

# 中國車輛零部件科技控股有限公司

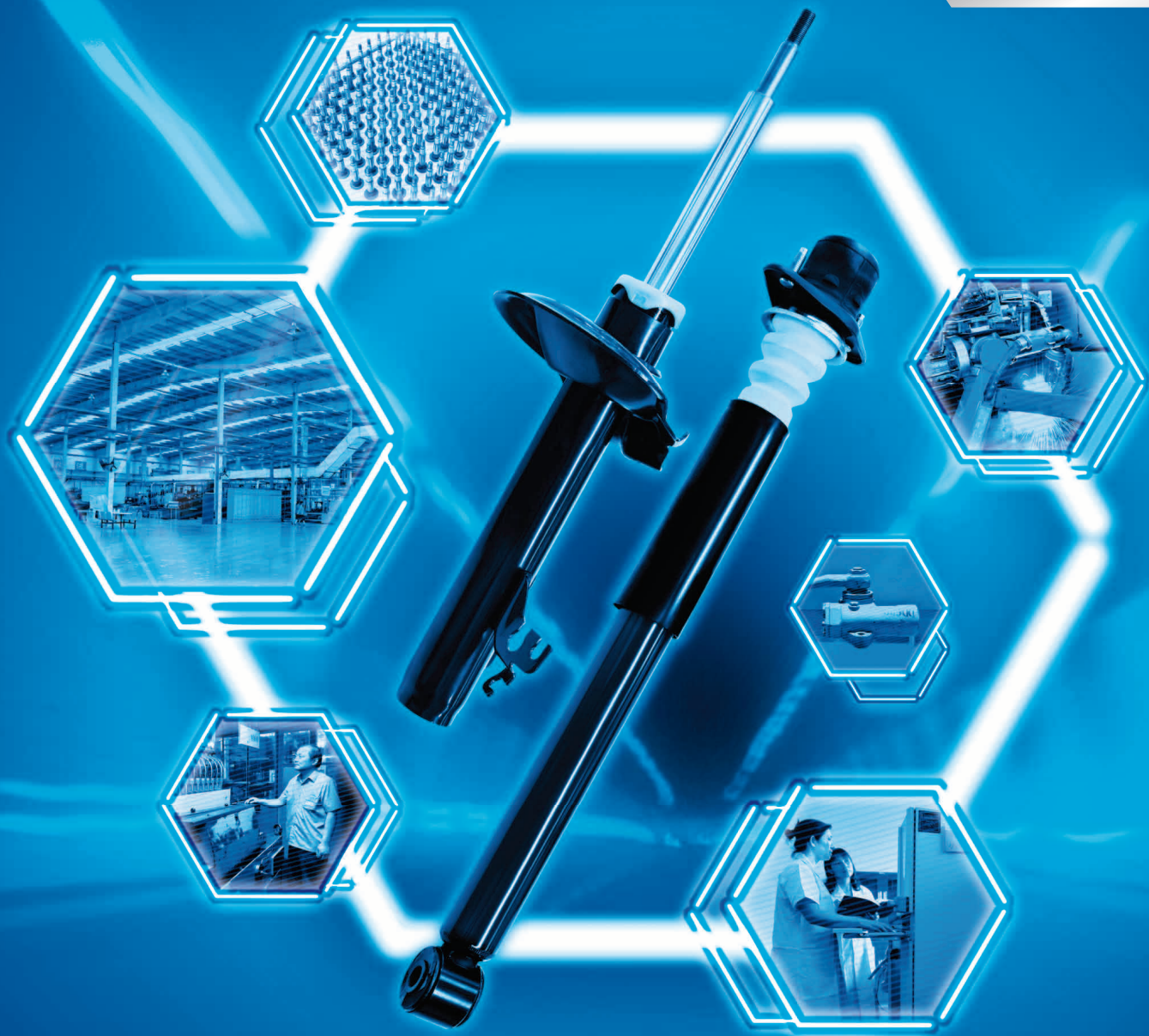
China Vehicle Components Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1269



Global Offering



Sole Sponsor



China Everbright Capital Limited

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



China Everbright Securities (HK) Limited



---

## IMPORTANT

---

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



### CHINA VEHICLE COMPONENTS TECHNOLOGY HOLDINGS LIMITED

中國車輛零部件科技控股有限公司

(incorporated in the Cayman Islands with limited liability)

#### GLOBAL OFFERING

**Number of Offer Shares : 80,000,000 Shares**  
**Number of Hong Kong Public Offer Shares : 8,000,000 Shares (subject to re-allocation)**  
**Number of International Placing Shares : 72,000,000 Shares (subject to re-allocation)**  
**Offer Price : Not more than HK\$1.80 per Offer Share and not less than HK\$1.40 per Offer Share (payable in full on application, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)**  
**Nominal value : HK\$0.10 each**  
**Stock code : 1269**

Sole Sponsor



China Everbright Capital Limited

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



China Everbright Securities (HK) Limited



Co-Lead Manager



---

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraphs under "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by 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 and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 16 November 2011 and, in any event, not later than Friday, 18 November 2011. The Offer Price will be not more than HK\$1.80 and is expected to be not less than HK\$1.40 unless otherwise announced. Investors applying for the Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK\$1.80 for each Offer Share together with a brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus (which is HK\$1.40 to HK\$1.80 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, notices of the reduction in the indicative Offer Price range will be published on the website of our Company at <http://www.china-cvct.com> and the website of the Stock Exchange at <http://www.hkexnews.hk> not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer. If applications for the 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 Offer Price range is so reduced, such applications cannot be withdrawn. If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offer) will not proceed.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Public Offer Shares, are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the paragraph under "Underwriting — Underwriting arrangements and expenses — Grounds for termination" of this prospectus.

Please refer to the section headed "Risk factors" for a discussion of certain risks that you should consider in connection with an investment in the Offer Shares.

---

11 November 2011

---

---

## EXPECTED TIMETABLE OF THE HONG KONG PUBLIC OFFER

---

*If there is any change to the following expected timetable of the Hong Kong Public Offer, our Company will issue an announcement in Hong Kong to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese).*

2011  
(Note 1)

Application lists open (Note 2) ..... 11:45 a.m. on Wednesday, 16 November

Latest time for the following:

- Lodging **WHITE** and **YELLOW**  
Application Forms ..... 12:00 noon on Wednesday, 16 November
- Giving electronic application instructions  
to HKSCC (Note 3) ..... 12:00 noon on Wednesday, 16 November

Application lists close (Note 2) ..... 12:00 noon on Wednesday, 16 November

Expected Price Determination Date (Note 4) ..... on or about Wednesday, 16 November

Announcement of:

- (i) the Offer Price;
- (ii) the indication of the level of interest in the International Placing;
- (iii) the level of applications in the Hong Kong Public Offer;
- (iv) the basis of allocation of the Hong Kong Public Offer Shares under the Hong Kong Public Offer; and
- (v) the number of Offer Shares reallocated, if any, between the Hong Kong Public Offer and the International Placing to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and the website of our Company at <http://www.china-cvct.com> and the website of the Stock Exchange at <http://www.hkexnews.hk> on ..... Tuesday, 22 November

Announcement of the results of allocations, the number of the Hong Kong Public Offer Shares successfully applied for, and Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants under the Hong Kong Public Offer to be available through a variety of channels as described in the section headed “How to apply for the Hong Kong Public Offer Shares — Publication of results” in this prospectus including the website of our Company at <http://www.china-cvct.com>, the website of the Stock Exchange at <http://www.hkexnews.hk> on ..... Tuesday, 22 November

---

## EXPECTED TIMETABLE OF THE HONG KONG PUBLIC OFFER

---

2011  
(Note 1)

Share certificates to be despatched on (Note 5) . . . . . Tuesday, 22 November

Refund cheques to be despatched on (Note 5) . . . . . Tuesday, 22 November

Listing Date . . . . . Wednesday, 23 November

*Notes:*

1. All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” of this prospectus.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 16 November 2011, the application lists will not open and close on that day. Further information is set out in the paragraph under “How to apply for the Hong Kong Public Offer Shares — Effect of bad weather on the opening of the application lists” of this prospectus.
3. Applicants who apply by giving electronic application instructions to HKSCC should refer to “How to apply for the Hong Kong Public Offer Shares — Applying by giving electronic application instructions to HKSCC” of this prospectus.
4. The Price Determination Date is expected to be on or about Wednesday, 16 November 2011 and in any event not later than Friday, 18 November 2011. If, for any reason, the Offer Price is not agreed by our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) by Friday, 18 November 2011, the Global Offering (including the Hong Kong Public Offer) will lapse.
5. Refund cheques will be issued with respect to wholly or partially unsuccessful applications and also with respect to successful applications in the event that the Offer Price is less than the maximum Offer Price per Share payable on application of HK\$1.80. Applicants for 1,000,000 Hong Kong Public Offer Shares or more and who have indicated in their Application Forms that they wish to collect refund cheques and Share certificates (as relevant) in person from Tricor Investor Services Limited may collect refund cheques (where applicable) and Share certificates (where applicable) from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 22 November 2011 or any other place and date hereafter notified by our Company in The Standard and the Hong Kong Economic Journal as the place and date of despatch of Share certificates/refund cheques. Individual applicants who opt for collection in person must not authorise any other person to make their collection on their behalf. Applicants being corporations which opt for collection in person must attend by their authorised representatives, each bearing a letter of authorisation from such corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant Application Forms promptly thereafter. Further information is set out in the section headed “How to apply for the Hong Kong Public Offer Shares — Despatch/collection of Share certificates and refund cheques” of this prospectus.

**Share certificates will only become valid certificates of title if the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the section headed “Underwriting — Underwriting arrangements and expenses — Grounds for termination” of this prospectus has not been exercised, which is currently expected to be at 8:00 a.m. on Wednesday, 23 November 2011.**

For details of the structure of the Global Offering, including its conditions, you should refer to the section headed “Structure of the Global Offering” of this prospectus.

---

## TABLE OF CONTENTS

---

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.*

*Our Company has not authorised 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 authorised by our Company, the Joint Global Coordinators, the Sponsor, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other parties involved in the Global Offering.*

	<i>Page</i>
<b>Expected Timetable of the Hong Kong Public Offer</b> .....	i
<b>Table of Contents</b> .....	iii
<b>Summary</b> .....	1
<b>Definitions</b> .....	15
<b>Glossary of Technical Terms</b> .....	27
<b>Forward-looking Statements</b> .....	30
<b>Risk Factors</b> .....	32
<b>Waiver from Strict Compliance with the Listing Rules</b> .....	44
<b>Information about this Prospectus and the Global Offering</b> .....	46
<b>Directors and Parties Involved in the Global Offering</b> .....	48
<b>Corporate Information</b> .....	52
<b>Industry Overview</b> .....	54
<b>Regulations Relating to the Industry</b> .....	68
<b>History and Development</b> .....	85
<b>Business</b> .....	96
<b>Directors, Senior Management and Staff</b> .....	140
<b>Controlling Shareholders and Substantial Shareholders</b> .....	150
<b>Share Capital</b> .....	155
<b>Financial Information</b> .....	158
<b>Future Plans and Use of Proceeds</b> .....	215
<b>Underwriting</b> .....	217

---

## TABLE OF CONTENTS

---

		<i>Page</i>
<b>Structure of the Global Offering</b>	.....	224
<b>How to Apply for the Hong Kong Offer Shares</b>	.....	230
<b>Appendix I</b>	— <b>Accountants' Report</b> .....	I-1
<b>Appendix II</b>	— <b>Unaudited Pro Forma Financial Information</b> .....	II-1
<b>Appendix III</b>	— <b>Property Valuation</b> .....	III-1
<b>Appendix IV</b>	— <b>Summary of the Constitution of our Company and the Cayman Islands Companies Law</b> .....	IV-1
<b>Appendix V</b>	— <b>Statutory and General Information</b> .....	V-1
<b>Appendix VI</b>	— <b>Documents Delivered to the Registrar of Companies and Available for Inspection</b> .....	VI-1

---

## SUMMARY

---

*This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is only a summary, it does not contain all information that may be important to you.*

*You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk factors” of this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.*

### OVERVIEW

We are one of the leading shock absorber manufacturers in the PRC. Our products are used in automobile manufacturing and aftermarket repair and maintenance. According to the Ourview Report, we are the fourth largest shock absorber manufacturer, and the largest independent shock absorber manufacturer, both in terms of production volume for the supply of shock absorbers to the domestic automobile manufacture market in 2010. Independent shock absorber manufacturers are free to supply shock absorbers to any automobile manufacturers and they are not subject to priority supply to its shareholders or any affiliated partners. Details of the background of the independent shock absorber manufacturers are set out in the paragraph headed “Industry overview — The nature of the market players in the shock absorber manufacture industry in China” of the prospectus. We principally design and manufacture shock absorbers for the OEM Market, and also manufacture and supply shock absorbers for the Automobile Aftermarket. In 2010, we produced approximately 5.1 million units of shock absorbers in the PRC, representing approximately 7.3% of the total number of shock absorbers produced by major shock absorber manufacturers for the domestic automobile manufacture market in the PRC in the same period.

### Business model

Our revenue is mainly generated from sales to the OEM Market and the Automobile Aftermarket.

During the Track Record Period, our revenue was approximately RMB297.3 million, RMB392.5 million, RMB543.7 million and RMB286.3 million, respectively. In 2008, 2009, 2010 and the five months ended 31 May 2011, our revenue generated from the sales to the OEM Market was RMB275.1 million, RMB378.0 million, RMB512.4 million and RMB272.1 million, respectively, and our revenue

---

## SUMMARY

---

generated from the sales to the Automobile Aftermarket was RMB22.3 million, RMB14.5 million, RMB31.3 million and RMB14.2 million, respectively. The following table illustrates our sales breakdown by segments during the Track Record Period:-

	Year ended 31 December						Five months ended 31 May			
	2008		2009		2010		2010		2011	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Sales to OEM										
Market	275,054	92.5	377,974	96.3	512,395	94.2	192,642	94.9	272,106	95.0
Sales to										
Automobile										
Aftermarket	<u>22,277</u>	<u>7.5</u>	<u>14,531</u>	<u>3.7</u>	<u>31,321</u>	<u>5.8</u>	<u>10,307</u>	<u>5.1</u>	<u>14,185</u>	<u>5.0</u>
Total	<u>297,331</u>	<u>100</u>	<u>392,505</u>	<u>100</u>	<u>543,716</u>	<u>100</u>	<u>202,949</u>	<u>100</u>	<u>286,291</u>	<u>100</u>

### *The OEM Market*

For the OEM Market, our products are ultimately used by the original automobile manufacturers in their different car models. We sell our products directly to original automobile manufacturers, including FAW-Volkswagen, Haima Auto, Dongfeng Automobile, Beijing Automobile, Changan Automobile, Chongqing Lifan, Geely, Jianghuai Automobile, SAIC Motor, Dongfeng Peugeot and Chery (the proportion of our sales to these customers accounting for approximately 73.6%, 85.0%, 86.1% and 87.6% of our total sales revenue during the three years ended 31 December 2010 and the five months ended 31 May 2011), for their assembly into their automobiles.

We were ranked “A” Class supplier by our major customer FAW-Volkswagen in 2009, rated as an “Excellent Supplier” by Chongqing Lifan and Beijing Automobile in 2010 and have been recognized as the National Top 100 Excellent Automotive Parts Suppliers (全國優秀汽車零部件供應商) for eight consecutive years from 2002 to 2010. In 2005, our products under the Danjiang “丹江” brand were recognized as a “Henan Top Brand” product (河南省著名品牌產品). Most of the products we sold to our top five customers were ultimately applicable to their small to mid engine displacement vehicle series.

We generally enter into legally binding framework agreements which set out terms including the method of order, packing, delivery and payment, and pricing agreements, with our major customers. While our major customers provide non-binding estimates of purchase quantities at the beginning of each year, purchase orders with prices and quantities are placed on a regular basis. For the OEM Market, purchase orders will be placed by our existing customers setting out the order volume for the following month, and our staff will confirm and process the order accordingly. We also conduct market research to identify potential new customers, and approach such potential new customers with development proposals and explain to them our products, our technology level and the services our Group is able to provide.



---

## SUMMARY

---

### *The Automobile Aftermarket*

For the Automobile Aftermarket, our products are mainly sold to automobile parts and components distributors located in various parts of the PRC, including but not limited to Beijing, Shanghai, Guangzhou and Chongqing. We enter into distribution agreements with automobile parts and components distributors who will distribute our products to the Automobile Aftermarket through their own distribution networks. As at the Latest Practicable Date, we have established direct contractual relationships with 75 automobile parts and components distributors in 26 provinces, municipalities and autonomous regions in the PRC. We will continue to expand our Automobile Aftermarket by penetrating our business to the provinces which we currently do not have business presence.

We enter into framework agreements with our customers which generally set out the estimated purchase amount for the coming year. Based on these framework agreements, we will compile our monthly sales plan, production proposal and purchase estimates. Our customers will make purchase orders in respect of the specific quantity, terms and conditions of each purchase. The framework agreements with our customers are to set out the intention and estimate of the annual estimated purchase amount. While the framework agreements are legally binding, the estimates of purchase quantities under the framework agreements are non-binding and therefore may not result in revenue for our Group. No penalty will be imposed on our customers should they fail to meet the estimated purchase amount as stated in the framework agreements.

### **Customers**

During the three years ended 31 December 2010 and the five months ended 31 May 2011, revenue attributable to our five largest customers represented 66.5%, 73.2%, 89.3% and 68.3% of our total turnover, respectively. For the same periods, revenue attributable to our largest customer, represented 26.6%, 25.0%, 27.2% and 21.4%, respectively, of our total turnover. To manage the customer concentration risk, we plan to (i) expand our customer base by securing relationships with new customers in the PRC; (ii) penetrate overseas markets to be a supplier for overseas automobile manufacturers such as Europe and North America; and (iii) expand our Automobile Aftermarket.

### **Suppliers**

During the three years ended 31 December 2010 and the five months ended 31 May 2011, our five largest suppliers together accounted for 32.1%, 32.6%, 33.4% and 29.1%, respectively, and our largest supplier accounted for 9.5%, 9.4%, 9.4% and 6.9%, respectively, of our total purchase of raw materials and key components for our production. As our purchases mainly comprise of components that are not customized products and are readily available in the market, we believe that it would not be difficult for us to find alternative suppliers should existing suppliers cease business relationships with us in future and it would not have a significant impact on our production process or business.

We believe that the leading status of our products in the PRC OEM Market and our good reputation in the Automobile Aftermarket will continue to provide a valuable platform for our continuing expansion and development.

---

## SUMMARY

---

### **Sales and marketing**

Our sales team possesses strong market development capabilities, and our products are being used by 11 out of 20 of the largest passenger vehicle manufacturers in the PRC. During the Track Record Period, the proportion of our sales to the 11 out of the top 20 largest passenger vehicle manufacturers in the PRC in relation to our total sales volume has increased, accounting for approximately 73.6%, 85.0%, 86.1% and 87.6% of our total sales revenue, respectively. We will continue to strengthen our high quality customer base.

### **Research and development**

We have a strong research and development team. We have researched and developed products jointly with our customers, such as FAW-Volkswagen, Dongfeng Peugeot and Chery. The product design will take into account factors including the technology requirements, performance, safety, comfort and ensure that all these have met the specifications as required by our customers. We will keep abreast with the international advanced technology in the industries, in particular for researching and developing new products, to maintain our leading market share in the near future. Over the years, we have received recognition from various domestic and international organisations for our technology, as well as registered a number of patents in the PRC. Our products have been granted the ISO9001 certification in 1998, QS9000 certification in October 2001, VDA6.1 certification in October 2001 and ISO/TS16949 certificate in April 2008. In 2010, we were approved by Henan Province Science and Technology Bureau (河南省科學技術廳) to set up a Provincial Level Technology Research Centre for shock absorber engineering (河南省汽車減振器工程技術研究中心), and in 2011, we were recognized as a Henan Province Innovative Pilot Enterprise (河南省創新型試點企業). We were also recognised as a High and New Technology Enterprise (高新技術企業) in the years 2004 and 2009 respectively. We have also entered into various development cooperation agreements with various universities, including Beijing University of Civil Engineering and Architecture, and Northwestern Polytechnical University, in respect of cooperation on the development of products and technology. As at the Latest Practicable Date, our self-developed shock absorber for high speed rails have completed approximately a total of over 400,000 kilometres of railroad testing on the relevant railroads and the technical performance has been stable. As at the Latest Practicable Date, we have registered 64 patents in the PRC, of which three are invention patents.

Going forward, our research and development strategy includes the construction of our new research and development centre as part of our Expanding Production Facilities, which is expected to occupy a gross floor area of approximately 6,300 sq. m.. We are also planning to establish a research and development centre in Italy and intend to leverage on the research and development centre to mark the beginning of our research and development capabilities overseas, and aim to integrate the core technologies of the original Italian manufacturer with our own technologies in the PRC. We also intend to hire experienced overseas research and development staff and provide more training for our research staff in the PRC. Further, we intend to develop more new products to ensure the continuity of our product development.

---

## SUMMARY

---

### Management

Our management team has extensive industry knowledge, management skills and operation experience, and some of the members have served our Group for over 15 years. Under the leadership of our management team, we have achieved rapidly increasing growth, and have achieved a leading status within the PRC OEM Market. We believe that the capabilities of our management team will continue to enable us to capture market opportunities and ensure our continual growth, and enable us to maintain our leading market share in the near future.

### COMPETITIVE STRENGTHS

Our Directors consider that our Group's success is primarily attributable to the following competitive strengths:

- Leading position and strong brand recognition
- Strong sales and marketing capacity, high quality customers and long established and stable relationships with our customers
- Leading cost advantages
- Strong research and development capacity
- Experienced management team

### OUR STRATEGIES

Leveraging our Group's competitive strengths and to further enhance our leading position in the market targeting to become one of the leading international parts and components suppliers, our Directors plan to pursue the following growth strategies:

- Expand our production facilities and improve our production technologies, raise production efficiency so as to satisfy strong market demand for our products
- Expand our existing market share, by approaching new customers and explore new market segment
- Further strengthen our competitiveness through enhancing our technology level
- Maintain our cost advantages
- Develop the shock absorber market for railroad transportation (high speed rails)

---

## SUMMARY

---

### RESULTS OF OPERATIONS

The following table sets out a summary of the audited consolidated results of our Group during the Track Record Period which has been prepared in accordance with HKFRS. The following summary should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus:

#### Consolidated Statements of Comprehensive Income

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	297,331	392,505	543,716	202,949	286,291
Cost of sales	<u>(224,261)</u>	<u>(300,290)</u>	<u>(405,768)</u>	<u>(150,500)</u>	<u>(208,865)</u>
Gross profit	73,070	92,215	137,948	52,449	77,426
Other income, other gains and losses <sup>note</sup>	12,721	7,926	4,224	4,018	19,265
Selling and distribution expenses	(24,406)	(24,850)	(34,842)	(14,439)	(15,173)
Research and development expenditure	(4,174)	(13,348)	(16,299)	(6,530)	(8,745)
Administrative expenses	(17,761)	(18,964)	(29,309)	(9,402)	(13,506)
Other expenses	—	—	(2,599)	—	(6,971)
Finance costs	<u>(17,242)</u>	<u>(10,975)</u>	<u>(14,921)</u>	<u>(7,377)</u>	<u>(5,361)</u>
Profit before tax	22,208	32,004	44,202	18,719	46,935
Taxation	<u>(3,550)</u>	<u>(3,629)</u>	<u>(6,666)</u>	<u>(1,916)</u>	<u>(8,764)</u>
	<u>18,658</u>	<u>28,375</u>	<u>37,536</u>	<u>16,803</u>	<u>38,171</u>
Profit and total comprehensive income for the year/period attributable to:					
Owners of the Company	16,051	28,229	37,536	16,803	38,171
Non-controlling interests	<u>2,607</u>	<u>146</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>18,658</u>	<u>28,375</u>	<u>37,536</u>	<u>16,803</u>	<u>38,171</u>

Note: The other income, other gains and losses for the five months ended 31 May 2011 include one-off items of (i) government grant for termination benefit payments amounted RMB8.0 million; and (ii) gain from settling a legal proceeding amounted RMB5.4 million.

---

## SUMMARY

---

The following table illustrates our sales volume, average selling price and gross profit margin by segments during the Track Record Period:-

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
<b>OEM Market</b>					
Sales volume	2,626,289	3,185,765	4,314,757	1,730,036	2,302,837
Average selling price	RMB104.7	RMB118.6	RMB118.8	RMB111.3	RMB118.2
Gross profit margin	25.10%	23.30%	25.10%	25.80%	26.70%
<b>Automobile Aftermarket</b>					
Sales volume	387,780	239,869	438,969	148,489	180,797
Average selling price	RMB57.5	RMB60.6	RMB71.4	RMB69.4	RMB78.5
Gross profit margin	18.50%	28.10%	29.90%	26.60%	33.70%

The customers of the OEM Market are mainly large passenger vehicle manufacturers which purchase higher-end products with a higher average selling price per unit for producing their own passenger vehicles. The large passenger vehicle manufacturers generally have higher bargaining power over us, and we sell our products to the large passenger vehicle manufacturers at more competitive prices and obtain lower gross profit margins of such products sold because of the bulk purchase volume. On the other hand, the customers of the Automobile Aftermarket are mainly automobile parts and components distributors which mainly purchase our products in relatively smaller volume for the repair and maintenance of commercial vehicles. Since our products can reach the end-users more easily via the distributors, we are able to achieve a higher gross profit margin for the sale of our products in the Automobile Aftermarket compared with that of the OEM Market. As a result of the above, during our Track Record Period, the gross profit margins of the OEM Market are generally lower than those in the Automobile Aftermarket, despite the higher average selling price per unit recorded in the OEM Market segment.

During our Track Record Period, we financed our operations and production capacity expansion by internal funding and short-term borrowings. As a result, as at 31 December 2008, 2009 and 2010 and 31 May 2011, we recorded net current liabilities of approximately RMB85.2 million, RMB41.3 million, RMB203.7 million and RMB23.3 million, respectively. For the three years ended 31 December 2010 and the five months ended 31 May 2011, we have borrowings due for repayment within one year in the sum of RMB259.9 million, RMB295.9 million, RMB223.3 million and RMB158.7 million respectively.

Our net current liabilities during the Track Record Period was mainly attributable to: (i) most of the borrowings available to us are short-term due within one year, and part of them were used to finance long term assets like production capacity expansion; (ii) payables and provision for contingent liabilities were made due to the litigations; (iii) as part of the Group Reorganisation, on 23 June 2010, Guang Da Automotive Components acquired 100% interests in Nanyang Cijan from the Founders for a consideration of HK\$80 million. The amount payable by Guang Da Automotive Components was

---

## SUMMARY

---

recognized as amount due to shareholders, which has been capitalized and removed from liabilities pursuant to the sale and purchase agreement between the Company and the then existing shareholders of Merit Leader dated 22 May 2011; and (iv) dividends of RMB13.6 million and RMB56.5 million were recognised as distribution to shareholders of Nanyang Cijan for the year ended 31 December 2009 and 2010, respectively.

In March 2011 and May 2011, we have arranged long-term loan facilities of RMB50.0 million and RMB50.0 million with China Development Bank and China Construction Bank, which will be repayable in 2013 and 2014 respectively. The amount due to shareholders amounted RMB70.1 million has been capitalized and removed from liabilities pursuant to the sale and purchase agreement between the Company and the then existing shareholders of Merit Leader dated 22 May 2011. As at 30 September 2011, the Group has unutilized banking facilities of RMB210.0 million.

We have been improving their cash flow management as mentioned in the paragraphs under the paragraph headed “Financial information — Liquidity and capital resources” in this prospectus. Given the improvement, the financial position of our Group has been recovering. The net current liabilities of our Group decreased significantly from RMB203.7 million as at 31 December 2010 to RMB23.3 million as at 31 May 2011.

Generally, we manage our cash flow through annual budgeting, conducting monthly analysis of funds, procurement and production planning on a monthly basis, controlling the sales returns of each customer, utilisation of bank loans and controlling our capital expenditure. Our annual budget is planned by taking into account of figures including our estimates of sales, costs of production, purchase of raw materials, operation costs, management costs, and costs of financing. Based on our estimated sales figures, our production department will formulate a production plan and our procurement department will prepare a procurement plan and estimated the funds required. We will also formulate a budget for purchase of equipment and construction of new facilities. To control the sales returns of our customers, we will determine the estimated monthly receivable based on the credit cycle of each customer and the monthly sales figures. We may cease to supply products to customers who exceed the credit line, and for customers who fail to pay by the end of their credit period, we will investigate into the reasons and take appropriate recovery action. Our Board controls borrowings by closely monitoring anticipated cash outflow, and makes decisions on our borrowings and loan utilizations based on factors including our financial status, ability to repay, and the prevailing market interest rates.

Our finance department will formulate an annual capital expenditure budget based on our expansion plan, properties, land and equipment purchase amount, and the annual capital expenditure budget is approved by our Board. All our capital expenditure and the relevant agreements are approved by our development strategic department, production department and finance department. Our finance department includes the details of our capital expenditures in its monthly report to our management. There is a review and verification procedure of the capital expenditure upon completion of a project. The capital expenditure is either funded by internal finance resources or external loans.

---

## SUMMARY

---

### **The performance of the Group subsequent to 31 May 2011**

The unaudited revenue of our Group for the three months ended 31 August 2011 is lower than that for the three months ended 31 August 2010 as a result of the fact that both the total number of shock absorbers sold and the average unit selling price for the three months ended 31 August 2011 are slightly lower than those for the three months ended 31 August 2010 by approximately 4% each. The sales volume for the three months ended 31 August 2010 is higher than that for the three months ended 31 August 2011 mainly because of the introduction of new automobile models by some of our OEM customers in June, July and August 2010, while the average selling price of shock absorbers sold for the three months ended 31 August 2011 decreased as compared with the same period in 2010 because the Group's pricing of the existing models of shock absorbers gradually reduced given there were less new products introduced during the period.

During the eight months ended 31 August 2011, our turnover and sales volume recorded significant increase. Such increase was mainly due to (i) stronger demand for our products from the automobile manufacturers, as the automobile manufacturers launched new models of automobiles; and (ii) the expansion of our annualized production capacity from 6.1 million pieces per year in 2010 to 7.0 million pieces per year in January to August 2011.

The Group expects to record expenses in relation to the Listing amounting to approximately RMB15.5 million in the statement of comprehensive income for the year ended 31 December 2011, of which approximately RMB10.1 million has been recognized in the statement of comprehensive income for the eight months ended 31 August 2011. The Directors would like to emphasize that such cost is a current estimate for reference only, and the final amount to be recognized to the statement of comprehensive income of the Group for the year ending 31 December 2011 is subject to adjustment based on audit and the then changes in variables and assumptions.

During the five months ended 31 May 2011, the profit of the Group increased by 127.4% to RMB38.2 million from RMB16.8 million for the five months ended 31 May 2010. Taking into the combined effect of (i) the enhanced turnover and gross profit for the eight months ended 31 August 2011 as mentioned above; (ii) the other income including government grant for termination benefit payments amounted RMB8.0 million and gain from settling a legal proceeding amounted RMB5.4 million recognised in the past five months ended 31 May 2011; (iii) the decrease in sales volume and average selling price for the 31 August 2011 as mentioned above; and (iv) the expenses in relation to the Listing for the eight months ended 31 August 2011, the growth rate of profit for the eight months ended 31 August 2011 (as compared with the same period in 2010) is lower than the growth rate of profit for the five months ended 31 May 2011 (as compared with the same period in 2010).

Our net current liabilities decreased from RMB23.3 million as at 31 May 2011 to RMB7.3 million as at 31 August 2011 mainly due to the unaudited net profit for the three months ended 31 August 2011, and the Group increased its long term loan amount to RMB7.2 million during the same period. We have been continuously improving our cash flow management as set out in the paragraph under "Financial information — Liquidity and capital resources" in this prospectus. The Company will

---

## SUMMARY

---

continue to monitor closely the financial position of the Group and will arrange appropriate financing for capital expenditure. The Directors believe that the Group has the ability to generate sufficient cash from a combination of funds from its operations and other means of financing to support its ongoing operating cash needs and continuing expansion of its business.

### No material adverse change

The Directors have confirmed that, save as disclosed above, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 May 2011 (being the date to which the Group's latest consolidated results were prepared which was set out in the Accountants' Report in Appendix I to this prospectus).

### Consolidated Balance Sheets

	<b>Year ended 31 December</b>			<b>At 31 May</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	180,419	204,787	318,711	354,862
Current assets	340,510	544,160	411,191	425,202
Current liabilities	425,741	585,454	614,919	448,499
Non-current liabilities	14,870	45,013	48,728	157,067
Net current liabilities	(85,231)	(41,294)	(203,728)	(23,297)
Total assets less current liabilities	<u>95,188</u>	<u>163,493</u>	<u>114,983</u>	<u>331,565</u>
Net assets	<u>80,318</u>	<u>118,480</u>	<u>66,255</u>	<u>174,498</u>

### STATISTICS FOR THE GLOBAL OFFERING

	<b>Based on an Offer Price of HK\$1.40 per Share</b>	<b>Based on an Offer Price of HK\$1.80 per Share</b>
Market capitalization of the Shares <sup>(1)</sup>	HK\$448 million	HK\$576 million
Unaudited pro forma adjusted net tangible asset value per Share <sup>(2)</sup>	HK\$0.84	HK\$0.94

*Notes:*

- (1) The calculation of market capitalization is based on 320,000,000 Shares expected to be in issue immediately following the Global Offering and the Capitalisation Issue, but take no account of the Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme.
- (2) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II to this prospectus, and is based on 320,000,000 Shares expected to be in issue immediately following the Global Offering and the Capitalisation Issue and the respective Offer Prices of HK\$1.40 and HK\$1.80.



---

## SUMMARY

---

### DIVIDENDS AND DIVIDEND POLICY

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future.

### USE OF PROCEEDS FROM THE GLOBAL OFFERING

Assuming an Offer Price of HK\$1.60 per Share (being the mid-point of the indicative Offer Price range of HK\$1.40 to HK\$1.80 per Share), the net proceeds from the Global Offering, after deducting the underwriting fees and estimated expenses payable by our Company in connection with the Global Offering (including a discretionary underwriting commission of 1.5% to the Underwriters), are estimated to be approximately HK\$92.1 million. Our Directors presently intend to apply the net proceeds as follows:

- (a) Approximately HK\$42.7 million or 46.3% of the net proceeds for the purchases and installation of machinery and equipment for the capacity expansion plan in the Expanding Production Facilities, and we expect that the aggregate annual production capacity will increase to 15.0 million pieces of absorbers by the end of 2012 after the expansion;
- (b) Approximately HK\$26.8 million or 29.1% of the net proceeds for the construction of factory and buildings relating to capacity expansion plan in Expanding Production Facilities and we expect that the construction in relation to this capacity expansion plan will be completed by the end of 2012;
- (c) Approximately HK\$22.0 million or 23.9% of the net proceeds will be used to support and strengthen our product research and development capability in respect of our existing product portfolio and potential new products, including (i) building a new research and development centre; and (ii) purchases and installation of machinery and equipment to enhance our research and development facilities and meet the changing market needs; and
- (d) Approximately HK\$0.6 million or 0.7% of the net proceeds will be used for working capital and other general purposes.

In the event that the Offer Price is determined at the indicative Offer Price range between HK\$1.60 to HK\$1.80 per Share, the additional net proceeds from the Global Offering will be up to approximately HK\$15.0 million. In such case, our Directors intend to apply the additional net proceeds to the purposes described in item (a) above, and we expect that the aggregate annual production capacity will increase to 15.0 million pieces of absorbers by the end of 2012 after the expansion. Save for the above changes, there will not be any further changes in the use of proceeds from the Global Offering under such circumstance.

---

## SUMMARY

---

In the event that the Offer Price is set at the indicative Offer Price range between HK\$1.40 to HK\$1.60, our Directors will apply the net proceeds in the manner and proportion as shown above. Any shortfall is intended to be financed by internal resources and unutilized banking facilities of our Group.

In the event that the discretionary underwriting commission to the Underwriters is lower than 1.5%, our Directors intend to apply the additional net proceeds to the purposes described in item (a) above.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes, it is the present intention of our Directors that such proceeds will be placed on short term deposits with licenced banks and/or authorised financial institutions in Hong Kong and/or the PRC.

### RISK FACTORS

Our Directors consider that there are certain risks involved in our Group's businesses and the details of such risks are set out in the section headed "Risk factors" of this prospectus. The risks can be broadly divided into five categories including (i) risks relating to our Group; (ii) risks relating to the vehicle parts and components industry; (iii) risks relating to the PRC; (iv) risks relating to the Global Offering; and (v) risks relating to statements made in this prospectus, which are summarised below:

#### Risks relating to our Group

- We rely on certain major customers for a significant portion of our revenue
- We rely on certain major suppliers
- We may face increases in the prices of raw materials, parts and components
- We may not be able to obtain adequate financing for our business in the future
- We may face potential product liability claims or suffer losses due to product recall
- We may be subject to penalties for breach of certain PRC laws and regulations relating to inter-company loans
- We had net current liabilities as at 31 December 2008, 2009 and 2010 and 31 May 2011
- We may encounter unexpected difficulties in completing our expansion plans on time or expanding into new markets
- We may not be able to attract and retain members of our senior management team and other key personnel
- Changes in interest rates may affect our financing costs

---

## SUMMARY

---

- We have limited insurance coverage
- We may not be able to adequately protect our intellectual property, which could adversely affect our business operations
- Our Group's historical dividends do not indicate our future dividend policy

### **Risks relating to the vehicle parts and components industry**

- We operate in a competitive industry and face intense competition from our competitors
- Market demand for our products may be affected by a slowdown in the growth rate of the PRC automobile industry
- Changes in automobile industrial policies may adversely affect our business, financial condition and results of operations
- Our sales and production capacity may be affected by seasonality
- Global financial crisis and economic downturn may have a material and adverse effect on our business, results of operations and financial condition
- Volatility in demand in the PRC for automobiles could adversely affect our results of operations

### **Risks relating to the PRC**

- PRC political and economic policies could affect our Group's business
- Our Company may be deemed as a PRC resident enterprise under the new PRC Enterprise Income Tax Law and its worldwide income may be subject to the PRC taxation
- The preferential tax treatment our Group currently enjoys may be changed or discontinued which may adversely affect our financial condition and results of operations
- Dividends payable by our Company to its foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the PRC tax laws
- Our Company is a holding company and its ability to pay dividends is dependent upon the earnings of, and distributions by, its subsidiaries
- The implementation of the new labour contract law and increase in labour costs in the PRC may adversely affect our Group's business and profitability

---

## SUMMARY

---

- PRC government control over currency conversion may affect our Group's operations and financial conditions, the value of investment in our Company and limit our Group's ability to use its cash effectively
- We are subject to risks associated with the PRC legal system, and interpretation of PRC laws and regulations involves uncertainty

### **Risks relating to the Global Offering**

- There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile
- The subscribers of our Shares may experience immediate dilution and may experience further dilution if our Group issues additional Shares in the future

### **Risks relating to statements made in this prospectus**

- Certain facts and statistics included in this prospectus may not be relied upon

---

## DEFINITIONS

---

*In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:*

“Application Form(s)”	<b>WHITE</b> application form(s) and <b>YELLOW</b> application form(s) or where the context so requires, any of them, relating to the Hong Kong Public Offer
“Articles”	the articles of association of our Company, conditionally adopted on 19 October 2011, a summary of which is set forth in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Automobile Aftermarket”	the secondary market of the automobile industry, concerned with the manufacturing, remanufacturing, distribution, retailing and installation of vehicle parts equipment and accessories after the sale of automobile by the original equipment manufacturer to the consumers
“Beijing Automobile”	Beijing Automobile Works Co., Ltd (北京汽車製造廠有限公司), an Independent Third Party
“Board”	the board of Directors
“BOCOM International”	BOCOM International Securities Limited, a licensed corporation registered under the SFO to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities (as defined under the SFO)
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 239,950,000 Shares to be made upon capitalisation of part of the share premium account of our Company upon completion of the Global Offering referred to in the paragraph headed “A. Further information about our Company — 3. Written resolutions of all the Shareholders” in Appendix V 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

---

## DEFINITIONS

---

“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
“Changan Automobile”	Chongqing Changan Automobile Co., Ltd (重慶長安汽車股份有限公司), our customer, an Independent Third Party
“Chery”	Chery Automobile Co., Ltd (奇瑞汽車股份有限公司), our customer, an Independent Third Party
“chief executive”	the chief executive (as defined in the SFO) of our Company
“China Everbright” or “Sponsor”	China Everbright Capital Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO), being the sole sponsor to the Global Offering
“China Everbright Securities”	China Everbright Securities (HK) Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities (as defined under the SFO)
“China Genesis”	China Genesis Investment Limited (華智投資有限公司), a company incorporated in the BVI with limited liability on 5 August 2010, a Shareholder and is wholly-owned by Xu Xianqi (徐獻奇)
“Chongqing Lifan”	Chongqing Lifan Passenger Vehicle Co., Ltd. (重慶力帆乘用車有限公司), our customer, an Independent Third Party
“Co-Lead Manager”	First Shanghai Securities Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO), being the Co-Lead Manager to the Global Offering
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

---

## DEFINITIONS

---

“Company”	China Vehicle Components Technology Holdings Limited (中國車輛零部件科技控股有限公司), an exempt company incorporated in the Cayman Islands with limited liability on 27 April 2011
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the case of our Company, means Wealth Max and Mr. Xi
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for supervising and regulating the PRC national securities market and related matters
“Deed of Indemnity”	the deed of indemnity dated 19 October 2011 and entered into between our Controlling Shareholders and our Company with further information set forth in the paragraph under “E. Other information — 1. Deed of Indemnity” in Appendix V to this prospectus
“Director(s)”	the director(s) of our Company
“Dongfeng Automobile”	Dongfeng Automobile Co., Ltd. (東風汽車股份有限公司), our customer, an Independent Third Party
“Dongfeng Peugeot”	Dongfeng Peugeot Citroen Automobile Company Ltd (神龍汽車有限公司), our customer, an Independent Third Party
“Ever-Full Development”	Ever-Full Development Limited, a company incorporated in the BVI with limited liability on 1 July 2010, a Shareholder and is wholly-owned by Hu Xingzi (胡杏子)
“Existing Production Facilities”	the existing production capacity located at No. 76 Lao Street, Chengguan Town, Xichuan County, Nanyang, Henan, the PRC, which occupy a site area of approximately 46,203.8 square metres. The existing producing facilities consist of four production lines with an average annual production capacity of approximately 4 million pieces of shock absorbers

---

## DEFINITIONS

---

“Expanding Production Facilities”	the expanding production facilities located at Danyang Community Shangji Town, Xichuan County, Nanyang City, Henan Province, the PRC, which occupy a site area of approximately 345,368 square metres. As at the Latest Practicable Date, the first phase of the Expanding Production Facilities are already in use. It includes three production lines, with an estimated total production capacity of approximately 3 million shock absorbers. The Expanding Production Facilities will consist of a total of 11 production lines by the end of 2012
“FAW-Volkswagen”	FAW-Volkswagen Automobile Company Ltd (一汽大眾汽車有限公司), our customer, an Independent Third Party
“First Shanghai Securities”	First Shanghai Securities Limited, a licensed corporation registered under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities
“Founders”	Mr. Xi (Chairman of the Group and a non-executive Director), Zhao Zhijun (趙志軍) (an executive Director), Fu Pengxu (付蓬旭) (a non-executive Director), Xie Qingxi (謝清喜) (a non-executive Director), Zhou Hua Rui (周華蕊), Zhang Guangliang (張廣亮), Fan Chong (樊崇), Han Guangsheng (韓光勝) and Zhang Chuanyong (張傳勇), being the founders of our Group
“Geely”	Zhejiang Geely Automobile Parts and Components Purchase Limited (浙江吉利汽車零部採購有限公司), our customer, an Independent Third Party
“Global Offering”	the Hong Kong Public Offer and the International Placing
“Group”	our Company and our subsidiaries or, where the context refers to any time prior to our establishment, the businesses which our predecessors or the predecessors of our present subsidiaries were engaged in and which were subsequently assumed by our Company or our present subsidiaries pursuant to the restructuring in contemplation of the Global Offering
“Guang Da Automotive Components”	Guang Da (China) Automotive Components Holdings Limited (光大(中國)車輛零部件控股有限公司), a company incorporated in Hong Kong with limited liability on 14 June 2010 and one of our wholly-owned subsidiaries
“Guang Da Finance”	Guang Da Finance (Hong Kong) Company Limited (光大財務香港有限公司), a company incorporated in Hong Kong with limited liability on 26 May 2003, which is wholly beneficially owned by Independent Third Parties



