depreciation of property, plant and equipment...	7(c)	1,867	1,976	2,351
Amortization of lease prepayments.....	7(c)	223	139	198
Share of profits less losses of an associate		434	(167)	(143)
Share of profits less losses of jointly controlled entities		311	(751)	(6,275)
Gain on disposal of a subsidiary	6	(635)	—	—
Gain on disposal of property, plant and equipment	6	(277)	(3)	—
Gain on disposal of lease prepayments.....	6	(242)	—	—
Loss on disposal of interests in jointly controlled entities.....	6	—	—	117
Gain on disposal of an associate	6	—	—	(124)
Impairment losses on trade and bills receivables.	7(c)	920	9	—
Impairment losses on other receivables.....	7(c)	711	—	314
Write-down of inventories.....	18	186	654	—
Finance costs	7(a)	6,821	8,549	8,511
Interest income	6	(796)	(1,274)	(1,143)
Foreign exchange loss/(gain)		6	(17)	(301)
Changes in working capital:				
Decrease/(increase) in inventories		3,676	(38,291)	15,430
(Increase)/decrease in trade and bills receivables.		(934)	16,468	(28,031)
Increase in prepayments and other receivables....		(6,936)	(42,396)	(2,615)
(Increase)/decrease in amounts due from related parties (trade-related)		(1,212)	743	498
(Increase)/decrease in restricted bank deposits		—	(225)	225
(Decrease)/increase in trade and other payables..		(20,038)	32,684	(19,917)
Increase/(decrease) in amounts due to related parties (trade-related)		4,505	2,849	(1,760)
Increase/(decrease) in warranty provisions.....		395	(257)	(134)
Cash generated from operations		<u>105,106</u>	<u>47,759</u>	<u>91,741</u>

23 Bank loans

At balance sheet date, the bank loans were repayable as follows:

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 year or on demand	<u>15,000</u>	<u>68,500</u>	<u>100,000</u>

All the loans and borrowings as at December 31, 2008, 2009 and 2010 were fixed rate loans.

The bank loans carried weighted average interest rate of 5.49%, 5.31% and 5.51% per annum as at December 31, 2008, 2009 and 2010 respectively.

At balance sheet date, the loans and borrowings were secured as follows:

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank loans			
— unsecured	<u>15,000</u>	<u>68,500</u>	<u>100,000</u>

The bank loans of RMB15,000,000 were guaranteed by a related party at December 31, 2008. In addition, bank loans of RMB28,500,000 at December 31, 2009 were guaranteed by Mr. Li Zuoyuan, one of the Controlling Shareholders. Details of the guarantees are disclosed in note 31(b). The guarantee provided by Mr. Li Zuoyuan was released during the year ended December 31, 2010.

All of the Group's banking facilities are not subject to the fulfilment of covenants.

24 Trade and other payables

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables (note (i))	41,775	83,322	35,245
Receipt in advance	1,640	14,429	27,635
Other taxes payable	12,582	2,029	18,780
Other payables and accruals (note (ii))	<u>21,936</u>	<u>10,837</u>	<u>23,141</u>
	<u>77,933</u>	<u>110,617</u>	<u>104,801</u>

Notes:

- (i) The credit period granted by the suppliers ranges from 30 days to 90 days.

An ageing analysis of trade payables by due date is as follows:

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	41,663	82,447	34,117
Due after 1 month but within 3 months	112	875	1,128
	<u>41,775</u>	<u>83,322</u>	<u>35,245</u>

- (ii) Other payables and accruals mainly consist of payables for acquisition of non-current assets, accrued rebates to customers and other accrued expenses.
- (iii) All of the trade and other payables are expected to be settled or recognized as income within one year or are repayable on demand.

25 Warranty provisions

	Warranty provisions		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At January 1	1,002	1,397	1,140
Additional provisions made	2,152	1,403	2,399
Provisions utilized	<u>(1,757)</u>	<u>(1,660)</u>	<u>(2,533)</u>
At December 31	<u>1,397</u>	<u>1,140</u>	<u>1,006</u>

Under the terms of the Group's sales agreements, the Group will rectify product defects of certain products arising within 24 months of the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within 24 months prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

26 Capital

The Company was incorporated on January 10, 2011. Since the Reorganization was not completed as at December 31, 2010, the capital in the combined balance sheets as at the respective balance sheet date represented the aggregate amount of paid-in capital of the companies comprising the Group after elimination of investments in subsidiaries.

Ascend Compliments Limited was incorporated on February 28, 2008 with an authorized share capital of HK\$10,000 comprising 10,000 shares of HK\$1 each. The capital was issued and fully paid in cash at par during the year ended December 31, 2008.

Wuhan Norman Technology Co., Ltd. was established on July 25, 2008 with a registered capital of RMB5,000,000. The capital was fully paid in cash during the year ended December 31, 2008.

On December 23, 2008, the equity holders of Wuhan Hero City injected additional capital of totaling RMB2,000,000 to the entity, which was satisfied by cash.

Chongqing Langyu Power Equipment Co., Ltd. was established on June 22, 2009 with a registered capital of RMB1,000,000. The capital was fully paid in cash during the year ended December 31, 2009.

On May 18, 2010, the equity holders of Xiangfan Kanghao injected additional capital of RMB12,000,000 to the entity, which was satisfied by cash during the year ended December 31, 2010.

On October 27, 2010, the registered capital of Xiangfan Hero City was increased from RMB2,000,000 to RMB22,000,000 by capitalization of capital reserve of RMB1,000,000 and cash injection from equity holders of RMB19,000,000.

27 Reserves and dividends

(a) Dividends

Dividends declared and paid during the years ended December 31, 2008, 2009 and 2010 represent dividends declared by the Company's subsidiaries, before the date of incorporation of the Company.

During the year ended December 31, 2008, Xiangfan Kanghao declared dividend of approximately RMB59,719,000 to its equity holders.

During the year ended December 31, 2009, Xiangfan Kanghao and Xiangfan Hero City declared dividends (net of PRC dividend withholding tax) of approximately RMB59,227,000 and RMB10,722,000 to their equity holders respectively.

During the year ended December 31, 2010, Xiangfan Kanghao, Xiangfan Hero City and Ascend declared dividend (net of PRC dividend withholding tax, if applicable) of approximately RMB17,539,000, RMB21,250,000 and RMB18,268,000 to their equity holders respectively.

(b) PRC statutory reserves

PRC statutory reserves are established in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC. Transfers to the reserves were approved by the respective boards of directors.

(c) Capital reserve

The capital reserve represents an advance from the equity shareholders of Xiangfan Hero City. During the year ended December 31, 2009, the equity shareholders agreed to waive the repayment of the advance by Xiangfan Hero City and the balance was recognized as a deemed capital contribution.

(d) Other reserves

Other reserves comprise aggregate amount of non-statutory reserves of the Company's PRC subsidiaries and changes in equity arisen from the equity transactions with the non-controlling interests which are dealt with in accordance with the accounting policy set out in note 1(e).

(e) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(w).

(f) Distributable reserves

The Company was incorporated on January 10, 2011 with an authorized share capital of US\$50,000. The Company issued a total of 100 shares at nominal value of US\$0.01 each to Yuan Tai Long Investment Limited as part of the Reorganization as detailed in the section headed "History, Reorganization and Group Structure".

On the basis set out in Section A above, the aggregate amount of the Group's distributable reserve at December 31, 2008, 2009 and 2010 of the companies comprising the Group were RMB50,464,000, RMB40,741,000 and RMB77,036,000 respectively.

28 Financial risk management and fair values

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk**(i) Trade and other receivables**

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

In respect of trade and other receivables, the Group has established a credit policy in place. Full advance payment is requested for most of the customers who purchase diesel generator cores. Individual credit evaluations are performed on other customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The credit terms given to the customers vary which are based on the sales contracts signed with individual customers and are generally based on their financial strengths. Trade receivables of these customers normally due within 30 to 60 days from the date of billing. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis. The Group chases the customers to settle the due balances and monitors the settlement progress on an ongoing basis.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At December 31, 2008, 2009 and 2010, 3.9%, 0% and 3.9% of the trade receivables were due from the Group's largest customer and 4.2%, 2.2% and 3.9% of the trade receivables were from the Group's five largest customers respectively.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

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

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

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

	December 31, 2008		
	Contractual undiscounted cash flow		
	Within 1 year or on demand	Total	Carrying amount
	RMB'000	RMB'000	RMB'000
Bank loans	(15,518)	(15,518)	15,000
Amounts due to related parties	(69,427)	(69,427)	68,356
Trade and other payables (excluding receipt in advance).	(76,293)	(76,293)	76,293
	<u>(161,238)</u>	<u>(161,238)</u>	<u>159,649</u>

December 31, 2009			
Contractual undiscounted cash flow			
	Within 1 year or on demand	Total	Carrying amount
	RMB'000	RMB'000	RMB'000
Bank loans	(71,121)	(71,121)	68,500
Amounts due to related parties	(85,767)	(85,767)	84,934
Trade and other payables (excluding receipt in advance).	<u>(96,188)</u>	<u>(96,188)</u>	<u>96,188</u>
	<u>(253,076)</u>	<u>(253,076)</u>	<u>249,622</u>

December 31, 2010			
Contractual undiscounted cash flow			
	Within 1 year or on demand	Total	Carrying amount
	RMB'000	RMB'000	RMB'000
Bank loans	(104,066)	(104,066)	100,000
Amounts due to related parties	(19,322)	(19,322)	19,322
Trade and other payables (excluding receipt in advance).	<u>(77,166)</u>	<u>(77,166)</u>	<u>77,166</u>
	<u>(200,554)</u>	<u>(200,554)</u>	<u>196,488</u>

(c) Interest rate risk

(i) Interest rate profile

The Group's interest rate risk arises primarily from cash at bank, short-term bank loans and loan from related party issued at variable rates and fixed rates that expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group does not account for any fixed rate financial liabilities at fair value through profit or loss, and the Group does not use derivative financial instruments to hedge its debt obligations. Therefore, a change in interest rates at the balance sheet date would not affect profit or loss. The following table details the interest rate profile of the Group at the balance sheet date:

	As at December 31					
	2008		2009		2010	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
		RMB'000		RMB'000		RMB'000
Cash at bank	0.72%	34,429	0.36%	66,478	0.36%	91,013
Bank loans	5.49%	(15,000)	5.31%	(68,500)	5.51%	(100,000)
Interest-bearing loans to related parties	6.31%	22,073	5.40%	30,580	5.85%	9,901
Interest-bearing loans from related parties	5.35%	(52,590)	5.58%	(57,959)	—	—
		<u>(11,088)</u>		<u>(29,401)</u>		<u>914</u>

(ii) Sensitivity analysis

At December 31, 2008, 2009 and 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after taxation and retained earnings by approximately RMB344,000, RMB665,000 and RMB910,000 respectively. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise assuming that the change in interest rates had occurred at the balance sheet date. The impact on the Group's profit after tax (and retained earnings) in respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date is estimated as an annualized impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the Relevant Period.

(d) Currency risk

As the Group's principal activities are carried out in the PRC, the Group's transactions are mainly denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The Group currently does not have a policy on currency risk as it had minimal export sales and purchases in the Relevant Period and the impact of currency risk on the Group's total sales and purchase is minimal.

(e) Fair value

The carrying amounts of the Group's financial instruments are carried at amounts not materially different from their fair values as at December 31, 2008, 2009 and 2010.

(f) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain on optional capital structure to reduce the cost of capital.

The Group uses different measure including adjusted net debt-to-equity ratios to monitor its capital. Net debt is calculated as total borrowings (including banks loans and loans from related parties), as shown in the combined balance sheets less cash and bank deposits. Total capital is calculated as equity holder's fund (i.e. total equity attributable to equity shareholders of the Company), as shown in the combined balance sheets.

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank loans	15,000	68,500	100,000
Loans from related parties	63,296	61,305	2,134
Less: - Cash and cash equivalents	<u>(34,474)</u>	<u>(66,732)</u>	<u>(91,115)</u>
Net debt	43,822	63,073	11,019
Total equity attributable to equity shareholders of the Company	<u>63,508</u>	<u>54,554</u>	<u>131,073</u>
Adjusted net debt-to-equity ratio.	<u>0.69</u>	<u>1.16</u>	<u>0.08</u>

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

29 Concentration of supplier

Although there are a number of suppliers of diesel engine inside or outside the PRC, the Group relies principally on a supplier for its supply of diesel engine. Should this supplier fail to deliver in a timely manner, delays or disruptions in the supply and delivery of the Group's products could result. According to the strategic alliance agreement signed with this supplier in March 2011, this supplier will supply diesel engines manufactured by it to the Group on a priority basis. The Group further entered into a six-year supply contract with this supplier in May 2011. Should the Group be unable to renew the agreements, the Group may lose a significant portion of its business.

The Group has a certain concentration of supplier as 89%, 51% and 50% of the total raw materials were purchased from the Group's largest supplier for the years ended December 31, 2008, 2009 and 2010 respectively.

30 Commitments**(a) Capital commitments**

Capital commitments outstanding at December 31, 2008, 2009 and 2010 were as follows:

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Contracted for.....	25	1,053	15,504

Capital commitments mainly relate to the construction of new office complex and manufacturing facilities in Wuhan.

(b) Operating leases commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 year	934	4,639	2,569
After 1 year but within 5 years.....	1,270	433	313
	<u>2,204</u>	<u>5,072</u>	<u>2,882</u>

The Group leases certain properties under operating leases. The leases typically run for an initial period of 1 to 2 years, with an option to renew when all terms are renegotiated. None of the lease includes contingent rentals.

31 Related party transactions

During the Relevant Period, the directors are of the view that related parties of the Group include the following individuals/companies.