---

## DEFINITIONS

---

“Guang Da Investment”	Guang Da Investments Holdings Limited, (光大投資控股有限公司), a company incorporated in Hong Kong with limited liability on 15 May 2006, which is wholly beneficially owned by the Founders
“Haikou Danjiang”	Haikou Danjiang Automotive Shock Absorber Company Limited (海口丹江汽車減振器有限公司), a company established in the PRC with limited liability on 22 March 2006 and one of our wholly-owned subsidiaries
“Haima Auto”	FAW Haima Automobile Co., Ltd. (一汽海馬汽車有限公司), our customer, an Independent Third Party
“Hexie Venture”	Henan Hexie Venture Capital Investment Management Company Limited (河南合協創業投資管理有限公司) (formerly known as Henan Jinguan Venture Capital Investment Company Limited (河南金冠創業投資管理有限公司)), a company established in the PRC with limited liability and is wholly beneficially owned by the Founders
“HK\$” and “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) 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 members of the public in Hong Kong (as set out in the section headed “Structure of the Global Offering” of this prospectus) at the Offer Price, payable in full on application, and subject to the terms and conditions stated in this prospectus and the Application Forms
“Hong Kong Public Offer Shares”	the 8,000,000 Offer Shares initially offered for subscription under the Hong Kong Public Offer, which will also include any Shares that may be re-allocated from the International Placing

---

## DEFINITIONS

---

“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer listed in “Underwriting — Hong Kong Underwriters” to this prospectus
“Hong Kong Underwriting Agreement”	the conditional Hong Kong Public Offer underwriting agreement dated 10 November 2011 entered into between, among others, our Company and the Hong Kong Underwriters relating to the Hong Kong Public Offer, particulars of which are summarised in the section headed “Underwriting” to this prospectus
“Independent Third Parties”	persons or companies which are independent of and not connected with any of our Directors or chief executive of our Company, the Controlling Shareholders and members of our Group and their respective associates, and “Independent Third Party” means any of them
“International Placing”	the conditional placing of the International Placing Shares at the Offer Price to selected professional, institutional and private investors as set out in the section headed “Structure of the Global Offering” to this prospectus
“International Placing Shares”	the 72,000,000 Offer Shares expected to be initially offered for subscription pursuant to the International Placing, which will also include any Shares that may be re-allocated from the Hong Kong Public Offer
“International Underwriters”	the underwriters of the International Placing, who are expected to enter into the International Underwriting Agreement to underwrite the International Placing
“International Underwriting Agreement”	the conditional international placing and underwriting agreement relating to the International Placing and expected to be entered into by, among others, our Company and the International Underwriters on or about the Price Determination Date
“Issuing Mandate”	the general unconditional mandate granted to our Directors by the Shareholder in relation to the issue of new Shares, further information on which is set out in the paragraphs under “A. Further information about our Company — 3. Written resolutions of all the Shareholders” in Appendix V to this prospectus
“Jianghuai Automobile”	Anhui Jianghuai Automobile Co., Ltd (安徽江淮汽車股份有限公司), our customer, an Independent Third Party

---

## DEFINITIONS

---

“Jinguan Group”	Nanyang Jinguan Group Company Limited (南陽金冠集團有限責任公司), a company incorporated in the PRC with limited liability and is owned by Independent Third Parties
“Jinguan Wangma”	Henan Jinguan Wangma Information Industrial Company Limited (河南金冠王碼信息產業股份有限公司), a company incorporated in the PRC with limited liability and is owned by Independent Third Parties
“Jinguan Xichuan Automobile”	Xichuan Auto Shock Absorber Factory, 浙川汽車減振器廠, a branch of Jinguan Group
“Joint Bookrunners”	China Everbright Securities and BOCOM International
“Joint Global Coordinators”	China Everbright Securities and BOCOM International
“Joint Lead Managers”	China Everbright Securities and BOCOM International
“Jumbo Ace”	Jumbo Ace Capital Limited (駿領投資有限公司), a company incorporated in the BVI with limited liability on 5 August 2010 and is wholly beneficially owned by Mr. Xi
“King Long”	Xiamen King Long United Automotive Industry Co., Ltd. (廈門金龍聯合汽車工業有限公司), our customer, an Independent Third Party
“King Win”	King Win Capital Limited (景勝投資有限公司), a company incorporated in the BVI with limited liability on 1 July 2010, a Shareholder and is owned as to 50% by Xie Qingxi (謝清喜) (a non-executive Director) and 50% by Zhang Chuanyong (張傳勇)
“Latest Practicable Date”	4 November 2011, being the latest practicable date prior to the printing to this prospectus for ascertaining certain information contained herein
“Listing”	the listing of our Shares on the Main Board
“Listing Date”	the date on which dealings of our Shares on the Main Board first commence, which is expected to be 23 November 2011
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange

---

## DEFINITIONS

---

“Megabiz”	Megabiz Group Limited, a company incorporated in the BVI with limited liability on 10 March 2010 and is wholly beneficially owned by Mr. Xi
“Merit Leader”	Merit Leader Investment Limited, a company incorporated in the BVI on 10 March 2010 and one of our wholly-owned subsidiaries
“Mr. Xi”	Xi Chunying (席春迎), alias Liu Chunying (劉春迎) and David Xi Liu, Chairman of our Company, a non-executive Director, one of the Founders and one of the Controlling Shareholders
“Nanyang Cijan”	Nanyang Cijan Auto Shock Absorber Co., Ltd. (南陽浙減汽車減振器有限公司) (formerly known as Nanyang Jinguan Auto Shock Absorber Co., Ltd (南陽金冠汽車減振器有限公司)), a wholly foreign owned enterprise established in China on 23 June 2005 and one of our wholly-owned subsidiaries
“Nanyang Yingsaite”	Nanyang Yingsaite Automotive Shock Absorber Company Limited (南陽英賽特車輛減振器有限公司), a company established in the PRC with limited liability on 19 March 2007 and one of our wholly-owned subsidiaries
“OEM Market”	the automobile market of original automobile manufacturers
“Offer Price”	the final price per Share in Hong Kong dollars (exclusive of brokerage, SFC transaction levy, and the Stock Exchange trading fee) at which each Offer Shares is to be subscribed for and issued pursuant to the Global Offering, to be determined as further described in the paragraphs under “Structure of the Global Offering — Determination of the Offer Price” to this prospectus
“Offer Shares”	the Hong Kong Public Offer Shares and the International Placing Shares
“Ourview Report”	“Report on the Development of the Shock Absorber Industry in the PRC” dated 4 November 2011 issued by Beijing Ourview Consultancy Company Limited
“Pacific Express”	Pacific Express Development Limited (華迅發展有限公司), a company incorporated in the BVI with limited liability on 1 July 2010, a Shareholder and is wholly-owned by Fan Chong (樊崇)

---

## DEFINITIONS

---

“Plenty Venture”	Plenty Venture Holdings Limited (盛源控股有限公司), a company incorporated in the BVI with limited liability on 1 July 2010, a Shareholder and is respectively owned as to 63.93% by Zhao Zhijun (趙志軍) (an executive Director), 5.48% by Liu Baojun (劉保軍), 4.57% by Zhao Zeng (趙增), 4.57% by Wang Wenbo (王文波), 4.57% by Zhu Xinyao (褚新耀), 4.57% by Liu Yonghong (劉永紅), 4.57% by Chu Zihua (朱自華), 4.11% by Liu Jinyong (劉金永), and 3.65% by Yang Weixia (楊瑋霞), all being the Senior Management
“PRC” or “China”	the People’s Republic of China which, for the purpose to this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Advisers”	Grandall Law Firm (Shanghai), the legal advisers to our Company as to PRC laws
“Price Determination Date”	the date, expected to be on or around 16 November 2011 (or such later date as may be agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company), on which the Offer Price is fixed for the purpose of the Global Offering and in any event no later than 18 November 2011
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, further information on which is set out in the paragraph headed “A. Further information about our Company — 4. Reorganisation” in Appendix V to this prospectus
“Repurchase Mandate”	the general unconditional mandate granted to our Directors by the Shareholder in relation to the repurchase of Shares, further information on which is set out in the paragraph under “A. Further information about our Company — 3. Written resolutions of all the Shareholders” in Appendix V to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	國家外匯管理局 (PRC State Administration of Foreign Exchange)
“SAFE Circular No. 75”	《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》(The SAFE’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles)

---

## DEFINITIONS

---

“SAIC Motor”	SAIC Motor Corporation Limited (上海汽車集團股份有限公司), our customer, an Independent Third Party
“Senior Management”	certain members of the senior management of our Group, comprising three executive Directors, namely Zhao Zhijun (趙志軍), Wang Wenbo (王文波) and Yang Weixia (楊瑋霞), and Xing Yunming (邢雲明), Wu Tai Cheung (胡大祥), Zhu Zihua (朱自華), Chu Xinyao (褚新耀), Zhao Zeng (趙增), Chang Zhoujian (程周儉), Li Zhiqian (李志乾), Liu Baojun (劉保軍), Liu Yonghong (劉永紅) and Liu Jinyong (劉金永)
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.10 each in the share capital of our Company
“Shareholder(s)”	holder(s) of our Shares
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 19 October 2011, a summary of the principal terms of which is set out in the paragraph under “D. Share Option Scheme” in Appendix V to this prospectus
“Silver Goal”	Silver Goal Capital Limited (銀冠投資有限公司), a company incorporated in the BVI with limited liability on 1 July 2010, a Shareholder and is wholly-owned by Han Guangsheng (韓光勝)
“Sino Lotus”	Sino Lotus Holdings Limited (蓮華控股有限公司), a company incorporated in the BVI with limited liability on 2 January 2008, a Shareholder and is wholly-owned by Sun Lijun (孫麗軍)
“South East Motor”	South East (Fujian) Motor Corporation Ltd (東南(福建)汽車工業有限公司), our customer, an Independent Third Party
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under section 2 of the Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of our Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

---

## DEFINITIONS

---

“Track Record Period”	the three years ended 31 December 2010 and the five months ended 31 May 2011
“Trademark Assignment Agreement”	the agreement dated 6 May 2011 and entered into between Xichuan Automotive Parts Factory (浙川汽車配件廠) and Nanyang Cijan regarding the assignment of a trademark for a consideration of RMB844,800
“Underwriters”	collectively, the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US\$” and “US cents”	United States dollars and cents, respectively, the lawful currency of the United States of America
“VAT”	value-added tax of the PRC
“We” or “Our Group”	our Company and its subsidiaries
“Wealth Core”	Wealth Core Investment Limited, a company incorporated in the BVI with limited liability on 12 July 2010, a Shareholder and is wholly-owned by Song Zhewei (宋哲偉)
“Wealth Max”	Wealth Max Holdings Limited, a company incorporated in the BVI with limited liability on 12 July 2010, our Controlling Shareholder and is wholly beneficially owned by Mr. Xi
“Wingco Development”	Wingco Development Limited (榮高有限公司), a company incorporated in the BVI with limited liability on 5 July 2010, a Shareholder and is respectively owned as to 45.46% by Fu Pengxu (付蓬旭) (a non-executive Director), 27.27% by Zhang Guangliang (張廣亮) and 27.27% by Dou Changlun (竇長倫)
“Xichuan Automobile”	Xichuan Auto Shock Absorber Factory (南陽浙減汽車減振器有限公司浙川汽車減振器廠), a branch of Nanyang Cijan
“Yutong Bus”	Zhengzhou Yutong Bus Co., Ltd (鄭州宇通客車股份有限公司), our customer, an Independent Third Party
“%”	per cent

---

## DEFINITIONS

---

*Unless the context requires otherwise, amounts denominated in RMB have been converted into HK\$ or US\$, for the purpose of illustration only, using the exchange rates of RMB0.81312 = HK\$1 and RMB6.3165 = US\$1, respectively. No representation is made that any amount in RMB or HK\$ or US\$ could have been or could be converted at the above rates or at any other rates or at all.*

*For ease of reference, the names of certain PRC entities and PRC government authorities have been included in this prospectus in both English and Chinese languages. The English names are the unofficial translation of their respective Chinese name, and in the event of any inconsistency, the Chinese version shall prevail.*



---

## GLOSSARY OF TECHNICAL TERMS

---

*This glossary contains explanations of certain terms used in this prospectus in connection with our Group and its business. The terminologies and their meanings may not correspond to standard industry meanings or usage of those terms.*

Absorber or shock absorber	A part designed to connect car body and chassis and reduce the vibration of car frame and car body, so as to enhance the running smoothness of the vehicle
Absorber oil	Oils, as raw materials, that can meet low and high temperature conditions under which the shock absorber works and can run without obvious changes
APQP	Advanced product quality planning
Coil spring	A part, which is made by twisting spring wires through hot/cold rolling, is designed to bear the load of the whole vehicle
Cold drawn pipe	Steel pipes manufactured by perforating and processing hot billets
Cold drawn round steel bar	Using cold drawn method to process round steel billets into materials with higher-level surface strength and dimensional accuracy
Cold plate	Steel plates made by cold processing
Commercial vehicles	Vehicles other than passenger vehicles which are mainly used in mass transportation of passengers and cargos
Dual-cylinder hydraulic shock absorber	An absorber which consists of storage tank and working cylinder, it produces damping by the flow of internal oil fluids and friction
Electroplating waste water treatment station	A place where waste water treatment facilities locate, which is used for treating waste water generated when conducting chromate treatment on the surface of piston rods
ERP	Enterprise resource planning
Fine welded pipe	The further processing of normal welded pipes into materials with higher-level internal and external dimensions and specifications and appearance requirements by cold drawing or extruding
FMEA	Failure mode and effects analysis

---

## GLOSSARY OF TECHNICAL TERMS

---

High speed rails	Rails running at least 200 km/h
ISO/TS16949	an ISO technical specification prepared by the International Automotive Task Force and based on the ISO 9001 aiming to the development of a quality management system that provides for continual improvement, emphasising defect prevention and the reduction of variation and waste in the supply chain of the automobile industry
MSA	Measurement system analysis
Normal welded pipe	Steel pipes which is made by welding and processing steel belts, a material which only needs to remove glitches inside and outside
Oiling	A process that injects a certain amount of oil into each absorber by using certain devices
Passenger vehicles	Vehicles which are mainly used in transportation of passengers (less than nine) and their luggage
Piston rods	A very important part, which acts in directing, reciprocating, connecting and supporting role in an absorber
Powder parts	Parts with a certain dimension accuracy and strength, which are formed by processing iron powder, copper powder and carbon powder with such techniques as high temperature and sintering
PPAP	Production part approval process
QS9000	A quality standard developed by the joint effort of automobile manufacturers General Motors, Chrysler and Ford, which was replaced by ISO/TS16949 from 14 December 2006
Quenching quality	The qualities of high strength, high hardness, high wear resistance and inside toughness of piston rods' surface, which is realized by quenching
Sealing	A process that presses equipments to completely separate the internal working media of a shock absorber from external environments and ensures well-sealed internal conditions of the shock absorber
SPC	Statistical process control
Stamping parts	Parts made from cold or hot plates through stamping process

---

## GLOSSARY OF TECHNICAL TERMS

---

Standard part	Parts which are processed according to international standards or national industry standards
Storage tanks	A part used to store the oil and liquids of an absorber and to some extent, which acts in supporting and cooling role
VDA6.1	A management system registration for suppliers to German automobile manufacturers. The scope of VDA 6.1 is similar to that of QS9000 (the US automobile management system requirements document) outlining specific requirements for supplies to German automobile manufacturers
Welding	A coalescence process that joins fusing parts of different parts together under proper electric current and voltage
Welded pipe	Steel pipe made of steel belt by welding
Working cylinder	A part with which the piston can generate working pressure in the absorber by its reciprocating motion

---

## FORWARD-LOOKING STATEMENTS

---

This prospectus contains many statements that are “forward-looking”. You can identify these statements by the use of terms such as “believe”, “anticipate”, “expect”, “estimate”, “future”, “intend”, “may”, “ought to”, “plan”, “should”, “will”, negatives of such terms or other similar statements. You should not place undue reliance on any of these forward-looking statements. Although we believe our assumptions in making these forward-looking statements are reasonable, our assumptions may prove to be incorrect and you are cautioned not to place undue reliance on such statements. The forward-looking statements in this prospectus include, but are not limited to, statements relating to:

- our goals and strategies and our various measures to implement such strategies;
- our future business development, results of operations and financial condition;
- expected growth of and changes in the local and global vehicle parts and components markets;
- projected revenues, profits, earnings and other estimated financial information;
- our ability to capture future market share;
- our ability to maintain strong relationships with our customers and suppliers;
- our planned use of proceeds; and
- government policies regarding the electronic appliance industry.

The forward-looking statements included in this prospectus are subject to risks, uncertainties and assumptions about our business and business environments. These statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results of our operations may differ materially from information contained in the forward-looking statements as a result of many factors, including but not limited to the following:

- competition in the vehicle parts and components market;
- growth of, and risks inherent in, the vehicle parts and components industry;
- our reliance on our key customers for our revenue;
- the reliance of our business on the performance of the vehicle parts and components market as a whole; and
- our ability to attract and retain qualified executives and personnel.

---

## **FORWARD-LOOKING STATEMENTS**

---

The forward-looking statements have been made by the Directors after due and careful consideration and on bases and assumptions that are fair and reasonable. 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 law and the Listing Rules. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

---

## RISK FACTORS

---

*Prospective investors in the Offer Shares should consider carefully all of the information set forth in this prospectus and, in particular, the following risks in connection with an investment in our Company. Our Group's business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks and you may lose all or part of your investment.*

### **RISKS RELATING TO OUR GROUP**

#### **We rely on certain major customers for a significant portion of our revenue**

During the Track Record Period, we derived over 90% of our revenue from supplying shock absorbers to PRC automobile OEM manufacturers. For the three years ended 31 December 2010 and the five months ended 31 May 2011, sales to the largest customer of our Group represented 26.6%, 25.0%, 27.2%, and 21.4%, respectively of our total revenue, and sales to the five largest customers of our Group, in aggregate, accounted for 66.5%, 73.2%, 89.3%, and 68.3%, respectively of our total revenue. We cannot assure you that we will be able to maintain or improve our relationships with these customers and they may terminate their respective relationships with us at any time.

We generally enter into legally binding framework agreements which set out terms including method of order, packing, delivery and payment, and pricing agreements with our major customers. While our major customers provide non-binding estimates of purchase quantities at the beginning of each year, purchase orders with prices and quantities are placed on a regular basis. While the framework agreements are legally binding, the estimates of purchase quantities under the framework agreements are non-binding. As a result, such non-binding estimates of purchase quantities may not result in our revenue and we cannot benefit from long-term sales orders for our products which would otherwise be provided under long term contracts. In circumstances where any of our customers, particularly our key customers, have materially reduced, revised, delayed or cancelled their orders with us or terminated their business relationships with us, we might not be able to obtain replacement orders on similar terms in a timely manner from other customers. The occurrence of any of the foregoing events would materially and adversely affect our business, financial condition and results of operations.

#### **We rely on certain major suppliers**

We rely on a limited group of suppliers for the raw materials, parts and components we use for our production. Purchases from the five largest suppliers of our Group accounted for 32.1%, 32.6%, 33.4%, and 29.1%, respectively, of our total purchases and purchases from the largest supplier of our Group accounted for 9.5%, 9.4%, 9.4%, and 6.9%, respectively of our total purchases, during the Track Record Period. Should any of our major suppliers cease to supply to us any raw materials, parts or components and suitable replacement cannot be secured on a timely basis, our business may be adversely affected.

#### **We may face increases in the prices of raw materials, parts and components**

We manufacture shock absorbers by processing and assembling various parts and components. Most of the parts we use in our production are made from steel and rubber. We also source steel

---

## RISK FACTORS

---

directly to produce certain parts which we consider to be core in our production process, namely storage tanks, working cylinders and piston rods. During the Track Record Period, the cost of raw materials, parts and components accounted for 85.3%, 87.4%, 88.8% and 87.1% of the total cost of sales of our Group, respectively. The prices of our supplies are usually determined according to prevailing market conditions and are therefore subject to fluctuations as a result of various factors such as fluctuations in commodity prices. Further details of the prices of raw materials used in our production are set out in the paragraph headed “Industry overview — China absorber industry — The raw materials for the production of shock absorbers” of this prospectus.

During the Track Record Period, we were able to maintain steady gross profit margins at 24.6%, 23.5%, 25.4% and 27.0%, respectively. However, there is no assurance that the prices of our raw materials, parts and components will not fluctuate materially in the future. In the event that the prices of our supplies significantly increase and we are not able to cover such increases by reductions in other production costs or pass such costs to our customers, our profitability, financial condition and results of operations could be adversely affected.

### **We may not be able to obtain adequate financing for our business in the future**

Our business requires significant capital investment. We made consolidated capital expenditures of RMB18.1 million, RMB50.1 million, RMB130.2 million and RMB44.7 million for each of the three years ended 31 December 2010 and the five months ended 31 May 2011, respectively. As we will continue to expand our existing production facilities and construct new plants and new research and development centre as part of our Expanding Production Facilities, we expect that further investment cost for such expansion will amount to RMB167.2 million. We intend to use 99.3% of the net proceeds from the Global Offering based on an Offer Price of HK\$1.60 per Share (being the mid-point of the indicative Offer Price range of HK\$1.40 to HK\$1.80 per Share) and the remaining of the investment cost of the Expanding Production Facilities will be financed by additional net proceeds from the Global Offering, our internal resources and loans from banks and financial institutions. In the future, we may be unable to obtain necessary financing or obtain such financing on favourable terms due to various factors beyond our control. Such inability to obtain financing could hinder our expansion plans which could, in turn, adversely affect our results of operations and financial condition.

### **We may face potential product liability claims or suffer losses due to product recall**

Our business nature exposes us to the risk of product liability claims that is inherent in the research and development, manufacturing and marketing of our shock absorbers. As a developer and manufacturer of shock absorbers, we may be subject to product liability claims due to product defects. A substantial claim or a substantial number of claims relating to our products could have a material and adverse impact on our business, financial condition and results of operations. During the three years ended 31 December 2010 and the five months ended 31 May 2011, the provision of our Group for product warranties amounted to RMB8.6 million, RMB7.1 million, RMB11.5 million and RMB4.1 million, respectively. The amount of provisions utilised during the Track Record Period amounted to RMB7.8 million, RMB6.2 million, RMB8.4 million and RMB5.7 million, respectively. In line with general industry practice, we have not obtained insurance coverage for product liability or implemented any other protection scheme. If our products prove to be defective and result in losses to our customers, we may be liable to product liability claims under the law of the PRC or other

---

## RISK FACTORS

---

jurisdictions in which our products are sold or used. As a result, we may have to incur significant legal costs and divert our administrative resources regardless of the outcome of the claims. In addition, any such claims could damage our customer relationships and businesses and result in negative publicity. We may also be forced to defend lawsuits and, if unsuccessful, to pay a substantial amount of damages. Though we may be able to recover part of the damages by claims against our suppliers when a product defect is attributable to materials or parts supplied by our suppliers, there is no guarantee of any recovery.

In the event of allegations that any of our products are defective, we may also undergo product recalls which could result in substantial and unexpected expenditure and would reduce our operating profit and cash flow. A product recall may require significant management attention, affect the value of our brand name, lead to decreased demand for our products and may also lead to increased scrutiny by regulatory agencies over our operations. During the Track Record Period, we had not made any product recall. Further, if our OEM customers, being automobile manufacturers, experience any recall of their automobiles, our sales to such customers may be affected and our business, financial condition and results of operations will be adversely affected.

### **We may be subject to penalties for breach of certain PRC laws and regulations relating to inter-company loans**

As at 31 December 2008, 2009 and 2010 and 31 May 2011, we had loan receivables lent to Independent Third Parties amounting to RMB38 million, RMB106 million, nil and nil, respectively, and interest income from loan receivables amounting to RMB2.8 million, RMB3.4 million, nil and nil for the corresponding period. Our loan receivables carried variable interest rates ranging from 5.6% to 8.9%. As the scope of our business license does not include money lending, we may be in breach of certain PRC laws and regulations, and while we may recover the principal of the loans lent to other companies, the interest on the loan amounts may be confiscated by the relevant PRC authorities if we are found to be in breach of the relevant PRC laws and regulations.

### **We had net current liabilities as at 31 December 2008, 2009 and 2010 and 31 May 2011**

The net current liabilities of our Group were RMB85.2 million, RMB41.3 million, RMB203.7 million and RMB23.3 million as at 31 December 2008, 2009 and 2010 and 31 May 2011, respectively. The net current liabilities of our Group were mainly due to short term bank borrowings, and trade and other payables, mainly arising from our expansion of our production capabilities through acquiring land and the construction of new production bases and the acquisition of new production facilities. Details of our net current liabilities during the Track Record Period are set out in the paragraph headed “Financial information — Net current liabilities” of this prospectus.

During the Track Record Period and as at the Latest Practicable Date, we had not experienced any liquidity issues in the ordinary course of business. However, there can be no assurance that we will be able to raise the necessary funds by borrowing from financial institutions to finance our business, operations and capital expenditure. In the event that the financial institutions providing existing banking and credit facilities do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative banking and credit facilities on reasonable terms, our business, financial condition and results of operations will be adversely affected.



---

## RISK FACTORS

---

### **We may encounter unexpected difficulties in completing our expansion plans on time or expanding into new markets**

To continue to grow our businesses, we plan to expand our business activities in terms of geography and products. Please see the paragraph headed “Business — Our strategies” in this prospectus. Entry into new foreign markets and market segments requires additional capital and market experience and it may also require us to build a wider sales network, establish relationships and retain additional qualified personnel. Furthermore, developing new products may require us to undertake additional research and development, and acquire new equipment, all of which require additional resources which may not be available to us in a timely manner, or at all. These and other associated risks may cause delays in our expansion plans or make the expansion into new markets difficult. We cannot assure you that our expansion plans will be successful.

### **We may not be able to attract and retain members of our senior management team and other key personnel**

Our management team has extensive experience in and in-depth market knowledge of the PRC automobile shock absorber industry. Our future performance and success depends to a significant extent on our ability to attract, retain and motivate our senior management team and other key personnel, such as Mr. Wang Wenbo, Mr. Xing Yunming, Mr. Zhu Zihua, Mr. Chu Xinyao and Mr. Cheng Zhoujian. Further information on our Directors and senior management is set forth in the section headed “Directors, senior management and staff” in this prospectus. There is no assurance that we will be able to retain members of our senior management team and other key personnel or recruit additional competent personnel for our future development. Moreover, we do not maintain insurance for the loss of any key personnel. Any loss of key personnel without immediate and adequate replacement may limit our competitiveness, affect our production processes, reduce our manufacturing quality or cause customer dissatisfaction, any of which would adversely affect our business, financial condition, results of operations and growth prospects.

### **Changes in interest rates may affect our financing costs**

The interest expenses of our Group related to bank loans and other indebtedness during the Track Record Period were RMB16.6 million, RMB13.3 million, RMB15.9 million and RMB5.9 million, respectively. Most of our borrowings are in the form of interest-bearing short-term loans. Our financing costs and, as a result, our results of operations, are affected by changes in interest rates as most of the loans are short-term in nature. Bank interest rates may increase at the time we renew our bank loans or if and when we seek additional financing. Since the end of 2007, the People’s Bank of China has been increasing the bank deposit and lending rates. For instance, the People’s Bank of China raised the benchmark lending interest rates on 7 July 2011. The People’s Bank of China may further increase the bank deposit and lending rates to control inflation in the rest of 2011. Any future increase in interest rates may materially and adversely affect our business, financial condition and results of operations.

---

## **RISK FACTORS**

---

### **We have limited insurance coverage**

Under PRC law, we are not required to maintain business interruption insurance or litigation insurance. Accordingly, we have not maintained such types of insurance to cover our operations. Any uninsured loss or damage to property, litigation or business disruption may result in us incurring substantial costs or diverting our resources, which could have an adverse effect on our results of operations. The occurrence of certain incidents, including fire, severe weather, earthquake, war, flooding, power outages and the consequences resulting from any of them may not be covered adequately, or at all, by our insurance policies. If we incur substantial liabilities that are not covered by our insurance policies, or if our business operations are interrupted for a significant period of time, we could incur costs and losses that could materially and adversely affect our financial condition and results of operations.

### **We may not be able to adequately protect our intellectual property, which could adversely affect our business operations**

We rely on a combination of patents, copyrights and trademarks to protect our intellectual property. We cannot assure you that these measures will be sufficient to prevent any misappropriation of our intellectual property, or that our competitors will not independently develop alternative technologies that are equivalent or superior to technologies based on our intellectual property. The legal regime governing intellectual property in the PRC is still evolving and the level of protection of intellectual property rights in the PRC differs from those in other jurisdictions. In the event that the steps we have taken and the protection afforded by law do not adequately safeguard our proprietary technology, we could suffer losses due to the sale of competing products that exploit our intellectual property.

### **Our Group's historical dividends do not indicate our future dividend policy**

Dividends of RMB13.6 million and RMB56.5 million were recognised as distribution to shareholders of Nanyang Cijan for the two years ended 31 December 2010 respectively. In the future, the amount of dividends our Company may declare and pay will be subject to, among others, our Group's future operations and earnings, capital requirements and surplus, general financial condition and any other factors which our Directors may consider relevant. Accordingly, the amount of distributions that our Company has declared and made in the past do not indicate the dividends that our Company may pay in the future.

## **RISK RELATING TO THE VEHICLE PARTS AND COMPONENTS INDUSTRY**

### **We operate in a competitive industry and face intense competition from our competitors**

We are operating in a competitive industry facing competition from domestic and foreign competitors. There is no assurance that we will be able to fend off all such competition. According to the Ourview Report, the number of shock absorber enterprises in the PRC listed on the state catalogue is over 100, and together with those enterprises not listed on the state catalogue, it is estimated that there are a few hundred enterprises engaged in the manufacturing of shock absorbers in the PRC. Although the number of domestic enterprises which can supply shock absorbers to the

---

## **RISK FACTORS**

---

OEM Market in the PRC is around 20, there is a relatively low concentration in the industry and intense competition will remain in the long term. In the recent years, the high-ranking shock absorber manufacturers in the PRC have expanded very quickly. Our failure to compete effectively could materially and adversely affect our business, financial condition, results of operations and market position.

### **Market demand for our products may be affected by a slowdown in the growth rate of the PRC automobile industry**

There is a direct correlation between our business and automobile production volume and sales, which are dependent on economic policies and market sentiment. The production of automobiles in the PRC has grown at a very fast pace in the past due to various factors, including the continued growth of the PRC economy, ongoing government incentive policies and a relatively low rate of vehicle ownership.

In the recent years, prolonged traffic congestion in the bigger cities in the PRC such as Beijing, Shanghai, Guangzhou and Shenzhen has resulted in the local government authorities implementing policies to control the amount of traffic, such restrictions on automobile purchases in Beijing, limited automobile licenses in Shanghai, and congestion charges in Shenzhen. Other cities which have begun to show signs of traffic congestion have also begun to implement similar measures to control traffic congestion. Such policies and measures may have an impact on the mentality of car buyers and also restrict the consumption expenditure on automobiles in the PRC.

Any significant reduction in automobile production and sales to our customers would have a material and adverse effect on our business. There can be no assurance that there will not be changes in market conditions, government policies and other factors leading to a slowdown in demand for automobiles. The decline in demand for automobiles would directly and adversely affect demand for our products and hence our business, financial condition and results of operations.

### **Changes in automobile industrial policies may adversely affect our business, financial condition and results of operations**

Our business is highly affected by the automobile industry particularly in the PRC. Any changes in policies in the automobile industry in the PRC including without limitation, tightening restriction on foreign investment, imposing stricter fuel economy standards and emission standards and increasing fuel prices and taxes on automobile consumption would reduce the demand for automobiles and auto parts including shock absorbers.

Existing PRC automobile industry policies impose certain restrictions on investment by foreign vehicle manufacturers in vehicle production projects in the PRC. Further tightening of these policies could lead to a lower level of participation by foreign vehicle manufacturers in the PRC automobile market, which in turn would decrease the supply of automobiles in the market resulting in lesser demand for shock absorbers.

---

## **RISK FACTORS**

---

The PRC Government may adjust the domestic oil supply price by considering several factors, including changes in the global crude oil price, which makes the cost of petrol in the PRC less predictable. If the demand for fuel increases in the PRC, fuel shortages or price increases may occur. Consumers may avoid increased or unpredictable costs or shortages and utilise alternative means of transport such as bicycles, public buses and subways.

There can be no assurance that the PRC Government will not implement other policies in the future which may adversely affect the automobile industry, in which event there may be a material and adverse effect on our revenue, profits, and growth prospects.

### **Our sales and production capacity may be affected by seasonality**

As there is a holiday period in the OEM Market in the PRC during the months of January, February, July and August, there is generally a slowdown in our sales during this period and a relatively lower utilisation rate for these months. As such, our average utilisation rate over the period of a year does not reach 100%. Due to this seasonal factor, our operating results and financial conditions may fluctuate from period to period.

### **Global financial crisis and economic downturn may have a material and adverse effect on our business, results of operations and financial condition**

The global financial crisis which commenced in 2008 caused substantial volatility in capital markets and a downturn in the global economies. Demand for the automobiles, automobile accessories and other related products may decrease if the level of consumption in the PRC is affected by these changing market conditions, which would adversely impact our operations. In addition, some of the automakers may also be adversely impacted with declines in profits and production output. Furthermore, the availability of credit to entities, such as ourselves, operating within emerging markets, is significantly influenced by levels of investor confidence in such markets as a whole and any factors that may impact market confidence could affect the costs or availability of funding for entities within any of these markets. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. Although a global economic recovery has been underway for some time, there is no assurance that the recovery will continue or be sustained. If this economic downturn continues or there are prolonged disruptions to the credit markets, this could limit our ability to borrow funds from our current or other funding sources or cause the continued access to funds to become more expensive, and our business may be exposed to a downturn in sales that might be caused by such tightening of credit conditions, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

### **Volatility in demand in the PRC for automobiles could adversely affect our results of operations**

Demand for automobiles in the PRC and the rest of the world is cyclical in nature and is affected by various factors, including sales and financing incentives, costs of raw materials, parts and components, cost of fuel, environmental concerns and governmental regulations, including tariffs,

---

## **RISK FACTORS**

---

import regulation and other taxes. Fluctuations in demand may lead to lower vehicle sales and increased inventory, which may result in slow-down of production of vehicles and in turn reduction in demand for our products, and this will adversely affect our financial condition and results of operations.

### **RISKS RELATING TO THE PRC**

#### **PRC political and economic policies could affect our Group's business**

Since 1970s, the PRC has undergone and is still undergoing various reforms including that of the economic system. Such reforms have resulted in a shift in the focus of the PRC government to economic establishment. Our Directors consider that political and social factors may also lead to further adjustment of the reform measures. These adjustment process may not always have a positive effect on the operations of our Group. Further, if measures relating to inflation control, interest rates, bases for taxation and additional restrictions on currency exchange and remittances abroad by the PRC government are introduced, it may also lead to a negative impact on our Group's business. It is not within our Group's foreseeability whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on its current or future business, results of operations or financial condition.

#### **Our Company may be deemed as a PRC resident enterprise under the new PRC Enterprise Income Tax Law and its worldwide income may be subject to the PRC taxation**

Under the new PRC Enterprise Income Tax Law that took effect on 1 January 2008, enterprises established outside China whose "de facto management bodies" are located in China are considered as "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the implementation regulations of the new PRC Enterprise Income Tax Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in China, and may remain in China. Therefore, our Company may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the new PRC Enterprise Income Tax Law and the implementation regulations.

#### **The preferential tax treatment our Group currently enjoys may be changed or discontinued which may adversely affect on our financial condition and results of operations**

As a foreign-invested manufacturing enterprise, we enjoyed preferential enterprise income tax rates which were lower than the standard tax rates during the Track Record Period under the relevant PRC laws and regulations. Pursuant to the relevant laws and regulations in the PRC and with approval from the responsible tax authorities, we were entitled to a two-year tax exemption followed by three years with a 50% reduction in tax rate, commencing the first year with assessable profit. From 2008 to 2010, we were subject to a preferential enterprise income tax rate of 12.5%.

---

## RISK FACTORS

---

On 15 December 2009, Nanyang Cijan obtained “High Technology Enterprise” status for three years that entitles Nanyang Cijan a preferential tax rate of 15% for the period from 2011 to 2012 according to PRC tax law.

There is no assurance that we will continue to receive preferential tax treatment. The preferential tax treatment currently enjoyed by our Group may be changed or discontinued. Further, there can be no assurance that there will be no further changes to the PRC tax laws that could adversely affect us. Any increase in our enterprise income tax rate in the future due to the introduction of the new PRC Enterprise Income Tax Law could have an adverse effect on our financial condition and results of operations.

### **Dividends payable by our Company to its foreign investors and gain on the sale of our Shares may become subject to withholding taxes under the PRC tax laws**

Under the new PRC Enterprise Income Tax Law and its implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises” (enterprises that are set up in accordance with the law of the foreign country (region) whose actual administration institution is outside China, but they have set up institutions or establishments in China or they have income originating from China without setting up institutions or establishments in China) to the extent such dividends are sourced within China. Similarly, any gain realised on the transfer of Shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. The investors who are established in Hong Kong and are considered non-resident enterprises by the PRC tax authority are subject to a PRC withholding tax at a rate of 5%. If our Company is considered a PRC “resident enterprise”, it is unclear whether the dividends it pays with respect to our Shares, or the gain Shareholders may realise from the transfer of our Shares, would be treated as income derived from sources within China and be subject to PRC tax. If our Company is required under the new PRC Enterprise Income Tax Law to withhold PRC income tax on its dividends payable to its foreign Shareholders, or if Shareholders are required to pay PRC income tax on the transfer of our Shares, the value of their investment in our Shares may be materially adversely affected.

### **Our Company is a holding company and its ability to pay dividends is dependent upon the earnings of, and distributions by, its subsidiaries**

Our Company is a holding company incorporated under the laws of Cayman Islands, with limited liability. Substantially all of our business operations are conducted through Nanyang Cijan. Our Company’s ability to pay dividends to our Shareholders is dependent upon the earnings of its subsidiaries and their distribution of funds to our Company, primarily in the form of dividends. The ability of its subsidiaries to make distributions to our Company depends upon, among other things, their distributable earnings. Under the PRC law, payment of dividends is only permitted out of accumulated profits according to PRC accounting standards and regulations, and our Company’s subsidiaries in the PRC are also required to set aside part of its after-tax profits to fund certain reserve funds that are not distributable as cash dividends. Other factors such as cash flow conditions, restrictions on distributions contained in our Company’s subsidiaries’ articles of associations,

---

## RISK FACTORS

---

restrictions contained in any debt instruments, withholding tax and other arrangements will also affect subsidiaries' ability to make distributions to our Company. These restrictions could reduce the amount of distributions that our Company receives from its subsidiaries, which in turn would restrict our Company's ability to pay dividends on our Shares.

**The implementation of the new labour contract law and increase in labour costs in the PRC may adversely affect our Group's business and profitability**

A new labour contract law became effective on 1 January 2008 in China. It imposes more stringent requirements on employers in relation to entry into fixed term employment contracts and dismissal of employees. In addition, under the newly promulgated "Regulations on Paid Annual Leave for Employees" (職工帶薪年休假期), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from 5 to 15 days, depending on the length of the employees' work time. Employees who consent to waive such vacation at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each vacation day being waived. As a result of the new law and regulations, our Group's labour costs may increase. There is no assurance that any disputes, work stoppages or strikes will not arise in the future. Increases in our Group's labour costs and future disputes with its employees could adversely affect its business, financial condition or results of operations.

**PRC government control over currency conversion may affect our Group's operations and financial conditions, the value of investment in our Company and limit our Group's ability to use its cash effectively**

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of foreign currencies out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distribution, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenditures. The PRC government may also at its discretion restrict access to foreign currencies for current account transactions in the future. Our Company relies on its PRC subsidiaries to pay dividends to our Shareholders. If the PRC foreign exchange control system prevents or restricts our Group from obtaining sufficient foreign currency, including Hong Kong dollars, to satisfy our Group's requirements, it may not be able to pay dividends in Hong Kong dollars to our Shareholders.

As at the Latest Practicable Date, Renminbi is not a freely convertible currency in the international currency market and its exchange rate system is a managed-floating-rate system. Since 21 July 2005, Renminbi was no longer pegged to the US dollars but to a basket of currencies. Any material exchange rate volatility relating to Renminbi may give rise to uncertainties in the value of our Group's PRC assets, earnings and dividends. Any devaluation of Renminbi may cause our Group to incur capital depreciation in its assets and investments in the PRC as well as causing material adverse effects on our Group's operations and financial condition.

---

## **RISK FACTORS**

---

### **We are subject to risks associated with the PRC legal system, and interpretation of PRC laws and regulations involves uncertainty**

As our business is conducted in the PRC, our operations are governed principally by PRC laws and regulations. However, the interpretation of PRC laws and regulations involves uncertainty because these laws and regulations have not been fully developed, there is a limited volume of published cases, prior court decisions are non-binding, the PRC judiciary is relatively inexperienced in enforcing the laws and regulations that currently exist, and the interpretation of existing laws and regulations may be subject to policy changes reflecting domestic, political or social changes.

Additionally, depending on the way an application or case is presented to a government agent and on the government agent itself, we may receive less favorable interpretations of laws and regulations than our competitors. Furthermore, enforcement of existing laws and regulations may be uncertain, sporadic and subject to a certain degree of discretion by the authorities. Consequently, it may be difficult to obtain swift and equitable enforcement. In addition, any litigation in the PRC may be protracted and result in substantial cost to us and diversion of both our resources and management attention. As the PRC legal system develops, there can be no assurance that changes in such legislation or interpretation thereof will not have a material adverse effect on our business, financial condition, results of operations and future prospects.

### **RISKS RELATING TO THE GLOBAL OFFERING**

#### **There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile**

Prior to the Global Offering, there has been no public market for our Shares. The initial public offering price range per Share was the result of negotiations among our Company and the Joint Global Coordinators, on behalf of the Underwriters. The Offer Price may differ significantly from the market price for our Shares following the Global Offering. Our Company has made application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in our Shares on the Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares. In addition, the price and trading volume of our Shares may be volatile. Factors including variations in our Group's revenues, earnings and cashflows or any other developments may affect the volume and price at which our Shares will be traded.

#### **The subscribers of our Shares may experience immediate dilution and may experience further dilution if our Group issues additional Shares in the future**

The Offer Price is higher than the net tangible assets value per Share immediately prior to the Global Offering. Subscribers of our Shares in the Global Offering may experience an immediate dilution in unaudited pro forma adjusted consolidated net tangible assets value to approximately HK\$0.94 per Share, based on the maximum Offer Price of HK\$1.80.



---

## **RISK FACTORS**

---

To expand our Group's business, our Company may offer and issue additional Shares in the future. Our Company may also issue additional Shares pursuant to the Share Option Scheme. Shareholders may be imposed dilution in the net tangible assets book value per Share if our Company issues additional Shares in the future at a price lower than the net tangible assets value per Share.

### **RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS**

#### **Certain facts and statistics included in this prospectus may not be relied upon**

Certain information and statistics contained in this prospectus are derived from industry reports and various official government publications. Our Company believes that the sources of this information are appropriate sources for such information and has taken reasonable care in extracting and reproducing such information. Our Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such false or misleading. The information has not been independently verified by our Company, the Sponsor, the Joint Global Coordinators, 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 contained in this prospectus.

---

## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

---

### MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange 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 are one of the leading shock absorber manufacturers in the PRC with headquarters in Xichuan County, Henan Province, China and our operations are all managed and conducted in China. Save that Chu Kin Wang, Peleus (朱健宏), our independent non-executive Director, who is ordinarily resident in Hong Kong, all our Directors are ordinarily resident in China, and all our executive Directors are based at our headquarters in Xichuan County, Henan Province, China to oversee our business and operation. Save for an office established in Hong Kong for liaison purpose, we do not and will not propose to have any business and operation located, conducted and managed in Hong Kong and therefore in the foreseeable future, will not have two executive Directors residing in Hong Kong.

We have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules and have been granted a waiver subject to the following conditions:

- (a) our two authorised representatives, namely Zhao Zhijun (趙志軍), an executive Director, and Wu Tai Cheung (胡大祥), our company secretary, shall act as the principal channel of communications with the Stock Exchange and will also ensure our full compliance with the Listing Rules at all times. Each of the authorised representatives 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 and e-mail. Each of the authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;
- (b) in compliance with Rule 3A.19 of the Listing Rules, we will retain a compliance adviser acceptable by the Stock Exchange 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 Listing Rules. The compliance adviser will provide us with advice on the obligation in compliance with the Listing Rules, all other applicable laws, rules, codes and guidelines and will act as an additional channel of communication with the Stock Exchange;
- (c) the two authorised representatives have means of contacting all our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication with the Stock Exchange, we will implement a policy whereby:
  - (i) each Director will have to provide his telephone numbers, facsimile numbers and e-mail addresses to the authorised representatives;

---

## WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

---

- (ii) in the event that a Director expects to travel and be out of office, he shall provide to the authorised representatives the valid telephone number of the place of his accommodation or other means of communications; and
- (iii) our Directors will provide their respective telephone numbers, facsimile numbers and e-mail addresses to the Stock Exchange; and
- (d) all our Directors (including our independent non-executive Directors) who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and all our Directors and authorised representatives can meet with the Stock Exchange within a reasonable time.

---

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

---

### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

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

### **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 is sponsored by the Sponsor. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and the International Placing will be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement and are subject to our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. The Global Offering is managed by the Joint Global Coordinators.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before the Price Determination Date, the Global Offering will not proceed. For information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

### **RESTRICTIONS ON SALE OF OFFER SHARES**

Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offer will be required to, or be deemed by his acquisition of Hong Kong Public Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and the Application Forms.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus and the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and the Application Forms 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 an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, the Application Forms and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities an exemption therefrom.

---

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

---

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and the Offer Shares to be issued pursuant to the Global Offering (including any Shares to be issued under the Capitalisation Issue and any Shares which may be issued under the Share Option Scheme). No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list on any other stock exchange is being or proposed to be sought in the near future.

### **HONG KONG BRANCH REGISTER AND STAMP DUTY**

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offer will be registered on our Company's branch register of members to be maintained in Hong Kong. Our Company's principal register of members will be maintained in the Cayman Islands by Butterfield Fulcrum Group (Cayman) Limited.

Dealings in Offer Shares registered in the branch register of members of our Company maintained in Hong Kong will be subject to Hong Kong stamp duty.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing or holding of and dealing in the Offer Shares. None of our Company, the Joint Global Coordinators, the Sponsor, the Underwriters, any of their respective directors 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 or holding of, or dealing in the Offer Shares.

### **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 headed "How to apply for the Hong Kong Public Offer Shares" of this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Further information on the structure of the Global Offering, including its conditions, is set out in the section headed "Structure of the Global Offering" of this prospectus.

### **ROUNDING**

Any discrepancies in any totals, sums of amounts and percentages listed in this prospectus are due to rounding.

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

### DIRECTORS

Name	Address	Nationality
<i>Executive Director</i>		
Zhao Zhijun (趙志軍)	9#-1-402, Luse Jiayuan Nanyang, Henan Province PRC	Chinese
Wang Wenbo (王文波)	Unit 301, West Wing Shangye Ju Jiashu Building Hongqi Road Xichuan, Henan Province PRC	Chinese
Yang Weixia (楊瑋霞)	No. 23, Block 20, Lugang Town No. 116 Huayuan North Road Jinshui District Zhengzhou, Henan Province PRC	Chinese
<i>Non-executive Directors</i>		
Xi Chunying (席春迎) <i>alias</i> Liu Chunying (劉春迎) and David Xi Liu	Room 1B, Blk 43 District East Jinshui Garden 9 Weishi Road East Jinshui District Zheng Zhou, Henan Province PRC	Chinese
Fu Pengxu (付蓬旭)	Nanyang Transistor Factory Jinguan Group Company Limited Station South Road Nanyang, Henan Province PRC	Chinese
Xie Qingxi (謝清喜)	No. 11, Unit 1 Block 2, Section 3 Yuejin Road Jinshui District Zhengzhou, Henan Province PRC	Chinese

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

Name	Address	Nationality
<i>Independent non-executive Directors</i>		
Chu Kin Wang, Peleus (朱健宏)	Flat 1001, 10th Floor, Block D Galaxia 3 Lung Poon Street Diamond Hill Kowloon, Hong Kong	Chinese
Li Zhiqiang (李志強)	20th Floor, No. 18 Shijing Shan Road Shijing Shan District Beijing, PRC	Chinese
Zhang Jinhua (張進華)	4th Floor, Tianlian Building 102 Lianhuachi East Road Xicheng District Beijing, PRC	Chinese

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

### PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sponsor</b>	China Everbright Capital Limited 17 <sup>th</sup> Floor, Far East Finance Centre 16 Harcourt Road Hong Kong
<b>Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers</b>	China Everbright Securities (HK) Limited 36 <sup>th</sup> Floor, Far East Finance Centre 16 Harcourt Road Hong Kong  BOCOM International Securities Limited 9 <sup>th</sup> Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong
<b>Co-Lead Manager</b>	First Shanghai Securities Limited 1905 Wing On House 71 Des Voeux Road Central Hong Kong
<b>Legal adviser to the Sponsor and Underwriters</b>	<i>as to Hong Kong law:</i> Sidley Austin Level 39 Two International Finance Centre 8 Finance Street Central Hong Kong
<b>Legal advisers to our Company</b>	<i>as to Hong Kong law:</i> K&L Gates 44 <sup>th</sup> Floor, Edinburgh Tower 15 Queen's Road Central Hong Kong  <i>as to PRC law:</i> Grandall Law Firm (Shanghai) 45-46/F., Nan Zheng Building 580 West Nanjing Road Shanghai 200041 PRC  <i>as to Cayman Islands law:</i> Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands



---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

<b>Auditors and reporting accountants</b>	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35 <sup>th</sup> Floor, One Pacific Place 88 Queensway Hong Kong
<b>Property valuer</b>	Jones Lang LaSalle Sallmanns Limited 6/F, Three Pacific Place 1 Queen's Road East Hong Kong
<b>Receiving banker</b>	The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong

---

## CORPORATE INFORMATION

---

<b>Registered office</b>	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong</b>	Unit 390, 3rd Floor, Peninsula Centre 67 Mody Road, Tsimshatsui East Kowloon, Hong Kong
<b>Headquarter and principal place of business in the PRC</b>	No. 76 Laojie Xichuan County Henan Province PRC
<b>Company's website</b>	<a href="http://www.china-cvct.com">http://www.china-cvct.com</a> <i>(information on this website does not form part to this prospectus)</i>
<b>Company secretary</b>	Wu Tai Cheung (胡大祥)
<b>Authorised representatives</b>	Zhao Zhijun (趙志軍) Wu Tai Cheung (胡大祥)
<b>Audit committee of the Board</b>	Chu Kin Wang, Peleus (朱健宏) ( <i>Chairman</i> ) Li Zhiqiang (李志強) Zhang Jinhua (張進華)
<b>Remuneration committee of the Board</b>	Zhao Zhijun (趙志軍) ( <i>Chairman</i> ) Chu Kin Wang, Peleus (朱健宏) Zhang Jinhua (張進華)
<b>Nomination committee of the Board</b>	Xi Chunying (席春迎) ( <i>Chairman</i> ) Chu Kin Wang, Peleus (朱健宏) Zhang Jinhua (張進華)
<b>Compliance adviser</b>	First Shanghai Capital Limited
<b>Principal share registrar and transfer office in Cayman Islands</b>	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman, KY1-1107 Cayman Islands

---

## CORPORATE INFORMATION

---

**Hong Kong branch share registrar  
and transfer office**

Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

**Principal bankers**

China Construction Bank Corporation  
(Nanyang Branch)  
Yingxing Building  
No. 53 Xinhua Xi Lu  
Nanyang City  
Henan Province  
PRC

Bank of Communications Co., Ltd.  
(Nanyang Branch)  
No. 25 Zhongzhou Lu  
Nanyang City  
Henan Province  
PRC

---

## INDUSTRY OVERVIEW

---

*We have extracted and derived the information and statistics in the section below, in part, from various official government publications or other sources. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sponsor, the Joint Global Coordinators, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy.*

### OVERVIEW OF THE PRC ECONOMY

According to National Bureau of Statistics of China, China's nominal GDP grew at a CAGR of approximately 16.6% during the seven-year period from 2003 to 2009. Such growth is at a substantially higher rate compared to other developing and developed nations over the corresponding period, which enables China to be one of the fastest growing economies in the world.

The following table illustrates the nominal GDP and nominal GDP per capita in China from 2003 to 2009:

	2003	2004	2005	2006	2007	2008	2009	CAGR
Nominal GDP in China (RMB billion)	13,582	15,988	18,494	21,631	26,581	31,405	34,051	16.6%
Nominal GDP per capita in China (RMB)	10,542	12,336	14,185	16,500	20,169	23,708	25,575	15.9%

*Source:* National Bureau of Statistics of China

In accordance with the rapid growth in the nominal GDP in China, the GDP by industry also recorded a significant growth during the seven-year period from 2003 to 2009. The GDP by industry increased from approximately RMB5,495 billion in 2003 to approximately RMB13,524 billion in 2009, representing a CAGR of 16.2%.

The following table illustrates the GDP by industry sector in China from 2003 to 2009:

	2003	2004	2005	2006	2007	2008	2009	CAGR
Nominal GDP by industry sector in China (RMB billion)	5,495	6,521	7,723	9,131	11,053	13,026	13,524	16.2%

*Source:* National Bureau of Statistics of China

---

## INDUSTRY OVERVIEW

---

China's economy has expanded during the last two decades and in particular following China's accession to the World Trade Organisation. Various market liberalisation initiatives have been introduced and implemented by the PRC Government. The growth of China's GDP is principally the result of the increasing level of domestic consumption. According to the National Bureau of Statistics of China, the urban household consumption expenditures per capita increased from approximately RMB6,511 billion in 2003 to approximately RMB12,265 billion in 2009, representing a CAGR of 11.1%.

The following table illustrates the urban household consumption expenditures per capita in China from 2003 to 2009:

(RMB)	2003	2004	2005	2006	2007	2008	2009	CAGR
Household consumption expenditure	6,511	7,182	7,943	8,697	9,997	11,243	12,265	11.1%

*Source:* National Bureau of Statistics of China

## GLOBAL AUTOMOBILE INDUSTRY

According to the Ourview Report, the following table illustrates the volume of global production of automobiles. China was the world's largest automobile market in 2010 in terms of number of units produced.

Global ranking in 2010 by production volume

Country	Units produced in 2010 (Million)	Increase/ (decrease) From 2009
1 China	18.3	32.4%
2 Japan	9.6	21.3%
3 United States	7.8	35.4%
4 Germany	5.9	13.4%
5 South Korea	4.3	21.6%

*Source:* Ourview Report

---

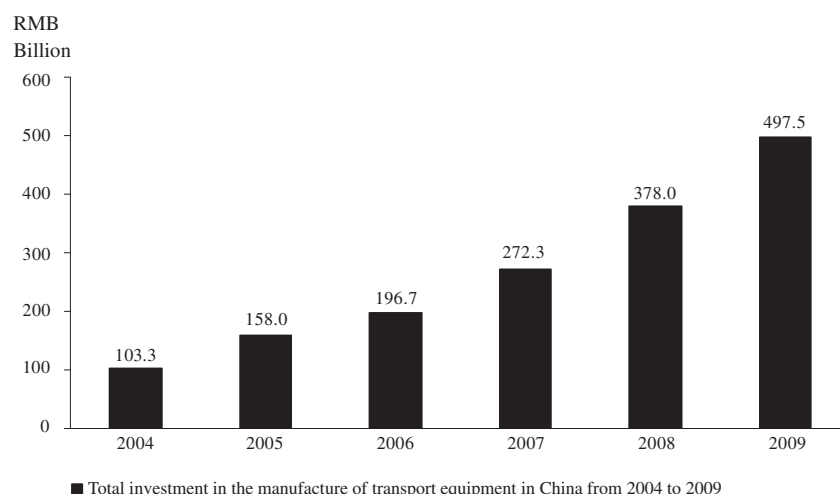
## INDUSTRY OVERVIEW

---

### CHINA AUTOMOBILE INDUSTRY

According to the 12th Five-Year (2011-2015) Plan for National Economic and Social Development by the PRC Government (the “**12th Five Year Plan**”) announced at the 12th National People’s Congress, China would strive to be one of the strongest automobile countries in the world, and the government would provide great support on re-production of the automobile parts and components. According to the National Bureau of Statistics of China, the total investment in the manufacture of transport equipment increased rapidly from approximately RMB103.3 billion in 2004 to approximately RMB497.5 billion in 2009, representing a CAGR of approximately 36.9%.

The following diagram illustrates the total investment in the manufacture of transport equipment in China from 2004 to 2009:



Source: National Bureau of Statistics of China

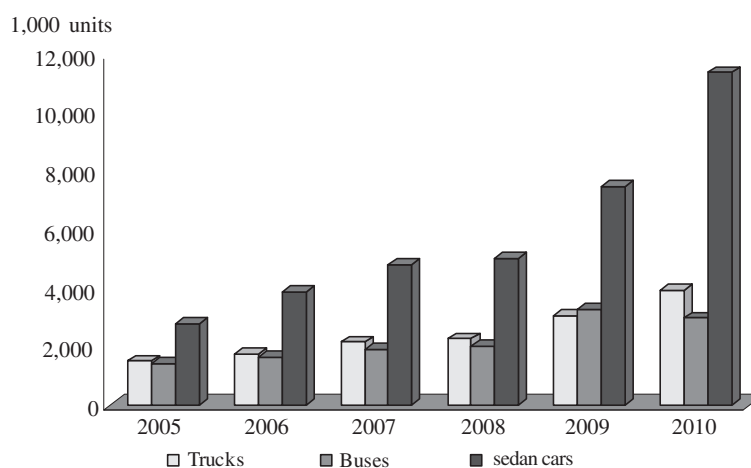
The following table illustrates the total sales and production volume of vehicles in China from 2005 to 2010:

<b>1,000 units</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>CAGR</b>
Production volume of vehicles	5,708	7,280	8,882	9,345	13,791	18,265	26.2%
Sales volume of vehicles	5,758	7,216	8,792	9,381	13,645	18,062	25.7%

Source: Ourview Report and China Association of Automobile Manufacturers

## INDUSTRY OVERVIEW

As boosted by the government policies and the enormous investment amount in the manufacture of transport equipment in China in the recent years, the total production of motor vehicles volume recorded a significant increase accordingly. According to the Ourview Report, the production of sedan cars increased from approximately 2.8 million in 2005 to approximately 9.6 million in 2010, representing a CAGR of 32.6%. The following table illustrates the production volume of trucks, buses and sedan cars in China from 2005 to 2010:



1,000 units	2005	2006	2007	2008	2009	2010	CAGR
Trucks	1,510	1,753	2,157	2,270	3,049	3,920	21.0%
Buses	1,430	1,657	1,927	2,038	3,271	4,768	27.2%
Sedan cars	2,768	3,870	4,798	5,037	7,471	9,576	28.2%

*Source:* Ourview Report and China Association of Automobile Manufacturers

As inspired by the 11<sup>th</sup> Five-Year (2005-2010) Plan for National Economic and Social Development by the PRC Government (the “**11th Five Year Plan**”), it was expected that the low engine displacement vehicles would be the major growth driver of the automobile industry in the coming years. According to the National Bureau of Statistics of China, the production of the private vehicles with engine displacement under 2.0 liters recorded a drastic increase in the recent years. In 2010, over 89% of the private vehicles in China are low engine displacement vehicles.

---

## INDUSTRY OVERVIEW

---

The following table illustrates the production of passenger<sup>(1)</sup> vehicles by size of engine displacement from 2004 to 2010:

(1,000 units)	2004	2005	2006	2007	2008	2009	2010
<b>Engine displacement</b>							
V≤1.0L	838	916	866	744	701	1,285	2,037
1.0L<V≤1.6L	1,106	1,691	2,508	3,039	3,493	5,992	7,527
1.6L<V≤2.0L	833	678	1,112	1,643	1,649	1,986	2,882
2.0L<V≤2.5L	410	489	619	819	772	961	1,206
2.5L<V≤3.0L	75	131	112	107	93	136	207
3.0<V≤4.0L	16	21	12	26	25	22	32
V>4.0L	5	5	4	4	6	2	6
<b>Total</b>	<b>3,283</b>	<b>3,931</b>	<b>5,233</b>	<b>6,382</b>	<b>6,739</b>	<b>10,384</b>	<b>13,897</b>

*Source:* Ourview Report and China Association of Automobile Manufacturers

*Note 1:* Passenger vehicles consist of sedan car, mini van and van with passenger capacity not over 9 passengers.

Since the promulgation of the 11<sup>th</sup> Five Year Plan, the automobile demands from the households with low to middle income level outperformed the average automobiles demands in China. According to the National Bureau of Statistics of China, the CAGR of possession of automobiles for the period from 2006 to 2009 by households with low level income, middle level income and high level income were, 60.5%, 57.6% and 34.8%, respectively.

The following table illustrates the number of automobiles owned by 100 households with different income level from 2006 to 2009:

Per 100 households	2006	2007	2008	2009	CAGR
High income level	8.2	11.9	17.0	20.2	35.1%
Middle income level	1.9	3.1	5.7	7.4	57.3%
Low income level	0.5	1.0	1.8	2.2	63.9%

*Source:* National Bureau of Statistics of China

In view of the significant growth in the volume of automobile owned by low income level households, it is expected that the segment of the low income level would be one of the potential segments for the automobile manufacturers to penetrate their business preset.

According to Ourview Report, most of the top 20 passenger vehicle brands in 2010 are mid to low end brands with selling price at below RMB400,000 of their major automobile series.



---

## INDUSTRY OVERVIEW

---

The following table sets out the top 20 passenger vehicle manufacturers in 2010 in the PRC by production volume:

Vehicle Manufacturers	Production volume (units 1,000)
1 SAIC GM Wuling Automobile Co., Ltd (上汽通用五菱汽車股份有限公司)	1,148
2 Shanghai General Motors Co., Ltd (上海通用汽車有限公司)	1,038
3 Shanghai Volkswagen Automotive Co., Ltd (上海大眾汽車有限公司)	1,017
4 FAW-Volkswagen (一汽-大眾汽車有限公司)	883
5 Chongqing Changan Automobile Co., Ltd (重慶長安汽車股份有限公司)	717
6 Beijing Hyundai Motor Company (北京現代汽車有限公司)	704
7 Chery Automobile Co., Ltd (奇瑞汽車股份有限公司)	685
8 Dongfeng Nissan Passenger Vehicle Company (東風日產乘用車部)	674
9 BYD Auto Co., Ltd. (比亞迪汽車有限公司)	521
10 FAW TOYOTA Motor Sales Co., LTD (一汽豐田銷售公司)	505
11 Geely Holding Group (浙江吉利控股集團)	417
12 Changan Ford Mazda Automobile Co., Ltd (長安福特馬自達汽車有限公司)	407
13 Guangzhou Honda Automobile Co., Ltd (廣汽本田汽車有限公司)	386
14 Dongfeng Peugeot (神龍汽車有限公司)	376
15 KIA Automobile Co., Ltd (東風悅達起亞汽車有限公司)	338
16 Great Wall Motor Company Limited (長城汽車股份有限公司)	294
17 FAW Car Co., Ltd (一汽轎車股份有限公司)	274
18 Guangzhou Toyota Motor Co, Ltd (廣汽豐田汽車有限公司)	268
19 Dongfeng Honda Automobile (東風本田汽車有限公司)	266
20 Tianjin FAW XIALI Automobile Co., Ltd (天津一汽夏利汽車股份有限公司)	250

---

## INDUSTRY OVERVIEW

---

### THE RAILROAD INDUSTRY

Railroad transportation has experienced rapid growth in China in the recent years. During the period of the 11<sup>th</sup> Five Year Plan, the development of railroad transportation has exceeded any other period in history. According to statistics from the National Bureau of Statistics of China, during the year 2003 to 2010, the railroad mileage has increased by 24.7% from 73,000 kilometres to 91,000 kilometres, with a CAGR of 3.2%. The following table sets forth the basic information of the China railroad industry between 2003 to 2010:

Year	2003	2004	2005	2006	2007	2008	2009	2010	CAGR
<b>Benchmark</b>									
Mileage ('000 kilometres)	7.3	7.4	7.5	7.7	7.8	8.0	8.6	9.1	3.2%
Passenger volume ('000)	97,260	111,764	115,583	125,656	135,670	146,193	152,451	168,000	8.1%
Passenger turnover (billion-person kilometres)	4,789	5,712	6,062	6,622	7,216	7,779	7,879	8,762	9.0%
Cargo volume (billion tons)	224,248	249,017	269,296	288,224	314,237	330,354	333,348	364,000	7.2%
Cargo turnover volume (billion-ton kilometres)	17,247	19,289	20,726	21,954	23,797	25,106	25,239	27,644	7.0%

Source: National Bureau of Statistics of China

With the rapid growth of the China economy, there is a more pressing demand for railroad transportation as the mobility of people increases. According to statistics from the National Bureau of Statistics of China, between 2003 to 2009, the railway passenger car ownership increased from 38,972 units to 47,436 units, with a CAGR of 3.3%.

To support the rapid development of railroad transportation, according to statistics from the National Bureau of Statistics of China, during the 11<sup>th</sup> Five Year Plan, the total amount invested in basic railroad construction in China was RMB1.98 trillion, which was 6.3 times more than the amount invested during the 10<sup>th</sup> Five Year Plan. Between 2003 to 2010, fixed asset investment in railroad transportation increased by 12.5 times, with a CAGR of 45.1%. The following table illustrates the growth in fixed asset investment in railroad transportation for the years from 2003 to 2010:

Year	2003	2004	2005	2006	2007	2008	2009	2010	CAGR
<b>Benchmark</b>									
Fixed asset investment into railroad transportation (RMB 'billion)	616.4	846.3	1,267.7	1,966.5	2,492.7	4,073.2	6,660.9	8,340.7	45.1%
Length of new railway operation (kilometres)	1,164	1,433	1,203	1,605	678	1,719	5,557	4,986	23.1%

Source: National Bureau of Statistics of China

---

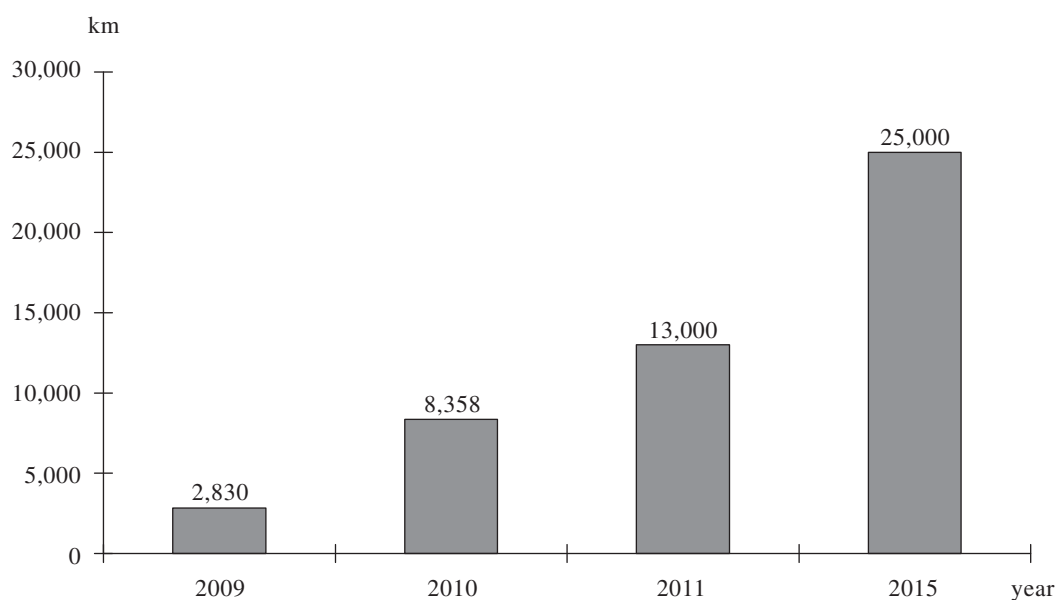
## INDUSTRY OVERVIEW

---

### Highspeed rail

In January 2004, the State Council meeting approved the “Medium-long term railroad network plan” (the “**Plan**”), which marked the beginning of high speed rail development in China. According to the Plan, it is targeted that the national railroad mileage would reach 100,000 kilometres, and above 12,000 kilometres of high speed railway would be constructed by 2020. In 2008, the Plan was revised and provided that by 2020, the national railroad mileage would reach 120,000 kilometres, and over 16,000 kilometres of high speed railway would be constructed.

On 15 January 2011, it was announced that it was expected that 4,715 kilometres of high speed railroad would be in operation in the middle of 2011, adding to an aggregate of 13,000 kilometres. Up to 2015, the national high speed rail network is expected to reach 25,000 kilometres. The table below illustrates the growth of the PRC high speed rail mileage between 2009 to 2015:



Source: Ourview Report

The rapid development of the high speed rail in China has also pushed up demand for core parts such as shock absorbers. According to the Ourview Report, high speed trains in China use mainly imported shock absorbers, and there has yet to be localized production.

When running, a high speed train generates a lot of noise and vibration. In order to improve comfort, shock and noise reduction technology needs to be employed. According to the Ourview Report, a high speed train needs to be fitted with various types of shock absorbers, and the number and design of shock absorbers would vary depending on the grade and design of the train. On average, every train requires between 16 to 20 shock absorbers. According to the Ourview Report, at present, there are no enterprises in China which officially produce rail shock absorbers. To the best knowledge of the Directors, (a) foreign enterprises which currently produce and supply shock absorbers for high speed rail; (b) other foreign investment enterprises in the PRC; and (c) other PRC enterprises which possess the research and development capacity, technology level and management and quality control system etc comparable to those of the Company may be the Group’s potential competitors in this segment of the industry.

---

## INDUSTRY OVERVIEW

---

According to the Ourview Report, the 12th Five Year Plan specifically requires that the percentage of localisation of high speed trains should reach above 80%. This presents opportunities for enterprises in the rail shock absorber industry. According to the Ourview Report, on the basis that each train has eight carriages, in the next five years, the China high speed rail will require an average of between 44,800 to 56,000 units of shock absorbers, with an annual demand of not less than RMB288 million. In the 12th Five Year Plan, the size of the high speed rail shock absorber market will exceed RMB1.4 billion.

From the high speed rail accident in China in July 2011 and up to the Latest Practicable Date, we have not received any formal documents issued by the relevant PRC authority in respect of any change in the development plan and policy of high speed rail industry in China. Based on this, our Directors do not expect the high speed rail accident in China in July 2011 to have a significant impact on our development of rail shock absorbers. Should the relevant PRC authority change the development plan and policy in respect of the high speed rail industry in China, in response to such change in policy, we may adjust our development, including the development schedule, of rail shock absorbers.

### CHINA ABSORBER INDUSTRY

#### The automobile parts and components industry in China

Most of the developed countries develop their automobile industries on the basis of a solid parts industry. This is the same as these countries which have well-known automobile companies also have well-known auto parts companies. Low cost and rapid development of automobile market in Asian developing countries are the main factors to attract parts manufacturing enterprises. These advantages are particularly evident in China. China is already the world's largest automobile market in terms of sales where global automobile giants have already gathered.

China's labor costs has a clear advantage compared to Europe and the United States. Low-wage strategy may make China a low value-added and labor-intensive manufacturing hub. This is very tempting for the world's major automobile manufacturers. Cost savings can be considerable by using parts produced in China to establish new global supply chains. Moreover, low-cost advantages could further be tapped if labors are provided with good training to improve labor productivity for unit employees. The expanding Chinese vehicle market is no doubt another gold mine for the auto parts enterprises.

The following table illustrates the total revenue generated from the sales of automobile and motorbike parts and components in the PRC from 2004 to 2009:-

RMB (billion)	2004	2005	2006	2007	2008	2009	CAGR
Total revenue generated from the sales of automobile and motorbike parts and components in the PRC	196.1	263.4	412.2	490.2	515.4	573.9	23.9%

Source: Ourview Report and the China Automotive Industry Yearbook

## INDUSTRY OVERVIEW

The follow diagram illustrates the total demand and production volume of stock absorber in China from 2003 to 2010:

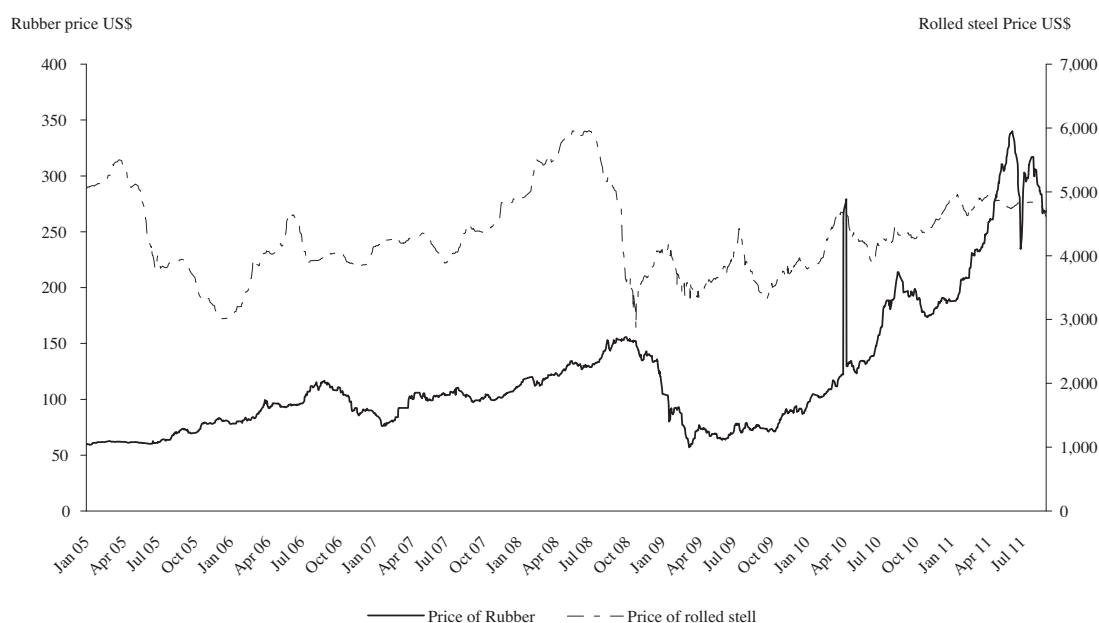
Units (million)	2004	2005	2006	2007	2008	2009	2010	CAGR
Demand of shock absorbers <sup>(1)</sup>	18.8	21.5	27.6	33.5	35.3	52.5	69.4	24.3%
Production of shock absorbers	17.6	26.3	26.7	38.2	39.5	50.7	69.6	25.8%

Source: Ourview Report and the China Automotive Industry Yearbook

Note 1: the demand of shock absorber by OEM Market

### The raw materials for the production of shock absorbers

According to the Ourview Report, the major raw materials for the production of shock absorbers are rubber and rolled steel. The rubber price significantly increased to approximately US\$237 in 30 September 2011 from approximately US\$60 in 2005 while the price of rolled steel slightly decreased to approximately RMB4,616 in 30 September 2011 from approximately RMB5,049 in 2005. The following table illustrates the price of rubber and rolled steel from 2005 to 2011:-



Source: Bloomberg

To the best knowledge of the Directors, there was an overall decrease in the price of rubber and rolled steel between 2008 and 2009 due to a decrease in demand of raw materials as a result of the global economic crisis, and prices increased, thereafter as the economy started to recover.

---

## INDUSTRY OVERVIEW

---

### The shock absorber aftermarket in China

In recent years, the rapid growth of China's economy has led the significant increase in the household income in China as well as the total volume of private vehicles<sup>(1)</sup> owned in China. According to the China Automotive Industry Yearbook, the volume of private vehicles owned in China in 2010 was 78.0 million units. It is expected that the market size of the after sales service will be enormous after taking into consideration of the future vehicle production volume.

The after sales service market will be a major growth driver and platform for the business development of the automobile parts and components enterprises in China. Most of the automobile manufacturers distribute their parts and components into the after sales service market at relatively higher prices. The automobile parts and components manufacturers also gradually focus in the after sales service market and penetrate their products with competitive price.

The following table illustrates the private vehicle ownership in the PRC from 2004 to 2010:-

Unit (million)	2004	2005	2006	2007	2008	2009	2010
Total private vehicle ownership in the PRC <sup>(1)</sup>	26.9	31.6	37.0	43.6	51.0	62.8	78.0

Source: Ourview and the China Automotive Industry Yearbook

Note 1: private vehicle includes the vehicles owned by individual, government, enterprises.

### The future shock absorber industry in China

Along with the rapid growth of the national economy, China's automobile manufacturing industry, as one of the pillar industries, has enormous prospects, which offers significant potential for the development of its associated auto parts sector. As a key component of cars, shock absorbers not serve as an ancillary part of automobiles but also have a huge maintenance market. Based on analysis of the demand and supply of the shock absorber market, there is notable undersupply of domestic shock absorbers, particularly for the medium to high class ones. Such shortage is met by import and it can be concluded that there will be enormous prospects for domestic shock absorbers.

According to the Ourview Report, the China shock absorber market has experienced double-digit growth in recent years, with the demand of shock absorber in 2010 in terms of volume having a total size of approximately 69.4 million. It is expected that the demand for shock absorber in terms of volume for 2011 and 2012 would increase to 75.5 million pieces and 81.3 million pieces, respectively.

### The nature of the market players in the shock absorber manufacture industry in China

Driven by the rapid growth of the PRC automobile industry, the increase in car ownership and the PRC's entry into the World Trade Organisation in 2001, the automobile shock absorber industry in the PRC has experienced rapid development.

---

## INDUSTRY OVERVIEW

---

China's automobile industry is currently dominated by a number of joint venture automobile manufacturers. In recent years, through the introduction of research and development and production technologies held by foreign automobile brands, foreign automobile manufacturers in China have started cooperation with certain private enterprises to set up dependent shock absorbers manufacturers to carry out car shock absorber production. These dependent shock absorber manufacturers primarily supply to the foreign automobile manufacturers which have direct interest in the dependent shock absorber manufacturers, and its affiliated partners.

At the same time, certain automobile manufacturers will source for shock absorbers from external sources. Many domestic independent shock absorber manufacturers have coveted the huge market potential of the shock absorber industry and successively joined the market competition. Through self-developed technologies, these independent shock absorber manufacturers are free to supply shock absorbers to any automobile manufacturers as they are not subject to priority supply to neither its shareholders nor any affiliated partners.

### **The market size of shock absorber in China**

The production process of shock absorbers is complex and involves many processes. If one process fails to meet the required standard, the entire product will have quality problems. Shock absorbers are one of the items that are highly vulnerable to wear and their performance will have a direct impact on the stability of a car and the useful lives of its other components. These make shock absorbers one of the most important components used in automobile manufacturing. The standard of manufacturing shock absorbers in China has seen significant improvement and domestic manufacturers account for a high proportion of OEM components. Domestic shock absorbers basically dominate the medium and low class sedan market in China. Moreover, the gap between China's shock absorbers and world advanced levels is narrowing as a result of improving domestic manufacturing quality with more high-end research and development products being developed locally, though of insignificant quantity.

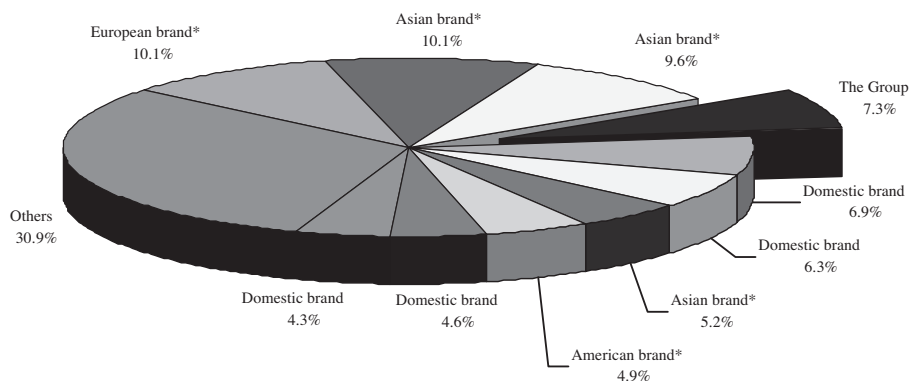
According to the Ourview Report, the total production volume of shock absorber by major shock absorber manufacturers in the PRC was approximately 69.6 million. The total production volume of the Group reached 5.1 million in 2010, which accounted for approximately 7.3% of the total production volume of shock absorber by major shock absorber manufacturers in the PRC in 2010. The Group was ranked the fourth largest shock absorber manufacturers and the largest independent shock absorber manufacturer in terms of the actual production volume for the supply of shock absorbers to

---

## INDUSTRY OVERVIEW

---

the domestic automobile manufacture market in 2010 in the PRC. The following diagram illustrates the market shares of the shock absorber production volume for domestic automobile manufacture market in the PRC in 2010:-



Source: Ourview Report

Note \*: dependent shock absorber manufacturers.

### SOURCE OF INFORMATION

#### Identity of publisher:

Beijing Ourview Consultancy Company Limited (北京奧爾威諮詢有限公司)

#### Publisher's background:

Beijing Ourview Consultancy Company Limited ("Ourview Consultancy") was established in Beijing, the PRC on 15 September 2004 which is an independent third party and is one of the PRC consultancy firms specializing in market research relating to automobile parts and automobile electronics products in the PRC.

We commissioned Ourview Consultancy, an Independent Third Party, to conduct a market analysis of, and produce the Ourview Report, independent of our influence, on (a) the automobile market information in China; (b) the automobile parts and components market information in China; and (c) the high speed railway market information in China covering the period from 2003 to 2009. In addition to relying on the Ourview Report, we also relied on various data provided by Ourview Consultancy for the preparation of this section of this prospectus including data on China's economy and industrial development in China. The commission fee paid by us for the Ourview Report was RMB60,000, and we consider such fee reflects market rates. The fee was duly settled by us without any reference or conditional upon the Listing or any of the results provided within the Ourview



---

## INDUSTRY OVERVIEW

---

Report. We have not commissioned other customized reports for the purpose of inclusion in this prospectus. Our Directors understand that the methodology used by Ourview Consultancy in gathering the relevant market data for compiling the Ourview Report included the following:

- (a) combining their existing research data with information gathered from publicly available information; and
- (b) interviews with our competitors in China.

The following reference materials were consulted by Ourview Consultancy in creating the market data:

- Government authorities including Ministry of Commerce of the People's Republic of China, Ministry of Industry and Information Technology of the People's Republic of China, General Administration of Customs of the People's Republic of China;
- China Association of Automobile Manufacturers, Absorber Committee of China Association of Automobile Manufacturers;
- independent analysts;
- China Statistics Yearbook, China Automotive Industry Yearbook; and
- Ourview passport data.

The following principal assumptions were adopted by Ourview in projecting the relevant forecast:

- Ourview Consultancy employees multiple secondary and primary sources to validate data and information with no reliance on any single-source; and
- a test of each respondent's viewpoints against those of others is applied to ensure reliability and to eliminate bias from various sources.

The Directors have reviewed the assumptions adopted by Ourview Consultancy in projecting the automobile and automobile parts industry forecast up to 2013 and are of the view that the assumptions are fair and reasonable.

---

## REGULATIONS RELATING TO THE INDUSTRY

---

### PRC LEGAL SYSTEM

#### Laws, regulations and directives

The PRC legal system is based on the PRC Constitution and is made up of laws, regulations and directives. Decided court cases do not constitute binding precedents. The National People's Congress of the PRC (全國人民代表大會, "NPC") and the Standing Committee of the NPC (全國人民代表大會常務委員會) are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution (中華人民共和國憲法) and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules and regulations enacted by the State Council and the State Council has the power to annul such directives, orders and regulations issued by its ministries and commissions.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local rules and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on the application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional rules is vested in the regional legislative and administration organs which promulgate such rules. All such interpretations carry legal effect.

---

## REGULATIONS RELATING TO THE INDUSTRY

---

### Judicial system

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution and the Law of the Organisation of the People's Courts of the People's Republic of China (中華人民共和國人民法院組織法), the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal, administrative and economic divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中華人民共和國民事訴訟法) (the "**Civil Procedure Law**") adopted on 9 April 1991, and amended on 28 October 2007. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and subject to obligations as a PRC citizen or PRC legal person. A judgment or order made by a people's court or an award made by an arbitration body in the PRC may be enforced by the aggrieved party by making an application to the people's court. The time limit on the right to apply for such enforcement is two years.

---

## REGULATIONS RELATING TO THE INDUSTRY

---

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

### **Arbitration and enforcement of arbitral awards**

The Arbitration Law of the PRC (中華人民共和國仲裁法) (the "**Arbitration Law**") was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty or bilateral treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award (the "**New York Convention**") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement of the arbitral award is made. It was declared by the Standing Committee of the NPC at

---

## REGULATIONS RELATING TO THE INDUSTRY

---

the time of accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

### **Company Law**

The establishment and operation of our subsidiaries in China is governed by the PRC Company Law (中華人民共和國公司法), which was promulgated by the Standing Committee on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, and 27 October 2005.

The PRC Company Law recognizes two general types of companies, limited liabilities companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liability of shareholders of a limited liability company and a joint stock limited company is limited to the amount of registered capital they have contributed.

The amendments to the PRC Company Law adopted in October 2005 seek to make reform in various aspects and simplify the establishment and operation of companies incorporated in the PRC by lowering capitalisation requirements, increasing shareholder and creditor protection, improving corporate governance, and relaxing rules regarding the establishment of subsidiaries. Further, the restriction relating to the total investment of a company in other entities exceeding 50% of its net assets has been removed, the incorporation of one-shareholder limited liability companies in addition to wholly State-owned enterprises is permitted, and the PRC Company Law shall apply to foreign invested limited liability companies and foreign-invested joint stock companies subject to stipulations otherwise provided by the laws on foreign investment.

### **Property Law**

The properties we lease and own in the PRC are subject to the Property Law of the PRC (物權法) promulgated by the Fifth Meeting of the Tenth National People's Congress on 16 March 2007 and became effective on 1 October 2007. Pursuant to the Property Law, property rights are the exclusive rights which directly dominate a specific property, which include ownership, usufruct rights and security rights to the property. Except as otherwise provided by law, any creation, modification, transfer or termination of any right in immovable properties shall become effective upon registration according to law and any creation or transfer of any right in movable properties shall become effective upon delivery except as otherwise provided by law. Any creation, modification, transfer or termination of any property right in respect of any vessel, aircraft and motor vehicle without registration may not challenge any bona fide third party. Any creation, modification, transfer or termination of any property right resulting from the legal documents of the People's Courts or arbitration commissions, or the expropriation decisions made by the people's governments, shall become binding as from the date of their coming into effect. All lawful properties of the State, collectives and individuals are protected by law, and may not be damaged by any entity or individual. The State implements the system of

---

## REGULATIONS RELATING TO THE INDUSTRY

---

compensated use of natural resources. The term of valid construction land use rights in respect of residential houses may be extended automatically upon expiry of such term. The Property Law of the PRC also makes specific regulations on land contractual operation right, construction land use right, residential land use right, right of easement and various security rights.

Administrative Measures for Commercial Housing Leases (商品房屋租賃管理辦法) promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on 1 December 2010, which became effective on 1 February 2011, provides that illegal properties cannot be leased. Further, under the Administrative Measures for Commercial Housing Leases and Urban Real Estate Administration Law of the PRC (城市房地產管理法) promulgated by the Standing Committee on 5 July 1994 which became effective on 1 January 1995 and as amended on 30 August 2007, a lease must be filed with the real estate administrative department.

The Land Administration Law of the PRC (土地管理法) promulgated by the Standing Committee on 25 June 1986 which became effective on 1 January 1987 as and amended on 29 December 1988 and 28 August 2004, provides that a Land Use Certificate of State-Owned Land must be obtained from the land administrative department prior to usage of collectively-owned land. Violation of the Land Administration Law of the PRC may result in the imposition of fines and confiscation of the land involved.

The Law of the PRC on Urban and Rural Planning (城鄉規劃法) (the “**Urban and Rural Planning Law**”) was adopted by the Standing Committee on 28 October 2007 and took effect as at 1 January 2008. To construct buildings, structures, roads, pipelines and other projects in an area covered by the plan of a city or town, the developing unit or individual shall apply for a Construction Work Planning Permit.

Where a unit engages in construction without obtaining the Construction Work Planning Permit or without complying with the provisions in the said permit, it shall be ordered to discontinue construction by the department in charge of urban and rural planning under the local people’s government at or above the county level; if measures for rectification can be adopted to eliminate the impact on the implementation of the plan, it shall be ordered to make rectification within a time limit and be fined not less than five percent but not more than ten percent the cost of the construction project; otherwise, it shall be ordered to demolished the project within a time limit; if the project cannot be demolished, the realty or the unit’s unlawful income shall be confiscated, and it may, in addition, be fined not more than ten percent the cost of the construction project.

The Construction Law of the PRC (建築法) (the “**Construction Law**”) was adopted by the Standing Committee on 1 November 1997 and became effective on 1 March 1998. According to the Construction Law, prior to commencement of construction projects, construction units shall apply for a Commence Permits for Construction Works from the competent construction administrative departments under the prefecture-county governments or above, except for small projects below the threshold value set by the competent construction administrative department under the State Council. Construction enterprises, which engage in construction operation without Commence Permits for

---

## REGULATIONS RELATING TO THE INDUSTRY

---

Construction Works or at the time when the application for construction operation has not yet been approved, shall be ordered to rectify the non-compliance activity. Construction enterprises of which construction projects do not meet the requirements on commencing construction shall be ordered to stop construction operation and may be imposed fines.

### PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY

The PRC Government administers its regulation of the automobile components and parts industry primarily through:

- the National Development and Reform Commission (“NDRC”) (國家發展和改革委員會);
- State Administration on Quality Supervision, Inspection and Quarantine (國家質量監督檢驗檢疫總局); and
- Ministry of Environmental Protection.

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

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

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

- to make a special development plan for automobile components and parts, to guide and support production of automobile components and parts through classification of products, to guide public funds to invest into the production of automobile components and parts, and to impel enterprises with comparative advantages in producing automobile components and parts to form the ability of specialization, mass production and the modularization of the supply of products;

---

## REGULATIONS RELATING TO THE INDUSTRY

---

- to give priority to automobile components and parts enterprises which are able to supply components and parts to several independent enterprises that produce complete vehicles, and which is integrated into the international system of procurement of automobile components and parts, in aspects of technology introduction, technological transformation, financing and mergers and reorganization;
- to encourage manufacturers of complete automobiles to further specialize in production and gradually change their internal parts manufacturing units into independent and specialized parts and components manufacturing enterprises;
- to encourage enterprises that produce complete automobiles to procure components and parts from third parties via electronic commerce or net procurement, on a step-by-step basis;
- to support automobile parts and components manufacturers in establishing product research institutions to form innovative and self-development capabilities. Investment amount in the construction of research facilities of self-developed products shall be tax-deductible as long as such investment complies with the relevant tax provisions on promotion of enterprise technological progress; to support large automobile parts and components manufacturers to develop parts and components assembly with proprietary intellectual property and at an advanced level; and
- to subject the investment projects of automobile parts and components to the filing procedures with the investment administration departments of the provincial governments.

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

- to boost the restructuring of the automobile industry. The key automobile parts and components manufacturers are encouraged to expand their scale through merger, acquisition and reorganization, and to increase their market share in the domestic and overseas markets;
- to realise the technological independence of key parts in engine, transmission, steering system, braking system, drivetrain system, suspension system and vehicle bus control system; to encourage the development of key parts that can improve the performance of whole vehicles;
- to implement automobile product export strategies; the construction of national export bases for automobiles and automobile parts and components shall be accelerated;



---

## REGULATIONS RELATING TO THE INDUSTRY

---

- to improve the automobile enterprise reorganization policies and to encourage automobile production enterprises to jointly develop and manufacture new automobile products and key parts and assemblies; and
- to make more investments in technological progress and innovation and to develop key parts and assemblies which fill the domestic vacancies, build the platforms for the research, development and testing of common technologies of automobiles and spare parts.

On October 23, 2009, MOFCOM, NDRC, the Ministry of Industry and Information Technology, the Ministry of Finance, the General Administration of Customs and the General Administration of Quality Supervision, Inspection and Quarantine promulgated the Opinions of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Finance, the General Administration of Customs and the General Administration of Quality Supervision, Inspection and Quarantine on Enhancing the Sustainable and Healthy Development of the Export of Auto Products of China (商務部、國家發展和改革委員會、工業和信息化部、財政部、海關總署、國家質量監督檢驗檢疫總局關於促進我國汽車產品出口持續健康發展的意見). This opinion specifies the export situation, guideline and objectives in relation to auto industry as follows:

- At present, China is the second largest auto producer in the world. In recent years, China has witnessed a trend of rapid development in the export of automobiles and parts and components. The average annual growth rate in 2001-2007 reached about 50%, and the export volume of auto products amounted to US\$30.2 billion in 2008.
- Guidelines: follow the overall requirements of the Plan on Adjusting and Revitalizing the Auto Industry, fully carry out the scientific view of development, strongly implement the auto product export strategies, increase the export of auto products with independent intellectual property rights and independent brands, improve enterprises' capability of independent innovation, make more efforts to adjust the industrial structure, accelerate the transformation of the growth mode of foreign trade, and raise the efficiency and quality of export growth so as to enhance the sustainable and healthy development of the export of auto products of China.
- Objectives: from 2009 to 2011, the annual growth rate in the export of automobiles and parts and components shall reach 10%; in 2015, the export of automobiles and parts and components shall reach US\$85 billion at the annual growth rate of about 20%; by 2020, the strategic objective that China's export volume of automobiles and parts and components accounts for 10% of the total trade volume of auto products in the world shall have been realized.
- Export market structure: We shall gradually transform the export of assembled automobiles from the middle- and low-end markets to middle- and high-end markets in developing countries; and, as for the auto parts and components export markets, we shall gradually shift from the after service and maintenance markets mainly at present to the global supply chain markets for transnational companies (ODM-Original Design Manufacture (定牌設計生產) and OEM-Original Equipment Manufacture (定牌生產)).

---

## REGULATIONS RELATING TO THE INDUSTRY

---

- Accelerating the construction of the auto and parts and components export bases of the state and enhancing the technical foundation of the export of auto products.

On February 20, 2010, the NDRC and the State Administration for Industry and Commerce issued the Notice of the National Development and Reform Commission and the State Administration for Industry and Commerce on Starting to Use the Mark of Remanufactured Auto Part and Component Products and Strengthening the Administration and Protection of the Mark (國家發展改革委、國家工商管理總局關於啓用並加強汽車零部件再製造產品標誌管理與保護的通知). Pursuant to this notice, to promote the development of the auto parts and components remanufacturing industry, the NDRC organized the design of the mark of remanufactured auto part and component products according to the Circular Economy Promotion Law of the People's Republic of China (中華人民共和國循環經濟促進法), and the mark shall be filed with the State Administration for Industry and Commerce for protection.

The PRC Government has adopted a number of national and local regulatory measures regulating vehicle overloading, including the Highway Law of the PRC (中華人民共和國公路法), the Law of Road Traffic Safety of the PRC (中華人民共和國道路交通安全法) and the Administrative Rules on Highway Driving of Overloading Vehicle (超限運輸車輛行駛公路管理規定), and initiated a series of campaigns to crack down on vehicle overloading. On June 1, 2005 and September 27, 2009, the State Council and the Ministry of Transportation of the PRC (中華人民共和國交通運輸部), respectively, issued circulars to strengthen the crack down and penalty measures against vehicle overloading. Based on the foregoing national rules, the central and local PRC government subsequently promulgated various national and local implementation rules and regulations, imposing various requirements and administration penalties on the carriers and drivers in violation. The punishments for overloading include monetary fines, seizure of vehicles, and revocation of transportation business license; although the regional implementation rules as well as the local government approach against overloading may vary from place to place and may be updated from time to time.

The Regulations on the Administration of Recall of Defective Automobile Products (缺陷汽車產品召回管理規定) (the “**Defective Automobile Products Recall Regulations**”) was promulgated on 15 March 2004 and became effective on 1 October 2004. The Defective Automobile Products Recall Regulations provides that:

- (a) manufacturers (importers) of automobile products have the obligation to recall the defective automobile products they produce (import) and to bear the expenses and costs of eliminating the defects and transportation. The automobile products distributors, leasing agents and repairmen agents should provide assistance to the manufacturers in the recall of defective products; and
- (b) manufacturers of automobile products should take the initiatives in and reorganising the recalling the defective products sold.

“Defects” under the Defective Automobile Products Recall Regulations refers to a situation where a defect caused by reasons in the design and manufacture, etc. is commonly found in respect of a particular batch, series or type of automobile product and such defect may pose risk to personal and property safety or not in compliance with the government safety standard.

---

## REGULATIONS RELATING TO THE INDUSTRY

---

Upon the occurrence of any of the following, the responsible authority will have the right to require the manufacturer to recall again the automobile products and the quality supervision bureau will have the right to impose a fine of more than RMB10,000 but less than RMB30,000:

- (a) the manufacturer intentionally conceals the serious impact of the defect;
- (b) attempt to rely upon the procedures of the Defective Automobile Products Recall Regulations so as to avoid the supervision of the responsible authority; or
- (c) the recall of the defective product is not carried out as scheduled owing to the default of the manufacturer and such failure has caused the re-occurrence of damage.

The following table sets out the PRC governmental policies which may affect our business.

Dates	Measures/Laws and Regulations	Main Contents and Changes	Operational impact
21 May 2004	“The Automotive Industry Development Policy”	1.Promoting the restructuring and reorganization in the structure of the auto industry and expanding the enterprise scale; 2. Establishing special development plans on components, offering differentiated guidance and support for vehicle components products and leading social capital to invest in vehicle components production.	Facilitate the industrialization of the automobile parts and components industry, which will benefit us in expanding our market.
20 March 2009	“The Restructuring and Rejuvenation Program of the Automobile Industry”	Promoting the industrialization of new energy vehicles and key components.	Promoting the industrialization of the automobile parts and components industry, which will benefit us in expanding our market.

---

## REGULATIONS RELATING TO THE INDUSTRY

---

Dates	Measures/Laws and Regulations	Main Contents and Changes	Operational impact
December 2010	“The Interim Provisions Regulating the Number of Passenger Cars in Beijing”	A restriction order was issued by relevant government agencies in Beijing, implementing a control and quota management system on the number of passenger cars in Beijing, with an annual car purchase target restricted to about 240,000 cars.	A restriction order will have an impact on the scale and development of the automobile market, however, the aim of the restriction order is to manage congestion, and not to limit the development of the automobile industry. From a long-term perspective, it is expected that the restriction order will not have a substantial impact on the automobile manufacturing industry.
25 February 2011	“The PRC Travel Tax Law” (Effective on 1 January 2012)	Travel tax can be reduced or exempted from for cars and ships with energy conservation and for those using new energy sources.	In our development of products, we will have to take into account the energy conservation indicators.
January 2011	“The Development Plan for the Energy Conservation and New Energy Automotive Industry” (2011-2020) (Draft for comments)	For the ten years from 2011 to 2020, the Central Government will invest RMB100 billion in the new energy automotive industry, of which RMB10 billion will be used to support the development of the core automotive components industry.	The support for the development of the core automotive components industry will be beneficial to the development of the components industry.
15 June 2011	“The Implementation Regulations for the PRC Travel Tax Law” (Draft for comments)	Pure electric vehicles, fuel-cell vehicles and plug-in hybrid vehicles are exempted from travel tax while other hybrid vehicles enjoy tax reduction by half in accordance with tax applicable to similar vehicles.	In our development of products, we will have to take into account the energy conservation indicators.

---

## REGULATIONS RELATING TO THE INDUSTRY

---

### M&A PROVISIONS

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “**M&A Provisions**”), promulgated by the Ministry of Commerce, CSRC, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce (“**SAIC**”) and SAFE on 8 August 2006, and effective as at 8 September 2006 and amended on 22 June 2009 by the Ministry of Commerce, stipulates principles regarding equity acquisition and asset acquisition of domestic enterprises by foreign investors. According to the M&A Provisions, such equity acquisition and asset acquisition shall subject to the approval of competent governmental authorities.

In addition, the M&A Provisions stipulates provisions which purport to require an offshore special purpose vehicle (the “**SPV**”) formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, to obtain CSRC’s approval prior to the listing and trading of the SPV’s securities on an overseas stock exchange.

According to Article 2 of the M&A Provisions, acquisition of a domestic enterprise by a foreign investor refers to the circumstance where a foreign investor purchases by agreement the equity interests of a domestic non-foreign enterprise (the “**Domestic Enterprise**”) or subscribes the increased capital of the domestic enterprise, and thus changes such domestic enterprise into a foreign invested enterprise; or a foreign investor establishes a foreign invested enterprise, through which it purchases by agreement the assets of a domestic enterprise and operates such assets; or a foreign investor purchases by agreement the assets of a domestic enterprise, and then uses such assets to invest in and establish foreign invested enterprise through which it operates such assets.

Based on the opinion of the Company’s Legal Advisers, the M&A Provisions are not applicable to Nanyang Cijan as it was a wholly-foreign owned enterprise before the effective date of the M&A Provisions.

### PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Wholly foreign-owned enterprises (“**WFOE**”), Sino-foreign equity joint ventures (“**JV**”) and Sino-foreign cooperative joint ventures (“**CJV**”) are governed by the Law of the People’s Republic of China Concerning Enterprises with Sole Foreign Investments (中華人民共和國外資企業法), which was promulgated on 12 April 1986 and revised on 31 October 2000, and its Implementation Regulations (中華人民共和國外資企業法實施細則) promulgated on 12 December 1990 and revised on 12 April 2001, the Law of the People’s Republic of China on Sino-foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法) promulgated on 1 July 1979 and revised on 15 March 2001 and the Implementation Regulations (中華人民共和國中外合資經營企業法實施條例) promulgated on 20 September 1983 and revised on 22 July 2001, the Law of the People’s Republic of China on Sino-Foreign Cooperative Ventures (中華人民共和國中外合作經營企業法), which was promulgated on 13 April 1988 and revised on 31 October 2000, and its Implementation Regulations (中華人民共和國中外合作經營企業法實施細則) promulgated on 4 September 1995 and revised on 31 October 2000 (together the “**Foreign Enterprises Law**”).

---

## **REGULATIONS RELATING TO THE INDUSTRY**

---

In accordance with the Catalogue of Foreign Investment Industry (2007) (外商投資產業指導目錄(2007年修訂)) promulgated jointly by NDRC and MOFCOM on October 31, 2007, foreign investment in manufacture of key automobile components and parts such as drive axle assembly is classified under the “encouraged investment” category. An automobile components and parts manufacturing enterprise may be 100% foreign-owned.

### **PROCEDURES FOR ESTABLISHMENT OF A WFOE, JV AND CJV**

The establishment of a WFOE, JV and CJV will have to be approved by the Ministry of Commerce (“MOC”) (or its delegated authorities). In the case of a WFOE whereby two or more foreign investors jointly apply for the establishment of a WFOE or in the case of an application for the establishment of JV or CJV, a copy of the contract between the parties must also be submitted to MOC (or its delegated authorities) for its approval and record. A WFOE, JV or CJV must also obtain a business licence from SAIC (or its delegated authorities) before it can commence business.

### **NATURE OF WFOE, JV AND CJV**

A WFOE or JV is a limited liability company under the Foreign Enterprises Law as well as a legal person, whereas a CJV is a limited liability company if it obtains the capacity of a legal person. A legal person may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOC (or its delegated authorities) in accordance with relevant regulations.

### **Dividend Distribution and Remittance**

In accordance with the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) promulgated on April 12, 1986 and amended on 31 October 2000, foreign investors may remit dividends distributed by a WFOE overseas.

Under the Implementing Rules of Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) promulgated on 12 December 1990 and amended on 12 April 2001, a WFOE, may distribute dividends out of its profits after it has set aside at least 10% of after-tax profit for its reserve fund (no after-tax profit needs to be set aside once the cumulative amount of the reserve fund reaches 50% of the registered capital of the WFOE) and, at its discretion, allocate a portion of its after-tax profits to the staff welfare and bonus fund.

### **FOREIGN EXCHANGE LAWS AND REGULATIONS**

Foreign exchange administration is principally governed by two statutes, the PRC Foreign Exchange Control Regulations (中華人民共和國外匯管理條例), which were promulgated by the State Council on 29 January 1996, and amended on 14 January 1997 and 1 August 2008, and the Regulations

---

## REGULATIONS RELATING TO THE INDUSTRY

---

on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定), which were promulgated by the PBOC, on 20 June 1996. Under the applicable regulations, upon payment of the applicable taxes, FIEs may convert the dividends they receive in Renminbi into foreign currencies and remit such amounts outside the PRC through their foreign exchange bank accounts.

In addition, on 24 January 2005, SAFE promulgated the Circular of the State Administration of Foreign Exchange Concerning Relevant Issues on Improving Foreign Exchange Administration for Merger and Acquisitions with Foreign Entities (the “**Circular**”). The Circular provides for, inter alia, strict supervision and control by SAFE and its local branches/offices of capital contribution examination, foreign currency registration for share transfers, registration of shareholders’ loan, remittance of profits out of the PRC, reinvestment of profits, and share transfers by foreign invested enterprises established in the manner of acquisitions of PRC enterprises by foreign enterprises with PRC residents as shareholders. The Notice on Questions concerning Overseas Investment Registration by Domestic Residents and Foreign Exchange Registration for Acquisition of Domestic Enterprises by Foreign Investors (“**No. 29 Notice**”) issued by SAFE on 21 April 2005, clarified that “overseas investment foreign exchange registration” applies to PRC domestic residents even if the relevant foreign acquisition has been completed before the Circular was issued.

On 21 October 2005, SAFE promulgated the Notice on Issues concerning Foreign Exchange Management in Financing by PRC Residents by Overseas Special Purpose Vehicle (SPV) and Return-investments (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“**No. 75 Notice**”) which came into effect on 1 November 2005 and replaces the Circular and the No. 29 Notice. No. 75 Notice requires, among other matters, every PRC resident who makes a contribution of assets or shares of a PRC domestic company into an SPV, to file an “overseas investment foreign exchange registration” and subsequently to amend their records in respect of the “overseas investment foreign exchange registration” with the local foreign exchange bureau after the relevant contribution of assets or shares or any subsequent changes in the SPV’s net assets or ownership through equity fund raising, and any equity or loan financing of a PRC domestic enterprise through an SPV.

On 13 July 2009, SAFE issued a Circular on issuing the Provisions on the Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions (國家外匯管理局關於調整部分境外投資外匯管理政策的通知) (“**No. 30 Circular**”), which came into effect on 1 August 2009. No. 30 Circular provides for the preliminary resources and procedures for the purchase and payment of foreign exchange required of domestic investors qualified as legal persons when investing overseas and sets out the requirements for the purpose of use and the maximum amount of the preliminary costs for an overseas investment project to be remitted out of the PRC as well as the approval procedures for the remittance thereof.

Based on the opinion of the Company’s Legal Advisers, 23 Shareholders and ultimate beneficial owners of our Shares namely, Xie Qingxi (謝清喜), Zhang Chuanyong (張傳勇), Fu Pengxu (付蓬旭), Zhang Guangliang (張廣亮), Dou Changlun (竇長倫), Fan Chong (樊崇), Zhao Zhijun (趙志軍), Han Guangsheng (韓光勝), Liu Baojun (劉保軍), Zhao Zheng (趙增), Wang Wenbo (王文波), Chu Xinyao (褚新耀), Liu Yonghong (劉永紅), Zhu Zihua (朱自華), Liu Jinyong (劉金永), Yang Weixia (楊瑋霞),

---

## REGULATIONS RELATING TO THE INDUSTRY

---

Wang Hui (王輝), He Yaobin (何耀彬), Xu Xianqi (徐獻奇), Song Zhewei (宋哲偉), Hu Xingzi (胡杏子), Sun Lijun (孫麗軍) and Mr. Xi, have respectively completed the required registration with SAFE under No. 75 Notice. As Zhou Hua Rui (周華蕊) is a resident of Hong Kong, her registration with SAFE under No. 75 Notice is not required.

### Conversion of Renminbi into Foreign Currencies

Generally, foreign-invested enterprises (“FIEs”) may engage in foreign exchange transactions by converting Renminbi into foreign currencies and remitting money out of China without the prior approval of SAFE under two situations: (i) when an enterprise needs to settle current account items in foreign currencies (in this situation, the enterprise may make such payments through its foreign exchange account at one of the designated foreign exchange banks, supported by valid receipts and any other relevant documents); and (ii) when an enterprise needs to distribute dividends to its foreign shareholders (in this situation, the enterprise may make such distribution through its foreign exchange account at one of the designated foreign exchange banks, supported by a board resolution authorising the distribution of dividends and any other relevant documents).

In other situations, including the settlement of capital account items (e.g. direct investment and capital contributions), FIEs are subject to regulatory restrictions. They must seek prior approval from SAFE or its relevant branches before converting Renminbi into foreign currencies.

### TAX LAW

On 1 January 2008, the Foreign-funded Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) was abolished, and the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), promulgated on 16 March 2007, became effective. Pursuant to the Enterprise Income Tax Law of the PRC, the income tax rate for both domestic-funded enterprises and foreign-funded enterprises is 25%.

Pursuant to the Notice on the Implementation of the Enterprise Income Tax Transition Preferential Policy (國務院關於實施企業所得稅過渡優惠政策的通知), enacted by the State Council of the PRC on 26 December 2007, enterprises that had enjoyed the preferential policy of a full exemption in the first two years and a 50% reduction from the third to the fifth years of the income tax since the first profit-making year, shall continue to enjoy the former policy until the preferential period expired; Enterprises that were entitled to but had not enjoyed the aforesaid preferential policy due to their failure to make profit shall enjoy the aforesaid preferential policy beginning in 2008.

On 4 January 2010, the Ministry of Finance and the Ministry of Commerce issued the Notice of the Ministry of Finance and the Ministry of Commerce on the Approval of Simultaneously Enjoying the Subsidy for Exchanging Second-hand Vehicles for New Ones and the Vehicle Purchase Tax Reduction Policies (財政部、商務部關於允許汽車以舊換新補貼與車輛購置稅減徵政策同時享受的通知), which was come into force on 1 January 2010. Pursuant to this Notice, for further improve the policies on exchanging second-hand vehicles for new ones and realize the goal of expanding consumption at the same time when saving energy and reducing emission, vehicle owners who satisfy the prescribed conditions may simultaneously enjoy the subsidy for exchanging second-hand vehicles



---

## REGULATIONS RELATING TO THE INDUSTRY

---

for new ones and the policy on reducing the vehicle purchase tax on passenger cars with 1.6 L or lower displacement. Owners of new vehicles purchased in 2010 are not required to provide the original and photocopy of the vehicle purchase tax payment receipt when applying for the subsidy for exchanging second-hand vehicles for new ones.

### ENVIRONMENTAL PROTECTION LAW

The PRC Government has formulated and implemented various environmental protection laws and regulations, including the Environment Protection Law (中華人民共和國環境保護法), the Water Pollution Prevention and Control Law (中華人民共和國水污染防治法), the Atmospheric Pollution Prevention and Control Law (中華人民共和國大氣污染防治法), the Solid Waste Environment Protection and Control Law (固體廢物污染環境防治法), the Environmental Noise Pollution Prevention and Control Law (中華人民共和國環境噪聲污染防治法) and the Environmental Impact Evaluation Law (中華人民共和國環境影響評價法) (collectively referred to as the “**Environmental Laws**”).

Under the relevant environmental protection laws and regulations, the construction, expansion and operation of automobile components and parts production facilities are subject to certain government evaluation process, inspection procedures and approvals. The failure to go through such government process or procedures or to obtain such government approvals may subject the manufacturer to fines and penalties imposed by the relevant PRC environmental authorities, including suspension of the production facilities.

The Environmental Laws also impose fees for the discharge of waste substances, permit the imposition of fines and compensation for the improper discharge of waste substances and serious environmental offences. The PRC environmental authorities may, at their discretion, close any facility that fails to comply with orders requiring it to correct or stop operations causing the environmental damage.

### LABOR LAW

Enterprises are mainly subject to the following PRC labor laws and regulations: the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the Regulation of Insurance for Work-Related Injury (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Provisional Measures on Insurance for Maternity of Employees (企業職工生育保險試行辦法), the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for enterprises in the PRC.

According to the PRC Labor Law and the PRC Labor Contract Law, labor contracts in written form shall be executed to establish labor relationships between employers and employees. Salaries shall not be lower than local minimum wage. The company must establish a system for labor safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. Employees are also required to work in safe and sanitary conditions meeting State rules and standards, and carry out regular health examinations of employees engaged in hazardous occupations.

---

## REGULATIONS RELATING TO THE INDUSTRY

---

As required under the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, the Interim Regulation on the Collection and Payment of Social Insurance Premiums and the Interim Provisions on Registration of Social Insurance, enterprises are obliged to provide employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

### PRODUCTION SAFETY LAW

According to the Safety Production Law of the PRC (中華人民共和國安全生產法) which became effective on 1 November 2002 and was amended on 27 August 2009, the State Administration of Work Safety (國家安全生產監督管理總局) is in charge of the overall administration of production safety. The Safety Production Law provides that an entity engaging in manufacturing activities must meet national or industry standards regarding safety production and provide relevant working conditions as required by the laws, administrative rules and the national or industry standards. An entity engaging in manufacturing activities must install prominent warning signs at or on relevant dangerous operation sites, facilities and equipment. The design, production, installment, use, test, repair, upgrade and disposal of safety equipment must comply with national or industry standards.

### PRODUCT LIABILITY LAW

Manufacturers and vendors of defective products in the PRC may incur liability for loss and injury caused by such products. Under the General Principles of the Civil Laws of the PRC (中華人民共和國民法通則), which became effective on 1 January 1987, a defective product which causes property damage or physical injury to any person could subject the manufacturer or retailer of such product to civil liability for such damage or injury.

In 1993, the General Principles of the Civil Laws of the PRC was supplemented by the Product Quality Law of the PRC (as amended in 2000) (中華人民共和國產品質量法) and the Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法), which were enacted to protect the legitimate rights and interests of end-users and consumers and to strengthen the supervision and control of the quality of products. If products purchased by consumers are of sub-standard quality but not defective, the retailers will be responsible for the repair, exchange, or refund of the purchase price of the sub-standard products and for the compensation to the consumers for their losses (if any). However, in the event that the manufacturers are held liable for the sub-standard products, the retailers are entitled to seek reimbursement from the manufacturers for compensation paid by the retailers to the consumers. If the products are defective and cause any personal injuries or damage to assets, the consumer has the option to claim compensation from the manufacturer, distributor or retailer. Retailers or distributors who have already compensated the consumers are entitled to claim reimbursement from the liable manufacturers.

---

## HISTORY AND DEVELOPMENT

---

### BUSINESS DEVELOPMENT

#### Introduction

Nanyang Cijan was established in June 2005 as a limited liability company in the PRC. Upon its establishment, Nanyang Cijan consolidated the business of Jinguan Xichuan Automobile, whose principal business was the design, manufacture and sales of vehicles shock absorbers.

#### Business milestones

The following table sets forth our Group's business (including Jinguan Xichuan Automobile and its predecessor) development milestones:-

<b>Years</b>	<b>Business achievements</b>
1961	Commenced the development and manufacture of shock absorber
December 1997	Selected by FAW-Volkswagen as auto parts and components supplier
December 1998	Accredited the ISO9001:1994 Standard certificate
October 2001	Accredited the QS9000:1998 Standard certificate
October 2001	Accredited the VDA6.1, Part A certificate
2002 — 2010 ( <i>note</i> )	Awarded the National Top 100 Excellent Automotive Parts Suppliers (全國優秀汽車零部件供應商) by 《中國汽車報社》
October 2006	Recognized as a “Provincial Quality Management Advanced Enterprise in 2006” by the Quality and Technical Supervision Bureau of Henan Province
November 2006	Awarded the “National Shock Absorber Top Ten Famous Brand” certificate by the Federation of Brand Management in China's Market
December 2006	New products Air Spring Pressure Control Shock Absorbers and Air Suspension Shock Absorbers (10 metres in front of & behind the bus) were awarded “China Automotive Original Innovation Award for Proprietary Innovation Results” and “China Automotive Integrated Innovation Award for Proprietary Innovation Results” respectively
June 2007	Commenced to adopt the ERP system
December 2007	Peugeot 206 shock absorbers (front and rear) produced by us were recognized as a high new technology product
January 2008	Danjiang “丹江” branded shock absorber was recognized as “PRC Quality Brand Product” (中國優質名牌產品)
April 2008	Awarded the ISO/TS16949:2002 certification
December 2008	Danjiang “丹江” branded was recognized as a Henan Province Famous Trademark (河南省著名商標)

---

## HISTORY AND DEVELOPMENT

---

July 2009	Awarded the Top 50 Private Enterprises in Nanyang City
August 2009	Recognized as an A-Class supplier by FAW-Volkswagen
September 2009	The first production line of our Expanding Production Facilities commenced operation
December 2009	Recognized as High and New Technology Enterprise (高新技術企業)
December 2009	Recognized as a “core supplier” by Chery Automobile Co., Ltd (奇瑞汽車股份有限公司)
July 2010	Three production lines in our Expanding Production Facilities commenced operation
September 2010	“丹江” branded S20 — S65 series shock absorbers was awarded Henan Province Famous Brand Product
November 2010	Obtained approval from the Henan Province Science and Technology Bureau to establish a Provincial Level Technology Research Centre for Shock Absorbers Engineering (河南省汽車減振器工程技術研究中心)
January 2011	Nanyang Cijan was recognized as the Henan Province Innovative Trial Enterprise (河南省創新型試點企業)
February 2011	Recognised as Nanyang City Top 10 Tax Payor and High Growth Industrial Enterprise (南陽市十大納稅高增長工業企業) by the Nanyang City People’s Government
March 2011	Nanyang Cijan Recognised as Advanced Enterprise (先進單位) by the Nanyang City People’s Government

*Note:* Nanyang Cijan was recognized as a National Top 100 Automotive Parts Supplier by China Automobile News (《中國汽車報》) in 2002 but the certificate of award was issued in November 2003. In 2003, China Automobile News (《中國汽車報》) had not made any assessment and rating in respect of National Top 100 Automotive Parts Supplier award. In 2002, the award was named Best Automotive Parts Supplier (最佳汽車零部件供應商). From 2004 to 2007, the award was named National Top 100 Best Automotive Parts Supplier (全國百佳汽車零部件供應商). Since 2008, the award was named National Top 100 Excellent Automotive Parts Supplier (全國百家優秀汽車零部件供應商).

## CORPORATE DEVELOPMENT

The origin of our Group’s manufacture business can be traced back to 1951, when the predecessor of our Group was established as a State-owned enterprise under the name of “People’s Metal Factory (人民鐵工廠)” to engage in the production of small pieces of farm tools.

In 1961, the factory ceased the production of small piece of farm tools and began the development and manufacture of shock absorber. Since then, the production facilities and the development of technology for the manufacture of shock absorber of our Group and its predecessor have been based in Xichuan County of Nanyang City.

---

## HISTORY AND DEVELOPMENT

---

In 1970, the factory changed its name to Xichuan Automotive Parts Factory (浙川汽車配件廠). In 1998, the assets of Xichuan Automotive Parts Factory (浙川汽車配件廠) were transferred from Xichuan County Government to Nanyang Municipal Government. The State-owned Assets Supervision and Administration of Xichuan Municipal Government then entrusted the operation and management of the Xichuan Automotive Parts Factory (浙川汽車配件廠) to Jinguan Group, which injected such assets into Jinguan Wangma by way of a reorganization and established Jinguan Xichuan Automobile.

In June 2005, Jinguan Group, Jinguan Wangma and Guang Da Finance established Jinguan Auto Shock Absorber Co., Ltd. (南陽金冠汽車減振器有限公司) which was renamed as Nanyang Cijan in September 2006. Pursuant to the cooperative enterprise contract entered into amongst the parties dated 11 June 2005, the registered capital of Nanyang Cijan of RMB80 million shall be contributed by Guang Da Finance, Jinguan Group and Jinguan Wangma as to 60%, 27.5% and 12.5% respectively. The business of Jinguan Xichuan Automobile was consolidated into Nanyang Cijan upon the establishment of Nanyang Cijan.

In March 2006, Nanyang Cijan established Haikou Danjiang in Haikou City, Hainan Province, the PRC. The Directors confirm that Haikou Danjiang was established for the purpose of setting up and operating shock absorber production facilities in the vicinity of a customer. At the time of establishment, by virtue of contractual agreements, the equity interest of Haikou Danjiang was held in escrow for Nanyang Cijan by Zhao Zhijun (趙志軍) (executive Director and chief executive officer of the Group) and Zhi Jianzhong (職建中) (former director and general manager of Nanyang Cijan) as to 60% and 40% respectively, as the establishment procedures could be shortened if Haikou Danjiang equity holders were individuals. Since its establishment, save for acquiring a parcel of land with a site area of approximately 15,736.21 square metres and constructing an assembly plant thereon, Haikou Danjiang has not commenced business operations. Zhao Zhijun (趙志軍) and Zhi Jianzhong (職建中) have signed agreements to transfer the entire equity interest which they held in escrow back to Nanyang Cijan at nil consideration. The registration procedures of such transfer has been completed in September 2011. The PRC Legal Advisers have advised that the contractual agreements are legal, valid and enforceable.

In 2006, it came to the Founders' knowledge that certain equity interest of Nanyang Cijan was available for purchase. Though the Founders did not have any experience in the automobile parts and components industry, they were optimistic about the industry given there has been increasing domestic demand for automobile as led by the continuous robust economy of the PRC and had been looking for investment opportunity to tap into the industry. In November 2006, the Founders (a) through Guang Da Investment, acquired 60% equity interest in Nanyang Cijan from Guang Da Finance at the consideration of HK\$48 million, and (b) through Hexie Venture, assumed the capital contribution obligation of Jinguan Group in Nanyang Cijan in the amount of HK\$22 million, representing 27.5% equity interest of Nanyang Cijan. Both Guang Da Investment and Hexie Venture were then wholly beneficially owned by the Founders in the proportion of Mr. Xi as to 68%, Zhao Zhijun (趙志軍) as to 7%, Zhou Hua Rui (周華蕊) as to 4.4%, Fu Pengxu (付蓬旭) as to 4.4%, Zhang Guangliang (張廣亮) as to 4.4%, Fan Chong (樊崇) as to 4%, Han Guangsheng (韓光勝) as to 3%, Xie Qingxi (謝清喜) as

---

## HISTORY AND DEVELOPMENT

---

to 2.4% and Zhang Chuanyong (張傳勇) as to 2.4% (the “**Initial Ownership Proportion**”). Hexie Venture assumed the capital contribution obligation of Jinguan Group as Jinguan Group was unable to fulfill its capital contribution obligation. The consideration of the transfer was determined based on investment costs of the equity interest. The net asset value of Nanyang Cijan was approximately RMB2,600,000 as at 31 October 2006.

Under the leadership of Mr. Xi, Hexie Venture was established by the Founders in 2005 and looked for investment opportunities. Immediately prior to the establishment of Hexie Venture, among the Founders, Mr. Xi, Zhao Zhijun (趙志軍), Xie Qingxi (謝清喜) and Fan Chong (樊崇) were engaged in the securities and investment industries, Zhou Hua Rui (周華蕊), Han Guangsheng (韓光勝) and Zhang Chuanyong (張傳勇) were engaged in managerial positions in banks, Zhang Guangliang (張廣亮) was engaged in managerial position in an enterprise, while Fu Pengxu (付蓬旭) was the director and general manager of Jinguan Group. The biographical particulars of Mr. Xi, Zhao Zhijun (趙志軍), Xie Qingxi (謝清喜) and Fu Pengxu (付蓬旭) are set out in the section headed “Directors, Senior Management and Staff — Board of Directors” of this prospectus.

To the best knowledge of our Directors, Guang Da Finance, Jinguan Group and Jinguan Wangma and their ultimate beneficial owners are Independent Third Parties. Save and except for Fu Pengxu (付蓬旭) (a non-executive Director) whom had acted as a director and general manager of Jinguan Group from year 2002 to 2006, the Directors, Shareholders and their respective associates have not been related to Guang Da Finance, Jinguan Group and Jinguan Wangma. Immediately after the investment by the Founders in November 2006, Nanyang Cijan was owned by Guang Da Investment, Hexie Venture and Jinguan Wangma as to 60%, 27.5% and 12.5% respectively.

Nanyang Yingsaite was established in the PRC with limited liability on 19 March 2007 and was wholly-owned by Nanyang Cijan.

As a result of a dispute between Jinguan Wangma and a third party, Jinguan Wangma’s equity interest in Nanyang Xichuan was seized by the People’s Court of Wolong District, Nanyang City in March 2008. In October 2008, Guang Da Investment acquired such 12.5% equity interest in Nanyang Cijan from Jinguan Wangma through an auction at the consideration of RMB6,005,000. Immediately after the acquisition, Nanyang Cijan was owned by Guang Da Investment and Hexie Venture as to 72.5% and 27.5% respectively.

In June 2009, Guang Da Investment transferred 12.5% equity interest in Nanyang Cijan to Hexie Venture at the consideration of RMB6,005,000, which was determined based on the investment costs of the equity interest. Immediately after the acquisition, Nanyang Cijan was owned by Guang Da Investment and Hexie Venture as to 60% and 40% respectively.

In March 2010, Guang Da Investment acquired 40% equity interest in Nanyang Cijan from Hexie Venture at the consideration of RMB42 million, which was determined based on then net asset value of Nanyang Cijan. Nanyang Cijan then changed from a sino-foreign cooperative joint venture to a wholly-foreign owned enterprise and became a wholly owned subsidiary of Guang Da Investment.

---

## HISTORY AND DEVELOPMENT

---

In June 2010, for the purpose of separating its equity interest in Nanyang Cijan from other investments, Guang Da Investment transferred the entire equity interest in Nanyang Cijan to Guang Da Automotive Components at the consideration of HK\$80 million, which amount was equivalent to the registered capital of Nanyang Cijan.

Guang Da Automotive Components was incorporated in Hong Kong with limited liability on 14 June 2010, and was wholly-owned by Merit Leader. Merit Leader was wholly-owned by Megabiz, which in turn was beneficially owned by the Founders in proportion equals to the Initial Ownership Proportion.

On 16 August 2010, Mr. Xi procured Merit Leader to issue and allot new shares, fully paid at par value, as follows:

Name of allottee	Ultimate beneficial owner(s)	Number of new shares	Consideration	% interest immediately after the issue and allotment of shares
Megabiz	Mr. Xi	7,024	Payment by Mr. Xi at par value on 16 August 2010	14.05%
Wealth Max	Mr. Xi	15,000	Payment by Mr. Xi at par value on 16 August 2010	30.00%
Jumbo Ace	Mr. Xi	3,500	Payment by Mr. Xi at par value on 16 August 2010	7.00%
Plenty Venture	The Senior Management	5,475	Transfer of Zhao Zhijun's (趙志軍) equity interest in Megabiz to Mr. Xi and to reward the contributions of the Senior Management to our Group	10.95%
Wingco Development	Fu Pengxu (付蓬旭), Zhang Guangliang (張廣亮) and Dou Changlun (竇長倫)	4,400	Transfer of Fu Pengxu's (付蓬旭) and Zhang Guangliang's (張廣亮) equity interest in Megabiz to Mr. Xi	8.80%

---

## HISTORY AND DEVELOPMENT

---

Name of allottee	Ultimate beneficial owner(s)	Number of new shares	Consideration	% interest immediately after the issue and allotment of shares
King Win	Xie Qingxi (謝清喜) and Zhang Chuanyong (張傳勇)	2,400	Transfer of Xie Qingxi's (謝清喜) and Zhang Chuanyong's (張傳勇) equity interest in Megabiz to Mr. Xi	4.80%
Zhou Hua Rui (周華蕊)	—	2,200	Transfer of Zhou Hua Rui's (周華蕊) equity interest in Megabiz to Mr. Xi	4.40%
Pacific Express	Fan Chong (樊崇)	2,000	Transfer of Fan Chong's (樊崇) equity interest in Megabiz to Mr. Xi	4.00%
Silver Goal	Han Guangsheng (韓光勝)	1,500	Transfer of Han Guangsheng's (韓光勝) equity interest in Megabiz to Mr. Xi	3.00%
China Genesis	Xu Xianqi (徐獻奇)	2,500	Payment of RMB12.5 million by Xu Xianqi (徐獻奇) to Mr. Xi, which was determined with reference to the estimate financial results of our Group in 2010 and paid in full on 8 July 2010	5.00%



---

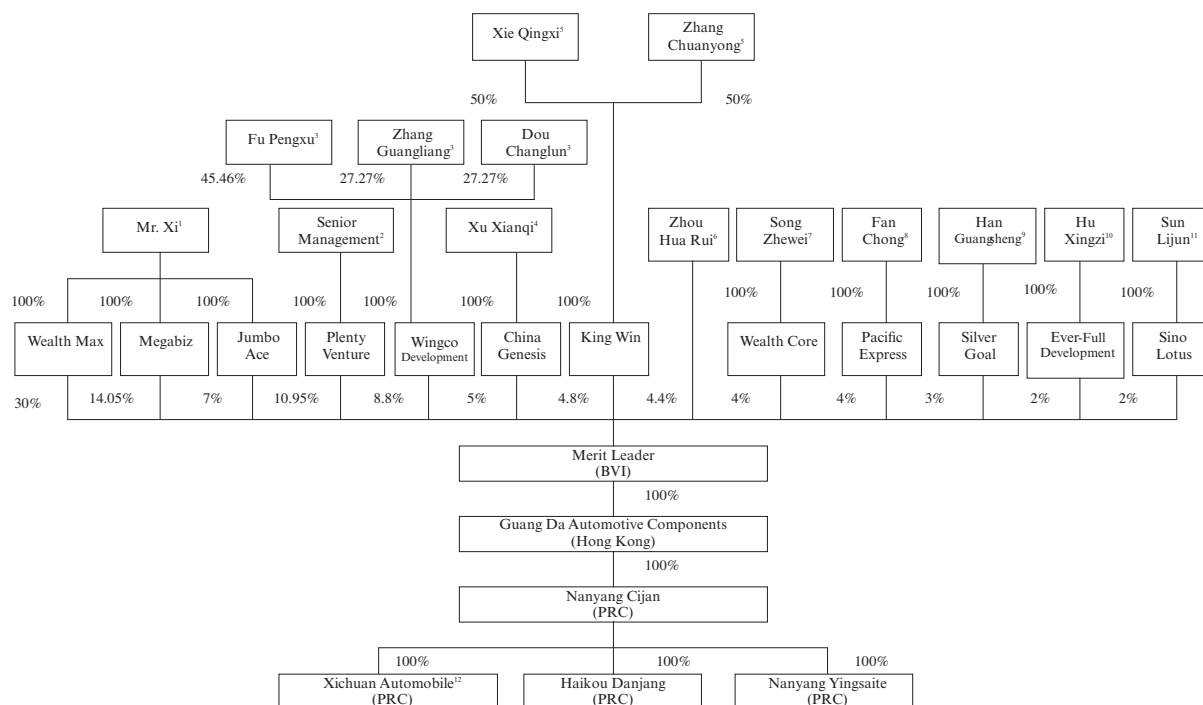
## HISTORY AND DEVELOPMENT

---

Name of allottee	Ultimate beneficial owner(s)	Number of new shares	Consideration	% interest immediately after the issue and allotment of shares
Wealth Core	Song Zhewei (宋哲偉)	2,000	Payment of RMB10 million by Song Zhewei (宋哲偉) to Mr. Xi, which was determined with reference to the estimate financial results of our Group in 2010 and paid in full on 26 June 2010	4.00%
Ever-Full Development	Hu Xingzi (胡杏子)	1,000	Payment of RMB5 million by Hu Xingzi (胡杏子) to Mr. Xi, which was determined with reference to the estimate financial results of our Group in 2010 and paid in full on 17 August 2010	2.00%
Sino Lotus	Sun Lijun (孫麗軍)	1,000	Payment of RMB5 million Sun Lijun (孫麗軍) to Mr. Xi, which was determined with reference to the estimate financial results of our Group in 2010 and paid in full on 17 August 2010	2.00%

## HISTORY AND DEVELOPMENT

The following chart sets out the shareholding structure of our Group immediately following the above issue and allotment of shares by Merit Leader but before the completion of the Capitalisation Issue and the Global Offering:



1. Mr. Xi is the Chairman of our Group, a non-executive Director, one of the Founders and one of the Controlling Shareholders.
2. The Senior Management comprises the following persons:

Senior Management	Relationship with our Group	Percentage shareholding in Plenty Venture <sup>(1)</sup>
Zhao Zhijun (趙志軍)	Executive Director, chief executive officer of the Group and one of the Founders	63.93%
Liu Baojun (劉保軍)	Deputy general manager of Nanyang Cijan	5.48%
Zhao Zeng (趙增)	Deputy general manager of Nanyang Cijan	4.57%
Wang Wenbo (王文波)	Executive Director and deputy general manager of Nanyang Cijan	4.57%
Chu Xinyao (褚新耀)	Deputy general manager of Nanyang Cijan	4.57%
Liu Yonghong (劉永紅)	Deputy general manager of Nanyang Cijan	4.57%
Zhu Zihua (朱自華)	Deputy general manager of Nanyang Cijan	4.57%
Liu Jinyong (劉金永)	Assistant general manager of Nanyang Cijan	4.11%
Yang Weixia (楊瑋霞)	Executive Director and deputy general manager of Nanyang Cijan	3.65%
		100.00%

(1) rounded up to two decimal places.