Name of party	Relationship
Xiangfan Changyuan Donggu Industry & Trade Co., Ltd. ("Changyuan Donggu Industry") (襄樊市長源東谷實業有限公司) (note)	Effectively 65.49%, 1.39%, 0.58%, 1.47%, 0.14%, 0.45% and 0.27% owned by Mr. Li Zuoyuan, Mr. Luo Huibin, Mr. Fan Xiao, Mr. Zhang Yu, Mr. Gao Yongchun, Ms. Huang Fei and Ms. Huang Yue (the Controlling Shareholders) respectively

Name of party	Relationship
Dongkang Power Technology (Beijing) Co., Ltd. (“Dongkang Power”) (東康動力科技(北京)有限公司) (note)	Effectively 40% and 10% owned by Mr. Li Zuoyuan (the Controlling Shareholder) and Ms. Shen Weihong (spouse of Mr. Fan Xiao, the Controlling Shareholder)
Beijing Changyuan Hero City Technology Co., Ltd. (“Beijing Changyuan”) (北京長源朗弘科技有限公司) (note)	88% held by Changyuan Donggu Industry
Xiangfan Yuli Machinery Parts Co., Ltd. (“Xiangfan Yuli”) (襄樊宇立機械配件有限責任公司) (note)	Effectively 37.23%, 19.18%, 9.03%, 6%, and 6% owned by Mr. Li Zuoyuan, Mr. Luo Huibin, Mr. Zhang Yu, Ms. Huang Fei and Ms. Huang Yue (the Controlling Shareholders) respectively
Hubei Langtong Power Technology Co., Ltd. (“Hubei Langtong”) (湖北朗通動力科技有限公司) (note)	A jointly controlled entity of the Group
Xiamen Langdong Machinery & Electric Equipment Co., Ltd. (“Xiamen Langdong”) (廈門朗東機電設備有限公司) (note)	A subsidiary of Hubei Langtong
Xiamen Hero City Machinery & Electric Co., Ltd. (“Xiamen Hero City”) (廈門朗弘機電設備有限公司) (note)	An associate of the Group (up to May 20, 2010)
Beworld Thermo-Sys (Wuhan) Co. Ltd. (“Beworld”) (倍沃得熱力技術(武漢)有限公司) (note)	A jointly controlled entity of the Group (up to December 30, 2010)
Wuhan Kanghao Machine & Electricity Engineering Co., Ltd. (“Wuhan Kanghao”) (武漢康豪機電工程有限公司) (note)	A jointly controlled entity of the Group (up to December 31, 2010)
Hero City Investments Limited (“Hero City Investment”)	Effectively 50% and 50% owned by Mr. Li Zuoyuan and Ms Xu Nengchen (the Controlling Shareholders) respectively
Wise Jade Investments Limited (“Wise Jade”)	Effectively 60.97%, 22.18%, 13.29% and 3.56% owned by Mr. Zhang Yu, Ms Huang Fei, Ms Huang Yue and Mr. Gao Yongchun (the Controlling Shareholders) respectively
Cangge Site Power Technology (Beijing) Co., Ltd. (“Cangge Site”) (康格思特動力科技(北京)有限公司) (note)	Effectively 16.67% and 6.67% owned by Mr. Li Zuoyuan and Mr. Luo Huibin (the Controlling Shareholders) respectively

Name of party	Relationship
Xiangfan Kangchen Machinery & Electric Co., Ltd. (“Xiangfan Kangchen”) (襄樊康晨機電工程有限公司) (note)	Non-controlling interests of a subsidiary of the Group (up to May 4, 2008)
Xiangfan Yun Dong Machinery & Electric Co., Ltd. (“Xiangfan Yundong”) (襄樊運東機電工程有限公司) (note)	Effectively 10% and 10% owned by Mr. Zhang Yu and Ms Huang Fei (the Controlling Shareholders) respectively (up to August 17, 2009)

Note: The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(a) Recurring transactions

Particulars of significant transactions between the Group and the above related parties during the Relevant Period are as follows:

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Lease of properties from Changyuan Donggu Industry	1,306	1,306	1,306
Utilities recharged by Changyuan Donggu Industry . .	551	323	415
License fee paid to Changyuan Donggu Industry for the use of technical know-how	—	20	80

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the SEHK.

(b) Non-recurring transactions

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Sales of goods to			
- Xiangfan Kangchen.....	15,979	—	—
- Xiangfan Yundong.....	34,932	11,506	—
- Beworld.....	959	592	2,352
- Xiamen Langdong.....	3,366	—	—
- Xiangfan Yuli.....	464	311	404
- Hubei Langtong.....	84	300	182
	<u> </u>	<u> </u>	<u> </u>
Sales of machineries to Changyuan Donggu Industry (note(i)).....	<u>10,615</u>	<u>—</u>	<u>—</u>
Purchase of spare parts from			
- Xiangfan Yuli.....	30,446	9,368	11,301
- Beworld.....	297	370	1,649
- Wuhan Kanghao.....	<u>1,222</u>	<u>—</u>	<u>—</u>
Purchase of machineries from Wuhan Kanghao.....	<u>—</u>	<u>655</u>	<u>—</u>
Interest received from			
- Xiamen Hero City.....	92	557	318
- Dongkang Power.....	271	113	280
- Wuhan Kanghao.....	139	118	101
- Beworld.....	<u>253</u>	<u>261</u>	<u>245</u>
Finance costs paid to			
- Changyuan Donggu Industry.....	3,014	4,245	688
- Xiangfan Kangchen.....	<u>894</u>	<u>—</u>	<u>—</u>
Lease of properties from Beijing Changyuan (note(iii)).....	<u>—</u>	<u>1,200</u>	<u>3,800</u>
Consultant fee paid to Beijing Changyuan (note(iv))..	<u>—</u>	<u>—</u>	<u>1,080</u>

In addition to the above, certain bank loans of the Group totalling RMB15,000,000 and RMB28,500,000 as at December 31, 2008 and 2009 respectively were guaranteed by Changyuan Donggu Industry and Mr. Li Zuoyuan, one of the Controlling Shareholders. The Group was not required to pay any guarantee fees to the guarantors. The above guarantees provided by the related parties have been released prior to December 31, 2010.

Notes:

- (i) On August 31, 2008, the Group disposed of certain production equipments to Changyuan Donggu Industry. Gain on disposal of RMB274,000 was recorded in other net income/(loss).
- (ii) Pursuant to the share transfer agreement dated August 20, 2008, the Group disposed of its equity interest in Beijing Changyuan to Changyuan Donggu Industry, at a consideration of RMB44,000,000, resulting in gain on disposal of RMB635,000. Details of the transaction are set out in note 4.
- (iii) During the year ended December 31, 2010, the Group paid RMB1,080,000 to Beijing Changyuan for the provision of marketing support services.
- (iv) During the year ended December 31, 2009 and 2010, the Group leased a warehouse from Beijing Changyuan for the period from September 17, 2009 to December 31, 2010, at a monthly rental of RMB312,500.
- (v) During the Relevant Period, a subsidiary of the Group used the technology know-how owned by a non-controlling shareholder free of charge. The technology know-how was transferred to the Group at nil consideration in February 2011.

The directors have confirmed that the above transactions will not be continued in the future after the listing of the Company's shares on the SEHK.

(c) Balances with related parties**(i) Amounts due from related parties**

	As at December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade related			
Xiangfan Yuli	98	80	10
Beworld	1,111	355	—
Hubei Langtong	—	31	31
	<u>1,209</u>	<u>466</u>	<u>41</u>
Non-trade related			
Controlling Shareholders			
- interest-free advance	61,543	36,291	30,966
Dongkang Power			
- interest-bearing loan	4,673	3,401	9,901
Hubei Langtong			
- interest-free loan	1,000	2,000	1,000
Xiamen Hero City			
- interest-bearing loan	10,000	20,629	—
Wuhan Kanghao			
- interest-bearing loan	2,700	1,900	—
Beworld			
- interest-bearing loan	4,700	4,650	—
Beijing Changyuan			
- interest-free advance	8,433	16,201	15,265
Hero City Investment			
- interest-free advance	435	—	2,297
Cangge Site			
- interest-free advance	—	104	105
	<u>93,484</u>	<u>85,176</u>	<u>59,534</u>
	<u>94,693</u>	<u>85,642</u>	<u>59,575</u>

(ii) Amounts due to related parties

	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade related			
Xiangfan Yuli	3,413	7,354	5,594
Wuhan Kanghao	<u>1,092</u>	<u>—</u>	<u>—</u>
	4,505	7,354	5,594
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Non-trade related			
Changyuan Donggu Industry			
- interest-bearing loan	52,590	57,959	—
- interest-free advance	10,048	3,346	—
- rental payable	555	825	825
Beijing Changyuan			
- rental payable	—	1,200	—
Cangge Site			
- interest-free advance	658	—	—
Hero City Investment			
- interest-free advance	—	—	2,134
- dividend payable	—	—	6,644
Wise Jade			
- dividend payable	<u>—</u>	<u>14,250</u>	<u>4,125</u>
	<u>63,851</u>	<u>77,580</u>	<u>13,728</u>
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	<u>68,356</u>	<u>84,934</u>	<u>19,322</u>
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Note: The amounts due from/to related parties as at December 31, 2008, 2009 and 2010 were expected to be recovered/repaid within one year. All advances to/from related parties are unsecured.

At December 31, 2008, 2009 and 2010, loan to Dongkang Power is interest-bearing at rate of 5.35%, 5.58% and 5.85% per annum and has fixed repayment terms due within one year.

At December 31, 2008 and 2009, loan to Xiamen Hero City was interest-bearing at rate of 7.47% and 5.31% per annum and has fixed repayment terms due within one year.

At December 31, 2008 and 2009, loan to Wuhan Kanghao was interest-bearing at rate of 5.35% and 5.58% per annum and has fixed repayment terms due within one year.

At December 31, 2008 and 2009, loan to Beworld was interest-bearing at rate of 5.35% and 5.58% per annum and has fixed repayment terms due within one year.

At December 31, 2008 and 2009, loan from Changyuan Donggu Industry is interest-bearing at rate of 5.35% and 5.58% per annum and has no fixed terms of repayment.

The amounts due from/(to) the related parties and Controlling Shareholders as at December 31, 2010 have been recovered/settled prior to the listing of the Company's share on SEHK.

(d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	Years ended December 31		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	1,160	1,167	1,152
Contributions to retirement benefits schemes	23	36	29
	<u>1,183</u>	<u>1,203</u>	<u>1,181</u>

32 Immediate and ultimate controlling party

The directors consider the immediate and ultimate controlling party as at December 31, 2010 were the Controlling Shareholders.

33 Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about items such as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment

(i) Receivables

Receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognized in prior years is reversed.

(ii) Inventories

Inventories are carried at the lower of cost and net realizable value. Any excess of the cost over the net realizable value of each class of inventories is recognized as a provision for diminution in the value of inventories.

Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale. For inventories with committed sales orders or active market, the Group estimates the net realizable value with reference to the selling prices set out in the committed sales orders or in the active market. For inventories without committed sales orders or active market, the Group carefully estimates the net realizable value based on available information and reasonable and supportive assumptions on expected selling prices, manufacturing costs, selling expenses, sales tax and etc.

(b) Depreciation

Items of property, plant and equipment are depreciated and amortized using the straight-line method over their useful lives after taking into account residual value. The useful lives are regularly reviewed to determine the depreciation cost charged in each period. The useful lives are determined based on historical experiences of similar asset and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation, the amount of depreciation is revised.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2010

Up to the date of issue of the Financial Information, the IASB has issued a number of amendments, interpretations and one new standard which are not yet effective for the year ended December 31, 2010 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group:

New standards, amendments and interpretations of IFRSs effective for annual periods ending after December 31, 2010.

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

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

D SUBSEQUENT EVENTS

The following significant events took place subsequent to December 31, 2010:

(a) Reorganization

The companies comprising the Group underwent the Reorganization to rationalize the Group's structure in preparation for the listing of the Company's shares on the Main Board of the SEHK. The Reorganization was completed on February 18, 2011, details as set out in the section headed "History, Reorganization and Group Structure" to the Prospectus. As a result of the Reorganization, the Company became the holding company of the Group.

(b) Dividends

In January and February 2011, Xiangfan Kanghao and Xiangfan Hero City declared dividend (net of PRC dividend withholding tax) of approximately RMB59,367,000 and RMB16,647,000 to their equity holders respectively. It has not been recognized as a liability at December 31, 2010.

(c) Acquisition of non-controlling interests of Beworld

On May 3, 2011 the Group acquired additional 39% equity interest in Beworld for RMB780,000 in cash, increasing the Group's equity interest in Beworld from 51% to 90%.

(d) Increase in authorized share capital and capitalization issue

The directors of the Company have proposed plans to increase the authorized share capital of the Company and increase issued share capital by capitalization issue prior to the placing and public offering of the Company's shares ("Global Offering").

Pursuant to the proposed plan, the following will be taken place:

- increase in the authorized ordinary share capital to US\$50,000,000 by the creation of an additional 4,995,000,000 ordinary shares of US\$0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects;
- conditional upon the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the issue of the Offer Shares by the Company pursuant to the Global Offering, the Company allots and issues a total of 599,000,000 shares, credited as fully paid at par, by way of capitalization of US\$5,990,000 standing to the credit of the share premium account of the Company.

(e) Share option scheme

Pursuant to a written resolution of the shareholders of the Company passed on June 8, 2011, the Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are set out in the section headed "Share Option Scheme" in Appendix VI to the Prospectus.

(f) Waiver of payables due to the Controlling Shareholders

In June 2011, the Controlling Shareholders agreed to waive the repayment of advance of RMB23,700,000 by Neng Yuan Power Science and the Technology Group Limited and the balance was recognized as capital contribution.

E SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to provide prospective investors with further information on (i) how the proposed listing might have affected the financial position of the Group after the completion of the Global Offering; and (ii) how the proposed listing might have affected the unaudited pro forma forecast earnings per Share for the six months ending June 30, 2011.

The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance and condition of the Group during the Track Record Period or any further date or period.