---

## HISTORY AND DEVELOPMENT

---

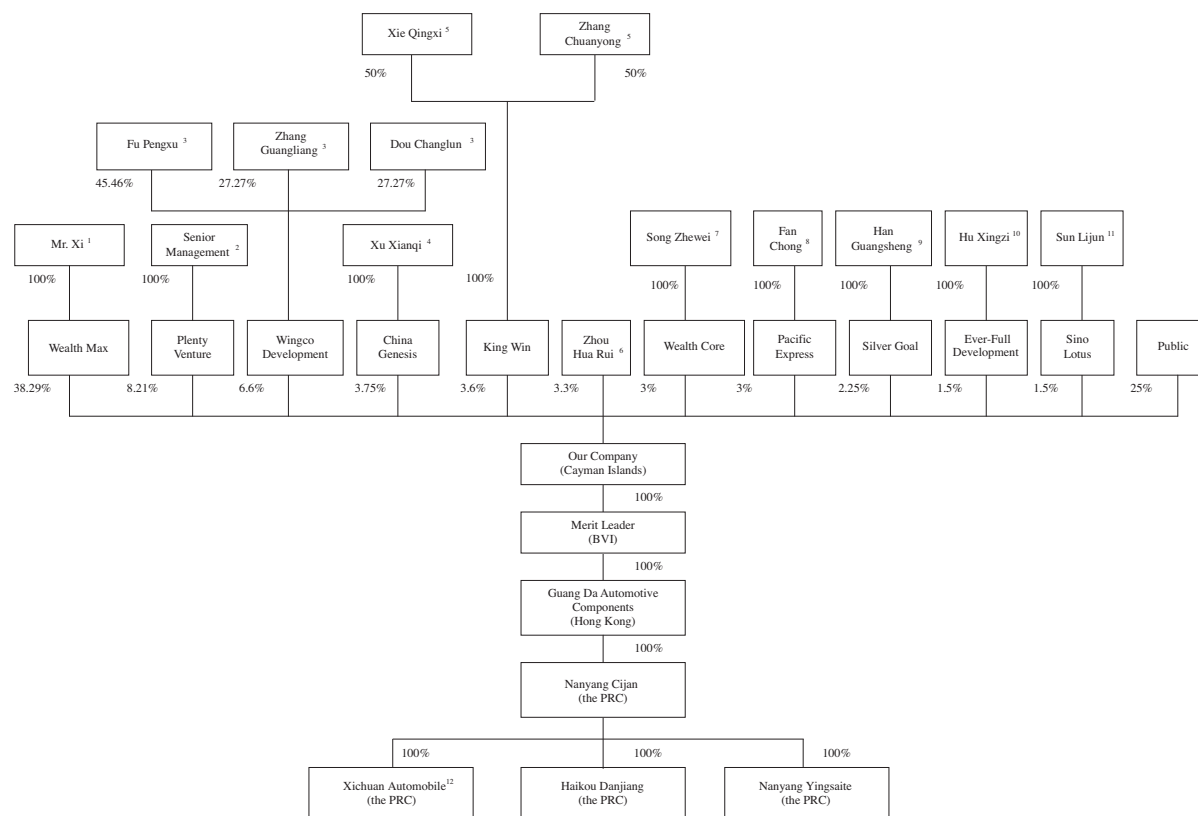
3. Fu Pengxu (付蓬旭) is a non-executive Director and one of the Founders. Zhang Guangliang (張廣亮) is one of the Founders. Dou Changlun (竇長倫) acquired his interest in Wingco Development from Fu Pengxu (付蓬旭) and Zhang Guangliang (張廣亮) and, save as his interest in our Company through Wingco Development, is an Independent Third Party.
4. Xu Xianqi (徐獻奇), save as his interest in our Company through China Genesis, is an individual investor and Independent Third Party.
5. Xie Qingxi (謝清喜) is a non-executive Director and one of the Founders. Zhang Chuanyong (張傳勇) is one of the Founders.
6. Zhou Hua Rui (周華蕊) is one of the Founders.
7. Song Zhewei (宋哲偉), save as his interest in our Company through Wealth Core, is an individual investor and Independent Third Party.
8. Fan Chong (樊崇) is one of the Founders.
9. Han Guangsheng (韓光勝) is one of the Founders.
10. Hu Xingzi (胡杏子), save as her interest in our Company through Ever-Full Development, is an individual investor and Independent Third Party.
11. Sun Lijun (孫麗軍), save as her interest in our Company through Sino Lotus, is an individual investor and Independent Third Party.
12. Xichuan Automobile is a branch of Nanyang Cijan.
13. None of Zhou Hua Rui (周華蕊), Xu Xianqi (徐獻奇), Song Zhewei (宋哲偉), Hu Xingzi (胡杏子) and Sun Lijun (孫麗軍) have or had any management role in our Group.

## REORGANISATION

In preparation for the Listing, we underwent the Reorganisation whereby our Company became the ultimate holding company of all companies comprising our Group. Details of the Reorganisation are set out under the paragraphs under “A. Further Information about our Company — 4. Reorganisation” in Appendix V to this prospectus.

## HISTORY AND DEVELOPMENT

The following chart sets out the shareholding structure of our Group immediately following the completion of the Capitalisation Issue and the Global Offering but taking no account of the Shares that may be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme:



*Note:*

- Mr. Xi is the Chairman of our Group, a non-executive Director, one of the Founders and one of the Controlling Shareholders.
- The Senior Management comprises the following persons:

Senior Management	Relationship with our Group	Percentage shareholding in Plenty Venture <sup>(1)</sup>
Zhao Zhijun (趙志軍)	Executive Director, chief executive officer of the Group, one of the Founders	63.93%
Liu Baojun (劉保軍)	Deputy general manager of Nanyang Cijan	5.48%
Zhao Zeng (趙增)	Deputy general manager of Nanyang Cijan	4.57%
Wang Wenbo (王文波)	Executive Director and deputy general manager of Nanyang Cijan	4.57%
Chu Xinyao (褚新耀)	Deputy general manager of Nanyang Cijan	4.57%
Liu Yonghong (劉永紅)	Deputy general manager of Nanyang Cijan	4.57%
Zhu Zihua (朱自華)	Deputy general manager of Nanyang Cijan	4.57%
Liu Jinyong (劉金永)	Assistant general manager of Nanyang Cijan	4.11%
Yang Weixia (楊瑋霞)	Executive Director and deputy general manager of Nanyang Cijan	3.65%
		100.00%

(1) rounded up to two decimal place.

---

## HISTORY AND DEVELOPMENT

---

3. Fu Pengxu (付蓬旭) is a non-executive Director and one of the Founders. Zhang Guangliang (張廣亮) is one of the Founders. Dou Changlun (竇長倫) acquired his interest in Wingco Development from Fu Pengxu (付蓬旭) and Zhang Guangliang (張廣亮) and, save as his interest in our Company through Wingco Development, is an Independent Third Party.
4. Xu Xianqi (徐獻奇), save as his interest in our Company through China Genesis, is an individual investor and Independent Third Party.
5. Xie Qingxi (謝清喜) is a non-executive Director and one of the Founders. Zhang Chuanyong (張傳勇) is one of the Founders.
6. Zhou Hua Rui (周華蕊) is one of the Founders and the vice-president of Hexie Venture.
7. Song Zhewei (宋哲偉), save as his interest in our Company through Wealth Core, is an individual investor and Independent Third Party.
8. Fan Chong (樊崇) is one of the Founders.
9. Han Guangsheng (韓光勝) is one of the Founders.
10. Hu Xingzi (胡杏子), save as her interest in our Company through Ever-Full Development, is an individual investor and Independent Third Party.
11. Sun Lijun (孫麗軍), save as her interest in our Company through Sino Lotus, is an individual investor and Independent Third Party.
12. Xichuan Automobile is a branch of Nanyang Cijan.
13. None of Zhou Hua Rui (周華蕊), Xu Xianqi (徐獻奇), Song Zhewei (宋哲偉), Hu Xingzi (胡杏子) and Sun Lijun (孫麗軍) have or had any management role in our Group.

---

## BUSINESS

---

### OVERVIEW

We are one of the leading shock absorber manufacturers in the PRC. Our products are used in automobile manufacturing and aftermarket repair and maintenance. According to the Overview Report, we are the fourth largest shock absorber manufacturer, and the largest independent shock absorber manufacturer, both in terms of production volume for the supply of shock absorbers to the domestic automobile manufacture market in 2010. Independent shock absorber manufacturers are free to supply shock absorbers to any automobile manufacturers and they are not subject to priority supply to neither its shareholders nor any affiliated partners. Details of the background of the independent shock absorber manufacturers are set out in the paragraph headed “Industry overview — The nature of the market players in the shock absorber manufacture industry in China” of the prospectus. We principally design and manufacture shock absorbers for the OEM Market, and also manufacture and supply shock absorbers for the Automobile Aftermarket. In 2010, we produced approximately 5.1 million units of shock absorbers in the PRC, representing approximately 7.3% of the total number of shock absorbers produced by major shock absorber manufacturers for the domestic automobile manufacture market in the PRC in the same period.

We were ranked “A” Class supplier by our major customer FAW-Volkswagen in 2009; we have been rated as an “Excellent Supplier” by Chongqing Lifan and Beijing Automobile in 2010; we have been recognized as the National Top 100 Excellent Automotive Parts Suppliers (全國優秀汽車零部件供應商) for eight consecutive years from 2002 to 2010; in 2005, our products under the Danjiang “丹江” brand shock absorber were recognized as a “Henan Top Brand” product (河南省名牌產品). Most of the products we sold to our top five customers were ultimately applicable to their small to mid engine displacement vehicle series.

We believe that the leading status of our products in the PRC OEM Market and our good reputation in the Automobile Aftermarket will continue to provide a valuable platform for our continuing expansion and development.

Our sales team possesses strong market development capabilities, and our products are being used by 11 out of 20 of the largest passenger vehicle manufacturers in the PRC. During the Track Record Period, the proportion of our sales to the 11 out of the top 20 largest passenger vehicle manufacturers in relation to our total sales volume has increased, accounting for approximately 73.6%, 85.0%, 86.1% and 87.6% of our total sales revenue, respectively. We will continue to strengthen our high quality customer base.

Having about 50 years of history and experience in the manufacture of automobile shock absorbers, we have established a high quality customer base. In the past three years, we have provided over 200 models of shock absorber products from up to 11 major product series to over 40 automobile manufacturers in the PRC. We have established long and stable business relationships with some of the leading automobile manufacturers in the PRC, including FAW-Volkswagen, Chery, Haima Auto and Jianghuai Automobile, to whom we have supplied shock absorbers for over 10 years. We also strove to secure closer relationship with our customers. In 2008, we entered into a core supplier agreement with Chery, our largest customer during the Track Record Period.

---

## BUSINESS

---

We have maintained working relationships with majority of our raw material and components suppliers for over 10 years. Our production facilities are currently located in Nanyang, Henan Province, and we possess advanced technologies and are well-equipped with high technology machinery and facilities, which is able to integrate the shock absorber production process and possesses a deeper level of self-production of key components; for example, we have integrated the self-production of key components such as piston rods, working cylinders and storage tanks into our production process, which not only serves to ensure the high quality of the completed end product, but also enables us to reduce the cost of purchasing components from external sources, and thus bring about a cost advantage.

We have a strong research and development team. We have been keeping abreast with the international advanced technology in the industry, and have received recognition from various domestic and international organisations for our technology, as well as registered a number of patents in the PRC. Our products have been granted the ISO9001 certification in 1998, QS9000 certification in October 2001, VDA6.1 certification in October 2001 and ISO/TS16949 certificate in April 2008. In 2010, we were approved by Henan Province Science and Technology Bureau (河南省科學技術廳) to set up a Provincial Level Technology Research Centre for shock absorber engineering (河南省汽車減振器工程技術研究中心), and in 2011, we were recognised as a Henan Province Innovative Pilot Enterprise (河南省創新型試點企業). We were also recognised as a High and New Technology Enterprise (高新技術企業) in the years 2004 and 2009 respectively. We have also entered into various development cooperation agreements with various universities, including Beijing University of Civil Engineering and Architecture, and Northwestern Polytechnical University, in respect of cooperation on the development of products and technology. As at the Latest Practicable Date, our self-developed shock absorber for high speed rails have completed approximately a total of over 400,000 kilometres of railroad testing on the relevant railroads and the technical performance has been stable. As at the Latest Practicable Date, we have registered 64 patents in the PRC, of which 3 are invention patents.

Our management team has extensive industry knowledge, management skills and operation experience, and some of the members have served our Group for over 15 years. Under the leadership of our management team, we have achieved rapidly increasing growth, and have achieved a leading status within the PRC OEM Market. We believe that the capabilities of our management team will continue to enable us to capture market opportunities and ensure our continual growth, we believe we are able to maintain our leading market share in the near future.

During the Track Record Period, our revenue was approximately RMB297.3 million, RMB392.5 million, RMB543.7 million and RMB286.3 million, respectively. In 2008, 2009, 2010 and the five months ended 31 May 2011, our revenue generated from the sales to the OEM Market was RMB275.1 million, RMB378.0 million, RMB512.4 million, and RMB272.1 million, respectively, and our revenue

---

## BUSINESS

---

generated from the sales to the Automobile Aftermarket was RMB22.3 million, RMB14.5 million, RMB31.3 million and RMB14.2 million, respectively. The following table illustrates our sales breakdown by segments during the Track Record Period:-

	Year ended 31 December						Five months ended 31 May					
	2008		2009		2010		2010		2011			
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%		
Sales to OEM												
Market	275,054	92.5	377,974	96.3	512,395	94.2	192,642	94.9	272,106	95.0		
Sales to												
Automobile												
Aftermarket	<u>22,277</u>	<u>7.5</u>	<u>14,531</u>	<u>3.7</u>	<u>31,321</u>	<u>5.8</u>	<u>10,307</u>	<u>5.1</u>	<u>14,185</u>	<u>5.0</u>		
Total	<u>297,331</u>	<u>100</u>	<u>392,505</u>	<u>100</u>	<u>543,716</u>	<u>100</u>	<u>202,949</u>	<u>100</u>	<u>286,291</u>	<u>100</u>		

### COMPETITIVE STRENGTHS

Our Directors believe that our Group's success is primarily attributable to the following competitive strengths:-

#### Leading position and strong brand recognition

We are one of the leading shock absorber manufacturers in the PRC. Our products are used in automobile manufacturing and aftermarket repair and maintenance. According to the Ourview Report, we are the fourth largest shock absorber manufacturer, and the largest independent shock absorber manufacturer in terms of production volume for the supply of shock absorbers to the domestic automobile manufacture market in 2010 and we commenced the development and manufacture of shock absorbers in 1961 in the PRC. Independent shock absorber manufacturers are free to supply shock absorbers to any automobile manufacturers and they are not subject to priority supply to its shareholders or any affiliated partners. Details of the background of the independent shock absorber manufacturers are set out in the paragraph headed "Industry overview — The nature of the market players in the shock absorber manufacture industry in China" of the prospectus. In 2010, we produced approximately 5.1 million units of shock absorbers in the PRC, representing approximately 7.3% of the total number of shock absorbers produced by major shock absorber manufacturers for the domestic automobile manufacture market in the PRC in the same period.

We were ranked "A" Class supplier by our major customer FAW-Volkswagen in 2009, rated as an "Excellent Supplier" by Chongqing Lifan and Beijing Automobile in 2010 and have recognized as the National Top 100 Excellent Automotive Parts Suppliers (全國優秀汽車零部件供應商) for eight consecutive years from 2002 to 2010. In 2005, our products under the Danjiang "丹江" brand were recognized as a "Henan Top Brand" product (河南省著名品牌產品).



---

## BUSINESS

---

Most of the products we sold to our top five customers were ultimately applicable to their small to mid engine displacement vehicle series. According to the Ourview Report, due to the high oil price and increasing demand for environmental protection and government incentive policies, the small-displacement vehicle sector has recorded high growth in recent years. We therefore believe the demand from our top five customers will continually increase accordingly.

We believe that the leading status of our products in the PRC OEM Market and our good reputation in the Automobile Aftermarket will continue to provide a valuable platform for our continuing expansion and development. With (i) the continuing improvements in our research and development capacity; (ii) the strict supplier standards used by automobile manufacturers when choosing parts suppliers and that such choices are not easily changed after the selection is made being a particular nature of the industry; and (iii) the continual expansion of our production capacity to satisfy increasing demand, we believe that we will be able to maintain our leading market share in the near future.

### **Strong sales and marketing capacity, high quality customers and long established and stable relationships with our customers**

Our sales team possesses strong market development capabilities, and our products are being used by 11 out of 20 of the largest passenger vehicle manufacturers in the PRC. During the Track Record Period, the proportion of our sales to the 11 out of the top 20 largest passenger vehicle manufacturers in relation to our total sales volume has increased, accounting for approximately 73.6%, 85.0%, 86.1% and 87.6% of our total sales revenue, respectively. We will continue to strengthen our high quality customer base.

Having about 50 years of history and experience in the manufacture of automobile shock absorbers, we have established a high quality customer base. In the past three years, we have provided over 200 models of shock absorber products from up to 11 major product series to over 40 automobile manufacturers in the PRC. Our major customers include FAW-Volkswagen, Yutong Bus, Haima Auto, Dongfeng Automobile, Beijing Automobile, South East Motor, Changan Automobile, Chongqing Lifan, Geely, King Long, Dongfeng Peugeot, Jianghuai Automobile, SAIC Motor and Chery.

We have established long and stable business relationships with some of the leading automobile manufacturers in the PRC, including FAW-Volkswagen, Chery, Haima Auto and Jianghuai Automobile, to whom we have supplied shock absorbers for over 10 years. We also strove to secure closer relationship with our customers. In 2008, we entered into a core supplier agreement with Chery, our largest customer during the Track Record Period. Under the core supplier agreement, we will cooperate with Chery to research and develop new products, and receive certain favourable treatments from Chery in return, such as enjoying a favourable percentage of supply share, reduction in amounts claimed under the after-sale warranties, technical assistance, and requesting Chery to pay or settle before the due date for payment subject to the payment of related financial costs. Chery will assess our capabilities and business every quarter to determine if we satisfy their criteria to be a core supplier, and if we fail to satisfy their criteria for three quarters in a year, we will lose our core supplier status. The core supplier agreement is not an exclusive contract, and does not contain terms such as pricing and product return policy, minimum purchase or sales targets. The duration of the agreement is 10 years.

---

## BUSINESS

---

### **Leading cost advantages**

As we have maintained business relationships with majority of our top five suppliers for over 10 years, and due to our economies of scale, we are able to obtain favourable terms and price arrangements. Furthermore, we possess advanced technologies and are well-equipped with high technology machinery and facilities, through which we believe that we are one of the few shock absorber manufacturers in the PRC, and is capable of integrating the shock absorber production process and possessing a deeper level of self-production of key components; for example, we have integrated the self-production of key components such as piston rods, working cylinders and storage tanks into our production process, which not only serves to ensure the high quality of the completed end product, but also enables us to reduce the cost of purchasing components from external sources, and thus bring about a cost advantage.

We have imported technologically advanced facilities such as fully automatic automobile shock absorber assembly lines, automatic welding production lines, storage tanks welding robot, micro-crack chrome plated piston rods line, high-precision rod grinding machine, high frequency rod quenching equipment, test bed, which has enabled us to maintain production efficiency and product quality in the PRC.

In addition, our production facilities are currently located in Nanyang, Henan Province, which is in the central region in the PRC and has an adequate supply of labour, and relatively lower labour costs as compared with competitors in the same industry in coastal areas and more economically developed areas. At the same time, our current location has plentiful supplies of water and electricity, and with the relatively lower utilities expenses compared with that of the Zhejiang area and other coastal areas, our cost of production has been greatly reduced and this has provided us with further cost advantages.

As we are able to obtain favourable procurement terms due to our economies of scale, reduce the cost of procuring parts and components from external sources through the self-production of key components, and supply our end products to our customers at a relatively lower production cost, we have been able to fix the prices of our products at a competitive level, and ensure that we have a relatively strong ability to maintain our profitability.

### **Strong research and development capacity**

In 2010, we were approved by Henan Province Science and Technology Bureau (河南省科學技術廳) to set up a Provincial Level Technology Research Centre for shock absorber engineering (河南省汽車減振器工程技術研究中心), and in 2011, we were recognized as a Henan Province Innovative Pilot Enterprise (河南省創新型試點企業). We were also recognised as a High and New Technology Enterprise (高新技術企業) in the years 2004 and 2009 respectively.

We have also entered into various development cooperation agreements with various universities in respect of cooperation on the development of products and technology. In 2002, we commissioned Northwestern Polytechnical University in the PRC to build spot welding machine consoles (點焊控制器) for us. According to applicable PRC laws, the ownership of the completed machine belongs to Nanyang Cijan, and the ownership of the technological know-how lies with Northwestern

---

## BUSINESS

---

Polytechnical University. As Nanyang Cijan had paid a commissioning fee of RMB18,000, there is no profit sharing under this agreement. In 2011, we commissioned Beijing University of Civil Engineering and Architecture to research and develop suspension design software (懸架設計軟件開發) and methods for optimisation of integrated design and parameters of suspension (懸架綜合參數設計優化). Ownership of the technological know-how lies with both parties, and both parties have the right to apply for a patent. Both parties may use the patent and share the benefits equally. As advised by our PRC Legal Advisers, owners of jointly-owned patent can agree on the specific rights on patent and forms of distributing the benefits arising from the patent. If there is no such agreement, then every owner of jointly-owned patent is entitled to use the patent on its own accord. If such use is authorised to a third party, the license fee charged shall be shared by the owners of jointly-owned patent. The 50% share of the rights to use and to share the benefit from the patent is freely transferable to other parties, but the other patent owner has the pre-emptive rights in respect of such transfer. The research and development costs payable by the Group under such agreement was RMB250,000.

We have researched and developed products jointly with our customers, such as FAW-Volkswagen, Dongfeng Peugeot and Chery. We have been keeping abreast with the international advanced technology in the industry, and have received recognition from various domestic and international organisations for our technology, as well as registered a number of patents in the PRC. Our products have been granted the ISO9001 certification in 1998, QS9000 certification in October 2001, VDA6.1 certification in October 2001 and ISO/TS16949 certificate in April 2008. Through our own efforts, we have grasped the core technologies of air springs, adjustable pump, electronic adjustable active suspension and semi-active suspension.

As at the Latest Practicable Date, we have registered 64 patents in the PRC, of which 3 are invention patents. We believe our Group possesses strong research and development capabilities, including (i) having a team of over 50 research staff and the key staff have rich experience; (ii) comprehensive research and development facilities, including our advanced product development, and testing system; (iii) our Group has engaged Professor Guo Konghui (郭孔輝), a member of the Chinese Academy of Engineering and an expert in the automobile industry, since 2006 as our leading expert, and to provide professional opinion on the development of forward-looking and advanced products.

Leveraging on our past experience and strong research and development capability, we have started to develop shock absorbers for use in railway transportation since 2007. As at the Latest Practicable Date, our self-developed shock absorber for high speed rails have completed a total of over 400,000 kilometres of railroad testing on the relevant railroads and the technical performance has been stable.

### **Experienced management team**

Our management team has extensive industry knowledge, management skills and operation experience, including our executive director and deputy general manager Mr. Wang Wenbo (王文波), and members of our senior management Mr. Xing Yunming (邢雲明), Mr. Zhu Zihua (朱自華), Mr. Chu Xinyao (褚新耀), Mr. Cheng Zhoujian (程周儉) have extensive experience in the PRC automobile parts and shock absorber industry and have served our Group for over 15 years.

---

## BUSINESS

---

Our chief engineer, Mr. Xing Yunming, has been with our Group for over 39 years, and has participated and led our Group in obtaining a number of patents. Mr. Xing Yunming was the party committee of the Seventh Suspension System Committee of the China Auto Industrial Association. Our executive director and deputy general manager, Mr. Wang Wenbo, was responsible for the technical and sales, and the sales team under his leadership has brought about increasing revenue for our Group as well as record breaking sales each year. Our deputy general manager for production, Mr. Zhu Zihua, has served our Group for 25 years, and has introduced to our Group advanced technologies from overseas, and has contributed significantly to the rise of our Group to becoming a leading self-branded automobile shock absorber enterprise within the industry.

Under the leadership of our management team, we have obtained rapidly increasing growth, and have achieved a leading status within the PRC automobile OEM Market. We believe that the capabilities of our management team will continue to enable us to capture market opportunities and ensure our continual growth, we believe we are able to maintain our leading market share in the near future.

### **OUR STRATEGIES**

Leveraging our Group's competitive strengths and to further enhance our leading position in the market targeting to become one of the leading international parts and components suppliers, our Directors plan to pursue certain growth strategies.

#### **Expand our production facilities and improve our production technologies, raise production efficiency so as to satisfy strong market demand for our products**

As at the Latest Practicable Date, we have an estimated total annual production capacity of 7 million pieces of shock absorbers. To cater for our plans in expanding our product types, market share and new business areas, we are actively seeking to expand our production facilities and increase our production capacity through construction and investment in phases. Our Expanding Production Facilities are located in Danyang Community Shangji Town, Xichuan County, Nanyang City, Henan Province, the PRC, which will occupy a site area of approximately 345,368 square metres. We aim to expand to a total of 12 production lines with production capacity of 12 million pieces of shock absorbers as at the end of 2011, and expand to a total of 15 production lines with production capacity of 15 million pieces of shock absorbers as at the end of 2012. At the same time, we aim to increase the production of key components such as piston rods, storage tanks and working cylinders so as to maintain our cost advantage and product quality. Upon completion of our Expanding Production Facilities, we will continue to maintain our leading position as a shock absorber manufacturer in the PRC.

#### **Expand our existing market share by approaching new customers and exploring new market segment**

For the five months ended 31 May 2011, over 90% of our revenue is derived from sales to the OEM Market. We will continue to supply high quality products to our customers and strengthen our relationship with them, and aim to obtain the qualification to supply shock absorbers for new models of vehicles for our existing customers, so as to increase our existing market share in the PRC. We aim

---

## BUSINESS

---

to continue to develop new customers in OEM Market and aim to increase our number of OEM customers by one to two each year. Since 2010, we have approached several top 20 largest passenger vehicle manufacturers and some leading PRC manufacturers of Japanese branded automobiles which do not business relationships with us and arranged for representatives of these potential customers to visit our production facilities and evaluate our products quality. Through such visits, we are also able to gain information about potential customers' needs. Since 2010, we have successfully become a supplier of shock absorbers for passenger vehicles to Changan Automobile, one of the top five passenger vehicle manufacturers in the PRC in terms of production volume in 2010, to whom we previously only supplied shock absorbers for commercial vehicles. We have also started supplying shock absorbers to a top 20 largest passenger vehicle manufacturer and the first batch of shock absorbers have been delivered in March 2011.

In 2011, we intend to enter into the market for PRC manufacturers of Japanese brand automobiles. As at the Latest Practicable Date, we have been in negotiations with a PRC manufacturer of a Japanese automobile brand to supply them with shock absorbers and are developing sample shock absorbers for their testing, and are in negotiations with them and expect to reach a research and development agreement with them by the end of 2011. In addition, after the expansion of the production facilities, we plan to utilize our resources to penetrate overseas markets to be a supplier for overseas automobile manufacturers such as Europe and North America. We have set up a project team in April 2011 with an aim of developing the North American market and plan to develop around 80 product samples by the end of the year. We have also purchased certain machinery and equipment from Italy in April 2011, and plan to establish a research and development centre in Italy which we believe will serve to build the our reputation as having dual-research centres in the PRC and Europe, with proximity to our core customer group. It is expected that the research and development centre in Italy will be completed and be in operation by the end of 2011. We believe it will improve our Group's corporate image in the PRC, as well as in Europe and North America.

During the Track Record Period, we enjoyed better profit margins from sales to the Automobile Aftermarket. As at the end of 2010, vehicle ownership in the PRC reached 78 million. According to the Ourview Report, generally the product life span of shock absorber is approximately two years. Therefore it is expected that the demand of shock absorbers from Automobile Aftermarket would be enormous. For the five months ended 31 May 2011, sales to the Automobile Aftermarket accounted for approximately 5% of our revenue. We will strive to develop the Automobile Aftermarket. As at the Latest Practicable Date, we have established direct contractual relationships with 75 automobile parts and components distributors in 26 provinces, municipalities and autonomous regions in the PRC. We sell our products to the distributor on a non-return basis. Generally, each of such distributors will through its distribution network distribute our shock absorbers for use in the Automobile Aftermarket within the province for which it is responsible. We will continue to expand our Automobile Aftermarket by penetrating our business to the provinces which we currently do not have business presence. In this regard, we will seek to establish contractual relationships with shock absorber distributors with whom we do not have business relationships and gradually increase the number.

### **Further strengthen our competitiveness through enhancing our technology level**

Our Directors recognized the importance of maintaining our technology level, which is regarded as the foundation to sustain our continued growth and expansion, and our Group will increase our investment in enhancing our research and development capacity.

---

## BUSINESS

---

In light of the approval from Henan Province Science and Technology Bureau (河南省科學技術廳) granted to us to establish a Provincial Level Technology Research Centre for shock absorber engineering (河南省汽車減振器工程技術研究中心), we plan to establish a new research and development centre equipped with advanced facilities imported from overseas. We have started to construct the Expanding Production Facilities in 2009. The new research and development centre will occupy a gross floor area of approximately 6,300 sq. m. and will be part of our Expanding Production Facilities. The first phase of the Expanding Production Facilities is already in use.

To strengthen our research and development ability, we will continue to recruit qualified and experienced personnel, including university graduates with working experience in the industry and qualified engineers in mechanics and related professions. We will also recruit foreign engineers to work in the new and research centre. In line with our plan to penetrate into the overseas market and enhance our research and development ability, we plan to establish an overseas research and development centre in Italy. We have purchased certain machinery and equipment from Italy, and we plan to allocate some core machinery and equipment for the establishment of the research and development centre in Italy.

We will continue to research on new product structures and materials and their applications, and through such research seek to reduce the production cost and improve the quality of the product, and at the same time, maintain our technological advantage within the industry. We have established a specific development team mainly for the development and production of active suspension shock absorbers and semi-active suspension shock absorbers. The Directors believe we will continuously devote resources to the development and production of active suspension and semi-active suspension shock absorbers, and create a new point of growth for our business.

### **Maintain our cost advantages**

In order to maintain our long term competitiveness and stable profit margins, we will endeavour to maintain our cost advantages through strengthening scale of production and product research and development, using our increasing economies of scale to obtain more flexible procurement terms and reduce procurement costs, upgrade our production lines, improve the level of automation, streamline our production process, improving the capability and level of self-production of key components so as to reduce reliance on external parties, and at the same time optimise our integrated process and production efficiency and improve our profit margin.

We will fully leverage on our research and development capabilities and continue to use new materials, new methods and structures to reduce production costs, expand our cost advantage, improve production speed and efficiency, and reduce the production development period.

We also plan to expand our production chain vertically, and reorganise those components which have a greater impact on the cost of the product, so as to greatly reduce our purchasing costs. We believe that through the above measures, the competitive advantage of our production costs will become more prominent in the industry, and our profitability will continue to increase.

---

## BUSINESS

---

### **Develop the shock absorber market for railroad transportation (high speed rails)**

Since our establishment, we have been focusing on producing shock absorbers for use in various types of commercial and passenger vehicles, including small passenger vehicles, sedan cars and trucks.

With China's rapid economic growth, railroad transportation in China has improved significantly. As at the end of 2010, China's city subways and light rail mileage has exceeded 1,500 kilometres, and will reach 2,500 kilometres in 2015. During the 12th Five Year Plan, the PRC government has invested over RMB2.8 trillion into the construction of railroad transportation. The rapid development of PRC railway transportation has brought about huge potential for growth in the shock absorber market, especially in terms of greater demand for shock absorbers for high speed rails. The sale price and profit margin of railroad shock absorbers far exceed that of ordinary automobile shock absorbers, but there are high barriers of entry and technical difficulties.

Leveraging on our past experience and strong research and development capability, we have started to develop shock absorbers for use in railway transportation since 2007. As at the Latest Practicable Date, our shock absorbers for rails have completed trial operation. According to the evaluation reports issued by the Zhengzhou Railway Bureau depot technology section (鄭州鐵路局洛陽機務段技術科) and the inspection and acceptance office of the Zhengzhou Railway Bureau depot technology section (鄭州鐵路局洛陽機務段技術科機驗收室) on 30 March 2011, our two sample absorbers have been in trial operation for rails for over a total of 400,000 kilometres.

In order to develop the railroad transportation market, we are planning to obtain approval from the Zhengzhou Railway Bureau to become a qualified train shock absorber repairer. The application was submitted to the relevant PRC authorities in May 2011 and as at the Latest Practicable Date, we are waiting for the approval of the application. On the basis that we have obtained the qualification to repair train shock absorbers, we plan to communicate with the various local Railway Bureaus (鐵路局) to offer our repair services initially to Xinxiang depot, and on that basis expand to Luoyang depot and Zhengzhou depot. Based on the opinion of our PRC Legal Advisers, there are no legal impediments for us to obtain the relevant approvals to become a qualified train shock absorber repairer.

We expect to receive access qualification (准入資質) from the Ministry of Railways in relation to our rail shock absorbers roughly two to three months after obtaining the repair qualification from the Zhengzhou Railway Bureau (鄭州鐵路局). Once the access qualification has been obtained, our relevant products may be listed on the catalogue of the Ministry of Railways and we will be able to participate in the tender process for the supply of parts to vehicle manufacturers. Based on the foregoing, we intend to promote and introduce our products to the relevant manufacturers in the PRC. However, as each manufacturer has different procedures and requirements in the selection of its suppliers, the timing may vary depending on the vehicle manufacturer.

---

## BUSINESS

---

We believe the railway transportation, including the high speed rails, will be a potential market for great growth in the future. We will continue to focus our resources on developing this new area of business. At present, we have been well-prepared and equipped to diversify our business and enter into this segment of the market. In pursuance of the rapid development of PRC railway transportation, we believe this will be a tremendous market for future growth. We target to leverage on our existing strengths and prepare to grasp this opportunity when we are permitted to supply shock absorbers for the railway transportation by the government so as to grow with the development of the PRC railway industry.

### OUR BUSINESS MODEL

We principally design and manufacture shock absorbers for the OEM Market. We also manufacture and supply shock absorbers for the Automobile Aftermarket. Our business may be divided into two business segments, namely (a) sales to the OEM Market; and (b) sales to Automobile Aftermarket.

The OEM Market refers to the automobile market of the original automobile manufacturer. The Automobile Aftermarket refers to the secondary market of the automobile industry, concerned with the manufacturing, remanufacturing, distribution, retailing and installation of vehicle parts equipment and accessories after the sale of automobile by the original equipment manufacturer to the consumers.

Our customers include original automobile manufacturers. For original automobile manufacturers with whom we have no business relationship, they will normally select their suppliers of the shock absorbers through a quotation process and a comprehensive evaluation of the shock absorber supplier. For our existing customers, they normally place the purchase orders directly with us. Details of the production process are set out in the paragraph headed “Business — Suppliers” of this prospectus. Since shock absorber is an important part of the automobile suspensions, the original automobile manufacturers seldom change their suppliers of parts and components once a qualified supplier is selected. Hence, most of our existing customers have established long and stable business relationship with us.

Our customers also include shock absorber or automobile parts and components distributors, who are responsible to the sales of our products to the Automobile Aftermarket. We sell our products in the Automobile Aftermarket under the Danjiang “丹江” brand.

During the Track Record Period, our revenue was approximately RMB297.3 million, RMB392.5 million, RMB543.7 million and RMB286.3 million, respectively. In 2008, 2009, 2010 and the five months ended 31 May 2011, our revenue generated from the sales to the OEM Market was RMB275.1 million, RMB378.0 million, RMB512.4 million and RMB272.1 million, respectively, and our revenue



---

## BUSINESS

---

generated from the sales to the Automobile Aftermarket was RMB22.3 million, RMB14.5 million, RMB31.3 million and RMB14.2 million, respectively. The following table illustrates our sales breakdown by segments during the Track Record Period:-

	Year ended 31 December						Five months ended 31 May			
	2008		2009		2010		2010		2011	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Sales to OEM										
Market	275,054	92.5	377,974	96.3	512,395	94.2	192,642	94.9	272,106	95.0
Sales to										
Automobile										
Aftermarket	<u>22,277</u>	<u>7.5</u>	<u>14,531</u>	<u>3.7</u>	<u>31,321</u>	<u>5.8</u>	<u>10,307</u>	<u>5.1</u>	<u>14,185</u>	<u>5.0</u>
Total	<u>297,331</u>	<u>100</u>	<u>392,505</u>	<u>100</u>	<u>543,716</u>	<u>100</u>	<u>202,949</u>	<u>100</u>	<u>286,291</u>	<u>100</u>

The following table illustrates our sales volume, average selling price and gross profit margin by segments during the Track Record Period:-

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
<b>OEM Market</b>					
Sales volume		2,626,289	3,185,765	4,314,757	2,302,837
Average selling price		RMB104.7	RMB118.6	RMB118.8	RMB111.5
Gross profit margin		25.10%	23.30%	25.10%	26.70%
<b>Automobile Aftermarket</b>					
Sales volume		387,780	239,869	438,969	180,797
Average selling price		RMB57.5	RMB60.6	RMB71.4	RMB69.4
Gross profit margin		18.50%	28.10%	29.90%	33.70%

The customers of the OEM Market are mainly large passenger vehicle manufacturers which purchase higher-end products with a higher average selling price per unit for producing their own passenger vehicles. The large passenger vehicle manufacturers generally have higher bargaining power over us, and we sell our products to the large passenger vehicle manufacturers at more competitive prices and obtain lower gross profit margins of such products sold because of the bulk purchase volume. On the other hand, the customers of the Automobile Aftermarket are mainly automobile parts and components distributors which mainly purchase our products in relatively smaller volume for the repair and maintenance of commercial vehicles. Since our products can reach the end-users more easily via the distributors, we are able to achieve a higher gross profit margin for the sale of our products compared with that of the OEM Market. As a result of the above, during our Track Record Period, the gross profit margins of the OEM Market are generally lower than those in the Automobile Aftermarket, despite the higher average selling price per unit recorded in the OEM Market segment.

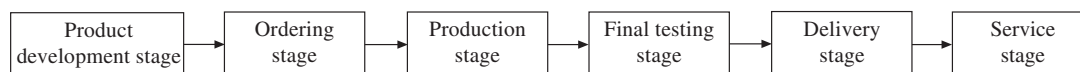
---

## BUSINESS

---

### **Business model for the OEM Market:**

The following diagram illustrates the business model for the sales to OEM Market:



#### *Product development stage*

Most of our customers will provide the specifications of a shock absorber it will require for a particular model of its vehicles. Based on these specifications provided by our customers, we will research and develop jointly with our customer a sample product, undergo various tests, tuning and testing of the sample product to meet the specifications and produce an optimal result. As there will be differences between the designs of different car models, our products will be designed for and specific to a car model of the original automobile manufacturer. For each car model, the original automobile manufacturers may procure shock absorbers from one, or a few, shock absorber producers. Details of the marketing and development process are set out in the paragraph headed “Business — Sales and marketing” of the prospectus.

#### *Ordering stage*

Generally, our major customers enter into the legally binding framework agreements, which set out terms including method of order, packing, delivery and payment, and annual estimates of purchase amounts, and pricing agreements, with us, and specific purchase orders will be placed with us in accordance with the sales and production plan of our customers on a monthly basis. While the framework agreements are legally binding, the estimates of purchase quantities under the framework agreements are non-binding and therefore may not result in revenue for us.

#### *Production stage*

After we receive the purchase orders from our customers, our production department will prepare and finalise the overall production plan and schedule and will analyse the demand on our production capacity. We will then confirm the purchase order with our customers and commence the production. Our procurement department will source the basic raw materials including auto-body stamping parts, welded pipes and coil springs in the PRC. We also self-produce most of the key components for our shock absorbers such as piston rods, storage tanks and working cylinders. Details of the production process are set out in the paragraph headed “Business — Production” of the prospectus.

#### *Final testing stage*

Since the shock absorber is an important part of the automobile suspension of a vehicle and the comfort and safety of a vehicle will be affected by the quality and technology level of the vehicle’s shock absorber, we place great emphasis on the quality and standard of the shock absorbers we produce. We conduct stringent quality controls during various key production process to monitor the product is up to standard and major faults can be spotted and ratified as soon as possible during the production process. In addition, we conduct final quality control testing on all of our finished goods.

---

## BUSINESS

---

### *Delivery stage*

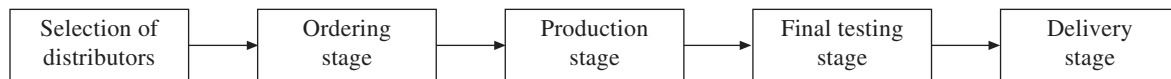
Our finished products upon passing the assurance testings will be packed and delivered to the location as specified by customers.

### *Service stage*

The products we supply to the original automobile manufacturers must satisfy their requirements, and at the same time we have made a quality commitment to the original automobile manufacturers. If there is a complaint about a shock absorber during the warranty period, we will respond quickly and provide quick technical services, so as to ensure the satisfaction of the customers.

### **Business model for the Automobile Aftermarket:**

The following diagram illustrates the business model for the sales to the Automobile Aftermarket:



### *Selection of distributors*

We enter into distribution agreements with automobile parts and components distributors who will distribute our products to the Automobile Aftermarket through their own distribution networks. Generally, each of our distributors will be responsible for the sales of our products in the Automobile Aftermarket in the region it is responsible for. We strategically select the automobile parts and components distributors to meet our plan of development.

### *Ordering stage*

The automobile parts and components distributors with whom we have entered into the distribution agreements will place purchase orders directly with us and will sell our products to the automobile parts and components distributors on a non-return basis.

### *Production stage*

Upon receipt of the purchase orders, we will check if our existing inventory is sufficient to meet the relevant purchase orders. If our existing inventory is unable to meet the purchase orders, we will commence to produce the shock absorbers and, if required, our procurement department will source the required raw materials and parts and components for the production need.

### *Final testing stage*

Since shock absorber will affect the comfort and safety of a vehicle, we adopt the same assurance tests in various key production process and finished product for each shock absorber as for products sold in the OEM Market.

---

## BUSINESS

---

### *Delivery stage*

No credit period is granted to our customers in the Automobile Aftermarket. They are required to settle the payment before delivery of the products. Normally, the automobile parts and components distributors arrange their own logistics services to receive delivery of the products from our factory.

### **OUR PRINCIPAL PRODUCTS**

The shock absorber's function is to absorb or dissipate energy of vibrations through fluid resistance. In general, shock absorbers help cushion vehicles on uneven roads. In a vehicle, shock absorbers reduce the effect of travelling over rough ground and limit excessive suspension movement, leading to improved ride quality, increase in comfort and safety. Comfort and safety of a vehicle will be affected by the quality and technology level of the vehicle's suspension system.

Our Group has integrated and optimised the whole production process of shock absorbers starting from research, design, production of major parts and components to the provisions of after-sale services. Our production process covers the production of key components, such as piston rods, storage tanks and working cylinders, as well as major processes such as painting, welding, and assembling. We believe that we are one of the few enterprises in the industry in the PRC which has integrated the whole production process of shock absorber starting from research, design, production of major parts and components to the provision of after-sale services.

We have our own production facilities which are equipped with advanced machinery and equipment, which enables us to produce absorbers use in almost all types of passenger and commercial vehicles. As at the Latest Practicable Date, the shock absorbers we offered can be generally classified as S20, S25, S27, S30, S31, S32, S34, S40, S45, S50 and S65 series (*note*) with about 390 models which can be used for a wide range of passenger and commercial vehicles ranging from sedan cars, light duty to heavy duty trucks and bus.

*Note:* The classification of these series is our Group's internal classification.

---

## BUSINESS

---

The following brief description illustrates the usage of our product series:

### *S20 and S25 series*



S20 series



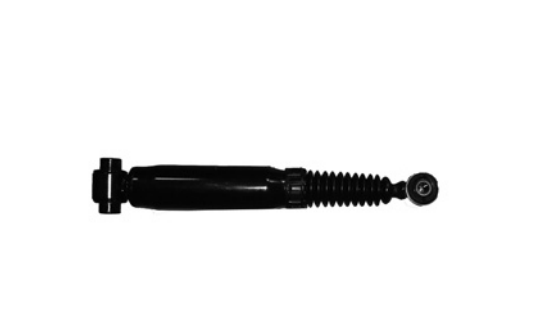
S25 series

They are for use in small-sized vehicles to absorb and dissipate energy, reduce shocks, increase comfort and provide safety protection to the driver and load. Our shock absorbers from these series are applicable to Haima Auto and Chongqing Lifan automobiles.

### *S27, S30, S31, S32, S34 series*



S27 series



S30 series

---

## BUSINESS

---



S31 series



S32 series



S34 series

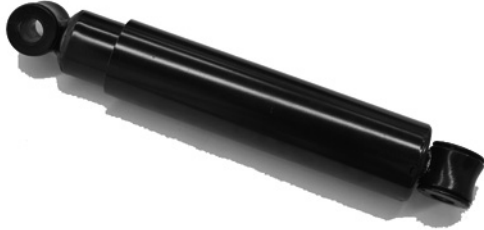
The above series are used in different sedan cars or sports utility vehicles, to absorb and dissipate energy, increase comfort and provide safety protection to the driver and load. Our shock absorbers from the above series are applicable to Changan Automobile, Chery, Beijing Automobile, Chongqing Lifan, Dongfeng Automobile, Haima Auto, SAIC Motor, South East Motor and Geely automobiles.