The information sets out in this Appendix does not form part of the accountants' report received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group has been prepared in accordance with Rule 4.29 of the Listing Rules the purpose of illustrating the effect of the Global Offering as if the Global Offering had taken place on December 31, 2010. The statement has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true position of our Group's financial condition following the Global Offering. It is based on the combined net assets of our Group as at December 31, 2010, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	Combined net tangible assets attributable to the equity shareholders of the Company as of December 31, 2010 ⁽¹⁾	Estimated net proceeds to the Company from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of the Company	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾⁽⁴⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on the Offer Price of HK\$2.72 per Share	<u>131,073</u>	<u>406,997</u>	<u>538,070</u>	<u>0.67</u>	<u>0.80</u>
Based on the Offer Price of HK\$3.62 per Share	<u>131,073</u>	<u>549,548</u>	<u>680,621</u>	<u>0.85</u>	<u>1.02</u>

Notes:

- (1) The combined net tangible assets attributable to the equity shareholders of the Company as at December 31, 2010 was based on the combined net assets attributable to the equity shareholders of our Company of RMB131,073,000. The combined net assets attributable to the equity shareholders of the Company were extracted from the accountants' report as set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds of the Company from the Global Offering are based on the indicative Offer Prices of HK\$2.72 and HK\$3.62 per Share, respectively, after deduction of the underwriting fees and other relevant expenses payable by the Company. The estimated net proceeds of the Company from the Global Offering are converted to Hong Kong dollars at an exchange rate of RMB0.8337 to HK\$1.00.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the above paragraphs and on the assumption of a total of 800,000,000 Shares based on the indicative Offer Prices of HK\$2.72 and HK\$3.62 per Share, being the number of Shares in issue upon completion of the Global Offering (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Capitalization Issue and the Global Offering, which takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Opinion or under the Share Option Scheme). The unaudited pro forma adjusted net tangible assets per Share is converted to Hong Kong dollars at an exchange rate of RMB0.8337 to HK\$1.00.
- (4) Details of the valuation of the Group's properties as of March 31, 2011 are set out in the property valuation report as set out in Appendix IV to this prospectus. The revaluation surplus or deficit of these properties will not be included in the Group's financial information for six months ending June 30, 2011. The above adjustments do not take into account the revaluation surplus or deficit. If the revaluation surplus was recorded in the Group's financial information, the annual amortization and depreciation expenses would increase by approximately RMB208,000.

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

Unaudited forecast combined profit
attributable to the equity shareholders
of our Company for the six months ending
June 30, 2011⁽¹⁾⁽²⁾⁽⁴⁾ **not less than RMB85 million**
(equivalent to approximately HK\$102 million)

Unaudited pro forma forecast earnings per Share
for the six months ending June 30, 2011⁽³⁾⁽⁴⁾ **not less than RMB0.106**
(equivalent to approximately HK\$0.127)

Notes:

- (1) The bases and assumptions on which the above profit forecast for the six months ending June 30, 2011 have been prepared and summarized in Appendix III to this prospectus.
- (2) The unaudited forecast combined profit attributable to the equity shareholders of the Company for the six months ending June 30, 2011 prepared by the Directors is based on, in the absence of unforeseen circumstances, the unaudited management accounts of our Group for the three months ended March 31, 2011 and a forecast of the combined results of our Group for the remaining three months ending June 30, 2011. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 1 of section C of the accountants' report, the text of which is set out in Appendix I to the prospectus.
- (3) The calculation of the unaudited pro forma forecast earnings per Share is based on the unaudited forecast combined profit attributable to the equity shareholders of the Company for the six months ending 30 June, 2011, assuming the Global Offering had been completed on January 1, 2011 and a total of 800,000,000 Shares were in issue during the entire period. The total number of Shares consists of Shares in issue as at the date of this prospectus and those shares to be issued pursuant to the Capitalization Issue and the Global Offering, which takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or under the Share Option Scheme.
- (4) For the purpose of the unaudited forecast combined profit attributable to the equity shareholders of the Company and the unaudited pro forma forecast earnings per Share, the translation of Renminbi into HK dollars was made at the rate of RMB0.8337 to HK\$1.00.

C. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong, prepared for the sole purpose of incorporation in this prospectus, in respect of the unaudited pro forma financial information of the Group.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors
Xing Yuan Power Holdings Company Limited

June 17, 2011

Dear Sirs,

Xing Yuan Power Holdings Company Limited (the "Company")

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of the Company and its subsidiaries (the "Group") set out in Parts A and B of Appendix II to the prospectus dated June 17, 2011 (the "Prospectus"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed offering of the Company's shares might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in Parts A and B on pages II-1 to II-3 of Appendix II to the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company 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 work 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 source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review 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 of the Company on the basis stated, that such basis is 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.

Our procedures on the unaudited Pro Forma Financial Information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it 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 December 31, 2010 or any future date; or
- the earnings per share of the Group for six months ending June 30, 2011 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company’s shares, the application of those net proceeds, or whether such use will actually take place as described under “Use of Proceeds” set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

Opinion

In our opinion:

- (a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is 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
KPMG
Certified Public Accountants
Hong Kong

The forecast of the combined profit attributable to equity shareholders of our Company for the six months ending June 30, 2011 is set out in the section headed “Financial Information — Profit Forecast” in this prospectus.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the combined profit attributable to equity share holders of our Company for the six months ending June 30, 2011, based on the unaudited combined results of our Group based on the management accounts of our Group for the three months ended March 31, 2011 and a forecast of the combined results of our Group for the remaining three months ending June 30, 2011. The profit forecast has been prepared on a basis consistent in all material respects with the accounting policies we have presently adopted as set out in Note 1 of Section C of the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. The profit forecast has been prepared on the following principal bases and assumptions:

- The existing business segments, namely power core, heat exchange systems and electronic control systems will continue to be the core business and major sources of revenue for the Group. There will be no material acquisitions or disposals of businesses, except for the acquisition of additional 39% equity interest in Beworld Thermal-Sys (Wuhan) Co., Ltd..
- The Group will be able to continue in business and will not be materially interrupted by any unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including the occurrence of natural disasters or catastrophes.
- There will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in the respective countries or industry in which the Group operates.
- There will be no material changes in the existing environmental remediation requirements and environmental legislation in the PRC and no significant expenditure is forecast for environmental remediation relating to operations that affect the financial position or operating results of the Group.
- There will be no significant changes in the bases and rates of income tax, value-added tax and business tax.
- There will be no material changes in inflation or interest rate from those currently prevailing in the PRC where our customers and suppliers operate.
- There will be no material changes to the selling prices of the products and purchase prices of raw materials. There will be no material changes in credit terms offered to customers and credit terms offered by suppliers.
- The Group can substantially maintain business relationships with all its major customers and suppliers. There will be no material changes in the rebate arrangements with the Group’s suppliers and customers.
- There will be no material changes in our suppliers’ manufacturing operations or in their ability to provide us with supplies.

B. LETTERS**(1) LETTER FROM THE REPORTING ACCOUNTANTS ON THE PROFIT FORECAST**

The following is the text of a letter received from KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

June 17, 2011

The Directors
Xing Yuan Power Holdings Company Limited

UBS AG, Hong Kong Branch

Dear Sirs,

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the combined profit attributable to equity holders of Xing Yuan Power Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ending June 30, 2011 (the "Profit Forecast"), for which the directors of the Company are solely responsible, as set forth in the section headed "Financial Information" in the prospectus of the Company dated June 17, 2011 (the "Prospectus").

The Profit Forecast has been prepared by the directors of the Company based on the unaudited combined management accounts of the Group for the three months ended March 31, 2011 and a forecast of the combined results of the Group for the remaining three months ending June 30, 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 assumptions made by the directors as set out in Appendix III of 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 June 17, 2011, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

(2) LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, which we have received from UBS AG, Hong Kong Branch, the Sole Sponsor, in connection with the forecast of our consolidated profits attributable to the owners of our Company for the six months ending June 30, 2011.



52nd Floor, Two International Finance Centre
8 Finance Street
Central, Hong Kong

June 17, 2011

The Directors
Xing Yuan Power Holdings Company Limited

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to the owners of Xing Yuan Power Holdings Company Limited (the “**Company**”) for the six months ending June 30, 2011 (the “**Profit Forecast**”) as set out in the prospectus issued by the Company dated June 17, 2011 (the “**Prospectus**”).

We understand that the Profit Forecast has been prepared by the directors of the Company based on the unaudited management accounts of the Company and its subsidiaries (the “**Group**”) for the three months ended March 31, 2011 and a forecast of the consolidated results of the Group for the remaining three months ending June 30, 2011.

We have discussed with you the bases 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 June 17, 2011 addressed to you and us from KPMG 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 KPMG, 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
UBS AG, Hong Kong Branch

Ngai, Michael
Managing Director

Liu, Yao
Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at March 31, 2011 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
6/F, Three Pacific Place
1 Queen's Road East Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

June 17, 2011

The Board of Directors
Xing Yuan Power Holdings Company Limited
Scotia Centre, 4th Floor
P.O. Box 2804
George Town
Grand Cayman KY1-1112
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Xing Yuan Power Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”) and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at March 31, 2011 (the “date of valuation”).

Our valuation of the property interests represents the market value which we would define as intended to mean “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”.

In valuing the property interest in Group I which is currently under construction, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Groups II and III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense 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 an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including a State-owned Land Use Rights Certificate and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Commerce & Finance Law Offices, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. 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 tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited

Paul L. Brown
B.Sc. FRICS FHKIS
Chief Valuation Adviser

Sam B. Q. Zhu
MRICS
Director

Notes:

1. Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 31 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.
2. Sam B. Q. Zhu is a Chartered Surveyor who has 13 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

Group I — Property interest held under development by the Group in the PRC

No. Property	Capital value in existing state as at March 31, 2011 RMB	Interest attributable to the Group	Capital value attributable to the Group as at March 31, 2011 RMB
1. A parcel of land (Lot No. 5W ₁), various buildings and structures under construction located at Wuhan Economic & Technological Development Zone Wuhan City Hubei Province The PRC	27,928,000	100%	27,928,000
Sub-total:	<u>27,928,000</u>		<u>27,928,000</u>

Group II — Property interests rented and occupied by the Group in the PRC

No. Property	Capital value attributable to the Group as at March 31, 2011 RMB
2. Portions of Levels 1 to 2 of an industrial building No. 100 Zuanshi Avenue Renmin Road East Xiangyang District Xiangfan City (now known as Xiangyang City) Hubei Province The PRC	No commercial value

No. Property	Capital value attributable to the Group as at March 31, 2011 RMB
3. Portions of Level 1 of an industrial building No. 11 Yangliu Road Yuanlin Road High & New Technology Industrial Development Zone Xiangfan City (now known as Xiangyang City) Hubei Province The PRC	No commercial value
4. Level 3 of an industrial building No. 8 Huayuan Road Cihui Farm Dong Xi Hu District Wuhan City Hubei Province The PRC	No commercial value
5. A 2-storey industrial building Block No. 11 South Area of Civil Science & Technology Park Wuhan Economic & Technological Development Zone Wuhan City Hubei Province The PRC	No commercial value
6. A 2-storey industrial building, Block No. 10 South Area of Civil Science & Technology Park Wuhan Economic & Technological Development Zone Wuhan City Hubei Province The PRC	No commercial value

No. Property	Capital value attributable to the Group as at March 31, 2011 <i>RMB</i>
7. Room 22-14 on Level 24 Tower 1 Huayu Plaza No. 15 Yupei Road Shapingba District Chongqing The PRC	No commercial value
Sub-total:	<u>Nil</u>

Group III — Property interests rented and occupied by the Group in Hong Kong

No. Property	Capital value attributable to the Group as at March 31, 2011 <i>RMB</i>
8. Suite 3311 on the 33rd Floor of Hampton Court Gateway Apartments Harbour City Hong Kong	No commercial value
9. The 1st Floor Fonda Industrial Building Nos. 37-39 Au Pui Wan Street Fo Tan Shatin New Territories Hong Kong	No commercial value
Sub-total:	<u>Nil</u>

Grand total:	Capital value in existing state as at March 31, 2011 <i>RMB</i>	Capital value attributable to the Group as at March 31, 2011 <i>RMB</i>
	<u>27,928,000</u>	<u>27,928,000</u>

VALUATION CERTIFICATE

Group I — Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
1.	A parcel of land (Lot No. 5W ₁), various buildings and structures under construction located at Wuhan Economic & Technological Development Zone Wuhan City Hubei Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 47,461.07 sq.m., and various buildings and structures which are being constructed thereon.</p> <p>The property is scheduled to be completed in August 2011. Upon completion, the buildings of the property will have a total gross floor area of approximately 29,380.38 sq.m.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on March 4, 2059 for industrial use.</p>	The property is currently under construction.	<p>27,928,000</p> <p>100% interest attributable to the Group: RMB27,928,000</p>

Notes:

1. Pursuant to a State-owned Construction Land Use Rights Grant Contract (國有建設用地使用權出讓合同) — E WH(WJK)-2009-00002 entered into between State-owned Land Resources Bureau Wuhan Economic & Technological Development Zone Branch, Wuhan City, Hubei Province and Wuhan Roll Technology Co., Ltd. (“Wuhan Roll Technology”), a wholly-owned subsidiary of the Company, the land use rights of a parcel of land (Lot No. 5W₁) with a site area of approximately 47,461.07 sq.m. were contracted to be granted to Wuhan Roll Technology for a term of 50 years for industrial use. The land premium was RMB11,400,000.
2. Pursuant to a State-owned Land Use Rights Certificate — Wu Kai Guo Yong (2009) Di No. 15 dated May 8, 2009 issued by the People’s Government of Wuhan City, the land use rights of the property with a site area of approximately 47,461.07 sq.m. were granted to Wuhan Roll Technology for a term expiring on March 4, 2059 for industrial use.
3. Pursuant to a Construction Work Planning Permit — Jian Zi Di Wu Gui (Wu Kai) Jian [2009] No. 143 in favour of Wuhan Roll Technology, various buildings with a total planned gross floor area of approximately 29,380.38 sq.m. have been approved for construction.
4. Pursuant to a Construction Work Commencement Permit — No. 4201972009101000414BJ4001 in favour of Wuhan Roll Technology, permission by the relevant local authority was given to commence the construction work of the property with a gross floor area of approximately 29,380.38 sq.m.
5. As advised by Wuhan Roll Technology, the total construction cost of the property is estimated to be approximately RMB24,590,000, of which RMB6,002,000 had been paid up to the date of valuation.
6. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - a. Wuhan Roll Technology has rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and
 - b. Wuhan Roll Technology has rights to construct the buildings of the property according to the construction permits stated in notes 3 and 4.