---

## BUSINESS

---

### *S40 series and S45 series*



S40 series



S45 series

They are for use in medium-sized passenger vehicles or trucks to absorb and dissipate energy, reduce shocks, increase comfort and provide safety protection to driver and loads. Our shock absorbers from the above series are applicable to Jianghuai Automobile, Beijing Automobile and King Long.

### *S50 and S65 series*



S50 series



S65 series

They are for use in large passenger vehicles or trucks and military vehicles and rail cars to absorb and dissipate energy, reduce shocks, increase comfort and provide safety protection to driver and loads. Our shock absorbers from the above series are applicable to Jianghuai Automobile, Yutong Bus, and King Long.

Based on our study of the automobile parts and components markets in the PRC, our Directors anticipated that the demand and the future growth of the Automobile Aftermarket will be significant. We sold our products to the Automobile Aftermarket under Danjiang “丹江” brand. We established the Danjiang “丹江” brand to promote our products in the Automobile Aftermarket. Our Danjiang “丹江” brand was recognised as a “Henan Top Brand” in 2005.

---

## BUSINESS

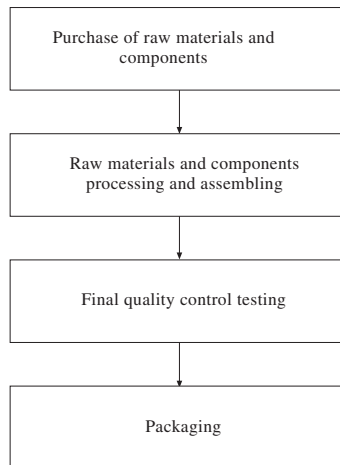
---

We are also developing shock absorbers for use in the railways. As at the Latest Practicable, our shock absorbers for rails have completed the trial operation for over 400,000 km.

### PRODUCTION

#### Production process

The diagram below shows our typical production process:



#### *Purchase of raw materials and components*

Based on the design of our research and development team, our production team will formulate the production plan for a certain product. Our procurement department will then formulate the purchase proposal and commence the purchase of the required raw materials and components to satisfy the production schedule. The whole purchase of raw material and components period ranges between four days to nine days.

#### *Raw materials and components processing and assembling*

Various components will be assembled during the production process. This process includes welding, assembling, oiling, preliminary performance testing, sealing and painting. The whole process of the raw materials and components processing and assembling would take approximately seven days.

#### *Final quality control testing*

Since shock absorbers will affect the comfort and safety of a vehicle, assurance testing will take place for each piece of the shock absorber we produce at different key production process so as to spot any defects and conduct ratification as soon as possible. Final quality control testing will also test various aspects, including the performance of the products. At the same time, we will carry out stringent process controls during testing in accordance with international ISO/TS16949 requirements. By adopting prevention strategies, we are assured that our products are of a high quality.



---

## BUSINESS

---

### *Packaging*

Finished products will be packed and available for delivery to customers.

### **Production facilities**

#### *Existing Production Facilities*

The Existing Production Facilities occupy a site area of approximately 46,203.8 square metres (with a total gross floor area of approximately 35,218.33 square metres). The Existing Production Facilities currently consist of four production lines with an average annual production capacity of approximately 4 million pieces of shock absorbers.

#### *Expanding Production Facilities*

In a view to cater for the expanding business and increasing demand for production capacity, we have started to construct the Expanding Production Facilities in 2009. The first phase of the Expanding Production Facilities are already in use. It now has three production lines in use, with an estimated total annual production capacity of approximately 3 million pieces of shock absorbers. As at the Latest Practicable Date, a total of seven production lines are in use in both production facilities, with an estimated total annual production capacity of 7 million pieces of shock absorbers.

In order to satisfy rapidly growing market demand, we intend to add another five production lines in 2011, and the total increased production capacity will be 5 million pieces of shock absorbers per annum. Our total production capacity is expected to reach 12 production lines, with an estimated total annual production capacity of 12 million pieces of shock absorbers. At the same time, we plan to increase another three production lines in 2012, with an estimated total annual production capacity of 3 million pieces of shock absorbers. We estimate that our production capacity will reach 15 production lines by the end of 2012, with an estimated total annual production capacity of 15 million pieces of shock absorbers. The Expanding Production Facilities is expected to occupy a total site area of approximately 345,368 square metres (with a total gross floor area of approximately 107,509 square metres).

Currently, we have an annual production capacity of 6 million pieces of piston rods, storage tanks and working cylinders, and in line with our plan to expand production capacity, we will also increase our production capacity for piston rods, storage tanks and working cylinders. We plan to increase our annual production capacity of piston rods by 10 million pieces as at the end of 2011, such that our annual production capacity for piston rods will be 16 million pieces. There is a large demand for piston rods for shock absorbers in PRC and overseas, and besides satisfying our own requirements, we may sell any excess pieces of piston rods to other enterprises. At the same time, we plan to increase our annual production capacity of storage tanks and working cylinders by 10 million pieces as at the end of 2011, to a total production capacity for storage tanks and working cylinders of 16 million pieces per year, which will basically satisfy our Group's development needs for the next two years.

---

## BUSINESS

---

The following table sets forth the summary of our production expansion plan:

<b>By the end of year</b>	<b>Annual production capacity for shock absorbers</b>		
	<b>Existing</b>	<b>Expanding</b>	<b>Total</b>
	<b>Production</b>	<b>Production</b>	
	<b>Facilities</b>	<b>Facilities</b>	<b>( '000 pieces)</b>
	<i>( '000 pieces)</i>	<i>( '000 pieces)</i>	<i>( '000 pieces)</i>
2010	4,000	3,000	7,000
2011	4,000	8,000	12,000
2012	4,000	11,000	15,000

The total investment cost of the Expanding Production Facilities is expected to be RMB308.3 million, of which RMB141.1 million has been duly invested as at 31 May 2011. We intend to use 99.3% of the net proceeds from the Global Offering based on an Offer Price of HK\$1.60 per Share (being the mid-point of the indicative Offer Price range of HK\$1.40 to HK\$1.80 per Share) and the remaining of the investment cost of the Expanding Production Facilities will be financed by additional net proceeds from the Global Offering, our internal resources or loans from banks and financial institutions.

With the Expanding Production Facilities, we expect that our annual production capacity will reach 12 million pieces of shock absorbers in end of 2011 and 15 million pieces in end of 2012.

The following table sets forth our production capacity and utilization of the aggregate current annual production capacity of our Existing Production Facilities and Expanding Production Facilities during the Track Record Period:-

<b>For the year ended</b>	<b>Annualized production capacity<sup>(1)</sup></b>	<b>Actual Production Volume<sup>(2)</sup></b>	<b>Utilization Rate<sup>(3)</sup></b>
	<i>( '000 pieces)</i>	<i>( '000 pieces)</i>	<i>%</i>
31 December 2008	4,000	2,741	68.5%
31 December 2009	4,333	3,569	82.4%
31 December 2010	6,083	5,060	83.2%

*Notes:*

- (1) Production capacity is determined based on the estimated average time utilized to produce a piece of shock absorber, a two-shift of 16 working hours per day and 251 working days per year. As at 31 December 2008, 2009 and 2010, the estimated annual production capacity is 3,000,000 pieces, 5,000,000 pieces and 7,000,000 pieces, respectively.
- (2) The actual production volume refers to the actual number of shock absorbers produced in the relevant year.

---

## BUSINESS

---

- (3) The utilisation rate is derived by dividing the actual production volume by the annualized production capacity in the relevant year.

As there is a holiday period in the OEM Market in the PRC during the months of January, February, July and August, there is generally a slowdown in our sales during this period and a relatively lower utilisation rate for these months. As such, our average utilisation rate over the period of a year does not reach 100%.

### *Production equipment*

Our production facilities are equipped with machinery and equipment imported from overseas and from the PRC. Our machinery and equipment include fully automatic automobile shock absorber assembly lines, automatic welding production lines, storage tanks assembly robot, micro-crack chrome plated piston rods assembly line, high-precision rod grinding machine, high frequency rod quenching equipment and test bed welding (焊接) facilities. With the machinery and equipment, we are also able to achieve automation in our production processes of transferring (傳送), oiling (注油), sealing (封口) and inspection and testing (檢測), which in turn enhance our technology level, production efficiency, product quality and minimize the production cost.

We are also equipped with the facilities and equipment for the research, testing and production of shock absorbers for use in the railways, including the high speed rails.

On 28 April 2011, we entered into an acquisition agreement with an independent automobile parts and components manufacturer in Italy pursuant to which we purchased certain machinery and equipment, for various steps in production and testing, at a consideration of approximately RMB10 million. Most of these machinery and equipment are expected to be installed in our production facilities in the PRC and commence operation in the mid of 2012. We believe these machinery and equipment will enhance our production capacity and efficiency.

### *Technical staff*

It is crucial for us to retain and employ technical staff equipped with the necessary technical skills in our production. The technical labour market in the PRC is very competitive. However, most of our staff, including the technical staff are from Nanyang where the labour market is not as competitive as that in the coastal regions and our Group does not encounter major problem in recruiting sufficient staff for its operation. To better secure the recruitment of suitable technical staff to sustain our production and operation, we have entered into joint training programmes with technical colleges, such as Nanyang City Advanced Technical School (南陽市高級技工學校). Pursuant to these training programmes, we will provide our the training course targets and the colleges will provide courses to students. We will also provide on-site training programmes to the students. Upon completion and passing of the courses, we will employ the graduates according to our operation needs and conditions.

During the Track Record Period, we have not experienced any disruption in production which may materially and adversely affect our operations and financial conditions.

---

## BUSINESS

---

### PROCUREMENT OF RAW MATERIALS

#### Procurement

Raw materials we procured for our production include fine welded pipes (精焊管), normal welded pipes (普通焊管), cold drawn pipes (冷撥管), auto-body stamping parts (冷板), cold-drawn round steel (冷拉圓鋼), damper fluid (減振器油) and components we procured for our production include auto-body stamping parts, bumper block (沖壓件), rubber parts (橡膠件), coil springs (螺旋彈簧), powder parts (粉末件) and standard parts (標準件). During the Track Record Period, we sourced all our raw materials and components from the PRC.

Different types of vehicles, having different weight, require different shock absorbers and therefore piston rods. The softness of piston rods will also be crucial because incorrect softness may lead to its breaking and lead to vehicle safety issues. As such, there is a high and strict requirement of the size, the surface roughness, quenching quality and chrome plating quality of a piston rod.

We produced the piston rods for our products which require higher technology standard and quality, and we purchased a small portion of piston rods from our suppliers. During the three years ended 31 December 2010 and the five months ended 31 May 2011, approximately 93%, 86%, 76% and 78% of the piston rods used for our production were produced by our Group.

Other than piston rods, during the Track Record Period, we also produced components such as storage tanks and working cylinders for some of our production. We allocated part of the processing work of our storage tanks and working cylinders to independent manufacturers. During the three years ended 31 December 2010 and the five months ended 31 May 2011, the processing expenses amounted to approximately RMB16,000, RMB201,000, RMB102,000, and nil respectively.

We adopt two procurement strategies, namely daily procurement and strategic procurement. “Daily procurement” refers to the procurement of raw materials to satisfy our normal and general production requirements. “Strategic procurement” refers to development of strategic suppliers in line with our business development plan.

We therefore purchase our raw materials based on projected sales quantity to our customers with references to the projected vehicle sales quantity of our customers and sales information collected from our customers and the market. Our sales and marketing department is responsible for formulating the monthly sales proposal and production plan. Based on the projected monthly sales proposal and production plan, our procurement department provides a monthly estimates of the quantity and types of raw materials required and will procure the raw materials pursuant to these projections.

For commonly use raw materials, our procurement department will procure these raw materials from the list of our approved suppliers at the agreed prices. For new raw materials or raw materials with adjusted prices, we will procure these raw materials after going through the suppliers’ selection process.

---

## BUSINESS

---

During the Track Record Period, we have not encountered any procurement of raw materials which materially deviate from the projected procurement estimates resulting in a material adverse effect on our financial conditions and operation.

### Suppliers

Our major supplies include spring, steel, rubber and oil. We have established long-term relationships of more than 10 years with our major suppliers. We generally enter into framework agreements with our suppliers to set out our yearly purchase budget. Pursuant to the framework agreements which are legally binding, the quantity of purchases are non-binding and may be adjusted according to our needs at a particular time by giving notice to the supplier. Based on the monthly procurement estimates compiled by our procurement department, we will notify the relevant suppliers of our demand for raw materials and components. Our suppliers will inform us if they are unable to satisfy our needs. To avoid any disruptions in production, we maintain at least two suppliers for each of the raw materials or components. As our purchases mainly comprise components that are not customised products and are readily available in the market, we believe that it would not be difficult for us to find alternative suppliers should existing suppliers cease business relationships with us in future and it would not have a significant impact on our production process or business.

We take into account factors such as the quality and technology level of the suppliers, the purchase price, our production cost and the historical dealings with the suppliers in selecting our suppliers. We also conduct monthly evaluation of our suppliers and eliminate suppliers who fail to meet our standard from our suppliers' list and add in new qualified suppliers.

We have adopted stringent measures in monitoring the quality of the raw materials and components supplied by our suppliers. Staff from our quality control department will conduct a sample testing and inspection on the raw materials and components upon their delivery. If a raw material or component is found to be sub-standard, the relevant raw material or component will promptly be returned to the relevant supplier for substitution.

Delivery of raw materials and components mostly take place at our production facilities. Risk and title are passed to us upon delivery of the raw materials and components.

Every year, our quality control department and procurement department carry out on site evaluations at the premises of our main suppliers, and assess their production capacity, so as to ensure that the production capacity of the respective suppliers are sufficient to meet our Group's production and future development needs, and at the same time maintain the quality of the products and materials from the source of supply. Due to long term working relationships and annually increasing quantities, our main suppliers supply high quality products to us at competitive prices, which has ensured that we maintain our cost advantage within the industry.

During the three years ended 31 December 2010 and the five months ended 31 May 2011, purchases from our Group's five largest suppliers amounted to RMB65.5 million, RMB95.9 million, RMB133.6 million and RMB61.7 million, respectively, representing 32.1%, 32.6%, 33.4% and 29.1%

---

## BUSINESS

---

of our total purchases for the relevant years. During the same period, purchases from the single largest supplier amounted to RMB19.3 million, RMB27.6 million, RMB37.6 million and RMB14.6 million, respectively, representing 9.5%, 9.4%, 9.4% and 6.9% of our total purchases for the relevant period.

During the Track Record Period, 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 had any interest in any of the five largest suppliers.

### Others

During the Track Record Period, we confirm that we have not experienced any disputes with our suppliers or any disruption in supply of raw materials and components which may materially and adversely affect our operations and financial conditions.

### AUTOMOBILE AFTERMARKET

During the three years ended 31 December 2010 and the five months ended 31 May 2011, we also sold our products to the automobile parts and components distributors on a non-return basis. The sales of our products in the Automobile Aftermarket may be affected by the demand for different car models of the original automobile manufacturers. The sales to the Automobile Aftermarket accounted for approximately 7.5%, 3.7%, 5.8% and 5.0% of our total turnover for each of the year ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011 respectively.

Benefitting from our established reputation of providing high quality shock absorbers in the OEM Market, we are generally able to fix our prices for products sold in the Automobile Aftermarket with reference to the prices of our products sold to the original automobile manufacturers.

Our customers in the Automobile Aftermarket are automobile parts and components distributors located in different parts of the PRC, including but not limited to Beijing, Shanghai, Guangzhou and Chongqing, who will sell our products in the Automobile Aftermarket (including automobile repair and maintenance shops) through their own distribution network. To strategically position the development of our Automobile Aftermarket business, generally, each of our automobile parts and components distributors is responsible for the sale of our shock absorbers in the Automobile Aftermarket in one province of the PRC.

The table below sets forth the aggregate number of additions and terminations of distributors for each year during the Track Record Period and up to the Latest Practicable Date:

	As of 31 December									As at the Latest Practicable Date		
	2008			2009			2010			Total Addition	Terminated	Total
	Addition	Terminated	Total	Addition	Terminated	Total	Addition	Terminated	Total			
Number of distributors	10	—	58	9	1	66	11	5	72	5	2	75

---

## BUSINESS

---

During the Track Record Period and up to the Latest Practicable Date, we terminated our business relationship with nil, one, five and two distributors, respectively, due to the expiry of our agreements with such distributors and we did not renew the agreements with them. The decisions not to renew the agreements with the distributors were commercial decisions made in the ordinary course of our business operations and were not due to any irregularities or unusual reasons.

During the Track Record Period and up to the Latest Practicable Date, all of our distributors are PRC enterprises and Independent Third Parties. All risks and titles to the products will pass to these automobile parts and components distributors upon delivery and we will not be responsible for or bear any risk and expenses in respect of the onward distribution of our products to the end-users.

The products we sold in the Automobile Aftermarket are principally the same as or similar to the products we sold in the OEM Market. We use the resources and production facilities for products for both the OEM Market and the Automobile Aftermarket.

We carefully choose our customers in the Automobile Aftermarket by taking into account various factors including their distribution capacity and marketing strategies. Generally, we will sell our products to potential customers whose distribution capacity and development plan are in line with our requirements. If we are satisfied with the performance of the potential customers upon completion of the trial period, we enter into framework agreements with these qualified distributors. The framework agreements generally set out the minimum annual purchase target with specific minimum purchase target for each month in the year. Should the distributor fail to meet the minimum purchase target for a consecutive three months, we have the right to replace the distributor in the relevant region. While the framework agreements are legally binding, the estimates of purchase quantities under the framework agreements are non-binding and therefore may not result in revenue for us.

We establish a direct contractual relationship with the automobile parts and components distributors who we understand will distribute our products within the region for which it is responsible. Different from sales in the OEM Market, no credit period is given and we require our customers in the Automobile Aftermarket to pay first before or at the time we deliver our products to them and payments are generally settled by telegraphic transfers.

Directors anticipate that the demand and the future growth of the Automobile Aftermarket will be significant and we also intend to devote more resources to the development of the Automobile Aftermarket in the future.

Unlike the OEM Market where a supplier of a shock absorber has to meet the requirements and obtain the necessary management and standard certifications before it is appointed by an original automobile manufacturer as a supplier for a shock absorber, enterprises engaging in the manufacture of shock absorbers can enter into the Automobile Aftermarket. We face competition from all these enterprises. However, we believe our high quality products have an advantage over most of these enterprises.

---

## BUSINESS

---

### QUALITY CONTROL

We placed emphasis on quality control. Quality control is an integral part of our procurement and production process. Since shock absorbers will affect the safety and performance of a vehicle, quality control and assurance testings will apply to each shock absorber we produce.

Sample testing on the raw materials and components purchased are carried out as soon as they are delivered by our suppliers to ensure that the raw materials and the components are up to our standard and requirements. Sub-standard raw materials and components will be returned to our suppliers. At the same time, we will carry out on-site evaluations at the premises of our main suppliers, and assess their production capacity, so as to ensure the quality of the products and materials from the source of supply. In addition, we also produce certain key parts and components, such as piston rods, to ensure the quality of our finished products.

The quality control standard applied to the production process is formulated in accordance with different requirements of each product. Assurance testing procedures will be added in various key production process to monitor the product is up to standard and major defaults can be spotted and ratified as soon as possible during the production process. Our finished products will be tested in various aspects, including performance and appearance.

We have been constantly placing effort on improving and enhancing our quality control system. We conducted regular internal reviews on the quality control system in our production processes and finished production inspections. We now adopt the SPC, MSA, APQP, PPAP and FMEA procedure and analysis in our production processes focusing on prevention and control of defects over design, production and quality inspection. With the implementation of those procedure and analysis in our production process and quality control procedures in place, the warranty provision decreased by 31.9% as at 31 May 2011 from that as at 31 December 2010.

We were granted ISO9001 series accreditation in 1998, the VDA6.1 certification in October 2001 and the ISO/TS 16949 in April 2008.

### INVENTORY CONTROL

We closely monitor our inventory level to meet our production requirements and to minimize any waste on inventory and avoid obsolete inventory.

We have implemented the ERP system for its various business cycles including raw materials, inventory, management, accounts receivables and accounts payables. The ERP system enables our Group to closely monitor the key steps in making decisions based on just-in-time data and identify potential problems and make necessary adjustments in a timely manner. It also enhances our management and administration effectiveness and communication among our departments, facilitates order checking, inventory control and financial conduct and enables us to respond instantly to any potential problems identified.



---

## BUSINESS

---

As of 31 December 2008, 2009 and 2010 and 31 May 2011, our Group's inventory for finished products was approximately RMB55.5 million, RMB55.9 million and RMB75.9 million and RMB50.9 million, respectively, and the average inventory turnover days for the year ended 31 December 2008, 2009, 2010 and for the five months ended 31 May 2011 were 88.5, 67.7, 59.3 and 45.8 days, respectively. During the Track Record Period, we have not experienced any write-off of inventory or made any provisions for inventory obsolescence.

### SALES AND SERVICES

#### Sales and customers

Our sales mainly consist of two parts, namely (i) sales to the OEM Market in the PRC; and (ii) sales to the Automobile Aftermarket.

During the Track Record Period, all of our sales were made to customers in the PRC who include original automobile manufacturers. Our PRC customers comprise of 11 out of the top 20 passenger vehicle manufacturers in the PRC, and our major customers include FAW-Volkswagen, Yutong Bus, Haima Auto, Dongfeng Automobile, Beijing Automobile, South East Motor, Changan Automobile, Chongqing Lifan, Geely, King Long, Jianghuai Automobile, SAIC Motor, Dongfeng Peugeot and Chery. These customers in aggregate contributed approximately 73.6%, 85.0%, 86.1% and 87.6% of our total revenue for the year ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011, respectively. We have established more than 10 years of business relationship with eight of these customers. Automobile manufacturers prefer to choose capable shock absorber suppliers as their long term business partners and develop together with them. In this regard, we have worked with FAW-Volkswagen, Chery, Jianghuai Automobile, Haima Auto and Dongfeng Peugeot for more than 10 years, and have formed stable business relationships with these automobile manufacturers. We strive to establish a closer relationship with our customers and in 2008, we entered into a core supplier agreement with Chery, our largest customer during the Track Record Period. Under the core supplier agreement, we will cooperate with Chery to research and develop new products, and receive certain favourable treatment from Chery in return, such as enjoying a favourable percentage of supply share, reduction in amounts claimed under the after-sale warranties, technical assistance, and requesting Chery to pay or settle before the due date for payment subject to the payment of related financial costs. Chery will assess our capabilities and business every quarter to determine if we satisfy their criteria to be a core supplier, and if we fail to satisfy their criteria for three quarters in a year, we will lose our core supplier status. The core supplier agreement is not an exclusive contract, and does not contain terms such as pricing and product return policy, minimum purchase or sales targets. The duration of the agreement is 10 years.

For the OEM Market, purchase orders will be placed by our existing customers setting out the order volume for the following month, and our staff will confirm and process the order accordingly. We also conduct market research to identify potential new customers, and approach such potential new customers with development proposals and explain to them our products, our technology level and the services our Group is able to provide. If our proposal is accepted by a potential customer, we will research and develop the potential product and carry out testing on small quantities of the potential product. If the trial product is accepted by the potential customer, we will secure new orders to supply products to that customer.

---

## BUSINESS

---

For the Automobile Aftermarket, apart from purchase orders from existing customers, we seek to develop our Automobile Aftermarket and secure new purchase orders through referrals from existing customers, participations in automobile components trade shows, increasing awareness of our products through the internet, and directly approaching automobile parts and components distributors to promote our products.

We enter into framework agreements with our customers which generally set out the estimated purchase amount for the coming year. Based on these framework agreements, we will compile our monthly sales plan, production proposal and purchase estimates. Our customers will make purchase orders in respect of the specific quantity, terms and conditions of each purchase. The framework agreements with our customers are to set out the intention and estimate of the annual estimated purchase amount. While the framework agreements are legally binding, the estimates of purchase quantities are non-binding and therefore may not result in revenue for our Group. No penalty will be imposed on our customers should they fail to meet the estimated purchase amount as stated in the framework agreements.

In case we are selected by our customer to develop a shock absorber for a potential model of its vehicle, our customers generally will provide the specifications of this potential product and we will research and develop the potential product jointly with our customers. A sample product will then be produced and various testings, amendments and tunings will be carried on the sample product until a satisfactory result is reached. Upon the successful development of the new product, our customers will make purchase orders for this new product according to its production and sales plan.

### **Our sales department**

As at the Latest Practicable Date, our sales department consisted of 35 staff. Our sales department is mainly responsible for collecting and analyzing feedbacks from our customers, market information and, based on these information, compiling our annual sales proposal. Our sales department is also responsible for developing new customers. Based on the market information collected and analyzed, our sales department will identify the potential customers. Staff from our sales department will take the initiative in contacting these potential customers directly to explain to them our products, technology level and the services our Group is able to provide. We also target to develop overseas customers.

### **After-sales services and warranty period**

We provide a warranty period of ranging from 20,000 kilometres to 100,000 kilometres or 1 year to 3 years starting from the date of purchase of an automobile by the end-user, to our customers in respect of our products based on the different requirements of our customers. We will also provide quality warranty to our OEM Market customers, the terms of which are subject to agreement on a case-by-case basis. Generally, if our products do not satisfy the quality requirements of the OEM Market customer, the customer may require us to fix the products and impose a percentage reduction in the price of the products. We may also be liable for the losses sustained by original automobile manufacturer caused by defects in our products. For our Automobile Aftermarket customers, we generally provide a warranty period of 12 months starting from the date of manufacture of the product. Based on the opinion of the PRC Legal Advisers, for the OEM Market, under the relevant PRC laws

---

## BUSINESS

---

and regulations, we are not directly liable to the ultimate customers (being the automobile buyers) for product liability claims. For the Automobile Aftermarket, based on the opinion of our PRC Legal Advisers, under the relevant PRC laws and regulations, we will be directly liable for compensating for damages to the ultimate users for defects in our products. During the warranty period, we will fix any defects and replace the faulty products free-of-charge for our customers. During the Track Record Period, we did not experience any substantial replacements of our products and the costs incurred in relation to our after-sales services was insignificant which did not have a material impact on our financial results.

To mitigate the risk of potential claims due to product defects, the contracts we enter into with our OEM Market customers will contain specific terms as to our warranty obligations and the mileage and period covered by the warranty. We also seek to improve the standard and quality of our products so as to reduce the possibility of defects, and we also upgrade our equipment from time to time so as to improve production efficiency and ensure a consistent quality standard of our products, so as to reduce the possibility of defective products.

### **Pricing policy**

Pricing of our products is primarily determined by the cost of the product, price of competitive product and market demand and condition. We will review our prices on a regular basis with our customers so that necessary adjustments can be made in a timely manner to maintain our competitiveness and profitability.

### **Payment manner and credit period**

The payments of the products by our domestic customers is mainly settled in Renminbi by ways including direct bank transfers, bank notes and telegraphic transfers. Our Group has not experienced any material defaults in payment from its customers during the Track Record Period.

We normally offer a credit period of 90 days to our customers in the OEM Market. For the Automobile Aftermarket, no credit period is granted to the distributors and payment has to be made at the time or before the delivery of the products.

During the Track Record Period, we have not experienced any material bad debts from our customers which may materially affect our operations and financial results adversely.

### **Top five customers**

During the three years ended 31 December 2010 and the five months ended 31 May 2011, sales to our five largest customers amounted to RMB197.7 million, RMB287.3 million, RMB485.6 million and RMB195.5 million, respectively, representing 66.5%, 73.2%, 89.3% and 68.3% of its total turnover for the relevant year/period. During the same period, sales to our Group's single largest customer amounted to RMB79.0 million, RMB98.1 million, RMB147.8 million and RMB61.1 million, respectively, representing 26.6%, 25.0%, 27.2% and 21.4% of our total turnover for the relevant period.

---

## BUSINESS

---

During the Track Record Period, 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 had any interest in any of the five largest customers.

### Others

Our Group has not adopted any arrangement to hedge any fluctuation in the price of its finished products.

During the Track Record Period, apart from the legal proceedings with Biyadi Automobile Company Limited (the “**Biyadi Litigation**”), we have not experienced any claims in relation to defects of our products which result in a materially adverse effect in our operations or financial results. We consider that the amount involved in the Biyadi Litigation is not material and will not have any material adverse effect on our operations or financial results. Further details of the Biyadi Litigation are set out in the paragraph “Legal proceedings” in this section of this prospectus.

### MARKETING AND PROMOTION

Given the nature of the industry, we seldom advertise our products or adopt the normal advertising media to promote our products. We principally promote our products through direct contacts with our potential customers and follow up with the feedbacks from our existing customers. We also promote our Group and products through the participation of community services, industry exhibitions in the PRC and overseas. Our reputation has been gradually established through our offering of high quality, reliable and high standard products to our customers over the years.

From time to time, we collect and analyze market information and identify any potential customers who are in line with our development strategy. Having identified potential customers, our sales staff will contact them directly to explain our products, technology level and services provided.

### AWARDS

The following are some of the significant awards and certifications our Group has received:

<b>Awards/Certification</b>	<b>Awarded/Granted by</b>	<b>Awarded/ Granted to</b>	<b>Date of award/ grant</b>
High and New Technology Enterprise	Henan Province Science and Technology Department (河南省科學技術廳)	Henan Jinguan Wangma Xichuan Auto Stock Absorber Factory (河南金冠王碼浙川減振器廠)	December 2004

---

**BUSINESS**

---

<b>Awards/Certification</b>	<b>Awarded/Granted by</b>	<b>Awarded/ Granted to</b>	<b>Date of award/ grant</b>
Henan Top Brand (河南省名牌產品) was awarded to the “丹江” brand of shock absorbers	Henan Promotion Commission for Top Brand Strategy (河南省名牌戰略推進委員會)	Henan Jinguan Wangma Xichuan Auto Stock Absorber Factory (河南金冠王碼淅川減振器廠)	September 2005
National Top 100 Excellent Automotive Parts Suppliers (全國優秀汽車零部件供應商)	China Automobile News Publishing Co. (中國汽車報社)	Xichuan Automobile	2002 to 2010 <i>(note)</i>
2006 Henan Provincial Quality Management Advance Enterprise (“2006年全省質量管理先進企業”)	Henan Provincial Bureau for Quality and Technical Supervision (河南省質量技術監督局)	Xichuan Automobile	October 2006
Top Ten Quality Brands in National Famous Shock Absorbers (全國知名減振器十佳名優品牌)	China Market Brand Management Federation (中國市場品牌管理聯合會)	Xichuan Automobile	November 2006
New products air-spring pressure shock absorbers and air suspension shock absorbers (front and rear) for 10-metre long passenger vehicles (空氣彈簧壓力控制減振器和10米客車前 and 後空氣懸架減振器) was awarded PRC Automobile Proprietary Innovation Results Original Innovative Award (“中國汽車自主創新成果原始創新獎”) and Collective Innovation Award (“集成創新獎”)	China Automobile News (中國汽車報)	Xichuan Automobile	December 2006

---

**BUSINESS**

---

<b>Awards/Certification</b>	<b>Awarded/Granted by</b>	<b>Awarded/ Granted to</b>	<b>Date of award/ grant</b>
The Peugeot 206 shock absorbers (front and rear) were recognized as a high new technology product	Henan Science and Technology Bureau	Nanyang Xichuan	December 2007
Danjiang (丹江) brand of shock absorbers was recognized as a PRC Quality Brand Product (中國優質名牌產品)	China Association for Quality and Technical Supervision (中國質量管理監督監驗協會), 中國名優品牌策略促進會, China Association of Small and Medium Enterprises (中國中小企業管理協會)	Xichuan Automobile	January 2008
ISO/TS16949	The Certification Body of TÜV SÜD PSB Pte Ltd	Xichuan Automobile	April 2008
Top 50 Private Enterprise in Nanyang (2008)	Nanyang Municipal People's Government	Xichuan Automobile	July 2009
A-Class supplier	FAW-Volkswagen	Xichuan Automobile	August 2009
High and New Technology Enterprise (高新技術企業)	Henan Province Science and Technology Department (河南省科學技術廳), Henan Provincial Department of Finance (河南省財務廳), Henan Provincial Administration of Taxation (河南省國家稅務局), Henan Local Taxation Bureau (河南省地方稅務局)	Nanyang Cijan	December 2009
“丹江” branded S20 — S65 series shock absorbers was recognized as Henan Top Brand (河南省名牌產品)	Henan Promotion Commission for Top Brand Strategy (河南省名牌戰略推進委員會)	Nanyang Cijan	September 2010

---

## BUSINESS

---

Awards/Certification	Awarded/Granted by	Awarded/ Granted to	Date of award/ grant
Henan Province Innovative Pilot Enterprise (河南省創新型試點企業).	Henan Province Science and Technology Department, Henan Provincial People's Government State-owned Assets Supervision and Administration Commission, Henan Provincial Development and Reform Commission, etc. (河南省科學技術廳、河南省人民政府國有資產監督管理委員會、河南省發展和改革委員會等)	Nanyang Cijan	January 2011
Nanyang City Top 10 Tax Payor and High Growth Industrial Enterprise (南陽市十大納稅高增長工業企業)	Nanyang City People's Government	Nanyang Cijan	February 2011
Advanced Enterprise (先進企業)	Nanyang City People's Government	Nanyang Cijan	March 2011

*Note:* Nanyang Cijan was recognized as a National Top 100 Automotive Parts Supplier by China Automobile News (《中國汽車報》) in 2002 but the certificate of award was issued in November 2003. In 2003, China Automobile News (《中國汽車報》) had not made any assessment and rating in respect of National Top 100 Automotive Parts Supplier award. In 2002, the award was named Best Automotive Parts Supplier (最佳汽車零部件供應商). From 2004 to 2007, the award was named China Auto Parts Supplier 100 Best (全國百佳汽車零部件供應商). Since 2008, the award was named China Auto Parts Supplier 100 Best (全國百家優秀汽車零部件供應商).

## RESEARCH AND DEVELOPMENT

Given our business model where most our customers will provide specifications of a product and we have to rely upon our research and development capacity to develop the product, a strong research and development capacity is crucial to develop the product which meet the specifications set by our customers, in order to secure existing customers and develop new customers.

Once we are selected by an original automobile manufacturer to produce a shock absorber for a new series of its vehicles, we have to undergo research works on the new product before proceeding to mass production.

In most cases, our customers will provide specifications of the new product. Our research and development team will work with our customers to develop the new product based on these specifications provided. Our research and development team will take into account factors including

---

## BUSINESS

---

the technology requirements, performance, safety, comfort in the product design and ensure that all these have met the specifications as required by our customers. Our research and development team will work with our customers to develop the design, the chart of the product, the technical specifications and the sample products. We work closely with our customers in revising and amending the designs and charts. Various testing and tuning of the sample product will be carried out on the vehicles. Upon the confirmation by our customer on the new product, we will commence mass production.

For existing products for an existing series of vehicles of our customers, the research and development works can be dispensed with and we may proceed to manufacture the existing product upon receipt of customers' purchase orders.

It will take approximately three to six months in the research and development of a shock absorber for the Automobile Aftermarket.

We believe the strong capability in research and development is indispensable to our future growth. During the Track Record Period, our research and development strategy included engaging external experts and collaborating with external tertiary institutions in research and development projects, as well as training and strengthening our own team of research and development staff. Over the years, our products have been recognized as having a high quality associated with high technology. Our Danjiang (丹江) brand, the brand we use on our products for the Automobile Aftermarket, was recognized as a "Henan Top Brand" and a "PRC Quality Brand Product". From 2002 to 2010, our Group has been recognized as the National Top 100 Excellent Automotive Parts Suppliers (全國優秀汽車零部件供應商) for eight years. Nanyang Cijan has been recognized as the "High and New Technology Enterprise" in 2004 and 2009 by Henan Province Science and Technology Department (河南省科學技術廳), Henan Provincial Department of Finance (河南省財務廳), Henan Provincial Administration of Taxation (河南省國家稅務局), Henan Local Taxation Bureau (河南省地方稅務局). In August 2009, we were recognized as an A-Class supplier by FAW-Volkswagen. In recognition of high standard of technology level, our products have been granted the ISO9001 certification in 1998, QS9000 certification in October 2001, VDA6.1 certification in October 2001 and ISO/TS16949 certificate in April 2008.

ISO9001 certification is an international quality management standard organized by the International Organisation for Standardization.

QS-9000 certification is a quality standard developed by the joint effort of automobile manufacturers General Motors, Chrysler and Ford. On 14 December 2006, all QS9000 certifications were replaced by ISO/TS16949.

VDA6.1 certification a management system registration for suppliers to German automobile manufacturers. The scope of VDA 6.1 certification is similar to that of QS9000 outlining specific requirements for supplies to German automobile manufacturers.

ISO/TS16949 is an ISO technical specification prepared by the International Automotive Task Force and based on the ISO 9001 aiming to the development of a quality management system that provides for continual improvement, emphasising defect prevention and the reduction of variation and



---

## BUSINESS

---

waste in the supply chain in the automobile industry. ISO/TS16949 is an ISO technical specification which aligns the automobile quality system standards within the global automobile industry. Original car manufacturers generally require their suppliers to meet the technical specification of ISO/TS16949. It is generally believed that if a supplier without a valid a ISO/TS16949 certification has no chance to serve the original car manufacturer with standard parts.

In addition, we possess the capacity to produce shock absorbers for use in the high speed rails (高鐵), which require a higher standard of safety. As at the Latest Practicable Date, our shock absorbers for rails have completed trial operation. According to the evaluation reports issued by the Zhengzhou Railway Bureau depot technology section (鄭州鐵路局洛陽機務段技術科) and the inspection and acceptance office of the Zhengzhou Railway Bureau depot technology section (鄭州鐵路局洛陽機務段技術科機驗收室) on 30 March 2011, our two sample absorbers have been in trial operation for rails for over 400,000 kilometres.

We have a strong research and development team consisting of over 50 staff, including senior management who are principally responsible for the design and testing of our products. Among our research and development staff, 36 staff are engineers and 12 staff are technicians. Majority of our engineers have more than five years of experience in the research and development works of vehicle parts and components or related industry. Since April 2006, we have appointed Professor Guo Konghui (郭孔輝) as our senior technical consultant to provide advice and guidance on our research and development works and projects, in particular, on projects requiring high technology and standard level, research problems encountered by us and our development direction and vision of the automobile industry. Professor Guo holds various positions in the PRC automobile industry. He is a member of the China Academy of Engineering (中國工程院院士), the head of the Automobile College of Jilin University (吉林大學汽車學院院長).

To strengthen our research and development ability, we have purchased certain machinery and equipment from Italy, and we plan to allocate some core machinery and equipment for the establishment of a research and development centre in Italy, and we will recruit qualified foreign engineers. It is expected that the construction of the research and development centre in Italy will be completed and commence operation by the end of 2011. As the equipment for the research and development centre has already been acquired, we do not expect further material expenditure in this respect. It is expected that the capital expenditure for the lease of buildings and land in relation to the research and development centre will be 240,000 Euros annually, and around 145,000 Euros for the purchase of certain auxiliary facilities for the research and development centre and will be funded by our internal resources. The establishment of a research and development centre in Italy will serve to build our reputation as having dual-research centres in the PRC and Europe, with proximity to our core customer group. We expect that the research and development centre in Italy will strengthen the research and development of our products for OEM manufacturers of European and North American automobiles in the PRC.

Over the years, our research and development team has carried out research on various aspects of our products, with an aim to continuing improve the functions, reliability, safety level and

---

## BUSINESS

---

performance of our products. We have successfully developed the swing arm shock absorber (搖臂式減振器), the twin tube fluid shock absorber (雙筒液壓減振器), the hybrid stock absorbers (油氣混和減振器), the magneto rheological shock absorber (磁流變體減振器), the pump displacement shock absorber (泵式位移減振器) and the horizontal shock absorber (橫向減振器).

We also have collaborated with various tertiary institutions in the PRC on certain research and development. We have entered into a shock absorber series software development agreement with Beijing University of Civil Engineering and Architecture, and our subsidiary Nanyang Cijan was approved by Henan Province Science and Technology Bureau (河南省科學技術廳) to establish a Provincial Level Technology Research Centre for Shock Absorbers Engineering (河南省汽車減振器工程技術研究中心). We have also established a postdoctoral research base in Henan Province. Our Directors are of the view that the approval to set up a provincial level research centre is a recognition of our research and development capacity as reaching a certain standard in the industry. Pursuant to such approval, we will establish the research centre in our Expanding Production Facilities and new and advanced research and development equipment will be purchased. The estimated total investment cost of the new research and development centre is RMB35 million, of which RMB22 million will be financed by the net proceeds from the Global Offering and RMB13 million will be financed by our internal resources. It is expected that the new research and development centre will commence operation in end of 2011. We believe this new research and development centre will increase our research capacity substantially which in turn will continue to sustain our future growth.

In January 2011, we were recognized as Henan Province Innovative Pilot Enterprise (河南省創新型試點企業).

As at the Latest Practicable Date, we have registered 64 patents in the PRC, of which three are invention patents. All of these patents were independently developed by our Group, and the patented technology covers aspects such as product design, product appearance, inner construction, product technology and production equipment, thereby enhancing the overall competitiveness of our end products and enhancing our leading status in the industry. In developing our new products, we work closely with the original automobile manufacturers during the development stage of their automobiles, thus enabling us to establish closer relationships with our target customer group and better understand their needs. This has helped us to achieve recognition from our customers and enhanced the competitiveness of our products. For details of our patents, please refer to the paragraph headed “B. Further information about the business of our Group — 2. Intellectual property rights — (b) Patents” in Appendix V of this prospectus.

We have received continual support from various PRC government departments for the development of our products, and during the Track Record Period, our Group has received an aggregate of RMB5,000,000 in research and development subsidies. This is a recognition of our research and development capability from the various PRC government departments.

Going forward, our research and development strategy includes the construction of our new research and development centre as part of our Expanding Production Facilities, which is expected to occupy a gross floor area of approximately 6,300 sq. m.. We will also leverage on the establishment of the research and development centre in Italy to mark the beginning of our research and development

---

## BUSINESS

---

capabilities overseas, and aim to integrate the core technologies of the original Italian manufacturer with our own technologies in the PRC. We also intend to hire experienced overseas research and development staff and provide more training for our research staff in the PRC. Further, we intend to develop more new products to ensure the continuity of our product development.

For the three years ended 31 December 2010 and the five months ended 31 May 2011, we have expended approximately RMB4.2 million, RMB13.3 million, RMB16.3 million and RMB8.7 million respectively in our research and development, representing approximately 1.4%, 3.4% and 3.0% and 3.1% of our turnover in the period respectively. Going forward, we intend to allocate approximately 3% of our annual revenue to research and development annually. We estimate our capital expenditure for strengthening our research and development capabilities to be approximately RMB8 million, RMB12 million and RMB15 million for each of the three years ending 31 December 2013, respectively. It is expected that RMB8 million will be deployed in the construction of our new research and development centre, RMB15 million will be deployed in the purchase and installation of equipment for the research and development centre, and RMB12 million will be deployed in the construction of a test track and an indoor road simulation platform.

### COMPETITION

Our principal competitors are foreign investment enterprises who have advanced technology and equipment. The local enterprises have not, and are not likely to, pose a serious threat to our competitive position in the market as their products are of a lower technology level than our products.

We believe there are no material barriers to entering the industry. Nonetheless, the industry is highly technology-intensive and we believe the local newcomers will not be able to compete with us in the short term. In addition, we believe our integrated ability to produce key parts and components such as piston rods, working cylinders and storage tanks, our ability and readiness to enter into the market of shock absorbers for the railways, including the high speed rails, our ability to provide shock absorbers of comparable standard but at lower prices will outweigh our local competitors. With an on-site research and development department, we are able to react promptly to fix any defects and adjust our products in a timely manner.

### ENVIRONMENTAL MATTERS, OCCUPATIONAL HEALTH AND SAFETY

#### Environmental matters

The waste generated from our manufacturing process include waste water. We are subject to the following environmental protection laws and regulations in the PRC:

- the Environmental Protection Law of the PRC (中華人民共和國環境保護法)
- the PRC Law of the Prevention and Control of the Air Pollution (中華人民共和國大氣污染防治法)
- the Law of the Prevention of Water Pollution in the PRC (中華人民共和國水污染防治法)

---

## BUSINESS

---

- the Administration Regulation on the Levy and Use Discharge Fees (排污費徵收使用管理條例)

For further details of the above laws and regulations, please refer to the section headed “Regulations relating to the industry” of this prospectus.

All of our production facilities have adopted measures to control the emissions of wastes and pollutants and obtained required qualifications.

We have established two waste water process stations and one of which is an electroplating waste water treatment station. All our waste water is processed before discharged.

During the three years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011, our Group’s cost excluding depreciation of compliance with the applicable environmental protection laws and regulations was approximately RMB410,000, RMB420,000, RMB496,000, and RMB214,000, respectively. Based on the historical cost and our Directors’ experience, the expected annual cost of compliance with applicable environmental protection laws and regulations will be approximately RMB582,000 and RMB699,000 for the years ending 31 December 2011 and 2012, respectively.