VALUATION CERTIFICATE

Group II — Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
2.	Portions of Levels 1 to 2 of an industrial building No. 100 Zuanshi Avenue Renmin Road East Xiangyang District Xiangfan City (now known as Xiangyang City) Hubei Province The PRC	<p>The property comprises portions of Levels 1 to 2 of a 2-storey industrial building completed in 2008.</p> <p>The property has a lettable area of approximately 8,055.6 sq.m.</p> <p>The property is leased to the Group from a connected party for terms of 4 years commencing from January 1, 2010 and expiring on December 31, 2013, at a total annual rent of RMB1,160,006.4, exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for production, warehouse and office purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, entered into between Xiangfan Kanghao M&E Engineering Co., Ltd. (“Xiangfan Kanghao”), an indirect wholly-owned subsidiary of the Company, and Xiangfan Changyuan Donggu Industrial Co., Ltd. (襄樊市長源東谷實業有限公司, the “Lessor”), a connected party of the Company, portions of the property with a total lettable area of approximately 7,068 sq.m. are leased to Xiangfan Kanghao for a term of 4 years commencing from January 1, 2010 and expiring on December 31, 2013, at an annual rent of RMB1,017,792, exclusive of water and electricity charges.
2. Pursuant to a Tenancy Agreement, entered into between Xiangfan Hero City Machinery & Electric Co., Ltd. (“Xiangfan Hero City”), a wholly-owned subsidiary of the Company, and the Lessor, portions of the property with a total lettable area of approximately 987.6 sq.m. are leased to Xiangfan Hero City for a term of 4 years commencing from January 1, 2010 and expiring on December 31, 2013, at an annual rent of RMB142,214.4, exclusive of water and electricity charges.
3. We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - a. The Lessor has rights to lease the property. The Tenancy Agreements are legal, valid, and binding on the parties there to; and
 - b. As the Tenancy Agreements were signed before the property was mortgaged, the mortgage of the property will not affect the leases between Xiangfan Kanghao, Xiangfan Hero City and the Lessor.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
3.	Portions of Level 1 of an industrial building No. 11 Yangliu Road Yuanlin Road High & New Technology Industrial Development Zone Xiangfan City (now known as Xiangyang City) Hubei Province The PRC	<p>The property comprises portions of Level 1 on a 2-storey industrial building completed in 2007.</p> <p>The property has a lettable area of approximately 1,299.1 sq.m.</p> <p>The property is leased to the Group from a connected party for terms expiring on December 31, 2013 and December 31, 2012, respectively, at a total annual rent of RMB187,070.4, exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for warehouse and office purposes.	No commercial value

Notes:

- Pursuant to a Tenancy Agreement, entered into between Xiangfan Hero City Machinery & Electric Co., Ltd. ("Xiangfan Hero City"), a wholly-owned subsidiary of the Company, and Xiangfan Changyuan Donggu Industrial Co., Ltd. (襄樊市長源東谷實業有限公司, the "Lessor"), a connected party of the Company, portions of the property with a total lettable area of approximately 1,011.5 sq.m. are leased to Xiangfan Hero City for a term of 4 years commencing from January 1, 2010 and expiring on December 31, 2013, at an annual rent of RMB145,656, exclusive of water and electricity charges.
- Pursuant to a Tenancy Agreement, entered into between Hubei Langtong Power Technology Co., Ltd. ("Hubei Langtong"), a 50% interest owned subsidiary of the Company, and the Lessor, portions of the property with a total lettable area of approximately 287.6 sq.m. are leased to Hubei Langtong for a term of 2 years commencing from January 1, 2011 and expiring on December 31, 2012, at an annual rent of RMB41,414.4, exclusive of water and electricity charges.
- We have been provided with a legal opinion on the legality of the Tenancy Agreements to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:
The Lessor has rights to lease the property. The Tenancy Agreements are legal, valid, and binding on the parties there to.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
4.	Level 3 of an industrial building No. 8 Huayuan Road Cihui Farm Dong Xi Hu District Wuhan City Hubei Province The PRC	<p>The property comprises Level 3 of a 3-storey industrial building completed in 2007.</p> <p>The property has a lettable area of approximately 1,710 sq.m.</p> <p>The property is leased to Wuhan Norman from an independent third party for a term of 1 year commencing from July 27, 2010 and expiring on July 28, 2011, at an annual rent of RMB215,460, exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for production purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, entered into between Wuhan Norman Technology Co., Ltd. ("Wuhan Norman"), a 90% interest owned subsidiary of the Company and Wuhan Haidelong Instrument science & Technology Co., Ltd. (武漢海德龍儀錶科技有限公司, the "Lessor"), an independent third party, the property with a lettable area of approximately 1,710 sq.m. is leased to Wuhan Norman for a term of 1 year commencing from July 27, 2010 and expiring on July 28, 2011, at an annual rent of RMB215,460, exclusive of water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. The lessor has rights to lease the property. The Tenancy Agreement is legal, valid, and binding on the parties there to; and
 - b. As the Tenancy Agreement was signed before the property was mortgaged, the mortgage of the property will not affect the lease between Wuhan Norman and the Lessor.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
5.	A 2-storey industrial building Block No. 11 South Area of Civil Science & Technology Park Wuhan Economic & Technological Development Zone Wuhan City Hubei Province The PRC	<p>The property comprises a 2-storey industrial building completed in 2004.</p> <p>The property has a lettable area of approximately 4,871 sq.m.</p> <p>The property is leased to Wuhan Hero City from an independent third party for a term of 3 years commencing from July 15, 2008 and expiring on July 14, 2011, at an annual rent of RMB730,650, exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for office and production purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property with a lettable area of approximately 4,871 sq.m. is leased to Wuhan Hero City Thermal-Sys Co., Ltd. ("Wuhan Hero City"), a 92.5% interest owned subsidiary of the Company, from Zhuankou Street Development & Investment Promotion Office (沌口街開發招商辦公室, the "Lessor"), an independent third party, for a term of 3 years commencing from July 15, 2008 and expiring on July 14, 2011, at an annual rent of RMB730,650, exclusive of water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. The lessor has rights to lease the property. The Tenancy Agreement is legal, valid, and binding on the parties there to; and
 - b. The non-registration of the Tenancy Agreement will not affect the validity of the Tenancy Agreement according to the PRC laws. However, relevant local government authorities may request the lessor and lessee to rectify within a prescribed period, and a fine of an amount from RMB1,000 to RMB10,000 may be imposed by local government authorities due to overdue rectification.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
6.	A 2-storey industrial building Block No. 10 South Area of Civil Science & Technology Park Wuhan Economic & Technological Development Zone Wuhan City Hubei Province The PRC	<p>The property comprises a 2-storey industrial building completed in 2004.</p> <p>The property has a lettable area of approximately 4,871 sq.m.</p> <p>The property is leased to Beworld from an independent third party for a term of 1 year commencing from January 10, 2011 and expiring on January 9, 2012, at an annual rent of RMB759,876, exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for office and production purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement, the property with a lettable area of approximately 4,871 sq.m. is leased to Beworld Thermal-Sys (Wuhan) Co., Ltd. ("Beworld"), a 90% interest owned subsidiary of the Company, from Zhuankou Street Development & Investment Promotion Office of Wuhan Economic & Technological Development Zone (武漢經濟技術開發區沌口街開發招商辦公室, the "Lessor"), an independent third party, for a term of 1 year commencing from January 10, 2011 and expiring on January 9, 2012, at an annual rent of RMB759,876, exclusive of water and electricity charges.
2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:
 - a. The lessor has rights to lease the property. The Tenancy Agreement is legal, valid, and binding on the parties there to; and
 - b. The non-registration of the Tenancy Agreement will not affect the validity of the Tenancy Agreement according to the PRC laws. However, relevant local government authorities may request the lessor and lessee to rectify within a prescribed period, and a fine of an amount from RMB1,000 to RMB10,000 may be imposed by local government authorities due to overdue rectification.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
7.	Room 22-14 on Level 24 Tower 1, Huayu Plaza No. 15 Yupei Road Shapingba District Chongqing The PRC	<p>The property comprises a unit on Level 24 of a 34-storey commercial building completed in 2003.</p> <p>The property has a lettable area of approximately 100.74 sq.m.</p> <p>The property is leased to Chongqing Langyu from an independent third party for a term of 2 years commencing from January 16, 2011 and expiring on January 15, 2013, at an annual rent of RMB26,400, exclusive of water and electricity charges.</p>	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

- Pursuant to a Tenancy Agreement, the property with a lettable area of approximately 100.74 sq.m is leased to Chongqing Langyu Power Equipment Co., Ltd. ("Chongqing Langyu"), a 55% interest owned subsidiary of the Company, from Yang Lili (楊莉莉, the "Lessor"), an independent third party, for a term of 2 years commencing from January 16, 2011 and expiring on January 15, 2013, at an annual rent of RMB26,400, exclusive of water and electricity charges.
- We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:
The lessor has rights to lease the property. The Tenancy Agreement is legal, valid, and binding on the parties there to.

VALUATION CERTIFICATE

Group III — Property interests rented and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
8.	Suite 3311 on the 33rd Floor of Hampton Court Gateway Apartments Harbour City Hong Kong	<p>The property comprises a unit on the 33rd Floor of a 38-storey commercial building completed in 1999.</p> <p>The property has a lettable area of approximately 1,100 sq.ft.</p> <p>The property is leased to Ascend Compliments Limited from an independent third party, for a term commencing from August 1, 2010 and expiring on July 31, 2012 at an annual rent of HKD570,000 exclusive of service and air-conditioning charges.</p>	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. The registered owner of the property is Harbour City Estates Limited.
2. Pursuant to a Tenancy Agreement, the property is leased to Ascend Compliments Limited, a wholly-owned subsidiary of the Company, from Harbour City Estates Limited, an independent third party, for a term commencing from August 1, 2010 and expiring on July 31, 2012 at an annual rent of HKD570,000 exclusive of service and air-conditioning charges.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at March 31, 2011 RMB
9.	The 1st Floor Fonda Industrial Building Nos. 37-39 Au Pui Wan Street Fo Tan Shatin New Territories Hong Kong	<p>The property comprises a unit on a 17-storey industrial building completed in 1981.</p> <p>The property has a gross floor area of approximately 6,974 sq.ft.</p> <p>The property is leased to Ascend Compliments Limited from an independent third party for a term commencing from February 1, 2010 and expiring on January 31, 2012 at an annual rent of HKD456,000 exclusive of service and air-conditioning charges.</p>	The property is currently occupied by the Group for production and office purposes.	No commercial value

Notes:

1. The registered owner of the property is Rich Earn Limited.
2. Pursuant to a Tenancy Agreement, the property is leased to Ascend Compliments Limited, a wholly-owned subsidiary of the Company, from Rich Earn Ltd., an independent third party, for a term commencing from February 1, 2010 and expiring on January 31, 2012 at an annual rent of HKD456,000 exclusive of service and air-conditioning charges.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 10, 2011 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on June 8, 2011. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Share certificates

Every person whose name is entered as a member in the register of members shall be entitled without payment to receive a certificate for his shares. The Cayman Companies Law prohibits the issue of bearer shares to any person other than an authorised or recognised custodian defined in the Cayman Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to "know your client" as a result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect

of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice 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 the 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). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (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 the 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 the 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 whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) Compensation or payments for loss of office

Payments to any present 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 or statutorily entitled) must be approved by the 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 and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) Disclosure of interest in contracts with the Company or with any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, 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 or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, 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 the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have 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 proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the 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 proposal 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 member or in which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associate(s) is derived) or of the voting rights;
- (ee) 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 associate(s) and employees of the 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 generally accorded to the employees to which such scheme or fund relates; or
- (ff) 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 the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case

may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion 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 has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or 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 shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such 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 former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the

first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two nor, unless the Shareholders by Ordinary Resolution may otherwise determine, more than twelve.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board 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 generally;
- (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;

- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may 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 the 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 also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also 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 so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) Borrowing powers

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(ix) Register of Directors and officers

Pursuant to the Cayman Companies Law, the 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 30 days of any change in such directors or officers.

(x) Proceedings of the Board

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting of the Board shall be decided by not fewer than a two-third majority of votes of the Directors present and voting at a meeting of the Board at which a quorum is present. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote. At any meeting of the Board, seven Directors shall be a quorum, of which one Director shall be an Independent Director. If at the time appointed for a meeting of the Board a quorum is not present, the meeting shall stand adjourned to three days later at the same time, place and manner; and at such adjourned meeting, the quorum shall be any four Directors.

(c) Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares 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 shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any 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) Alteration of capital

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution - majority required

In accordance with the Articles, a special resolution of the 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 by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, 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 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 less than 21 clear days' notice has been given.

Under the Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

- (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company 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 account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than twenty-one days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may 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 the 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 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it 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;
- (ee) the fixing of the remuneration of the Directors and of the auditors;
- (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be 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 transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit 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 of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on 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 removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline 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 option scheme 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 the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located 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 register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(l) Power of the Company to purchase its own shares

The Company is empowered by the Cayman 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 the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The 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.

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, although 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 in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (aa) 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 members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members 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.

Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus 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, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the 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 the 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.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the moneys so advanced may pay interest

at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the 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 the Company or at a class meeting. A proxy need not be a member of the 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. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit 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) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. 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 20% per annum as the Board shall fix 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 money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state 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, nevertheless, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the 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 payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) 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, and continues to be present until the conclusion of the meeting.

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 authorised 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.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the 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 the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then 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 the 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, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the 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 and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, 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 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the 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 the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on January 10, 2011 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the 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

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or 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 arrangements in consideration of

the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman 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 such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) in any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that 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 of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include 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

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

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 member and, for the avoidance of doubt, 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. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore,

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 shares of the company other than shares held as treasury shares. In addition, 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.

Under Section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Cayman Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able 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 sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman 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 sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, 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.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is *ultra vires* the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member 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.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that 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 interest 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

Section 59 of the Cayman Companies Law provides that a company shall cause proper books of accounts including, where applicable, material underlying documentation including contracts and invoices to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to 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.

Section 59 of the Cayman Companies Law further states that 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. A company shall cause all books of account required to be kept under Section 59 to be retained for a minimum period of five years from the date on which they are prepared.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the Company is for a period of twenty years from June 7, 2011.

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 the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the Company may determine from time to time. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in 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.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; 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 where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed off, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (b) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act 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.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member 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 members.

(r) 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, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarizes certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company 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 COMPANY**1. Incorporation**

Our Company was incorporated as an exempted company in the Cayman Islands under the Cayman Companies Law with limited liability under the Cayman Companies Law on January 10, 2011. Our registered office is situated at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands. We have been registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company and our principal place of business in Hong Kong is at Suite No. 3311, 33/F, Hampton Court, Gateway Apartments, Harbour City, Hong Kong. In compliance with the requirements of the Companies Ordinance, Kwok For Chi has been appointed as our agent for the acceptance of service of process and any notice required to be served on our Company in Hong Kong. The address for service of process on our Company in Hong Kong is Suite No. 3311, 33/F, Hampton Court, Gateway Apartments, Harbour City, Hong Kong. As we were incorporated in the Cayman Islands, our corporate structure, the Memorandum and the Articles are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of the Memorandum, the Articles and certain relevant aspects of the Cayman Islands company law are set out in “Appendix V — Summary of the Constitutions of our Company and the Cayman Islands Company Law” to this prospectus.