Our Directors believe that we have adopted effective measures to prevent and control pollution to the environment. During the Track Record Period, we have not encountered any penalty for failure to comply with the applicable environmental laws and regulations.

### **Occupational safety**

We place emphasis on the health and safety of our employees in our production facilities. Various measures have been implemented to ensure safe production process, including the establishment of a safe production committee which is principally responsible to formulate and oversee the implementation of measures on production safety, daily safe inspection of our production facilities and regular health checks for our staff.

### **REGULATIONS AND COMPLIANCE**

Our Directors and the PRC Legal Advisers confirmed that during the Track Record Period and as at the Latest Practicable Date, our Group has complied with all PRC laws and regulations related to our Group’s operation and business in all relevant material respects and our Group has obtained all of the approvals, licences, permits and qualification certificates required under PRC laws and regulations in order to conduct our business, and as at the Latest Practicable Date, such approvals, licences, permits and qualification certificates have not been revoked.

The PRC Legal Advisers have confirmed that our Group has complied with all the above regulations and has obtained all relevant and necessary permits and licences for its business and operations.

---

## BUSINESS

---

### INTELLECTUAL PROPERTY RIGHTS

Our Group's products are sold under various brands including the Danjiang “丹江” brand, which was awarded as Henan Top Brand in 2005. As at the Latest Practicable Date, we had registered and was in the process of applying for registration of certain trademarks. Details of our trademarks are set out in the paragraph headed “B. Further information in the business of our Group — 2. Intellectual property rights — (a) Trademarks” to Appendix V of this prospectus.

In recognition of its research efforts and advantages, as at the Latest Practicable Date, we had registered 64 patents, and were applying for the registration of five patents. Details of our patents are set out in the paragraph headed “B. Further information in the business of our Group — 2. Intellectual property rights — (b) Patents” to Appendix V of this prospectus.

During the Track Record Period, we had not encountered any proceedings concerning any material claims of infringement of any intellectual property rights that may be threatened or pending, in which any member of our Group is the claimant or respondent.

### PROPERTIES

#### Properties held and occupied by our Group

As of 31 August 2011, our Group held and occupied parcels of land in the PRC with a site area of approximately 407,308 square metres, together with the buildings having a total gross floor area of approximately 47,924 square metres and the associated structures erected thereon. Save for four buildings (with a total gross floor area of approximately 332.23 square metres) which are categorized as simple structures for ancillary services and the PRC Legal Advisers confirmed that those buildings are not required to obtain building ownership certificates. We have obtained the land use rights and building ownership certificates for our owned properties.

Pursuant to the State-owned Land Use Rights Certificate — Xi Guo Yong (2011) Zi Di No. 031, the land use rights of a parcel of land with a site area of approximately 218,602 sq. m. located at Danyang Community, Shangji Town, Xichuan County, Nanyang City, Henan Province, the PRC, was granted to our Group for industrial use with the land premium and associated costs of approximately RMB63.5 million. The relevant state-owned land use rights certificate has been obtained in March 2011. The land is expected to be used for the Expanding Production Facilities.

#### Leased properties of our Group

As of 31 August 2011, our Group leased three properties in the PRC with an aggregate gross floor area of approximately 4,153 square metres from Independent Third Parties. In addition, our Group has proposed to purchase a parcel of land of a site area of approximately 123,139 square metres. The land is situated in the Danyang district of Shangji City in Nanyang County, and the amount of consideration is approximately RMB22 million, which will be funded by internal resources. The land will be used for expanding our facilities, and it is expected that we will obtain the land use right certificate by March 2012.

---

## BUSINESS

---

### Valuation report

Jones Lang LaSalle Sallmanns Limited (“**Jones Lang**”), an independent property valuation firm, has assessed the property interests of our Group as of 31 August 2011. The text of Jones Lang’s letter, the summary of valuation and the valuation certificate are set out in Appendix III annexed to this prospectus.

### INSURANCE

Our Group maintains social insurance for its employees in the PRC in accordance with applicable laws and requirements from the relevant local authorities. Social insurance premiums are borne by our Group and its employees in a specific proportion regulated by relevant PRC laws. Our Group also maintains insurance for certain important plant and machinery, and equipment. Under PRC law, we are not required to maintain product liability insurance. Accordingly, in line with our understanding of the usual industry practice, we have not maintained product liability insurance as it is not compulsorily required under the PRC laws and regulations. We consider that our insurance coverage as described above is in line with industry norm.

### LEGAL PROCEEDINGS

(i) *Case with Biyadi Automobile Company Limited*

On 31 May 2010, Biyadi Automobile Company Limited (比亞迪汽車有限公司) (“**Biyadi**”) commenced proceedings against Nanyang Cijan and Xichuan Automobile in relation to a contractual dispute, claiming damages from Xichuan Automobile in respect of a batch of goods which were returned due to quality issues, for which Nanyang Cijan had joint liability. Xichuan Automobile had been supplying shock absorbers to Biyadi since 2004. Pursuant to the supply agreement between the parties, the shock absorber assembly was warranted against oil infiltration or leakage, and pressure leakage. In 2008, in view of an ongoing dispute between the parties as to alleged quality defects, namely abnormal noise and oil leakage, in shock absorbers supplied by Xichuan Automobile, Xichuan Automobile took back the shock absorbers. In 2009, Nanyang Cijan appointed an independent third party to conduct tests on a sample of the returned products and the results have showed that the claims made by Biyadi Automobile are unreasonable. Despite repeated attempts by Xichuan Automobile to negotiate with Biyadi, Biyadi did not take any steps to arrange for the shock absorbers to be tested by a mutually acceptable recognised body, nor reduce the erroneous portion from the amount claimed. On 6 December 2010, the relevant PRC court ordered Xichuan Automobile to pay damages in the amount of RMB3.0 million to Biyadi, for which Nanyang Cijan is jointly liable. Xichuan Automobile appealed against the decision on 27 January 2011. In its appeal, Xichuan Automobile reiterated that the fact that it took back the shock absorbers from Biyadi was not an admission of any quality defects in the shock absorbers, and requested the relevant court to appoint a recognised authority to conduct an evaluation. As at the Latest Practicable Date, the matter was still pending in court. Based on the relevant litigation materials and the first court judgment, there has been no conclusion as to whether there were quality defects in the products supplied by Nanyang Cijan. Currently, Biyadi, Nanyang Cijan and Xichuan Automobile are in the process of negotiating a settlement agreement, pursuant to which it is expected that Xichuan Automobile will pay to Biyadi an amount of approximately RMB1.4

---

## BUSINESS

---

million as settlement of the dispute. Provisions of RMB2.9 million has been made as of 31 December 2010 and 31 May 2011 in relation to this case. During the Track Record Period, our transaction amounts with Biyadi were RMB19.7 million, RMB0.2 million and nil, respectively. We did not enter into any transactions with Biyadi since 2011.

(ii) *Case with Henan Jinguan Wangma Information Industry Company Limited*

In 2007, Xichuan Automobile underwent restructuring. As part of the restructuring, Nanyang Cijan obtained part of the assets of Xichuan Automobile and became indebted to Jinguan Wangma in an amount of RMB38.4 million. On 23 June 2010, Jinguan Wangma commenced proceedings against Nanyang Cijan in relation to a contractual dispute, claiming an aggregate amount of RMB18.0 million, comprising of a debt of RMB10.0 million and related interest of RMB5.9 million, and other unpaid amounts of RMB4.0 million, allegedly owed by Nanyang Cijan to Jinguan Wangma. Nanyang Cijan defended against Jinguan Wangma on the basis that Nanyang Cijan did not owe Jinguan Wangma any money. On 21 December 2010, Nanyang Cijan filed a petition for dismissing the charges and counterclaimed for RMB2.2 million. Pursuant to its statement of defence (《民事答辯狀》), Nanyang Cijan submitted, that (a) pursuant to a “Confirmation on asset handover and clearing of debts” (《資產交接及債務清償確認書》) (the “**Confirmation**”) executed by both parties on 28 September 2007, Nanyang Cijan had owed Jinguan Wangma an amount of RMB38.4 million. However, in accordance the Confirmation, Nanyang Cijan subsequently paid out an aggregate amount of RMB40.6 million to Jinguan Wangma and other third parties on behalf of Jinguan Wangma in 2007. After deducting the amount of RMB38.4 million owed by Nanyang Cijan to Jinguan Wangma, Jinguan Wangma owed Nanyang Cijan an amount of RMB2.2 million; (b) as Nanyang Cijan did not owe Jinguan Wangma any money, and the Confirmation did not provide for interest, the amount of RMB5.9 million claimed by Jinguan Wangma as interest was baseless; and (c) the amount of RMB4.0 million claimed by Jinguan Wangma did not exist. On 9 May 2011, Nanyang Cijan and Jinguan Wangma entered into a settlement agreement (the “**Settlement Agreement**”). Pursuant to the Settlement Agreement, (a) Jinguan Wangma agreed that it shall unconditionally and irrevocably withdraw its claim from the court on the date of the Settlement Agreement; (b) both parties agreed that all claims and liabilities of Jinguan Wangma against Nanyang Cijan shall be offset against each other; and (c) commencing from the date of the Settlement Agreement, all disputes relating to claims and liabilities between both parties shall be set off, all rights and obligations in relation to the claims and liabilities between the parties up to the date of the Settlement Agreement shall be terminated, and the parties shall have no other disputes. During the Track Record Period, no provision had been made on this case as in the opinion of the PRC Legal Advisers, the case was in favour to the Group on sound grounds.

On 11 May 2011, the relevant PRC court issued a “Decision on withdrawal of claim” (《撤訴裁定書》), confirming that the parties in the proceedings have reached a settlement agreement, that the true intention of the plaintiff to withdraw its claim was a voluntary exercise of its rights, and did not violate the law and regulations, and the withdrawal was approved. Our PRC Legal Advisers are of the opinion that (a) the Settlement Agreement is legal and valid; and (b) the judgement rendered by the relevant PRC court does not have any material adverse effect on the normal operations of Nanyang Cijan or the interests of its shareholders.

---

## BUSINESS

---

### (iii) *Case with Nanyang Commercial Bank*

In 2008, Nanyang Cijan provided financial guarantees to Nanyang Sanbo Automotive Gear Company Limited (南陽三博汽車齒輪有限公司) (“**Nanyang Sanbo**”) in relation to bank loans from Nanyang City Commercial Bank (“**NCCB**”) for RMB13.7 million in aggregate. As one of the shareholders of Nanyang Sanbo is ultimately controlled by Mr. Xi, in the opinion of our PRC Legal Advisers, Nanyang Sanbo is a related party of Nanyang Cijan, and the guarantee provided by Nanyang Cijan to Nanyang Sanbo is a related party guarantee. In December 2008, Nanyang Cijan entered into a memorandum of understanding with a shareholder of Nanyang Sanbo (the “**Shareholder**”) (the “**MOU**”), pursuant to which Nanyang City State-owned Assets Supervision and Administration Commission (南陽市國有資產監督管理委員會) (“**Nanyang SASAC**”) agreed to reimburse Nanyang Cijan all losses should Nanyang Cijan be demanded by NCCB to fulfil its joint guarantee obligation towards Nanyang Sanbo. Prior to the restructuring of Nanyang Sanbo, it was under the supervision of Nanyang SASAC. Starting from 31 December 2008, Nanyang Sanbo had defaulted repayment of the loans.

On 6 December 2010, NCCB commenced legal proceedings against Nanyang Sanbo, Nanyang Cijan and Nanyang Jinguang Electronics Company Limited (南陽金冠電氣有限公司) demanding repayment of the default loans with an aggregate principal amount of RMB23.5 million, pursuant to which Nanyang Cijan was a guarantor in respect of RMB13.7 million and assumed joint liability and associated interest and penalties thereon. On 22 March 2011, the Nanyang Intermediary People’s Court ordered Nanyang Sanbo to repay to NCCB a principal amount of RMB6.6 million plus interest and penalties, and that Nanyang Cijan and Nanyang Jinguang Electronics Company Limited shall carry out their guarantee obligations within the scope of their agreement. On 12 April 2011, Nanyang Sanbo appealed against the decision, and as at the Latest Practicable Date, there has not been a final judgment in this regard. On 21 April 2011, Nanyang SASAC submitted a “Request for instructions in relation to the release of the loan guarantee by Nanyang Cijan to Nanyang City Commercial Bank” (《關於解除南陽漸減汽車減振器有限公司在南陽市商業銀行貸款擔保的請示》) to the Nanyang City Government in relation to the release of the guarantee obligations of Nanyang Cijan with respect to the loans made by Nanyang Sanbo, and was approved by the mayor of Nanyang City. On 6 May 2011, Nanyang Commercial Bank, the Nanyang City State-owned Assets Supervision and Administration Commission, Nanyang Cijan and Nanyang Sanbo executed a “Letter of undertaking in relation to the release of the guarantee by Nanyang Cijan to Nanyang Commercial Bank” (《關於解除南陽漸減汽車減振器有限公司在南陽市商業銀行擔保的承諾函》) (“**Letter of Undertaking**”), pursuant to which the parties agreed and confirmed that (a) all the guarantee obligations of Nanyang Cijan to Nanyang Commercial Bank in respect of the loans of Nanyang Sanbo, and Nanyang Cijan shall have no further guarantee obligations or any other related obligations. Nanyang Commercial Bank shall completely withdraw its claim against Nanyang Cijan; and (b) the Letter of Undertaking shall be irrevocable from the date of execution and shall have legal effect. Further, on 9 May 2011, Nanyang Sanbo issued a letter confirming that it would compensate Nanyang Cijan any amounts incurred by Nanyang Cijan should Nanyang Cijan have to carry out any guarantee obligations in relation to the Nanyang Sanbo loans. Our PRC Legal Advisers are of the opinion that if Nanyang Cijan is required to fulfill its guarantee obligations to NCCB, according to the relevant PRC laws and regulations, it shall be entitled to demand repayment from Nanyang Sanbo within the limitation period, and Nanyang Sanbo has an obligation to compensate Nanyang Cijan for all sums incurred. Our PRC Legal Advisers are of the opinion that the Letter of Undertaking is legal and valid, and the guarantee obligations of Nanyang



---

## BUSINESS

---

Cijan in respect of the loans and bank acceptance agreements have been released. Further, according to the credit report (《企業基本信用信息報告》) of the People's Bank of China, as at 31 May 2011, no external security information was recorded against Nanyang Cijan, and Nanyang Cijan has been relieved of its abovementioned guarantee obligations. In view of the above, our PRC Legal Advisers are of the opinion that in the event that the competent PRC court having jurisdiction renders a final judgment, there will not be any material adverse effect on the normal operations of Nanyang Cijan or the interests of its shareholders.

The Directors confirm that save as disclosed in this prospectus, no other guarantees have been provided to related parties. If there are any further connected party guarantees provided by us to Nanyang Sanbo after the Listing, the Group shall comply with the applicable Listing Rules.

Save as disclosed above, as of the Latest Practicable Date, we are not engaged in any material litigation, arbitration or claim, and no material litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us or that would have a material adverse effect on our operating results or financial condition.

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

### BOARD OF DIRECTORS

The Board currently consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. Each Director serves a term of three years, with one-third of the Board retiring at each annual general meeting, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The table below shows certain information in respect of the members of the Board.

Name	Age	Position in the Group	Date of appointment
Zhao Zhijun	36	chief executive officer and executive Director	22 May 2011
Wang Wenbo	36	executive Director and deputy general manager	22 May 2011
Yang Weixia	35	executive Director, deputy general manager and manager of finance department	22 May 2011
Xi Chunying	47	chairman and non-executive Director	27 April 2011
Xie Qingxi	38	non-executive Director	22 May 2011
Fu Pengxu	53	non-executive Director	22 May 2011
Chu Kin Wang, Peleus	47	independent non-executive Director	19 October 2011
Li Zhiqiang	48	independent non-executive Director	19 October 2011
Zhang Jinhua	46	independent non-executive Director	19 October 2011

### Executive Directors

**Zhao Zhijun** (趙志軍), aged 36, was appointed as the chief executive officer and an executive Director of the Company on 22 May 2011. He joined the Group in 2005. He is principally responsible for leading the daily management of the business of the Group, including overseeing the production process, sales, procurement, research and development, annual budgeting and financing matters and recruitment, as well as the strategic development of the Group.

Mr. Zhao has over five years of experience in finance and management in automobile shock absorber industry. Prior to joining the Group, he worked for office of the commissioners and general office of Zhengzhou (鄭州特派員辦事處綜合處) of the China Securities Regulatory Commission (中國證券監督管理委員會) from 1999 to 2002. In 2002, Mr. Zhao served as a general manager of the sales department of Minsheng Securities, Nanyang branch (民生證券有限責任公司南陽營業部)

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

till 2005 responsible for overall management of sales department and market development department. Mr. Zhao graduated from Central South University (中南大學) with a master degree in Philosophy of Scientific Technology in 2004. Mr. Zhao did not hold any directorship in any listed companies during the Track Record Period.

**Wang Wenbo (王文波)**, aged 36, was appointed as an executive director of the Company on 22 May 2011. He is also the deputy general manager of the Group. He joined the Group in 1995 and served in various positions including deputy general technology manager and deputy general sales manager. He has over 15 years of experience in the technology, sales and management in the automobile shock absorber industry. He is one of the inventors of two patents with respect to restoration damping valve of hydraulic shock absorber (液壓減振器復原阻尼閥) and compression damping valve of hydraulic shock absorber (液壓減振器壓縮阻尼閥) possessed by us. Mr. Wang graduated from Huazhong Polytechnic University (華中理工大學) (later renamed as Huazhong University of Science and Technology (華中科技大學)) with a diploma in Mechanic Design and Test Technology in 1995. Mr. Wang did not hold any directorship in any listed companies during the Track Record Period.

**Yang Weixia (楊瑋霞)**, aged 35, was appointed as an executive director of the Company on 22 May 2011. She is also the deputy general manager and manager of finance department of the Group. Ms. Yang has over 3 years of experience in finance and management in the automobile shock absorber industry. She joined the Group in 2007 and served as financial manager, human resource manager, assistant to the general manager and deputy general manager. Prior to joining the Group, she worked in various positions in Minsheng Securities (民生證券有限責任公司) including office manager of the sales department of Zhumadian branch (駐馬店營業部), officer in charge of the service department of Xiping Securities (西平服務部), deputy general manager of Nanyang sales department (南陽營業部) and Yinzheng business department (銀証業務部) from 1998 to 2007 responsible for participating in the management of sales department, development of new markets and works related to clients management. Ms. Yang graduated from Henan College of Finance and Economics (河南財經學院) (later renamed as Henan University of Finance and Economics (河南財經政法大學)) with a bachelor degree in Economics in 1998. She was accredited as a medium level economist (中級經濟師) by Ministry of Personnel of PRC in 2000. Ms. Yang did not hold any directorship in any listed companies during the Track Record Period.

### Non-executive Directors

**Xi Chunying (席春迎)** alias Liu Chunying (劉春迎) and David Xi Liu, aged 47, was appointed as the chairman and non-executive Director of the Company on 27 April 2011. Mr. Xi has over 14 years of working experience in finance and management. From 1997 to 2004, Mr. Xi worked in Minsheng Securities (民生證券有限責任公司) as an assistant to president, president and chairman responsible for the investment banking business, the business of research department, planning and development of the company. From 2004 to 2007, he was the chairman of the board of Kaifung City Lanwei Highway Development Company Limited (開封市蘭尉高速公路發展有限公司) responsible for daily operation, development and planning of the company. Mr. Xi has been appointed as the vice-chairman of the board of Yubei (Xinxiang) Power Steering System Co., Ltd. and was responsible for the development of the company, strategic development, planning and approving important business plans since 2007. He has also been appointed as the director of Nanyang Pukang

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

Pharmaceutical Co., Ltd. (南陽普康藥業有限公司) since 2008. Mr. Xi obtained a bachelor degree in Economics from the University of Henan (河南大學) in 1986. He further obtained a master degree and a doctoral degree in Economics from Fudan University (復旦大學) in 1992 and 1995 respectively. He was appointed as a professor by University of Henan (河南大學) in 1995. Mr. Xi did not hold any directorship in any listed companies during the Track Record Period.

**Xie Qingxi (謝清喜)**, aged 38, was appointed as a non-executive Director of the Company on 22 May 2011. Mr. Xie has over 9 years of experience in management. Mr. Xie graduated from University of Henan (河南大學) with a master degree in Economics in 1999 and a doctoral degree in Economics from Fudan University in 2005, and was engaged in postdoctoral research in Shanghai University of Finance and Economics (上海財經大學) in 2009. From 2000 to 2008, he worked in Henan Lotus Gourmet Powder Company Limited (河南蓮花味精股份有限公司), a company listed on the Shanghai Stock Exchange, in various positions including secretary to the board of directors and manager of securities department responsible for disclosure of information management ensuring information disclosure has been conducted in such manner as required by relevant regulatory requirements. Mr. Xie has been appointed as the deputy president of Henan Hexie Chuangye Investment Management Company Limited (河南合協創業投資管理有限公司) since 2005 and was responsible for the strategic operation and the implementation of assets. Mr. Xie has also been appointed as a director of Nanyang Pukang Pharmaceutical Co., Ltd. (南陽普康藥業有限公司) since 2008. Mr. Xie did not hold any directorship in any listed companies during the Track Record Period.

**Fu Pengxu (付蓬旭)**, aged 53, was appointed as the non-executive Director of the Company on 22 May 2011. Mr. Fu has over 22 years of experience in investment and industrial management. From 1989 to 2002, he served as the general manager (廠長) responsible for product research and development, production and sales and secretary of party committee (委員會黨委書記) of Nanyang Transistor Factory (南陽市晶體管廠) responsible for party committee work. Mr. Fu served as a deputy general manager from 2002 to 2003 responsible for investment development, project construction, sales and production and a general manager from 2003 to 2006 responsible for production operation management, operation and funds management of Nanyang Jinguan Group Company Limited (南陽金冠集團有限責任公司). From 2006 to 2010, he served as a chairman and president of Henan Hexie Chuangye Investment Management Company Limited (河南合協創業投資管理有限公司) responsible for operational management and investment planning. Mr. Fu has been a chairman of Nanyang Pukang Pharmaceutical Co., Ltd. (南陽普康藥業有限公司) since 2008 responsible for coordinating board meetings, formulating strategies on company's development and providing guidance to major activities of the company. Mr. Fu was graduated from 531 Mechanic Industrial School (五三一機械工業學校) (later renamed as Henan Industrial School (河南工業職業技術學院)) with a diploma in Cannon Manufacturing in 1980. Mr. Fu did not hold any directorship in any listed companies during the Track Record Period.

### Independent non-executive Directors

**Chu Kin Wang, Peleus (朱健宏)**, aged 47, was appointed as an independent non-executive director of the Company on 19 October 2011. Mr. Chu has over 20 years of experience in corporate finance, audit, accounting and taxation. He is an executive director of Chinese People Holdings

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

Company Limited (中民控股有限公司) (stock code: 681) since 2008. He is also an independent non-executive director of Eyang Holdings (Group) Co., Limited (宇陽控股(集團)有限公司) (stock code: 117), Huayu Expressway Group Limited (華昱高速集團有限公司) (stock code: 01823) and Flyke International Holdings Ltd. (飛克國際控股有限公司) (stock code: 1998) since 2007, 2009 and 2010 respectively, all are companies listed on the Main Board of the Stock Exchange. During the period from September 2005 to March 2007, Mr. Chu was the executive director of Mastermind Capital Limited (慧德投資有限公司) (stock code: 905), during the relevant period known as Haywood Investments Limited, a company listed on the Main Board of the Stock Exchange. From January 2008 to August 2010, he was the independent non-executive director of Sustainable Forest Limited (永保林業控股有限公司) during the relevant period known as Bright Prosperous Holdings Limited (晉盈控股有限公司) (stock code: 723) a company listed on the Main Board of the Stock Exchange. He was also the company secretary of Hong Long Holdings Limited (stock code: 1383), a company listed on the Main Board of the Stock Exchange, responsible for corporate finance, financial reporting and compliance and company secretarial matters from 2008 to 2010. Mr. Chu graduated from the University of Hong Kong with a master degree in Business Administration in 1998. Mr. Chu is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chu is also an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Save as disclosed herein, Mr. Chu did not hold any directorship in any listed companies during the Track Record Period.

**Li Zhiqiang (李志強)**, aged 48, was appointed as an independent non-executive director of the Company on 19 October 2011. Mr. Li has over six years of experience in business management. He is an executive director and president of Shougang Holdings Limited (首鋼控股有限公司) since December 2004 responsible for operational management, senior management recruitment and assessment and general strategic planning. In March 2006, he was a director of Sino Life Insurance Co., Ltd. (中國生命人壽保險股份有限公司), and vice chairman in September 2008. He is also appointed as the chairman and secretary to the Communist Party Committee of Shougang Yili Steel Co., Ltd. (首鋼伊犁鋼鐵有限公司) in February 2010. Mr. Li did not hold any directorship in any listed companies during the Track Record Period.

**Zhang Jinhua (張進華)**, aged 46, was appointed as an independent non-executive director of the Company on 19 October 2011. Mr. Zhang has over 23 years of experience in automobile industry. He is a deputy head of secretary (副秘書長) to Society of Automotive Engineers of China (中國汽車工程學會) and head of secretary (秘書長) to China Automotive Industry Technology Progress Rewarding Fund (中國汽車工業科技進步獎勵基金會) since 2009. From 1988 to 2009, Mr. Zhang served as an assistant to the head, deputy head (副所長) and head (所長) and deputy president (副主任) to the president assistant centre (主任助理中心) of the Automotive Technology Information Institute (汽車技術情報研究所) of China Automotive Technology & Research Center (中國汽車技術研究中心). Mr. Zhang graduated from the Jilin Industrial University (吉林工業大學) (later renamed as Jilin University (吉林大學)) with a bachelor degree in Automotive Application in 1988. Mr. Zhang did not hold any directorship in any listed companies during the Track Record Period.

As at the Latest Practicable Date, save as disclosed in the section headed “Statutory and General Information — C. Further Information about our Directors and our Substantial Shareholders” in Appendix V to this prospectus, the Directors do not have any interests or short positions in the Shares or underlying Shares in the Company within the meaning of Part XV of the SFO.

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

Details of the amount of the Directors' emoluments and the basis of determining such emoluments are set out in the section headed "Statutory and General Information — C. Further Information about our Directors and our Substantial Shareholders" in Appendix V to this prospectus.

Save as disclosed above, each of the Directors confirms with respect to him that (i) he does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of the Company; (ii) there is no other information that should be disclosed for him/her pursuant to the requirements under Rule 13.51(2) of the Listing Rules; and (iii) there are no other matters that need to be brought to the attention of the Shareholders.

### Senior Management

**Xing Yunming** (邢雲明), aged 64, is the chief engineer of the Group mainly responsible for design, research and development. He has over 39 years of experience in the automobile shock absorber industry. He was the deputy committee (副主任委) of the Seventh Suspension System Committee of the China Auto Industrial Association (中國汽車工業協會汽車懸架理事會). He was accredited as a senior engineer by the technology committee of Henan (河南省科委) in 1997. He joined the Group in 1972 as a technician and served in various positions including technology manager, chief engineer and deputy general office manager (副廠長) of technology of the Group. He is one of the inventors of 6 patents with respect to shock absorber manufacturing and processing which are possessed by us.

**Wu Tai Cheung** (胡大祥), aged 54, is the chief financial controller and company secretary of the Group responsible for financial and company secretarial functions. Mr. Wu has over 24 years of experience in the field of financials, auditing, accounting and secretarial matters. He obtained a master degree in Business Administration from the University of Newcastle, Australia and a bachelor degree in Accountancy from the Bolton Institute of Higher Education, United Kingdom (currently known as The University of Bolton) in 2004 and 2002 respectively. He is a member of the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants). He is also elected as an associate of the Institute of Chartered Secretaries and Administrators and admitted as an associate of the Hong Kong Institute of Chartered Secretaries. Mr. Wu served as the financial controller and company secretary of Zhejiang Shibao Company Limited (浙江世寶股份有限公司), a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8331) from 2005 to 2006. From 2006 to 2007, he served as an independent non-executive director of BEP International Holdings Limited (百靈達國際控股有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 2326). From 2007 to 2010, he served as a company secretary of Pacific Textiles Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1382).

**Zhu Zihua** (朱自華), aged 49, is the deputy general manager of the Group and responsible for production. He has 25 years of experience in automobile shock absorber industry. Mr. Zhu graduated from the Henan College of Finance and Economics (河南財經學院) (later renamed as Henan University of Finance and Economics (河南財經政法大學)) with major in Economics Management in 1997. He was qualified as a qualified engineer by the technology committee of Nanyang Municipal (南陽市科委) and accredited as a senior economist by the technology committee of Henan

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

(河南省科委) in 1998 and 1999 respectively. Mr. Zhu joined the Group as a technician in 1986 and served in various positions including supervisor of electroplating workshop, production manager and deputy production general manager. He is one of the inventors of 10 patents with respect to shock absorber manufacturing and processing which are possessed by us.

**Chu Xinyao (褚新耀)**, aged 50, is the deputy general manager of the Group and responsible for quality control. He joined the Group in 1983 and has over 28 years of experience in management. Mr. Chu worked in various senior positions in the Group including deputy general office manager (副廠長), deputy general sales manager and deputy general procurement manager as well as quality control manager. Mr. Chu graduated from Central Agricultural Broadcasting and Television School (中央農業廣播電視學校) with a diploma in Agricultural Economics in 1988. He was accredited as an economist by the technology committee of Henan (河南省科委) in 1999.

**Zhao Zeng (趙增)**, aged 37, is the deputy general procurement manager of the Group. Mr. Zhao has over 16 years of experience in auditing and management. Mr. Zhao joined the Group in 2005 and served in various positions including assistant to general manager (廠長助理) and deputy general office manager (副廠長). Prior to joining the Group, he worked in various positions in Nanyang She Qi Province Auditor Bureau (南陽社旗縣審計局) from 1995 to 2002 including auditing officer, auditing executive and auditing manager (審計所長) responsible for supervision and auditing of financial conditions of different units in accordance with relevant regulatory requirements in the PRC. Mr. Zhao graduated from Central South University (中南大學) major in Business Administration through online study mode. He was accredited as an accountant and economist by the technology committee of Nanyang (南陽市科委) in 2000.

**Cheng Zhoujian (程周儉)**, aged 39, is the assistant to the general manager of the Group. Mr. Cheng has over 17 years of experience in automobile shock absorber industry. He graduated from Nanyang Institute of Technology (南陽理工學院) with a diploma of Machine Manufacturing in 1994. He joined the Group in 1994 and served various positions including deputy officer (副主任) and a deputy division manager (副科長) of technical department responsible for the production technology. From 2004 to 2009, Mr. Cheng served various positions including the product engineering deputy general manager and quality control manager of the Group. Since January 2011, he has been appointed as assistant to the general manager (廠長助理) responsible for product research and development of the Group.

**Li Zhiqian (李志乾)**, aged 42, is the deputy general financial manager of the Group. He has 13 years of experience in finance. He joined the Group in 2009 as an assistant to general manager (廠長助理) responsible for finance work. He has been appointed as deputy general financial manager since 2011. Mr. Li was an auditing manager and deputy head (副所長) of Xinwei Limited Liability Public Accountants' Firm of Nanyang (南陽信威有限責任會計師事務所) from 1998 to 2009 responsible for auditing works. Mr. Li graduated from Henan Province Business College (河南省商業高等專科學校) with a diploma in Finance and Accounting (財會專業) in 1991.

### CORPORATE GOVERNANCE

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

---

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

---

In accordance with the requirements of the Listing Rules, we have established an audit committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules to oversee the Company's financial reporting procedures and internal controls so as to ensure compliance with the Listing Rules.

We have adopted a system of corporate governance.

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

### **AUDIT COMMITTEE**

We have established an audit committee on 19 October 2011 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are to review and approve our Group's financial reporting process and internal control system. The members of our audit committee are Chu Kin Wang, Peleus (朱健宏), Li Zhiqiang (李志強) and Zhang Jinhua (張進華). Chu Kin Wang, Peleus (朱健宏) is the chairman of our audit committee.

### **REMUNERATION COMMITTEE**

We have established a remuneration committee on 19 October 2011 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of our remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The members of our remuneration committee are Zhao Zhijun (趙志軍), Chu Kin Wang, Peleus (朱健宏) and Zhang Jinhua (張進華). Zhao Zhijun (趙志軍) is the chairman of our remuneration committee.

### **NOMINATION COMMITTEE**

We have established a nomination committee on 19 October 2011 with written terms of reference. The primary duties of our nomination committee are to make recommendations to our Board on the appointment of our Directors and the management of our Board succession. The members of our nomination committee are Mr. Xi, Chu Kin Wang, Peleus (朱健宏) and Zhang Jinhua (張進華). Mr. Xi is the chairman of our nomination committee.



---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

### COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration received by our Directors (including fees, salaries, discretionary bonus, contributions to defined contribution benefit plans (including pension), housing and other allowances, share-based compensation and other benefits in kind) for the years ended 31 December 2008, 2009 and 2010 and for the five months ended 31 May 2011 was approximately RMB602,000, RMB868,000, RMB2,984,000 and RMB117,000, respectively.

The aggregate amount of fees, salaries, discretionary bonus, defined contribution benefit plans (including pension), housing and other allowances, share-based compensation and other benefits in kind paid to the five highest paid individuals of our Company, including two Directors, for the years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011 were approximately RMB1,069,000, RMB1,417,000, RMB7,642,000 and RMB185,000, respectively.

Our Group has not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011.

Except as disclosed above, no other payments have been paid or are payable, in respect of the years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011, by our Group to our Directors. Under the current arrangements, the aggregate remuneration and benefits in kind which our Directors, including independent non-executive Directors, are entitled to receive for the financial year ending 31 December 2011, excluding the discretionary bonuses payable to our executive Directors, is expected to be approximately RMB976,000.

### STAFF

As at the Latest Practicable Date, our Group had 1,419 employees. The table below set forth the number of our Group's employees by their responsibilities.

<b>Department</b>	<b>Number of employees</b>
Directors and senior management	59
Administration and finance	221
Production	1,050
Sales and marketing	35
Research and development	<u>54</u>
Total:	<u><u>1,419</u></u>

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

---

## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

---

Our Directors are of the view that the ability to recruit and retain experienced and skilled labour is crucial to the Group's growth and development. We provide regular on-the-job trainings to our staff and such trainings cover various areas of our operations including knowledge on the operations of the production machinery and equipment, safety inspections, finance knowledge and internal control system.

We have established the remuneration and review management system in accordance with positions and their responsibilities. The head of each of our departments is responsible to the salary review and promotion appraisal of the staff of its department.

During the Track Record Period, we consider we have maintained a positive relationship with our employees. We have not experienced any strikes or other labour disturbances which have materially interfered with our operations.

During the Track Record Period, we incurred staff costs (excluding Directors' remuneration) of approximately RMB25.8 million, RMB30.1 million, RMB43.3 million and RMB19.5 million respectively. With the promulgation of the new Labour Contract Law, which became effective on 1 January 2008, more stringent requirements have been imposed on employers in the PRC with respect to employment contracts entered into between an employer and its employees, hiring of temporary employees and dismissal of employees. The labour contracts we entered into with our employees prior to the promulgation of the new Labour Contract Law, which are still effective, are subject to the old labour law and relevant rules and regulations. The labour contracts the Group entered into with its employees after 1 January 2008 have been entered into in accordance with the new Labour Contract Law.

Our Group expects that our labour costs will increase as a result of the implementation of the new Labour Contract Law. However, since the labour costs are a relatively small component of our overall cost structure, we do not expect the new Labour Contract Law to have material impact on our business or results of operations.

### **EMPLOYEES' BENEFITS PROVIDED BY OUR GROUP**

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

We have established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance, personal injury insurance, maternity insurance and other relevant for employees who are employed by us pursuant to the PRC rules and regulations and the existing policy requirements of the local government. In addition to the basic salaries, we also provide salary adjustments linked to length of service medical expenses, toiletry fares, personal injury subsidies, title wage and special subsidies to our staff.

### **SHARE OPTION SCHEME**

We have conditionally adopted a Share Option Scheme pursuant to which selected participants may be granted options to subscribe for Shares as incentives or rewards for their service rendered to

---

## DIRECTORS, SENIOR MANAGEMENT AND STAFF

---

our Group and any entity in which any member of our Group holds any equity interest. Our Directors believe that the implementation of the Share Option Scheme enables us to recruit and retain high calibre executives and employees. The principal terms of the Share Option Scheme are summarised under the paragraph headed “D. Share Option Scheme” in Appendix V to this prospectus.

### COMPLIANCE ADVISER

We will appoint First Shanghai Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

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

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

- (i) if required by the Stock Exchange, deal with the Stock Exchange in respect of any or all matters listed in paragraphs (i) to (iv) above;
- (ii) in relation to an application by our Group for a waiver from any of the requirements in Chapter 14A of the Listing Rules, advise our Group on our obligations and in particular the requirement to appoint an independent financial advisor; and
- (iii) assess the understanding of all new appointees to our Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed issuer, and, to the extent our Company forms an opinion that the new appointees’ understanding is inadequate, discuss the inadequacies with our Board and make recommendations to our Board regarding appropriate remedial steps, such as training.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our Company’s annual report in respect of our financial results for our first full financial year commencing after the Listing Date, and such appointment may be subject to extension by mutual agreement.

In addition, after the Listing Date, we intend to retain legal adviser(s) to advise on ongoing compliance and Listing Rules issues and other applicable laws and regulations in Hong Kong.

---

## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

---

### OUR CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Global Offering (taking no account of the Shares which may be taken up under the Global Offering and the Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme), the following are our Controlling Shareholders:

Name	Capacity	Number of Shares held immediately after the Capitalisation Issue and the Global Offering	Approximate percentage of shareholding immediately after the Capitalisation Issue and the Global Offering
Wealth Max	Beneficial owner	122,528,000	38.29%
Mr. Xi <sup>(note 1)</sup>	Interest of a controlled corporation	122,528,000	38.29%

*Note:*

1. Mr. Xi, a non-executive Director, is the beneficial owner of the entire issued share capital of Wealth Max and is deemed to be interested in our Shares held by Wealth Max.

### OUR SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Global Offering (taking no account of the Shares which may be taken up under the Global Offering and the Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme), except for our Controlling Shareholders, we have no other Substantial Shareholders.

Further information on the interests of our Substantial Shareholders is set forth in the paragraphs under “C. Further Information about our Directors and our Substantial Shareholders” in Appendix V to this prospectus.

### NON-DISPOSAL UNDERTAKINGS GIVEN BY OUR CONTROLLING SHAREHOLDERS

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

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner(s); and

---

## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

---

- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be our Controlling Shareholders of our Company, i.e. they cease to control 30% or more of the voting power at general meetings of our Company.

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

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

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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

#### Management independence

Our Board consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. One of our non-executive Directors, Mr. Xi, is our Controlling Shareholder.

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

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

---

## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

---

### Operational independence

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

### Financial independence

We have an independent financial system and make financial decisions according to our own business needs. Our Directors confirm that as of the Latest Practicable Date, save as disclosed in the paragraphs under “Financial information — Indebtedness — Borrowings” in this prospectus, our Controlling Shareholders have not provided any guarantee or loan to us. Our Directors confirm that any amount due to/from our Controlling Shareholders and any guarantee provided by our Controlling Shareholders will be settled or released prior to the Listing. On this basis, our Directors believe that we are financially independent from our Controlling Shareholders.

### DEED OF NON-COMPETITION

For purpose of Listing, our Controlling Shareholders and executive Directors (collectively, the “**Covenantors**”) have entered into a deed of non-competition whereby each of the Covenantors jointly and severally, irrevocably, undertakes with our Company that with effect from the day on which the conditions set out in the section headed “Structure of the Global Offering” are fulfilled and for as long as our Shares remain listed on the Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of the Shares in issue, or are otherwise regarded as Controlling Shareholders, each of the Covenantors shall, and shall procure that their associates shall:

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

---

## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

---

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

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

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

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

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

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

---

## **CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS**

---

### **CORPORATE GOVERNANCE MEASURES**

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

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

### **CONTINUING CONNECTED TRANSACTIONS**

Following the Listing, we have no continuing transactions that would constitute non-exempted continuing transactions that are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under the Listing Rules.



---

## SHARE CAPITAL

---

### AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering:

	<i>HK\$</i>
<b>Authorised share capital:</b>	
10,000,000,000 Shares	1,000,000,000
<b>Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering</b>	
50,000 Shares in issue as of the date of this prospectus	5,000
80,000,000 Shares to be issued pursuant to the Global Offering	8,000,000
239,950,000 Shares to be issued under the Capitalisation Issue	23,995,000
<b>320,000,000 Shares in total</b>	<b>32,000,000</b>

### Assumptions

The above table assumes that the Global Offering becomes unconditional and is completed in accordance with the relevant terms and conditions. The above table takes no account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate, respectively and shares that may be issued pursuant to any option granted under the Share Option Scheme.

### Ranking

The Offer Shares are ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue and/or to be allotted and issued as mentioned in this prospectus, and will rank in full for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus other than participation in the Capitalisation Issue.

### SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in the paragraph headed “D. Share Option Scheme” in Appendix V to this prospectus.

### ISSUING MANDATE

Our Directors have been granted the general unconditional Issuing Mandate authorizing them to exercise all the powers of our Company to allot, issue and deal with Shares not exceeding the aggregate of 20% of the issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of any option which may be granted under the Share Option Scheme), and the number of Shares purchased by our Company, if any, pursuant to the Repurchase Mandate.

---

## SHARE CAPITAL

---

Our Directors may, in addition to the Shares which they are authorised to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of any option which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The Issuing Mandate will expire:

- (a) at the conclusion of the next annual general meeting of our Company; or
- (b) upon the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or the Companies Law or any applicable laws; or
- (c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate,

whichever is the earliest.

Further information on the Issuing Mandate is set forth in the paragraph under “Further information about our Company — 2. Changes in the share capital of our Company” in Appendix V to this prospectus.

### REPURCHASE MANDATE

Our Directors have been granted the general unconditional Repurchase Mandate to exercise all the powers of our Company to repurchase Shares not more than 10% of the issued share capital of our Company.

The Repurchase Mandate only relates to the repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant requirements of the Listing Rules on the Repurchase Mandate is set forth in the paragraph under “Repurchase of our own securities” in Appendix V to this prospectus.

The Repurchase Mandate will expire:

- (a) at the conclusion of the next annual general meeting of our Company; or
- (b) upon the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or the Companies Law or any applicable laws; or
- (c) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate,

---

## SHARE CAPITAL

---

whichever is the earliest.

Further information on the Repurchase Mandate is set forth in the paragraph under “Repurchase of our own securities” in Appendix V to this prospectus.

### **RULE 10.08 OF THE LISTING RULES**

Our Directors confirm that we will comply with the requirements of Rule 10.08 of the Listing Rules upon the Listing. Rule 10.08 of the Listing Rules provides that we may not issue any further Shares or securities convertible into equity securities or enter into any agreement to make such an issue within six months from the Listing Date.

---

## FINANCIAL INFORMATION

---

*Potential investors should read the following discussions and analysis of our consolidated financial statements for the years ended 31 December 2010, 2009 and 2008 and the five months ended 31 May 2010 and 2011, together with the accompanying notes, included in Appendix I in this prospectus. Our consolidated financial statements have been prepared in accordance with HKFRS, which may differ in material respects from the generally accepted accounting principles in other jurisdictions. The following discussion contains forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed in such forward-looking statements as a result of various factors, including those set forth in the section headed “Risk Factors” in this prospectus. For the purposes of this section, and unless the context otherwise requires, references to “2010”, “2009”, and “2008” refer to our financial year ended 31 December of such year.*

### OVERVIEW

We are one of the leading shock absorber manufacturers in the PRC. Our products are used in automobile manufacturing and aftermarket repair and maintenance. According to the Ourview Report, we are the fourth largest shock absorber manufacturer, and the largest independent shock absorber manufacturer, both in terms of production volume for domestic automobile manufacture market in 2010. Independent shock absorber manufacturers are free to supply shock absorbers to any automobile manufacturers and they are not subject to priority supply to neither its shareholders nor any affiliated partners. Details of the background of the independent shock absorber manufacturers are set out in the paragraph headed “Industry Overview — The nature of the market players in the shock absorber manufacture industry in China” of the prospectus. We principally design and manufacture shock absorbers for the OEM Market, and also manufacture and supply shock absorbers for the Automobile Aftermarket. In 2010, we produced approximately 5.1 million units of shock absorbers in the PRC, representing approximately 7.3% of the total number of shock absorbers produced by major shock absorber manufacturers for the domestic automobile manufacture market in the PRC in the same period.

We were ranked “A” Class supplier by our major customer FAW-Volkswagen in 2009; we have been rated as an “Excellent Supplier” by Lifan Auto and Beijing Automobile in 2010; we have been recognized as the National Top 100 Excellent Automotive Parts Suppliers (全國優秀汽車零部件供應商) for eight consecutive years from 2002 to 2010; our Danjiang “丹江” brand in 2005, our products under the Danjiang “丹江” brand were recognized as a “Henan Top Brand” product (河南省著名品牌產品). Most of our products we sold to our top five customers were ultimately applicable to their small to mid engine displacement vehicle series.