2. Changes in the Share Capital of Our Company

The following sets out the changes in our Company’s issued share capital since the date of its incorporation:

- (a) as at the date of the incorporation of our Company, the authorized share capital of our Company was US\$50,000 divided into 5,000,000 Shares of par value US\$0.01 each.
- (b) at the time of incorporation, Offshore Incorporations (Cayman) Limited subscribed for 1 Share. On the same date, the said 1 Share was transferred from Offshore Incorporations (Cayman) Limited to Yuan Tai Long. At the same time, Yuan Tai Long subscribed for, and the Company has allotted to Yuan Tai Long, an additional 99 Shares of par value US\$0.01 each.
- (c) on June 8, 2011, a written resolution was passed by Yuan Tai Long, our then Sole Shareholder to approve the increase of the authorised share capital of the Company, from US\$50,000 divided into 5,000,000 Shares of par value US\$0.01 each, to US\$50,000,000 divided into 5,000,000,000 Shares of par value US\$0.01 each.

Immediately following completion of the Global Offering and the Capitalization Issue (but not taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme), the authorized share capital of our Company will be US\$50,000,000 divided into 5,000,000,000 Shares of par value US\$0.01 each, of which 200,000,000 Shares will be issued fully paid or credited as fully paid.

Save for aforesaid and as disclosed in this prospectus, there has been no alteration in our Company’s share capital since its incorporation.

3. Resolutions of Yuan Tai Long, Our then Sole Shareholder Passed on June 8, 2011

Written resolutions were passed by Yuan Tai Long, our then Sole Shareholder, on June 8, 2011 pursuant to which, among other matters:

- (a) our Company approved and adopted the Memorandum of Association and the Articles of Association, the terms of which are summarized in Appendix V to this prospectus;
- (b) the authorized share capital of our Company was increased from US\$50,000 divided into 5,000,000 Shares of par value US\$0.01 each to US\$50,000,000 divided into 5,000,000,000 Shares of par value US\$0.01 each by the creation of 4,995,000,000 Shares of par value US\$0.01 each ranking *pari pasu* in all respects with the Shares in issue as at June 8, 2011;
- (c) the Listing was approved and our Directors were authorized to implement the Listing;
- (d) conditional on (aa) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue (if any), and the Offer Shares as mentioned in this prospectus (including any Shares that may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme; (bb) the entering into, execution and delivery of the International Underwriting Agreement and the Price Determination Agreement on or around the Price Determination Date; and (cc) the obligations of the Underwriters under each of the Underwriting Agreements having become unconditional and not having been terminated in accordance with the terms of the respective Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Global Offering and the Over-allotment Option be approved and our Directors be authorised to allot and issue the Offer Shares under the Global Offering and the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and the relevant Application Forms and our Directors be authorised to do all things and execute all documents in connection with or incidental to the Global Offering with such amendments or modifications (if any) as our Directors may consider necessary or appropriate; and
 - (ii) the rules of the Share Option Scheme be approved and adopted, and our Directors be authorised, at their sole discretion, to: (i) grant Shares or options thereunder; (ii) modify or amend the Share Option Scheme as may be required by the Hong Kong Stock Exchange and which they deem necessary and/or desirable; (iii) allot, issue and deal with the Shares pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme; and (iv) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme subject to the conditions therein;
- (e) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of rights issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association of our Company or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options which may be granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Company and/or any of

our subsidiaries or rights to acquire Shares or pursuant to a specific authority granted by the shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding Shares which may be allotted and issued under the Over-allotment Option and options be granted under the Share Option Scheme) plus the aggregate nominal amount of the share capital repurchased by our Company under the repurchase mandate. Such mandate shall expire at: (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 to be held by the Articles of Association of our Company, the Companies Law or any applicable laws of the Cayman Islands; and (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first;

- (f) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase on the Hong Kong Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, such number of Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding Shares which may be allotted and issued under the Over-allotment Option and options be granted under the Share Option Scheme). Such mandate shall expire at: (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 to be held by the Articles of Associations, the Companies Law or any applicable laws of the Cayman Islands to be held, or (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first; and
- (g) the extension of the issuing mandate to allot, issue and deal with Shares as mentioned in paragraph (e) above by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such issuing mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to paragraph (f) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following the Global Offering and the Capitalization Issue (excluding Shares which may be allotted and issued under the Over-allotment Option and options be granted under the Share Option Scheme) and the issuing mandate shall expire at: (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 to be held by the Articles of Association of our Company, the Companies Law or any applicable laws of the Cayman Islands; and (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Company's Shareholders in a general meeting, whichever occurs first, was approved.

4. Reorganization

The companies comprising our Group underwent the Reorganization in preparation for the listing of our Shares on the Hong Kong Stock Exchange. For information relating to the Reorganization, please refer to the section headed "History, Reorganization and Group Structure — Reorganization" in this prospectus for further details.

5. Changes in Share Capital of Our Subsidiaries

Our subsidiaries are listed in the accountants' report set out in Appendix I to this prospectus.

The following sets out the alteration in the share capital of the subsidiaries of our Company within the two years preceding the date of this prospectus:

- (a) On October 27, 2010, the registered capital of Xiangfan Hero City was increased from RMB 2 million to RMB 22 million, and the registered capital was fully paid up.
- (b) On May 18, 2010, the registered capital of Xiangfan Kanghao was increased from RMB 3 million to RMB 15 million, and the registered capital was fully paid up.
- (c) On August 5, 2010, the registered capital of Wuhan Roll Technology was decreased from RMB 50 million to RMB 19 million, and the registered capital was fully paid up.
- (d) On June 22, 2009, Chongqing Langyu was established in the PRC by Mr. Gao and Mr. Wang Zhengchang as a limited liability company with a registered capital of RMB 1 million, and the registered capital was fully paid up. No alteration in the share capital has occurred since Chongqing Langyu's establishment.

Save as disclosed above, there is no alteration in the share capital of our subsidiaries which took place within the two years immediately preceding the date of this prospectus.

6. Repurchase of Our Company's Own Shares

The Hong Kong Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange. This section includes information relating to the repurchase by us of our own Shares, including information required by the Hong Kong Stock Exchange to be included in this prospectus concerning the repurchase.

(a) Shareholders' approval

All our proposed repurchases of Shares (which must be fully-paid up) must be approved in advance by an ordinary resolution of our Shareholders at a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On June 8, 2011, our Directors were granted a general unconditional mandate to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the Global Offering on the Hong Kong Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose. This mandate will expire at: (i) the conclusion of the next annual general meeting of our Company; (ii) the date by which the next annual general meeting of our Company is required to be held by the Articles, the Companies Law or any applicable laws of the Cayman Islands; or (iii) the day on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting of our Company, whichever occurs first.

(b) Number of Shares which may be repurchased

The exercise in full of the repurchase mandate, on the basis of 800,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalization Issue, could accordingly result in up to 80,000,000 Shares being repurchased by our Company during the period prior to (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, the Companies Law or any applicable laws of the Cayman Islands to be held; or (iii) the revocation or variation of the repurchase mandate by an ordinary resolution of our Shareholders in a general meeting, whichever occurs first.

(c) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable us to repurchase Shares in the market. Such Share repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and our assets and/or our earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) *Source of funds*

Repurchases by our Company must be funded out of funds legally available for such purpose in accordance with the Memorandum, the Articles, the Companies Law, the applicable laws and regulations of the Cayman Islands and the Listing Rules. A listed company is prohibited from repurchasing its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time. Subject to the foregoing, any repurchases by our Company may be made out of our profits, the share premium account of the Company or the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the purchase, out of either or both of the profits of the Company or the share premium account of the Company or, if authorized by the Articles and subject to the Companies Law, out of capital.

(e) *Funding of repurchase*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the Hong Kong Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, 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 our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) *Directors' intention to sell Shares*

None of our Directors, to the best of their knowledge having made all reasonable enquiries, nor any of their associates, has any present intention, in the event that the repurchase mandate is exercised, to sell any Shares to us.

(g) Status of repurchased securities

The listing of all repurchased securities (whether effected on the Hong Kong Stock Exchange or otherwise) will be automatically cancelled and the certificates for those securities must be cancelled and destroyed. Under the laws of the Cayman Islands, the repurchased Shares shall be treated as cancelled and the amount of our Company's issued share capital shall be reduced by the aggregate nominal value of the repurchased Shares accordingly, although the authorised share capital of our Company will not be reduced.

(h) Trading restrictions

The total number of Shares which our Company may repurchase is up to 10% of the total number of our Shares in issue immediately after the completion of the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme). Our Company may not issue or announce a proposed issue of Shares for a period of 30 days immediately following a repurchase of Shares, without the prior approval of the Hong Kong Stock Exchange. Our Company is also prohibited from repurchasing Shares on the Hong Kong Stock Exchange if the repurchase would result in the number of listed Shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Hong Kong Stock Exchange.

Our Company is required to procure that the broker (appointed by our Company to effect a repurchase of Shares) will disclose to the Hong Kong Stock Exchange such information with respect to the repurchase as the Hong Kong Stock Exchange may require. As required by the prevailing requirements of the Hong Kong Listing Rules, an issuer shall not purchase its shares on the Hong Kong Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which its shares were traded on the Hong Kong Stock Exchange.

(i) Suspension of repurchase

Pursuant to the Hong Kong Listing Rules, our Company may not make any repurchase of Shares after a price sensitive development has occurred or has been the subject of a decision until such time when the price sensitive information has been made publicly available. In particular, under the requirements of the Hong Kong Listing Rules in force as at the date hereof, during the period of one month immediately preceding the earlier of:

- (i) the date of our board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Hong Kong Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Hong Kong Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of our Company's results for any year or half-year under the Hong Kong Listing Rules, or quarterly or any other interim period (whether or not required under the Hong Kong Listing Rules), and in each case ending on the date of the results announcement, our Company may not repurchase Shares on the Hong Kong Stock Exchange unless the circumstances are exceptional. In addition, the Hong Kong Stock Exchange may prohibit a repurchase of our shares on the Hong Kong Stock Exchange if our Company has breached the Hong Kong Listing Rules.

(j) Procedural and reporting requirements

As required by the Hong Kong Listing Rules, repurchases of Shares on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the Hong Kong Stock Exchange business day following any day on which our Company may make a purchase of Shares. The report must state the total number of Shares purchased the previous day, the purchase price per Share or the highest and lowest prices paid for such purchases. In addition, our Company's annual report is required to disclose details regarding repurchases of Shares made during the year, including a monthly analysis of the number of shares repurchased, the purchase price per Share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(k) Directors' undertakings

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 and the applicable laws and regulations of the Cayman Islands and the Articles.

(l) Takeovers Code

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

If the repurchase mandate is fully exercised immediately following completion of the Global Offering (but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme), the total number of Shares which will be repurchased pursuant to the repurchase mandate shall be 80,000,000 Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions.)

(m) Share repurchase made by our Company

Save as disclosed in the paragraph headed "Changes in the share capital of our Company", no repurchase of Shares has been made by our Company since its incorporation.

(n) Connected parties

Our Company is prohibited from knowingly purchasing shares on the Hong Kong Stock Exchange from a connected person (as defined under the Hong Kong Listing Rules), and a connected person shall not knowingly sell his shares to our Company on the Hong Kong Stock Exchange.

As at the Latest Practicable Date, one of our Directors, to the best of their knowledge having made all reasonable enquiries, nor any of their respective associates (as defined in the Hong Kong Listing

Rules) has any present intention to sell any Shares to us or any of our subsidiaries if the repurchase mandate is exercised. As at the Latest Practicable Date, no connected person of our Company has notified us that he/she/it has a present intention to sell any Shares to us or any of our subsidiaries, or has undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Our Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or our subsidiaries within the two years preceding the date of this prospectus which are or may be material:



- (a) a cooperative agreement entered into between Segma Power Products Company and Ascend in relation to the license to use certain trademarks granted by Segma Power Products Company to Ascend for an annual consideration of HK\$ 1.134 million for a term valid until December 31, 2011 and a trademark license agreement dated March 1, 2011 entered into between Segma Power Products Company, Ascend and Wuhan Norman to further supplement the cooperative agreement;
- (b) a patent license agreement dated October 1, 2009 and a supplemental agreement dated May 27, 2011 entered into between Changyuan Donggu Industry and Xiangfan Kanghao in relation to the license to use the patent (No. ZL200820192063.1) granted by Changyuan Donggu Industry to Xiangfan Kanghao for a consideration of RMB100,000 for a term valid until September 30, 2014;
- (c) a patent license agreement dated October 1, 2009 and a supplemental agreement dated May 27, 2011 entered into between Changyuan Donggu Industry and Xiangfan Kanghao in relation to the license to use the patent (No. ZL200820192066.5) granted by Changyuan Donggu Industry to Xiangfan Kanghao for a consideration of RMB100,000 for a term valid until September 30, 2014;
- (d) a patent license agreement dated October 1, 2009 and a supplemental agreement dated May 27, 2011 entered into between Changyuan Donggu Industry and Xiangfan Kanghao in relation to the license to use the patent (No. ZL200820192064.6) granted by Changyuan Donggu Industry to Xiangfan Kanghao for a consideration of RMB100,000 for a term valid until September 30, 2014;
- (e) a patent license agreement dated October 1, 2009 and a supplemental agreement dated May 27, 2011 entered into between Changyuan Donggu Industry and Xiangfan Kanghao in relation to the license to use the patent (No. ZL200820192065.0) granted by Changyuan Donggu Industry to Xiangfan Kanghao for a consideration of RMB100,000 for a term valid until September 30, 2014;
- (f) a patent transfer agreement dated February 23, 2011 entered into between Mr. Ye Zhongqiao as the transferor and Wuhan Norman as the transferee in relation to the transfer of three registered patent (No. 200920087821.8, 200720084900.4 and ZL201020281974.9) for nil consideration;
- (g) a strategic alliance agreement dated March 4, 2011 entered into between Dongfeng Cummins and Xiangfan Kanghao in relation to the supply of diesel engines to Xiangfan Kanghao;

- (h) an equity transfer agreement dated December 23, 2010 and entered into between Xiangfan Kanghao and Ms. Chen Tong (陳彤), pursuant to which Ms. Chen Tong acquired 51% equity interest in Wuhan Kanghao from Xiangfan Kanghao for a consideration of RMB1,020,000;
- (i) an equity transfer agreement dated March 3, 2011 and entered into between Hubei Langtong and Ms. Liang Huiqi (梁慧琦), pursuant to which Ms. Liang Huiqi acquired the entire equity interest in Xiamen Langdong from Hubei Langtong for a consideration of RMB590,000;
- (j) an equity transfer agreement dated May 3, 2011 and entered into between Xiangfan Kanghao and Mr. Wei Qun (衛群), pursuant to which Xiangfan Kanghao acquired the 39% equity interest in Beworld from Mr. Wei Qun (衛群) of RMB780,000;
- (k) the Non-Competition Deed dated June 8, 2011 and entered into between our Controlling Shareholders and our Company under which our Controlling Shareholders have given certain non-competition undertakings to our Company;
- (l) a deed of indemnity dated June 8, 2011 entered into between the Controlling Shareholders and our Company, under which, our Controlling Shareholders have agreed to give certain indemnities in respect of tax and other matters in favor of our Group; and
- (m) the Hong Kong Underwriting Agreement.



2. Our Intellectual Property Rights

(a) Trademarks

As of the Latest Practicable Date, we are the registered owner of the following trademarks:


Trademark	Name of Owner	Place of Registration	Registration			Expiry Date
			Class	Number	Date of Registration	
	Xiangfan Hero City	PRC	7	6841257	June 21, 2010	June 20, 2020
	Beworld	PRC	7	7163158	October 14, 2010	October 13, 2020

As of the Latest Practicable Date, we have made applications for the registration of the following trademarks:

Trademark	Applicant	Place of Registration	Class	Application Number	Date of Application
	The Company	Hong Kong	7,9,12,16 & 35	301839655	February 22, 2011
					

(in a series of 2)

As of the Latest Practicable Date, we are licensed to use the following trademark:

Trademark	Name of Owner	Place of Registration	Registration Number	Term of License
	Segma Power Products Company	U.S.	3630174	January 1, 2009 to December 31, 2011

(b) Patents

As of the Latest Practicable Date, we are the registered owner of the following patents (note 1):

Patent	Registered Owner	Place of Registration	Patent Type	Validity Period	Patent Number
Full-power power take-off for diesel engines (1) (note 2) (柴油機全功率取力器 (1))	Xiangfan Hero City	PRC	Utility Model	January 23, 2008 - January 22, 2018	ZL200820065517.9
Full-power power take-off for diesel engines (2) (note 2) (柴油機全功率取力器 (2))	Xiangfan Hero City	PRC	Utility Model	January 23, 2008 - January 22, 2018	ZL200820065518.3
Bus indicator for CAN of engines (note 2) (發動機CAN總綫顯示儀)	Xiangfan Kanghai	PRC	Utility Model	December 24, 2009 - December 23, 2019	ZL200920289452.0
Double-primer structure array for engines (note 2) (發動機雙啓動器布置結構)	Xiangfan Kanghai	PRC	Utility Model	December 24, 2009 - December 23, 2019	ZL200920289454.X

APPENDIX VI
STATUTORY AND GENERAL INFORMATION

Patent	Registered Owner	Place of Registration	Patent Type	Validity Period	Patent Number
Leakage Prevention High-pressure Double-layered Oil Pipes for Diesel Engines (note 2) (柴油發動機防泄漏雙層高壓油管)	Xiangfan Kanghao	PRC	Utility Model	December 24, 2009 - December 23, 2019	ZL200920289450.1
Sea-water-type Radiator for Diesel Engines of ships (note 2) (海水型船用柴油發動機散熱器)	Xiangfan Kanghao	PRC	Utility Model	December 24, 2009 - December 23, 2019	ZL200920289451.6
Switching device for testing of control penal of engines (note 2) (發動機控制板調試用切換裝置)	Xiangfan Kanghao	PRC	Utility Model	December 24, 2009 - December 23, 2019	ZL200920289453.5
Water tank for multiple-flow radiators (note 3) (多流程散熱器水箱)	Wuhan Hero City	PRC	Utility Model	November 2, 2009 - November 1, 2019	ZL200920229212.1
No-chassis support integrated engine radiators (note 3) (無底盤支撐、集成式發動機散熱器)	Wuhan Hero City	PRC	Utility Model	September 11, 2009 - September 10, 2019	ZL200920228033.6
Water chamber sealing structure for water tanks of new-typed radiators (note 3) (新型散熱器水箱的水室密封結構)	Wuhan Hero City	PRC	Utility Model	November 2, 2009 - November 1, 2019	ZL200920229214.0
Strengthened tilted sheet for a new-typed heat conductor (note 3) (一種新型傳熱強化翹片)	Wuhan Hero City	PRC	Utility Model	November 2, 2009 - November 1, 2019	ZL200920229213.6
Automatic control device for accelerators of engines (發動機油門自動控制執行器)	Wuhan Norman	PRC	Utility Model	August 5, 2009 - August 4, 2019	ZL200920087821.8

APPENDIX VI
STATUTORY AND GENERAL INFORMATION

Patent	Registered Owner	Place of Registration	Patent Type	Validity Period	Patent Number
Horizontal and vertical exchange control device for onboard communication antenna (車載通信天綫平臥豎立轉換控制裝置)	Wuhan Norman	PRC	Utility Model	May 28, 2007 - May 27, 2017	ZL200720084900.4
Digital electronic speed controlling device for use in engines (用於發動機的數字式電子調速控制裝置)	Wuhan Norman	PRC	Utility Model	August 4, 2010 - August 3, 2020	ZL201020281974.9
Heat radiator for new-type diesel generator sets (note 3) (新型柴油發電機組散熱器)	Beworld	PRC	Utility Model	September 22, 2009 - September 21, 2019	ZL200920228320.7
Water tank for new-type diesel generator sets (note 3) (新型柴油發電機組水箱)	Beworld	PRC	Utility Model	September 22, 2009 - September 21, 2019	ZL200920228322.6
Gasket heat exchanger for new-type diesel generator sets (note 3) (新型柴油發電機組組合熱交換器)	Beworld	PRC	Utility Model	September 22, 2009 - September 21, 2019	ZL200920228321.1
Net protector for new-type heat radiators (note 3) (新型散熱器護網)	Beworld	PRC	Utility Model	September 11, 2009 - September 10, 2019	ZL200920228034.0
Strengthening structure for side board bend-off for water tanks of heat radiators (note 3) (一種散熱器水箱側板折彎加強結構)	Beworld	PRC	Utility Model	September 11, 2009 - September 10, 2019	ZL200920228032.1
Modifiable baffle structure of water-feeding device of heat radiators for engine (note 3) (發動機散熱器上水室改進型隔板結構)	Beworld	PRC	Utility Model	July 9, 2010 - July 8, 2020	ZL201020253110.6
Horizontal heat radiator for new-type generator sets (note 3) (新型發電機組臥式散熱器)	Beworld	PRC	Utility Model	July 16, 2010 - July 15, 2020	201020261512.0

APPENDIX VI
STATUTORY AND GENERAL INFORMATION

Patent	Registered Owner	Place of Registration	Patent Type	Validity Period	Patent Number
Heat radiator for new-type generator sets with acoustic containers (note 3) (新型防音箱發電機組散熱器)	Beworld	PRC	Utility Model	July 16, 2010 - July 15, 2020	201020261996.9
Cooling pipe of heat radiator for new-type engine and its manufacturing method (note 3) (新型發動機散熱器冷卻管)	Beworld	PRC	Utility Model	July 1, 2010 - June 30, 2020	201020243134.3

Notes:

1. Most of our patents are developed by our own research and development team.
2. Such patents are applied in the power cord integration and sale.
3. Such patents are applied in the heat exchange system manufacturing and sales.

As of the Latest Practicable Date, we are exclusively licensed to use the following patents (note 1):

Patent	Patent Licensee	Place of Registration	Patent Type	Validity Period of the License Agreement	Validity Period of the Patent	Patent Number
Hydraulic expanded-sleeve manually locked cylinder (液壓脹套式手動鎖緊油缸)	Xiangfan Kanghao (note 1)	PRC	Utility Model	October 1, 2009 - September 30, 2014	October 28, 2008 - October 27, 2018	ZL200820192065.0
Exhaust pipe (排氣管)	Xiangfan Kanghao (note 1)	PRC	Utility Model	October 1, 2009 - September 30, 2014	October 28, 2008 - October 27, 2018	ZL200820192063.1
Heat treatment device for surface of exhaust pipes (排氣管表面熱處理裝置)	Xiangfan Kanghao (note 1)	PRC	Utility Model	October 1, 2009 - September 30, 2014	October 28, 2008 - October 27, 2018	ZL200820192066.5
Hydraulic spring-typed manually locked oil cylinder (液壓卡簧式手動鎖緊油缸)	Xiangfan Kanghao (note 1)	PRC	Utility Model	October 1, 2009 - September 30, 2014	October 28, 2008 - October 27, 2018	ZL200820192064.6
a chain structure in laser processing technology (一種激光加工技術中的串聯結構)	Wuhan Hero City (note 2)	PRC	Invention	July 1, 2009 - June 30, 2015	December 5, 2003 - December 4, 2023	ZL200310111526.9
Low-impedance probe (一種低阻抗探針)	Wuhan Norman (note 3)	PRC	Utility Model	June 11, 2010 - June 10, 2016	September 30, 2009 - September 29, 2019	ZL200920228631.3
Stands for LED energy-saving lights (LED節能燈燈架)	Wuhan Norman (note 3)	PRC	Design	July 9, 2010 - July 8, 2016	September 30, 2009 - September 29, 2019	ZL200930223623.5

Patent	Patent Licensee	Place of Registration	Patent Type	Validity Period of the License Agreement	Validity Period of the Patent	Patent Number
Electronic speed control device for engine (用於發動機的電子調速控制裝置)	Wuhan Norman (note 4)	PRC	Utility Model	March 18, 2009 - March 17, 2019	August 14, 2008 - August 13, 2018	ZL200820190212.0
a parallel structure in laser processing technology (一種激光加工技術中的并聯機構)	Beworld (note 2)	PRC	Invention	July 1, 2009 - June 30, 2015	December 5, 2003 - December 4, 2023	ZL200310111525.4
Mount Support for Infrared Emitting Diode (紅外對管的安裝支架)	Beworld (Note 6)	PRC	Utility Model	July 1, 2009 - June 30, 2015	April 21, 2007 - April 20, 2017	ZL200720084139.4

Notes:

- The licensor is Xiangfan Chuangyuan Donggu Industry & Trade Co., Ltd.* (襄樊市長源東谷實業有限公司) and such patents are applied in the power cord integration and sales.
- The licensor is Zhang Xiangming (張向明) and Yang Xia (楊俠), each an Independent Third Party. Both the patent of “a chain structure in laser processing technology” which is licensed to Wuhan Hero City and the patent of “a parallel structure in laser processing technology” which is licensed to Beworld are applied in the heat exchange system manufacturing and sales.
- The licensor is Xiangfan Qichuang Machinery & Electric Technology Development Co., Ltd.* (襄樊啓創機電科技開發有限公司) and such patent is applied in the electronic control system manufacturing and sales.
- The licensor is Zhou Guohui (周國輝), an Independent Third Party and such patent is applied in the electronic control system manufacturing and sales.
- During the Track Record Period, we paid an aggregate license fees of RMB160,000 for these patents. As of December 31, 2010, the aggregate license fees payable by us for the use of these patents amounted to RMB240,000. We plan to renew the respective license periods after the expiry of relevant license agreements and continue to develop our own technical skills and know-how to reduce our reliance on licensed patents.
- The licensor is Wuhan Institute of Technology (武漢工程大學) and such patent is applied in the heat exchange system manufacturing and sales.

As of the Latest Practicable Date, we have made applications for the registration of the following patents (note 1):

Patent	Applicant	Patent Type	Place of Registration	Application Number	Date of Application
Heat radiator for gas-combustion generator sets (note 2) (燃氣發電機組散熱器)	Beworld	Utility Model	PRC	201020282548.7	August 5, 2010
Installation plate of water-feeding chamber of heat raitor for new-type engine (note 2) (新型發動機散熱器上水室安裝板)	Beworld	Utility Model	PRC	201020253100.2	July 9, 2010

APPENDIX VI
STATUTORY AND GENERAL INFORMATION

Patent	Applicant	Patent Type	Place of Registration	Application Number	Date of Application
Gasket heat exchanger for new-type diesel generator sets (note 3) (新型柴油發電機組組合熱交換器)	Beworld	Invention	PRC	200910272194.X	September 22, 2009
Automatic fuel cut-out device in emergent working condition (note 3) (緊急工況下自動停油裝置)	Xiangfan Kanghao	Utility Model	PRC	201120034779.0	January 28, 2011
Testing device available for quickly connected with speed controller of engines (note 3) (可快速接卸發動機調速器的測試裝置)	Xiangfan Kanghao	Utility Model	PRC	201120034768.2	January 28, 2011
Advanced test bed for engines (note 3) (改進型發動機調試台)	Xiangfan Kanghao	Utility Model	PRC	201120034758.9	January 28, 2011
Simple mounting bracket for Small and medium-sized air filter assembly (note 3) (中小型空濾器總成的簡易安裝支架)	Xiangfan Kanghao	Utility Model	PRC	201120034802.6	January 28, 2011
Exhaust heat shield for engines (note 3) (發動機排氣隔熱罩)	Xiangfan Kanghao	Utility Model	PRC	201120034789.4	January 28, 2011
Engine gear train shield (note 3) (發動機輪系防護罩)	Xiangfan Kanghao	Utility Model	PRC	201120034788.X	January 28, 2011
Engine assembly for integrated water tank assembly (note 3) (集成水箱總成的發動機總成)	Xiangfan Kanghao	Utility Model	PRC	201120034787.5	January 28, 2011
Two-point front mounting structure for engines (note 3) (發動機的雙點前懸置結構)	Xiangfan Kanghao	Utility Model	PRC	201120034786.0	January 28, 2011

Patent	Applicant	Patent Type	Place of Registration	Application Number	Date of Application
New layout structure for engine air filter assembly (note 3) (發動機空濾器總成的新式佈置結構)	Xiangfan Kanghao	Invention	PRC	201110034586.X	January 28, 2011
Fuel cut-off control system for suddenly-stop running engines (note 3) (發動機急停斷油控制系統)	Xiangfan Kanghao	Invention	PRC	201110034595.9	January 28, 2011
Water to Air intercooler for marine engines (note 3) (船用發動機水空中冷器)	Xiangfan Kanghao	Invention	PRC	201110034610.X	January 28, 2011
Aging Electronic Speed Control Device (電子調速控制器電老化裝置)	Wuhan Norman	Utility Model	PRC	201020644456.9	December 2, 2010

Notes:

- All the patents under applications are developed by our own research and development team.
- Such patents are applied in the heat exchange system manufacturing and sales.
- Such patents are applied in the power core integration and sales.

(c) Domain name

As of the Latest Practicable Date, we are the registered owner of the following domain names:

Domain Name	Registrant
xingyuanpower.com	our Company

Save as aforesaid, there are no other trademarks, copyright, patents, other intellectual or industrial property rights which are material to our operation.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**1. Particulars of Directors' Service Agreements and Letters of Appointment****(a) Executive Directors**

Each of the executive Directors has entered into a service agreement with our Company, pursuant to which each of them accepts that, for a specific term of three years from the Listing Date, their respective appointment as an executive Director shall be governed by the terms and conditions set out therein. The contract may be terminated by, among others, serving not less than three months' prior notice in writing by either party on the other, and upon such termination, the executive

Director shall, upon the Company's request, resign immediately from such offices held by him in the Company or any other member of the Group. The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under Appendix 14 of the Listing Rules.

Each of the executive Directors is entitled to a fixed director's fee on top of their respective basic salaries entitled under their labour contracts.

(b) Independent non-executive Directors

Each of the independent non-executive Directors has signed a service agreement with our Company, pursuant to which each of them accepts that their respective appointment as an independent non-executive Director for a term of three years from the date of appointment, that (as the case may be) shall be governed by the terms and conditions set out therein. The service agreement may be terminated by, among others, giving three months' prior notice in writing by either party to the other, and upon such termination, the independent non-executive Director (as the case may be) shall, upon the Company's request, resign immediately from such offices held by him in the Company or any other member of the Group. Under their respective service agreements, each of the independent non-executive Directors is entitled to a fixed director's fee.

The appointments are subject to the provisions of retirement and rotation of Directors under Appendix 14 of the Listing Rules.

Save as disclosed above, none of our Directors has or is proposed to have entered into any service agreements with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

2. Remuneration of Directors

For details of our Directors' remuneration during the Track Record Period, please see refer to "Directors, Senior management and Staff — Compensation of directors and senior management."

Under the current arrangements, the aggregate remuneration and benefits in kind our Directors will be entitled to receive for the financial year ending December 31, 2011 is expected to be approximately HK\$2.7 million.

Save as disclosed in Appendix I to this prospectus, no Director received any remuneration or benefits in kind from our Group for the financial year ended December 31, 2010.

3. Disclosure of Interests

(a) Interests and/or short positions of our Directors in the share capital of our Company and its associated corporations following the Global Offering and the Capitalization Issue

Immediately following completion of the Global Offering and the Capitalization Issue (but without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme), the interests and/or short positions of our Directors and chief executive in our 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 in 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 which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Hong Kong Listing Rules, once the Shares are listed, will be as follows:

Interests and short positions in Shares, underlying shares and debentures of our Company:

Name of Director	Capacity / Nature of Interest	Aggregate number of Shares or underlying Shares	Approximate percentage of interest in our Company ^(Note 1)
Mr. Li	Interest of a controlled corporation	540,000,000	67.5%
Ms. Xu	Interest of a controlled corporation	540,000,000	67.5%
Mr. Luo	Interest of a controlled corporation	540,000,000	67.5%
Mr. Zhang	Interest of a controlled corporation	540,000,000	67.5%
Mr. Fan	Interest of a controlled corporation	540,000,000	67.5%
Ms. Huang Fei	Interest of a controlled corporation	540,000,000	67.5%

Notes:

- (1) Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Mr. Gao and Ms. Huang Yue are, pursuant to an agreement entered amongst themselves in July 2007 (as confirmed by a deed dated February 25, 2011), are parties acting in concert (for the purposes of the Takeovers Code). As such, they together control the 67.5% interest in the share capital of our Company through Yuan Tai Long. Based on the foregoing, each of Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Mr. Gao, Ms. Huang Yue and Yuan Tai Long is deemed to be interested in such 67.5% interest in the share capital of our Company.
- (2) Yuan Tai Long is held as to 26.83% by Mr. Li, 26.83% by Ms. Xu, 17.06% by Mr. Luo, 11.99% by Mr. Zhang, 8.4% by Mr. Fan, 3.71% by Ms. Huang Fei, 2.78% by Mr. Gao and 2.4% by Ms. Huang Yue.

Save as disclosed above, immediately following completion of the Global Offering and the Capitalization Issue (but without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme), none of our Directors will have any interests and/or short position in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning 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 in the Hong Kong Listing Rules.

(b) Interests and/or short positions of the substantial shareholders in the Shares which are discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Global Offering and the Capitalization Issue (but without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme), so far as our Directors are aware, the following persons (not being a Director or a chief executive of our Company) will have an interest or short position in the Shares or underlying Shares 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 who will, directly or indirectly, be 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 member of our Company.

Name	Capacity / Nature of Interest	Aggregate number of Shares or underlying Shares	Approximate percentage of interest in our Company ^(Note 1)
Yuan Tai Long ^(Note 2)	Beneficial owner	540,000,000	67.5%
Mr. Gao	Interest of a controlled corporation	540,000,000	67.5%
Ms. Huang Yue	Interest of a controlled corporation	540,000,000	67.5%

Notes:

- Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Mr. Gao and Ms. Huang Yue are, pursuant to an agreement entered amongst themselves in July 2007 (as confirmed by a deed dated February 25, 2011), are parties acting in concert (for the purposes of the Takeovers Code), and together they control the 67.5% interest in the share capital of our Company through Yuan Tai Long. Based on the foregoing, each of Mr. Li, Ms. Xu, Mr. Luo, Mr. Zhang, Mr. Fan, Ms. Huang Fei, Mr. Gao, Ms. Huang Yue and Yuan Tai Long is deemed to be interested in such 67.5% interest in the share capital of our Company.
- Yuan Tai Long is held as to 26.83% by Mr. Li, 26.83% by Ms. Xu, 17.06% by Mr. Luo, 11.99% by Mr. Zhang, 8.4% by Mr. Fan, 3.71% by Ms. Huang Fei, 2.78% by Mr. Gao and 2.4% by Ms. Huang Yue.

In addition to the above and so far as our Directors are aware, immediately following completion of the Global Offering, the following entities are directly interested in 10% or more of the nominal value of any class of equity capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

Name of Subsidiaries	Substantial Shareholder of such subsidiary	Approximate Percentage of Shareholding
Beworld.	Wei Qun (衛群)	10%
Chongqing Langyu	Wang Zhengchang (王正長)	45%

Save as disclosed herein, our Directors are not aware of any other person who will, immediately following completion of the Global Offering and the Capitalization Issue (but without taking into account or the Shares that may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company 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 members of our Group.

4. Agency Fees or Commission

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Group.

5. Related Party Transactions

During the two years immediately preceding the date of this prospectus, we have engaged in related party transactions as described in note 31 of the Accountants' Report set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed herein:

- (a) so far as is known to our Directors, immediately following completion of the Global Offering (but without taking into account of any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme), there are no other person (not being the Director or chief executive) who has an interest or a short position in the Shares or underlying shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be 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 or any other members of our Group;
- (b) none of our Directors of our Company has any interest and/or a short position in the Shares, underlying Shares or debentures of our Company, or any of our 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 interest and short position in 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 which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Hong Kong Listing Rules, in each case once the Shares are listed on the Hong Kong Stock Exchange;
- (c) none of our Directors nor any of the parties whose names are listed in the section headed "Consents of experts" in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, 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;

- (d) none of our Directors nor any of the parties whose names are listed in the section headed “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 our Company’s business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Consents of experts” in this Appendix: (i) is legally or beneficially interested in any securities of any member of our Group; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; or (iii) is an officer or servant or in employment of an officer or servant of our Group;
- (f) none of our Directors or their associates or our Shareholders who to the knowledge of our Directors owns more than 5% of our issued share capital has any interest in our five largest suppliers or our five largest customers; and
- (g) no cash, share or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of our Company nor is any cash, share or benefit intended to be paid, allotted or given on the basis of the Global Offering or related transactions as mentioned in this prospectus.

D. SHARE OPTION SCHEME

1. Summary of Terms

The following is a summary of the principal terms of the Share Option Scheme:

(a) Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high caliber employees and attract human resources that are valuable to the Group and any invested entity.

(b) Who may join

Subject to acceptance in accordance with the terms of the Share Option Scheme, the Board shall be entitled at any time and from time to time within ten (10) years after the adoption date to offer to grant to any eligible participant as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an option to subscribe for such number of Shares as the Board may determine at the subscription price PROVIDED THAT the granting of an option under this scheme to any grantee which is a company or is a discretionary object of an eligible participant shall be subject to the execution by the grantee or trustee and/or the beneficial owners in favor of the Company of an undertaking not to effect or permit any change in ultimate beneficial ownership of the grantee so long as the option so granted to the grantee or any part thereof remains exercisable. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who fall within any of the classes of eligible participants shall not, by itself, unless the Board otherwise determined, be construed as a grant of option under this scheme. The basis of eligibility of any of the class of eligible participants to the grant of any option shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group and any invested entity.

(c) Payment on acceptance of option

An option shall be deemed to have been granted and accepted (with retrospective effect from the offer date) when the duplicate letter comprising acceptance of the option duly signed by the grantee with the number of Shares in respect of which offer is accepted clearly stated therein, together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company. Such remittance shall in no circumstances be refundable.

(d) Subscription price

The subscription price in respect of any option shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but in any case the subscription price shall be at least not lower than the higher of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of the grant, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five (5) trading days immediately preceding the date of the grant; and (c) the nominal value of a Share.

(e) Maximum number of Shares subject to the Share Option Scheme

Notwithstanding anything to the contrary herein, the maximum number of shares which may be issued upon exercise of all outstanding options granted under this scheme and any other share option scheme(s) of the Company must not exceed 30 per cent. of the total number of Shares in issue from time to time. No option may be granted under the scheme or any other share option scheme(s) of the Company if this will result in the limit set out in this paragraph being exceeded.

The total number of shares in respect of which options (including both exercised and outstanding options) may be granted under this scheme and any other share option schemes of the Company shall not, subject to paragraph (l), in aggregate exceed 10 per cent. of the total number of Shares in issue on the date on which the date this scheme is adopted by the Shareholders unless the Company seeks the approval of the Shareholders in general meeting for refreshing the 10 per cent. limit under this Scheme PROVIDED THAT options lapsed in accordance with the terms of this scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10 per cent. limit under this paragraph.

The Company may seek approval of the Shareholders in general meeting for refreshing the 10 per cent. limit such that the total number of Shares in respect of which options may be granted under this Scheme and any other share option schemes of the Company as refreshed shall not exceed 10 per cent. of the total number of Shares in issue as at the date of the approval of the Shareholders PROVIDED THAT options previously granted under this scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of this Scheme or any other share option scheme of the Company) will not be counted for the purpose of calculating the limit as "refreshed".

For the purpose of seeking the approval of Shareholders under this paragraph, a circular containing the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules must be sent to the Shareholders.

Subject to the paragraph below, no eligible participant shall be granted an option if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of the options granted to such eligible participant (including both exercised and outstanding options) in any 12-month period exceeding one (1) per cent. of the total number of Shares in issue.

Where any further grant of options to an eligible participant, if exercised in full, would result in the total number of Shares already issued or to be issued upon exercise of all options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant exceeding one (1) per cent. of the total number of Shares in issue, such further grant must be separately approved by the Shareholders in general meeting with such eligible participant and his associates abstaining from voting. The Company must send a circular to the Shareholders and the circular must disclose the identity of the eligible participant, the number and terms of the options to be granted and options previously granted to such eligible participant and the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the subscription price) of the options to be granted to such eligible participant must be fixed before the Shareholders' approval and the date of the meeting of the Board for proposing such further grant of option should be taken as the date of grant for the purpose of calculating the subscription price.

(f) Exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee, which must not be more than 10 years from the date of the grant (subject to acceptance) of the option.

There is no general requirement for any performance target that has to be achieved before the exercise of any option except as otherwise imposed by the Board pursuant to paragraph (b) and stated in the offer of grant of an option.

(g) Rights are personal to Grantee

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any option. Any breach of the foregoing shall entitle the Company to cancel any outstanding option or part thereof granted to such grantee.

(h) Rights on ceasing employment or other engagement

Subject as hereinafter provided in this scheme, the option may be exercised by the grantee (or his or her legal personal representatives) at any time during the option period in accordance with and subject to this paragraph, if the grantee is under employment with the Company and/or any of the Subsidiaries or the invested entities, in the event of the grantee ceasing to be an eligible participant by reason of such grantee's resignation from the employment of the Company or of any of the Subsidiaries or the invested entities or the termination of his or her employment by the Company or the relevant Subsidiary or invested entity or the expiry of his or her employment with the Company or the relevant Subsidiary or invested entity other than the termination of his or her employment on one or more of the grounds specified in paragraph (m)(e), the grantee may exercise the option up to his or her entitlement at such date of cessation (to the extent not already exercised) on or before the date of such cessation, which date shall be the last actual working day on which the grantee was at work with the Company, or the relevant Subsidiary or Invested Entity, on which salary is paid whether in lieu of notice or not, or such longer period as the Board may determine.

(i) Rights on death, ill health, disability or insanity

Subject as hereinafter provided in this scheme, the option may be exercised by the grantee (or his or her legal personal representatives) at any time during the option period in accordance with and subject to this paragraph:

- (a) if the grantee is under employment with the Company and/or any of the Subsidiaries or the invested entities, in the event of the grantee ceasing to be an eligible participant by reason of his or her ill-health or retirement, the grantee may, subject to paragraph (m)(a), exercise the option up to his or her entitlement at such date of cessation (to the extent not already exercised) within the period of twelve months following the date of such cessation, which date shall be the last actual working day on which the grantee was at work with the Company, or the relevant Subsidiary or invested entity, on which salary is paid whether in lieu of notice or not, or such longer period as the Board may determine;
- (b) if the grantee is under employment with the Company and/or any of the Subsidiaries or the invested entities, in the event of the grantee ceasing to be an eligible participant by reason of his or her death, the legal personal representative(s) of the grantee may, notwithstanding paragraph (m)(a), exercise the option up to the grantee's not already exercised) within the period of 12 months following the date of his or her death (or such longer period as the Board may determine).

(j) Rights on takeover

In the event of a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavors to procure that such offer is extended to all the grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his or her or its option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's or her or its option at any time before the close of such offer (or any revised offer).

(k) Rights on winding up and compromise or arrangement

In the event a notice is given by the 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 on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this paragraph) and thereupon, each grantee (or where permitted under paragraph (i), his or her legal personal representative(s)) shall be entitled to exercise all or any of his or her or its options (to the extent which has become exercisable and not already exercised) at any time not later than two (2) business days prior to the proposed general meeting of the Company 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 referred to above, allot the relevant Shares to the grantee credited as fully paid, which Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up the Company to participate in the distribution of assets of the Company available in liquidation; and

In the event of a compromise or arrangement between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement, and thereupon any grantee (or where permitted under paragraph (i), his or her legal personal representative(s)) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of the date falling two (2) calendar months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her or its option (to the extent which has become exercisable and not already exercised), but the exercise of the option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. The Company may thereafter require such grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its option so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(l) *Effects of alterations to capital*

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganization of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party), such corresponding alterations (if any) shall be made in:

- (a) the number or nominal amount of Shares subject to any option so far as unexercised; and/or
- (b) the subscription price; and/or
- (c) the method of exercise of the option; and/or
- (d) the maximum number of Shares referred to in paragraph (e),

in accordance with the Listing Rules, as an independent financial advisor or the Auditors (as the Board may select) shall certify in writing to the Board to be in LR17 their opinion appropriate, fair and reasonable, PROVIDED THAT any alteration shall be made on the basis that the proportion of the issued share capital of the Company to which a grantee is entitled after such alteration shall remain the same as that to which he or she or it was entitled before such alteration and that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than the nominal value of the Shares and no such adjustment will be required in circumstances where there is an issue of Shares or other securities of the Group as consideration in a transaction.

In addition, in respect of any such alteration as provided in this paragraph (l) other than any alteration made on a capitalization issue, the Company's independent financial advisor or the Auditors must confirm in writing to the Directors that the alteration satisfy the requirements of the relevant provision of the Listing Rules and the supplementary guidance on the interpretation of the Listing Rules issued by the Exchange from time to time.

The capacity of the independent financial advisor or the Auditors in this paragraph (l) is that of experts and not of arbitrators and their certification shall be final and binding on the Company and the grantees.

The costs of the independent financial advisor or the Auditors shall be borne by the Company.

(m) Lapse of options

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the expiry of any of the periods referred to in paragraphs (h) and (i);
- (c) the date on which the offer (or as the case may be, revised offer) referred to in paragraph (j), which has become or is declared unconditional, closes;
- (d) the date of the commencement of the winding-up of the Company referred to in paragraph (k);
- (e) if the grantee is under employment with the Company and/or any of the Subsidiaries or invested entities, the date on which the Directors determine that the grantee ceases to be an eligible participant by reason of the termination of his or her employment on any one or more of the grounds that: he or she has been guilty of misconduct or has found to have breached the terms of employment during his or her employment (regardless of whether such employment contract has already been terminated) leading to a material loss or damage to the Group, or his or her employment has terminated by reason of the failure of such employment to pass the annual evaluation, or has become bankrupt or insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offense involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at law or pursuant to any applicable laws or under the grantee's service contract with the Company or the relevant Subsidiary or the relevant invested entity. A resolution of the Board or the board of directors of the relevant Subsidiary or the board of directors of the relevant invested entity to the effect that employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive and binding on the grantee;
- (f) the date when the proposed compromise or arrangement becomes effective referred to in paragraph (k);
- (g) the date on which the grantee commits a breach of paragraph (g) or the options are cancelled in accordance with paragraph (o); or
- (h) if the Directors at their absolute discretion determine that the grantee (other than an eligible participant) or his or her or its associate has committed any breach of any contract entered into between the grantee or his or her or its associate on the one part and any member of the Group or any invested entity on the other part or that the grantee has become bankrupt or insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his or her or its creditors generally, the Directors shall determine that the outstanding options granted to the Grantee (whether exercisable or not) shall lapse and in such event, his or her or its options will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

(n) Ranking and voting rights of Shares

No dividends will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. The Shares to be issued and allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association of the Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment of the Shares (on exercise of the option) (the "Allotment Date") and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the Allotment Date other than any dividend or other distribution previously declared or recommended or resolved

to be paid or made with respect to a record date which shall be before the Allotment Date, PROVIDED ALWAYS that when the Allotment Date falls on a day upon which the register of members of the Company is closed then the allotment upon the exercise of the option shall become effective on the first business day on which the register of members of the Company is re-opened. A Share allotted upon the exercise of an option shall not carry any dividend right and voting rights until the completion of the registration of the grantee as the holder thereof.

(o) Cancellation of options

The Company may cancel an option granted but not exercised with the approval of the grantee of such option.

Cancelled options may be re-issued after such cancellation has been approved, PROVIDED THAT re-issued options shall only be granted in compliance with the terms of this scheme.

Where the Company cancels options granted to an eligible participant, the Company may, in place thereof, grant new options to the same eligible participant, provided that there are available unissued options (excluding the cancelled options) within the limit approved by the Shareholders as mentioned in paragraph (e).

For the avoidance of doubt, options which have been exercised shall not be regarded as cancelled options.

(p) Alteration to the Share Option Scheme

This scheme may be altered in any respect by a resolution of the Board except that:

- (a) any changes to the definitions of “Eligible Participant” and “Grantee” and “Option Period”;
- (b) any material alteration to the terms and conditions of this scheme;
- (c) any change to the terms of options granted (except where the alterations take effect pursuant to the terms of this scheme);
- (d) any change to the authority of the Board in relation to any alteration to the terms of this scheme;
- (e) any alteration to the provisions of this scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the grantee; and
- (f) any alteration to the termination provisions of this scheme,

must be approved by an ordinary resolution of the Shareholders in general meeting at which any persons to whom or for whose benefit the Shares may be issued under this Scheme and their respective Associates shall abstain from voting PROVIDED THAT the amended terms of this scheme or the options shall remain in compliance with the requirements of Chapter 17 of the Listing Rules and that no such alteration shall operate to adversely affect the terms of issue of any option granted or agreed to be granted prior to such alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such option prior to such alteration except with the consent or sanction in writing of such number of grantees as shall together hold options in respect of not less than three-fourths in nominal value of all Shares then subject to options granted under this scheme and provided further that any alterations to the terms and conditions of this scheme which are of a material nature shall first be approved by the Stock Exchange.

The Company must provide to all grantees all details relating to changes in the terms of this scheme during the life of this scheme immediately upon such changes taking effect.

(q) Termination of the Share Option Scheme

The Company, by resolution in general meeting, or the Board may at any time terminate the operation of this scheme and in such event no further option will be offered but the provisions of this scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provision of this scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with this scheme.

(r) Period of the Share Option Scheme

Subject to paragraph (q), this scheme shall be valid and effective for a period of ten (10) years commencing on the date on which the conditions set out in paragraph (s) are satisfied, after which period no further options will be granted but the provisions of this scheme shall remain in full force and effect in all other respects. Options complying with the provisions of the Listing Rules which are granted during the duration of this scheme and remain unexercised immediately prior to the end of the ten-year period shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of this scheme.

(s) Conditions

This Scheme shall take effect conditional upon:

- (a) the passing of an ordinary resolution to approve the scheme by the Shareholders at the Company's extraordinary general meeting and to authorize the Board to grant the options hereunder and to allot, issue and deal with the Shares which fall to be issued by the Company pursuant to the exercise of the options under the scheme; and
- (b) the Listing Committee (as defined in the Listing Rules) granting approval of the listing of, and permission to deal in, such number of Shares to be issued by the Company pursuant to the exercise of options which may be granted under the scheme.

(t) Restrictions on the timing of grant of option

No offer of grant of option shall be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in accordance with Rule 2.07C of the Listing Rules. In particular, no option may be granted during the period of one month immediately preceding the earlier of:

- (a) the date of the Board meeting (as such date is first notified to the Exchange in accordance with Rule 13.43 of the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules) under the Listing Rules,

and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

(u) Grant of options to connected persons

Each grant of options to a Director, chief executive (other than a proposed Director or a proposed chief executive of the Company) or substantial shareholder or any of their respective associates,

under this scheme or any other share option scheme of the Company or any of its subsidiaries shall comply with the requirements of Rule 17.04 of the Listing Rules (as amended, modified or supplemented from time to time) and shall be subject to approval by the independent non-executive Directors (excluding independent non-executive Director who is a grantee of the options).

In case of any change in the terms of options granted to a substantial shareholder or an independent non-executive Director, or any of their respective associates; or where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already 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:

- (a) representing in aggregate over 0.1% of the relevant class of Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000,

such further grant of options must be approved by the Shareholders. The Company shall send a circular to all Shareholders, which must contain all relevant information and comply with all relevant requirements as set out in the Listing Rules. All connected persons of the Company must abstain from voting in favor at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his or her intention to do so has been stated in the circular in accordance with Rule 13.40 of the Listing Rules. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

(v) Disclosure in annual and interim reports

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise period, vesting period and (if appropriate, a valuation of options granted during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

E. OTHER INFORMATION

1. Tax Liabilities

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the Cayman Islands, in which jurisdiction one or more of the companies comprising our Group are incorporated.

2. Taxation of Holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, of the fair value of our Shares being sold or transferred. Profits from dealings in our Shares arising in or derived from Hong Kong may

also be subject to Hong Kong profits tax. The Revenue (Abolition of estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of our Shares whose death occurs on or after February 11, 2006.

(b) Cayman Islands

Under the current Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares save for those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisors

Intending holders of our Shares 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 or dealing in our Shares. It is emphasized that none of our Company, our Directors or the other parties involved in the Global Offering will accept responsibility for any tax effect on, or liabilities of, the holders of Shares resulting from their subscription for purchasing, holding, disposing of or dealing in our Shares or exercise of any rights attaching to them.

3. Litigation

As of the Latest Practicable Date, save as disclosed in this prospectus, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

4. Preliminary Expenses

The preliminary expenses of our Company were approximately HK\$22,230 and has been paid by our Company.

5. Sole Sponsor

The Sole Sponsor made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalization Issue, the Offer Shares (including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

6. Compliance Adviser

We have appointed Somerley Limited as our compliance adviser pursuant to Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the compliance adviser will advise us on the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any estimate, or other information in this prospectus; and

- (d) where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

7. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in the Group's financial or trading position or prospects since December 31, 2010 (being the date on which the latest audited consolidated financial statements of the Group was made up).

8. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned to be bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Particulars of the Selling Shareholder

Yuan Tai Long, a business company incorporated in the BVI on January 4, 2011 whose registered office is at P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. Pursuant to the Global Offering, the Selling Shareholder will sell 60,000,000 Shares under the International Offering.

10. Miscellaneous

- (1) Save as disclosed in this prospectus:
- (i) within the two years immediately preceding the date of this prospectus, our Company or any of our subsidiaries has not issued or agreed to issue any of their share or loan capital fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
 - (iii) 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;
 - (iv) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (v) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
 - (vi) none of our equity or debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
 - (vii) we have no outstanding convertible debt securities or debentures.

- (2) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.
- (3) There are no founder, management or deferred shares or any debenture in our Company or any of our subsidiaries.
- (4) The principal register of our members will be maintained in the Cayman Islands principal share registrar and a register of our members will be maintained in Hong Kong by our Hong Kong Share Registrar. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our registrar in Hong Kong and may not be lodged in the Cayman Islands.

11. Promoter

Our Company has no promoter for the purposes of the Hong Kong Listing Rules.

12. Qualification of Experts

The qualifications of the experts who have given opinion or advice which are contained in this prospectus are as follows:

Name of Expert	Qualification
UBS AG, Hong Kong, Branch	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) of the regulated activities as defined under the SFO
Commerce & Finance Law Offices	Legal advisor to our Company on PRC laws
Appleby	Legal advisor to our Company on the Cayman Islands laws
KPMG	Certified Public Accountants
Jones Lang LaSalle Sallmanns Limited	Independent property valuer
Frost & Sullivan	Independent consultant engaged by our Company to provide an industry report

13. Consents of Experts

Each of the experts referred to in paragraph 12 above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or valuation certificates and/or legal opinion and/or the references (as the case may be) to its name in the form and context in which they are respectively included.

14. Dividend

Our Directors confirm that they are not aware of any arrangements in existence under which future dividends of our Company are to be waived or agreed to be waived.

15. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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 for registration include:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the section headed “Other Information — Qualifications of experts” in Appendix VI to this prospectus;
- (c) a copy of each of the material contracts referred to in the section headed “Further Information about our Business — Summary of our material contracts” in Appendix VI to this prospectus; and
- (d) the statement of particulars of the Selling Shareholder including its name, address and description.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Morrison & Foerster during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the service agreements and letters of appointment referred to in the paragraph headed “Further Information about Directors, Management and Staff — Particulars of the Directors’ service agreements and letters of appointment” in Appendix VI to this prospectus;
- (c) the material contracts referred to in the section headed “Further Information About Our Business — Summary of our material contracts” in Appendix VI to this prospectus;
- (d) the accountants’ report prepared by KPMG, the text of which is set out in Appendix I to this prospectus;
- (e) the audited consolidated financial statements of our Group for the years ended December 31, 2008, 2009 and 2010;
- (f) the report from KPMG in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (g) the letters relating to the profit forecast of our Group, the texts of which are set out in Appendix III to this prospectus;
- (h) the letter, summary of values and valuation certificate relating to our property interests prepared by Jones Lang La Salle Sallmanns Limited, the texts of which are set out in Appendix IV to this prospectus;
- (i) the letter prepared by Appleby, summarizing certain aspects of Cayman Islands company law referred to in “Summary of The Constitution of Our Company and the Cayman Islands Company Law” in Appendix V to this prospectus;
- (j) the Cayman Companies Law;
- (k) the written consents referred to in the section headed “Other Information — Consents of experts” in Appendix VI to this prospectus;
- (l) the rules of the Share Option Scheme;
- (m) the PRC legal opinions on our Group’s operations and our Group’s properties, both dated June 17, 2011 prepared by Commerce & Finance Law Offices; and
- (n) the statement of particulars of the Selling Shareholder including its name, address and description.