We believe that the leading status of our products in the PRC OEM Market and the good reputation of our Automobile Aftermarket will continue to provide a valuable platform for our continuing expansion and development.

Our sales team possesses strong market development capabilities, and our products are being used by 11 out of 20 of the largest passenger vehicle manufacturers in the PRC. During the three years ended 31 December 2010 and the five months ended 31 May 2011, the proportion of our sales to the

---

## FINANCIAL INFORMATION

---

11 out of the top 20 largest passenger vehicle manufacturers in relation to our total sales volume has increased, accounting for approximately 73.6%, 85.0%, 86.1% and 87.6% of our total sales revenue, respectively. We will continue to strengthen our high quality customer base.

Having about 50 years of history and experience in the manufacture of automobile shock absorbers, we have established a high quality customer base. In the past three years, we have provided over 200 models of shock absorber products from up to 11 major product series to over 40 automobile manufacturers in the PRC. We have established long and stable business relationships with some of the leading automobile manufacturers in the PRC, including FAW-Volkswagen, Chery, Haima Auto and Jianghuai Automobile, to whom we have supplied shock absorbers for over 10 years. We also strove to secure closer relationship with our customers. In 2008, we entered into a core supplier agreement with Chery, our largest customer during the Track Record Period.

We have maintained working relationships with majority of our raw material and components suppliers for over 10 years. Our production facilities are currently located in Nanyang, Henan Province, and we possess advanced technologies and are well-equipped with high technology machinery and facilities, which is able to integrate the shock absorber production process and possesses a deeper level of self-production of key components; for example, we have integrated the self-production of key components such as piston rods, working cylinders and storage tanks into our production process, which not only serves to ensure the high quality of the completed end product, but also enables us to reduce the cost of purchasing components from external sources, and thus brings about a cost advantage.

We have a strong research and development team. According to the Ourview Report, we have been keeping abreast with the international advanced technology in the industry, and have received recognition from various domestic and international organisations for our technology, as well as registered a number of patents in the PRC. Our products have been granted the ISO9001 certification in 1998, QS9000 certification in October 2001, VDA6.1 certification in October 2001 and ISO/TS16949 certificate in April 2008. In 2010, we were approved by Henan Province Science and Technology Bureau (河南省科學技術廳) to set up a Provincial Level Technology Research Centre for shock absorber engineering (河南省汽車減振器工程技術研究中心), and in 2011, we were recognised as a Henan Province Innovative Pilot Enterprise (河南省創新型試點企業). We were also recognised as a High and New Technology Enterprise (高新技術企業) in the years 2004 and 2009 respectively. We have also entered into various development cooperation agreements with various universities, including Beijing University of Civil Engineering and Architecture, and Northwestern Polytechnical University, in respect of cooperation on the development of products and technology. As at the Latest Practicable Date, our self-developed shock absorber for high speed rails have completed approximately a total of over 400,000 kilometres of railroad testing on the relevant railroads and the technical performance has been stable. As at the Latest Practicable Date, we have registered 64 patents in the PRC, of which three are invention patents.

Our management team has extensive industry knowledge, management skills and operation experience and some of the members have served our Group for over 15 years. Under the leadership

---

## FINANCIAL INFORMATION

---

of our management team, we have achieved rapidly increasing growth, and have achieved a leading status within the PRC self-branded automobile OEM Market. We believe that the capabilities of our management team will continue to enable us to capture market opportunities and ensure our continued growth. We believe we are able to maintain our leading market share in the near future.

During the Track Record Period, our revenue was approximately RMB297.3 million, RMB392.5 million, RMB543.7 million and RMB286.3 million, respectively. In 2008, 2009, 2010 and the five months ended 31 May 2011, our revenue generated from the sales to the OEM Market was RMB275.1 million, RMB378.0 million, RMB512.4 million and RMB272.1 million, respectively, and our revenue generated from the sales to the Automobile Aftermarket was RMB22.3 million, RMB14.5 million, RMB31.3 million and RMB14.2 million, respectively. The following table illustrates our sales breakdown by segments during the Track Record Period:-

	<b>Year ended 31 December</b>						<b>Five months ended 31 May</b>				
	<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>2010</b>		<b>2011</b>		
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	
Sales to OEM											
Market	275,054	92.5	377,974	96.3	512,395	94.2	192,642	94.9	272,106	95.0	
Sales to											
Automobile											
Aftermarket	<u>22,277</u>	<u>7.5</u>	<u>14,531</u>	<u>3.7</u>	<u>31,321</u>	<u>5.8</u>	<u>10,307</u>	<u>5.1</u>	<u>14,185</u>	<u>5.0</u>	
Total	<u>297,331</u>	<u>100</u>	<u>392,505</u>	<u>100</u>	<u>543,716</u>	<u>100</u>	<u>202,949</u>	<u>100</u>	<u>286,291</u>	<u>100</u>	

---

## FINANCIAL INFORMATION

---

The following table set forth our consolidated statements of comprehensive income for the year/period indicated.

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	297,331	392,505	543,716	202,949	286,291
Cost of sales	<u>(224,261)</u>	<u>(300,290)</u>	<u>(405,768)</u>	<u>(150,500)</u>	<u>(208,865)</u>
Gross profit	73,070	92,215	137,948	52,449	77,426
Other income, other gains and losses <sup>Note</sup>	12,721	7,926	4,224	4,018	19,265
Selling and distribution expenses	(24,406)	(24,850)	(34,842)	(14,439)	(15,173)
Research and development expenditure	(4,174)	(13,348)	(16,299)	(6,530)	(8,745)
Administrative expenses	(17,761)	(18,964)	(29,309)	(9,402)	(13,506)
Other expenses	—	—	(2,599)	—	(6,971)
Finance costs	<u>(17,242)</u>	<u>(10,975)</u>	<u>(14,921)</u>	<u>(7,377)</u>	<u>(5,361)</u>
Profit before tax	22,208	32,004	44,202	18,719	46,935
Taxation	<u>(3,550)</u>	<u>(3,629)</u>	<u>(6,666)</u>	<u>(1,916)</u>	<u>(8,764)</u>
	<u>18,658</u>	<u>28,375</u>	<u>37,536</u>	<u>16,803</u>	<u>38,171</u>
Profit and total comprehensive income for the year/period attributable to:					
Owners of the Company	16,051	28,229	37,536	16,803	38,171
Non-controlling interests	<u>2,607</u>	<u>146</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>18,658</u>	<u>28,375</u>	<u>37,536</u>	<u>16,803</u>	<u>38,171</u>

Note: The other income, other gains and losses for the five months ended 31 May 2011 include one-off items of (i) government grant for termination benefit payments amounted RMB8.0 million; and (ii) gain from settling a legal proceeding amounted RMB5.4 million.

---

## FINANCIAL INFORMATION

---

The following table sets forth our consolidated balance sheets as of the dates indicated.

	As at 31 December			As at 31 May
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	<u>180,419</u>	<u>204,787</u>	<u>318,711</u>	<u>354,862</u>
Current assets	<u>340,510</u>	<u>544,160</u>	<u>411,191</u>	<u>425,202</u>
Current liabilities	<u>425,741</u>	<u>585,454</u>	<u>614,919</u>	<u>448,499</u>
Non-current liabilities	<u>14,870</u>	<u>45,013</u>	<u>48,728</u>	<u>157,067</u>
Net current liabilities	<u>(85,231)</u>	<u>(41,294)</u>	<u>(203,728)</u>	<u>(23,297)</u>
Total assets less current liabilities	<u>95,188</u>	<u>163,493</u>	<u>114,983</u>	<u>331,565</u>
Net assets	<u>80,318</u>	<u>118,480</u>	<u>66,255</u>	<u>174,498</u>

### BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Nanyang Cijan, the holding company of Haikou Danjiang and Nanyang Yingsaite, was a sino-foreign cooperative joint venture established in the PRC on 23 June 2005. Mr. Xi and other individuals who have agreed to act-in-concert (collectively referred to as the “Founders”) acquired an aggregate of 87.5% equity interest in Nanyang Cijan from two ex-shareholders in November 2006. The Founders, through their wholly-owned entities, acquired the remaining 12.5% equity interest in Nanyang Cijan from the non-controlling shareholder in April 2009 through an open auction.

The Founders incorporated Merit Leader and Guang Da Automotive Components on 10 March 2010 and 14 June 2010 respectively. In June 2010, the Founders transferred their entire interest in Guang Da Automotive Components to Merit Leader and Guang Da Automotive Components acquired the entire equity interest in Nanyang Cijan (the “**First Transfer**”). Merit Leader then became the holding company of Guang Da Automotive Components and Nanyang Cijan upon completion of the First Transfer.

In August 2010, Merit Leader allotted 6,500 shares of US\$1 each, representing 13% of the enlarged issued share capital of Merit Leader, to four entities controlled by Independent Third Parties at par.

In preparation for the listing of the shares of our Company on the Stock Exchange, our Company was incorporated on 27 April 2011 and issued one share of HK\$0.1 at nil paid to Wealth Max. Our Company acquired the entire issued share capital of Merit Leader and shareholders’ loans of HK\$80.0



---

## FINANCIAL INFORMATION

---

million (equivalent to approximately RMB70.1 million) owed by Guang Da Automotive Components on 22 May 2011 by allotment and issue 49,999 fully paid ordinary shares to the then existing shareholders of Merit Leader in proportion to their then existing shareholding in Merit Leader (the “**Second Transfer**”).

Since the shareholders’ interest in Merit Leader is the same before and after the Second Transfer, the Group, comprising our Company, Merit Leader and its subsidiaries, resulting from the group reorganisation is regarded as a continuing entity.

The Financial Information of our Group has been prepared as if the Company had been the holding company of Merit leader throughout the Track Record Period.

The Financial Information is presented in RMB, the currency of the primary economic environment in which the principal subsidiaries of our Company operate.

### **FACTOR AFFECTING OUR RESULTS OF OPERATIONS**

Our operating results and financial condition have been and will continue to be affected by various factors that may not be entirely without our control. A summary of these factors is set forth below:-

#### **Demand for absorbers in the PRC**

During the Track Record Period, our sales to original automobile manufacturers (i.e. OEM market) represents approximately 92.51%, 96.30%, 94.24% and 95.05% of our total revenue for the three years ended 31 December 2010 and the five months ended 31 May 2011 respectively. All of our top five customers during the same period are original automobile manufacturers. Hence, our results of operations are closely affected by the demand of absorbers by the automobile manufacturers in the PRC. The demand for new automobiles in the PRC is generally influenced by the economic growth in the PRC and the investment in the manufacturing of transport equipment in the PRC. Our sales were not affected by the global economic crisis in the second half of 2008 as the GDP in the PRC has experienced steady growth in the three years ended 31 December 2010 and the five months ended 31 May 2011. The GDP in the PRC for the period from 2003 to 2009 grew at a CAGR of 16.6% and our sale for the three years ended 31 December 2010 grew at a CAGR of 35.2%.

Our customers, mainly the original automobile manufacturers in the PRC, have experienced growth at a rapid rate in the last few years. Since 2003, the investment in the manufacture of transport equipment in the PRC has grown at a rapid rate. In 2009, it grew at the CAGR of 72.7% to RMB497.5 billion from RMB18.7 billion in 2003. In recent years, the government has highly encouraged the use of domestically developed automobile parts and components in the manufacture of automobiles. There is no assurance that such growth and government support will continue in the future. If there is a slow down in the industry growth or if there is a recession in the PRC, demand for our products may decrease and our business, financial condition and results of operations may be materially and adversely affected.

---

## FINANCIAL INFORMATION

---

### Automobile parts and components distribution network

According to the business strategy of the Group, we strive to develop the Automobile Aftermarket to capture better profit margin, and eliminate the risk of highly rely on the sales to original automobile manufacturers. Our sales to Automobile Aftermarket represents approximately 7.49%, 3.70%, 5.76% and 4.95% of our total revenue for the three years ended 31 December 2010 and the five months ended 31 May 2011 respectively. Our Directors believe that the sales to the Automobile Aftermarket will depend on our ability to enhance the distribution network, in terms of number, location, brand name and the quality of our products.

We intend to expand the number of automobile distributors. This will require financial and management resources including capable marketing personnels on the establishment of an efficient distribution networks. Further information on these risks is set forth in the paragraphs under “Risk Factors - We may encounter unexpected difficulties in expanding into new markets” in this prospectus.

### Our ability to maintain our competitive advantages that differentiate us from our competitors

The automobile shock absorber industry in the PRC is relatively competitive. According to the Ourview Report, we are the leading automobile absorber manufacturer in the PRC in terms of the sales volume in 2010. We face competition from other absorber manufacturers in terms of brand name, product quality, technology, research and development ability and pricing. Our Directors believe that our current market position is appropriate without encountering direct competition from the international absorber brands which mainly provide absorbers to limited high-end automobiles in the PRC. This market position is important to us, but it may also limit our future business development. Although we may penetrate our products into high-end automobile market, it could result in direct competition from all of our competitors. If we are not able to continue to maintain our competitive advantages or that the entering into the high-end automobile market cannot achieve the anticipated sales results, our business, operating results and financial condition could be adversely affected.

### Our ability to control our cost of sales

Our results of operations are directly impacted by our cost of raw material, mainly the welded pipes, coil springs, rubber parts. During the three years ended 31 December 2010 and the five months ended 31 May 2011, the cost of our raw materials accounted for approximately 85.3%, 87.4%, 88.8% and 87.1%, respectively, of our total cost of sales.

	2008	2009	2010	Five months ended 31 May	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2010	2011
				<i>RMB'000</i>	<i>RMB'000</i>
Raw Material	(191,295)	(262,453)	(360,322)	(131,780)	(181,992)
Direct Labour	(8,970)	(14,114)	(17,448)	(7,443)	(10,263)
Manufacturing Overhead	<u>(23,996)</u>	<u>(23,723)</u>	<u>(27,998)</u>	<u>(11,277)</u>	<u>(16,610)</u>
	<u>(224,261)</u>	<u>(300,290)</u>	<u>(405,768)</u>	<u>(150,500)</u>	<u>(208,865)</u>

---

## FINANCIAL INFORMATION

---

The cost of raw material is subject to the fluctuation in the demand and supply of the raw material in the local and overseas markets. In general, we are able to pass on the significant increase in our raw material cost to our customers in the long run. We shall re-negotiate the price adjustments of our products with customers of OEM Market after the significant increase in the raw material price. For the Automobile Aftermarket, we are able to adjust the price of our products to reflect the changes in the raw material price in the market.

According to our production expansion plan, we shall increase our purchase of raw materials and will enjoy the benefits of economic of scale in the procurement of raw material and hence the more favorable terms of purchase, including the price, from our suppliers. However, the increase in the price of raw materials will continue to have an adverse effect on our results of operations if we are unable to pass on the increase in the raw material cost to our customers.

### **Production capacity**

Our production expansion plan has been and is expected to be a direct factor to our results of operations. In 2010, we have established an Expansion Production Facilities and added three new production lines in the year 2010.

Our annualized production capacity for the three years ended 31 December 2010 and the five months ended 31 May 2011 were 4 million pieces, 4.3 million pieces, 6.1 million pieces, and 7.0 million pieces, respectively. The utilization rate of our production facilities were 68.5%, 82.4%, 83.2% and 76.3% for the same period.

We expected our Expansion Production Facilities will be completed in 2012 in order to meet the expected increasing demand for absorbers in the PRC in both the OEM Market and Automobile Aftermarket. By the end of 2012, we expected our production capacity will be approximately 15 million pieces per annum, representing an increase of 145.9% of production capacity at the end of 2010 and an increase of 114.3% of production capacity at 31 May 2011.

We expect that we shall have a benefit of economic of scale from our expansion of production capacity as well as to gain market share and to increase in revenue, hence the results of operations. If our production capacity expansion plan exceeds the expected demand for our products, our results of operations may be adversely affected.

### **Enterprise Income Tax**

Our income tax expenses primarily include tax that we pay in the PRC. Nanyang Cijan is a wholly owned subsidiary of the Company established in the PRC. In accordance with Foreign Enterprise Income Tax (“FEIT”) Laws in PRC, Nanyang Cijan was approved to be exempted from FEIT for two years starting from its first profit making year since its establishment and followed by a 50% tax relief for the next three years. Nanyang Cijan was subject to 12.5% tax rate for the three years ended 31 December 2010. On 15 December 2009, Nanyang Cijan obtained “High Technology Enterprise” status for three years that entitles Nanyang Cijan a preferential tax rate of 15% for the period from 2011 to 2012 according to PRC tax law.

---

## FINANCIAL INFORMATION

---

Any changes in the enterprise income tax rate applicable to our subsidiaries operating in the PRC will have a significant impact on our results of operations.

### **Net Current Liabilities**

During our Track Record Period, we financed our operations and production capacity expansion by internal funding and short-term borrowings. As a result, our consolidated statement of financial position for the three years ended 31 December 2010 and the five months ended 31 May 2011 showed a net current liabilities of approximately RMB85.2 million, RMB41.3 million, RMB203.7 million and RMB23.3 million respectively. For the three years ended 31 December 2010 and the five months ended 31 May 2011, we have borrowings due for repayment within one year in the sum of RMB 259.9 million, RMB 295.9 million, RMB 223.3 million and RMB158.7 million respectively.

In March 2011 and May 2011, we have arranged long-term loan facilities of RMB50.0 million and RMB50.0 million with China Development Bank and China Construction Bank, which will be repayable in 2013 and 2014 respectively. The amount due to shareholders amounted RMB70.1 million has been capitalized and removed from liabilities pursuant to the sale and purchase agreement between the Company and the then existing shareholders of Merit Leader dated 22 May 2011. As at 30 September 2011, the Group has unutilized banking facilities of RMB210.0 million.

The Group has been improving their cash flow management as mentioned in the paragraphs under the paragraphs headed “Liquidity and Capital Resources” under this section. Given its improvement, the financial position of the Group has been recovering. The net current liabilities of the Group decreased significantly from RMB203.7 million as at 31 December 2010 to RMB23.3 million as at 31 May 2011.

If we are unable to re-finance the short-term borrowings upon due for repayment, it will significantly affect our operations and financial positions as well as our ability to continue the operations.

### **Product liabilities**

Our business nature exposes us to the risk of product liability claims that is inherent in the R&D, manufacturing and marketing of our absorbers. As a developer and manufacturer of absorbers, we may be subject to product liability claims due to quality defects. Moreover, we may be subject to potential claims from our customers during the relevant warranty period for which we provide free warranty service for repair and maintenance of our products. A substantial claim or a substantial number of claims relating to our products could have material and adverse impact on our business, financial condition and results of operations. Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts historically. In case the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. At 31 December 2008, 2009 and 2010 and 31 May 2011, the carrying amounts of provision for warranty are approximately RMB0.8 million, RMB1.6 million, RMB 4.8 million and RMB3.3 million, respectively.

---

## FINANCIAL INFORMATION

---

We have not obtained insurance coverage for product liability or implemented any other protection scheme. If our products are proved to be defective and result in financial losses to our customers, we may be liable to product liability claims under the laws of the PRC or other jurisdictions in which our products are sold. As a result, we may have to incur significant legal costs and divert our administrative resources regardless of the outcome of the claims. In addition, any such claims could damage our customer relationships and businesses, and result in negative publicity. We may also be forced to defend lawsuits and, if unsuccessful, to pay a substantial amount of damages. During the Track Record Period, we had not been liable to product liability claims to any customer.

### CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4 of Appendix I, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

#### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

(a) *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. Change in these estimations may have a material impact on the results of the Group.

(b) *Estimated impairment of trade receivables*

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding

---

## FINANCIAL INFORMATION

---

future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future, cash flows are less than expected, a material impairment loss may arise.

(c) *Impairment of inventories*

The Group records inventories at the lower of cost and net realisable value. Net realisation value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales.

Operational procedures have been in place to monitor this risk, including regular review by the management of the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made for any obsolete and slow-moving items. If the selling price is lower than expected, additional allowance would be recognised.

(d) *Provision for warranty claims*

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts historically. In case where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place.

(e) *Impairment loss on goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit ("CGU") to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, further impairment loss may arise.

### PRINCIPAL INCOME STATEMENT COMPONENTS

The following summarizes components of certain items appearing in the Accountants' Report set out in Appendix I to this prospectus, which we believe will be helpful in understanding the period-to-period discussion that follows below.

## FINANCIAL INFORMATION

### Revenue

Revenue represents the net amounts received and receivables from the sale to the original automobile manufacturers and the automobile parts and components distributors in the PRC. The following table sets forth a breakdown of our revenue by business segment and as a percentage of our total revenue for the periods indicated:-

	2008		2009		2010		Five months ended 31 May			
	RMB'000	%	RMB'000	%	RMB'000	%	2010	%	2011	%
OEM Market	275,054	92.5	377,974	96.3	512,395	94.2	192,642	94.9	272,106	95.0
Automobile										
Aftermarket	<u>22,277</u>	<u>7.5</u>	<u>14,531</u>	<u>3.7</u>	<u>31,321</u>	<u>5.8</u>	<u>10,307</u>	<u>5.1</u>	<u>14,185</u>	<u>5.0</u>
Total	<u>297,331</u>	<u>100</u>	<u>392,505</u>	<u>100</u>	<u>543,716</u>	<u>100</u>	<u>202,949</u>	<u>100</u>	<u>286,291</u>	<u>100</u>

### Cost of sales

Our cost of sales primarily represents cost for the purchases of raw materials, labour cost and other production cost. Our cost of sales was approximately RMB224.3 million, RMB300.3 million, RMB405.8 million and RMB208.9 million for the three years ended 31 December 2010 and the five months ended 31 May 2011, respectively. The following table sets forth a breakdown of our cost of sales and each item is also express as a percentage of our revenue for the periods indicated:

	2008		2009		2010		Five months ended 31 May			
	RMB'000	%	RMB'000	%	RMB'000	%	2010	%	2011	%
Raw materials	191,295	64.3	262,453	66.9	360,322	66.3	131,780	64.9	181,992	63.6
Labour cost	8,970	3.0	14,114	3.6	17,448	3.2	7,443	3.7	10,263	3.6
Manufacturing overhead	<u>23,996</u>	<u>8.1</u>	<u>23,723</u>	<u>6.0</u>	<u>27,998</u>	<u>5.1</u>	<u>11,277</u>	<u>5.6</u>	<u>16,610</u>	<u>5.8</u>
Total	<u>224,261</u>	<u>75.4</u>	<u>300,290</u>	<u>76.5</u>	<u>405,768</u>	<u>74.6</u>	<u>150,500</u>	<u>74.2</u>	<u>208,865</u>	<u>73.0</u>

	2008		2009		2010		Five months ended 31 May			
	RMB'000	%	RMB'000	%	RMB'000	%	2010	%	2011	%
Steel	113,410	59.3	153,067	58.3	211,466	58.7	77,545	58.8	103,307	56.8
Rubber	49,302	25.8	76,290	29.1	100,688	27.9	36,796	27.9	50,024	27.5
Oil	8,051	4.2	8,840	3.4	13,354	3.7	4,337	3.3	7,839	4.3
Others	<u>20,532</u>	<u>10.7</u>	<u>24,256</u>	<u>9.2</u>	<u>34,814</u>	<u>9.7</u>	<u>13,102</u>	<u>10.0</u>	<u>20,822</u>	<u>11.4</u>
	<u>191,295</u>	<u>100</u>	<u>262,453</u>	<u>100</u>	<u>360,322</u>	<u>100</u>	<u>131,780</u>	<u>100</u>	<u>181,992</u>	<u>100</u>

---

## FINANCIAL INFORMATION

---

Our primary raw materials used in productions are manufactured from rolled steel and rubber. During the three years ended 31 December 2010 and the five months ended 31 May 2011, the total cost of raw materials manufactured from rolled steel and rubber in aggregate accounted for 85.1%, 87.4%, 86.6% and 84.3% of our total cost of raw materials. The average purchase cost per kilogram for steel during the Track Record Period is RMB6.5, RMB5.6, RMB6.1 and RMB7.1 respectively and the average purchase cost per unit for rubber during the Track Record Period is RMB3.6, RMB4.3, RMB4.0 and RMB4.0 respectively. The price of rolled steel and rubber are subject to the fluctuations in the domestic and international commodity markets changes in the price of rolled steel and rubber will affect our cost of production and, hence, results of operations in the long term. To the best knowledge of the Directors, there was an overall decrease in the price of rubber and rolled steel between 2008 and 2009 due to a decrease in demand of raw materials as a result of the global economic crisis, and prices increased, thereafter as the economy started to recover. During the Track Record Period, the Group did not experience significant price fluctuations in raw materials in spite of price movements in commodities because (i) the Group were benefited from economic of sale in bulk procurement due to increased market demand and production capacity and (ii) the Group was able to maintain good relationship with suppliers and had strong bargaining power to obtain favorable terms in purchases.

The cost of sales included the reversal of provision for slow-moving inventories amounted to approximately RMB0.9 million, RMB1.8 million, RMB2.6 million and RMB4.4 million recognised for the year ended 31 December 2008, 2009 and 2010, and the five months ended 31 May 2011, respectively.

In the amid of global financial crisis took place in late 2008, the Chinese central government laid down a stimulus package on November 2008 with a total investment amount of RMB 4 trillion, known as Chinese Economic Stimulus Plan, with an attempt to minimize the impact of the financial crunch in the PRC. To cope with rising demand for our products and maintain a relative healthy margin, our Company implemented an improvement on inventory control system so as to enhance the utilization of aged stocks fitting to new products as much as possible. In the circumstance, when the recoverable amount from sales proceeds of those inventories previously fully impaired were realized, the reversal of inventory provision was recognized, and such reversal has an increasing trend during the Track Record Period.

### Gross profit margin, average selling price and sales volume

The following tables set forth the gross profit, gross profit margin, average selling price and sales volume of our Group and by our business segment for the periods indicated:-

	<b>Gross Profit</b>				
				<b>Five months ended 31 May</b>	
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
OEM Market	68,957	88,135	128,588	49,711	72,648
Automobile Aftermarket	4,113	4,080	9,360	2,738	4,778
	<u>73,070</u>	<u>92,215</u>	<u>137,948</u>	<u>52,449</u>	<u>77,426</u>



---

## FINANCIAL INFORMATION

---

### Gross Profit Margin

	2008	2009	2010	Five months ended 31 May	
				2010	2011
	%	%	%	%	%
OEM Market	25.1	23.3	25.1	25.8	26.7
Automobile Aftermarket	<u>18.5</u>	<u>28.1</u>	<u>29.9</u>	<u>26.6</u>	<u>33.7</u>

### Average Selling Price

	2008	2009	2010	Five months ended 31 May	
				2010	2011
	RMB	RMB	RMB	RMB	RMB
OEM Market	104.7	118.6	118.8	111.3	118.2
Automobile Aftermarket	<u>57.5</u>	<u>60.6</u>	<u>71.4</u>	<u>69.4</u>	<u>78.5</u>

### Sales Volume

	2008	2009	2010	Five months ended 31 May	
				2010	2011
OEM Market	2,626,289	3,185,765	4,314,757	1,730,036	2,302,837
Automobile Aftermarket	<u>387,370</u>	<u>239,869</u>	<u>438,969</u>	<u>148,489</u>	<u>180,797</u>
Total	<u>3,013,659</u>	<u>3,425,634</u>	<u>4,753,726</u>	<u>1,878,525</u>	<u>2,483,634</u>

## OEM MARKET

### Average selling price

The average selling price increased to RMB118.6 in the year ended 31 December 2009 from RMB104.7 in the year ended 31 December 2008 because the Group focused in sales of higher-end products with higher average selling prices in the OEM Market.

The average selling price in the year ended 31 December 2010 was consistent with that in the year ended 31 December 2009 because there was no significant change in the Group's product mix.

The average selling price increased to RMB118.2 in the five months ended 31 May 2011 from RMB111.3 in the five months ended 31 May 2010 because the Group focused in sales of new high-end products, with higher average selling prices in the OEM Market.

---

## FINANCIAL INFORMATION

---

### Sales volume

The sales volume increased to 3,185,765 in the year ended 31 December 2009 from 2,626,289 in the year ended 31 December 2008 and further increased to 4,314,757 in the year ended 31 December 2010. The increase in sales volume during each of the three years ended 31 December 2010 was mainly due to the strong growth in market demand and the increased production capacity.

The sales volume increased to 2,302,837 in the five months ended 31 May 2011 from 1,730,036 in the five months ended 31 May 2010. The increase in sales volume during the five months ended 31 May 2011 was mainly due to the strong growth in market demand driven by new products, which are shock absorbers developed for new car models of the automobile manufacturers.

### Gross profit margin

The gross profit margin decreased to 23.3% in the year ended 31 December 2009 from 25.1% in the year ended 31 December 2008 and increased to 25.1% in the year ended 31 December 2010. Such mild fluctuations were mainly due to the mild changes in prices of raw materials used in production.

The gross profit margin in the five months ended 31 May 2011 increased to 26.7% from 25.8% in the five months ended 31 May 2010 because of the increase in average selling price in the same period whose effect was partially offset by the increased cost of sales per unit for higher-end products.

## AUTOMOBILE AFTERMARKET

### Average selling price

The average selling price in the year ended 31 December 2009 was not significantly differed with that in the year ended 31 December 2008 despite the increase in gross profit margin due to that fact that the Company migrated to high-margin product mix for the Automobile Aftermarket.

The average selling price increased to RMB71.4 in the year ended 31 December 2010 from RMB60.6 in the year ended 31 December 2009 because the Group focused in sales of higher-end products with higher average selling prices in the Automobile Aftermarket.

The average selling price increased to RMB78.5 in the five months ended 31 May 2011 from RMB69.4 in the five months ended 31 May 2010 because the Group focused in sales of new high-end products, with higher average selling prices in the Automobile Aftermarket.

### Sales volume

The sales volume decreased to 239,869 in the year ended 31 December 2009 from 387,370 in the year ended 31 December 2008 because the Group had reduced production capacity in the aftermarket Automobile Aftermarket to fulfill the increased demand in the OEM Market.

---

## FINANCIAL INFORMATION

---

The sales volume bounced back to 438,969 in the year ended 31 December 2010 from 239,869 in the year ended 31 December 2009 as a result of (i) the increase in production capacity and (ii) the increase in number of distributors.

The sales volume increased to 180,797 in the five months ended 31 May 2011 from 148,489 in the five months ended 31 May 2010 due to (i) the increase in production capacity and (ii) the increase in number of distributors.

### **Gross profit margin**

The gross profit margin increased significantly to 28.1% in the year ended 31 December 2009 from 18.5% in the year ended 31 December 2008. Such increase was mainly due to the fact that the Company migrated to high-margin product mix for the Automobile Aftermarket under the limitation of production capacity.

The gross profit margin further increased to 29.9% in the year ended 31 December 2010 from 28.1% in the year ended 31 December 2009. The increase was mainly due to the fact that the Group was able to further expand its aftermarket business with new distributors which offer a higher margin product mix.

The gross profit margin in the five months ended 31 May 2011 increased from 26.6% in the five months ended 31 May 2010 to 33.7% because of the increase in average selling price in the same period whose effect was partially offset by the increased cost of sales per unit for higher-end products.

### **Other income and other gains and losses**

Other income and other gains and losses are mainly comprised of defects claims, interest income, (loss) gain on disposal of property, plant and equipment, income from sales of steel scrap and raw material, release of asset-related government grants, provision for litigation, gain from settlement of a legal proceeding and government grant. We recorded other income and gains of approximately RMB12.7 million, RMB7.9 million, RMB4.2 million and RMB19.3 million for the three years ended 31 December 2010 and for the five months ended 31 May 2011, respectively.

---

## FINANCIAL INFORMATION

---

### Selling and distribution expenses

Selling and distribution expenses mainly include salaries and welfare for sales staff, travelling expenses, expenses related to the sales office, expenses related to sales and distribution and entertainment expenses. The following table sets forth a breakdown of our selling and distribution expenses and each item is also expressed as a percentage of our revenue for the periods indicated as follows:

	<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>Five months ended 31 May</b>			
	<i>RMB'000</i>	<i>% RMB'000</i>	<i>RMB'000</i>	<i>% RMB'000</i>	<i>RMB'000</i>	<i>% RMB'000</i>	<b>2010</b>	<b>2011</b>	<i>% RMB'000</i>	<i>%</i>
Salaries and welfare										
for sales staff	2,367	0.8	1,358	0.3	2,133	0.4	1,085	0.5	734	0.3
Travelling expenses	1,143	0.4	1,953	0.5	1,076	0.2	538	0.2	503	0.2
Expenses related to										
the sales office	775	0.3	710	0.2	980	0.2	343	0.2	479	0.2
Transportation	7,054	2.3	8,451	2.1	10,263	1.8	4,739	2.3	5,596	1.9
Warranty expenses	8,607	2.9	7,088	1.8	11,523	2.1	4,536	2.2	4,136	1.4
Storage	1,494	0.4	1,845	0.4	2,256	0.4	1,134	0.6	1,164	0.4
Other expenses										
related to sales										
and distribution	101	0.1	117	0.1	520	0.1	—	0.0	149	0.1
Entertainment										
expenses	2,405	0.8	3,304	0.8	5,887	1.1	2,002	1.0	2,322	0.7
Others	460	0.2	24	0.1	204	0.1	62	0.1	90	0.1
<b>Total</b>	<u>24,406</u>	<u>8.2</u>	<u>24,850</u>	<u>6.3</u>	<u>34,842</u>	<u>6.4</u>	<u>14,439</u>	<u>7.1</u>	<u>15,173</u>	<u>5.3</u>

### Research and development expenses

Research and development expenditure represents the expense on researching and developing absorber related new technologies and products. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

---

## FINANCIAL INFORMATION

---

### Administrative expenses

Administrative expenses mainly include salaries and welfare for management and administrative staff, amortisation and depreciation, office expenses and utilities, traveling and entertainment. The following table sets forth a breakdown of our administrative expenses and each item is also expressed as a percentage of our revenue for the periods indicated:

	<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>Five months ended 31 May</b>			
							<b>2010</b>		<b>2011</b>	
	<i>RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>% RMB'000</i>	<i>%</i>
Salaries, welfares and other benefits	7,854	2.6	9,779	2.5	19,689	3.6	5,141	2.5	7,918	2.8
Amortisation and depreciation	2,019	0.7	1,766	0.4	2,330	0.4	1,239	0.6	1,539	0.5
Office expenses and utilities	1,677	0.6	1,629	0.4	2,219	0.4	1,164	0.6	582	0.2
Traveling and entertainment	2,376	0.8	2,204	0.6	2,699	0.5	897	0.4	610	0.2
Other taxes expenses	972	0.3	1,411	0.3	1,565	0.3	128	0.1	805	0.3
Professional fees	80	0.1	1,951	0.5	258	0.1	104	0.1	1,275	0.4
Others	<u>2,783</u>	<u>0.9</u>	<u>224</u>	<u>0.1</u>	<u>549</u>	<u>0.1</u>	<u>729</u>	<u>0.3</u>	<u>777</u>	<u>0.3</u>
<b>Total</b>	<u><u>17,761</u></u>	<u><u>6.0</u></u>	<u><u>18,964</u></u>	<u><u>4.8</u></u>	<u><u>29,309</u></u>	<u><u>5.4</u></u>	<u><u>9,402</u></u>	<u><u>4.6</u></u>	<u><u>13,506</u></u>	<u><u>4.7</u></u>

### Other expenses

Other expenses represent the legal and other professional fees together with printing and other expenses incurred relating to the Global Offering.

---

## FINANCIAL INFORMATION

---

### Finance costs

Finance costs mainly comprise the interest payments on bank and other borrowings after capitalization the interest attributable to assets under construction. The following table sets forth a breakdown of our finance costs:

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Five months ended 31 May</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2010</b>	<b>2011</b>
				<i>RMB'000</i>	<i>RMB'000</i>
Interest on :					
- Bank borrowings wholly repayable within 5 years	15,390	10,553	13,150	6,632	4,695
- Entrusted loan wholly repayable within 5 years	1,226	2,478	2,563	1,067	1,191
- Other borrowings wholly repayable within 5 years	10	232	232	96	9
- Accretion on other payables	<u>2,933</u>	<u>793</u>	<u>379</u>	<u>158</u>	<u>259</u>
	19,559	14,056	16,324	7,953	6,154
Less: Amounts capitalised	<u>(2,317)</u>	<u>(3,081)</u>	<u>(1,403)</u>	<u>(576)</u>	<u>(793)</u>
Total	<u><u>17,242</u></u>	<u><u>10,975</u></u>	<u><u>14,921</u></u>	<u><u>7,377</u></u>	<u><u>5,361</u></u>

### *Income tax expense*

The income tax expense of the Track Record Period represents the PRC Enterprise Income Tax which is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Merit Leader was incorporated in the BVI and is not subject to any income tax.

Guang Da Automotive Components was incorporated in Hong Kong and has had no assessable profit subject to Hong Kong Profits Tax since its incorporation.

In accordance with the FEIT Laws in PRC, Nanyang Cijan was approved to be exempted from FEIT for two years starting from its first profit making year since its establishment and followed by a 50% tax relief for the next three years. Nanyang Cijan was subject to 12.5% tax rate for the years ended 31 December 2008, 2009 and 2010. On 15 December 2009, Nanyang Cijan obtained "High Technology Enterprise" status for 3 years that entitles Nanyang Cijan a preferential tax rate of 15% for the period from 2011 to 2012 according to PRC tax law.

Haikou Danjiang and Nanyang Yingsaite did not have any taxable profit during the Track Record Period.

---

## FINANCIAL INFORMATION

---

### MANAGEMENT DISCUSSION AND ANALYSIS OF OUR FINANCIAL RESULTS

*Selected historical consolidated financial information*

The information presented below for the three years ended 31 December 2010 and the five months ended 31 May 2010 and 2011 is derived from our consolidated financial statements included in the Accountants' Report set forth in Appendix I to this prospectus.

	<b>Year ended 31 December</b>			<b>Five months ended 31 May</b>	
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	297,331	392,505	543,716	202,949	286,291
Cost of sales	<u>(224,261)</u>	<u>(300,290)</u>	<u>(405,768)</u>	<u>(150,500)</u>	<u>(208,865)</u>
Gross profit	73,070	92,215	137,948	52,449	77,426
Other income, other gains and losses <sup>Note</sup>	12,721	7,926	4,224	4,018	19,265
Selling and distribution expenses	(24,406)	(24,850)	(34,842)	(14,439)	(15,173)
Research and development expenditure	(4,174)	(13,348)	(16,299)	(6,530)	(8,745)
Administrative expenses	(17,761)	(18,964)	(29,309)	(9,402)	(13,506)
Other expenses	—	—	(2,599)	—	(6,971)
Finance costs	<u>(17,242)</u>	<u>(10,975)</u>	<u>(14,921)</u>	<u>(7,377)</u>	<u>(5,361)</u>
Profit before tax	22,208	32,004	44,202	18,719	46,935
Taxation	<u>(3,550)</u>	<u>(3,629)</u>	<u>(6,666)</u>	<u>(1,916)</u>	<u>(8,764)</u>
	<u>18,658</u>	<u>28,375</u>	<u>37,536</u>	<u>16,803</u>	<u>38,171</u>
Profit and total comprehensive income for the year/period attributable to:					
Owners of the Company	16,051	28,229	37,536	16,803	38,171
Non-controlling interests	<u>2,607</u>	<u>146</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>18,658</u>	<u>28,375</u>	<u>37,536</u>	<u>16,803</u>	<u>38,171</u>

Note: The other income, other gains and losses for the five months ended 31 May 2011 include one-off items of (i) government grant for termination benefit payments amounted RMB8.0 million; and (ii) gain from settling a legal proceeding amounted RMB5.4 million.

---

## FINANCIAL INFORMATION

---

### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Five months ended 31 May 2011 compared to five months ended 31 May 2010

##### *Revenue*

During the five months ended 31 May 2011, our turnover from the OEM Market increased by 41.3% to RMB272.1 million from RMB192.6 million for the five months ended 31 May 2010. Such increase was mainly due to (i) stronger demand for our products from the automobile manufacturers, as the automobile manufacturers launched new models of automobiles; and (ii) the expansion of our production capacity from 6.1 million pieces per year in 2010 to 7.0 million pieces per year in 2011.

Turnover from the Automobile Aftermarket only increased mildly by 37.9% to RMB14.2 million from RMB10.3 million for the five months ended 31 May 2010 as the Group allocated most of its production capacity in producing OEM products to meet the strong demand from the automobile manufacturers as mentioned above.

##### *Cost of sales*

During the five months ended 31 May 2011, our cost of sales increased by 38.8% to RMB208.9 million from RMB150.5 million. Cost of sales for the OEM Market increased by 39.6% to RMB199.5 million from RMB142.9 million for the five months ended 31 May 2010. Such increase was in line with the turnover growth from OEM Market. Cost of sales for the Automobile Aftermarket increased by 23.7% to RMB9.4 million from RMB7.6 million in the five months ended 31 May 2010. Such increase is in line with the growth of business and increase in revenue in the Automobile Aftermarket.

##### *Gross profit*

The amount of our gross profit during the period increased by 47.6%. Such increase was mainly due to the increase in revenue in OEM Market, in particular on those new products and items launched during the period.

##### *Gross profit for the OEM Market*

The amount of our gross profit increased by 46.1% from RMB49.7 million to RMB72.6 million. Such increase was mainly due to the increase in revenue in OEM Market, in particular on those new products and items launched during the year. Our gross profit margin for OEM market increased by 0.9% from 25.8% to 26.7% mainly due to the higher selling price for the new products, enlarged sales volume and economic scale.



---

## FINANCIAL INFORMATION

---

### *Gross profit for the Automobile Aftermarket*

The amount of our gross profit increased by 77.8% from RMB2.7 million to RMB4.8 million because the Group focused in sales of new high-end products, in both the OEM and the Automobile Aftermarket. The gross profit margin also increased significantly from 26.6% in the five months ended 31 May 2010 to 33.7% in the five months ended 31 May 2011 because of the reason above.

### *Other income, other gains and losses*

The other income, other gains and losses increased significantly from gain of RMB4.0 million to gain of RMB19.3 million, such increase was mainly due the compound effect of (i) the increased gain from scrap sales of RMB3.1 million; (ii) gain from settling the legal proceeding with Jinguan Wangma amounted RMB5.4 million; and (iii) government grant of RMB8.0 million.

### *Selling and distribution expenses*

The selling and distribution expenses increased by 5.6% from RMB14.4 million to RMB15.2 million. The increase in selling and distribution expenses is lower than the increase in revenue in the same period as the distribution expenses in relation to delivery of products to customers decrease because the increase in sales in the five months ended 31 May 2011 was mainly made to existing customers who locate closer to the Group geographically.

### *Research and development expenditure*

The research and development expenditure increased by 33.8% from RMB6.5 million to RMB8.7 million. The increase is due to (i) the enhancement on research of applying absorber related technology on different types of vehicles; and (ii) the additional development costs of absorbers for newly developed vehicles.

### *Administrative expenses*

The administrative expenses increased by 43.6% from RMB9.4 million to RMB13.5 million, such increase was in line with (i) the growth in sales; and (ii) increase in professional fees for arranging bank borrowings.

### *Other expenses*

Other expenses represent the legal and other professional fees together with printing and other expenses incurred relating to the Global Offering. There was no such expense incurred for the five months ended 31 May 2010.

### *Finance cost*

Our finance cost decreased by 27.0% from RMB7.4 million to RMB5.4 million, such decrease was mainly due to the fact that the average long-term borrowing balance decreased during the period

---

## FINANCIAL INFORMATION

---

ended 31 May 2011. This is because (i) the interest carried on the Group's entrusted loans arrangements with several banks to receive funding from certain lenders through banks decreased from 8.82% to 8.31% for the period; and (ii) the Group reduced the finance costs of commercial bills due to more efficient credit management for the period.

### *Profit before tax*

Our profit before tax increased by 150.8% from RMB18.7 million to RMB46.9 million for the factors described above.

### *Income tax*

Our income tax increased by 363.2% from RMB1.9 million to RMB8.8 million, mainly due to the combined effect of (i) increase in profit before tax as described above; and (ii) the effect of deferred tax liability recognised in respect of temporary difference attributable to undistributable profits of a PRC subsidiary of the Group.

### *Net profit and net profit margin for the period*

Profit for the period increased by 127.4% from RMB16.8 million to RMB38.2 million. The increase in our net profit was mainly due to the increase in our gross profit for the OEM Market from RMB49.7 million for the five months ended 31 May 2010 to RMB72.6 million for the five months ended 31 May 2011, as well as the receipt of government grant of RMB8.0 million from the local PRC authority. Our net profit margin increased from 8.3% to 13.3% mainly due to the significant increases in other income, other gains and losses as stated above.

## **Year ended 31 December 2010 compared to year ended 31 December 2009**

### *Revenue*

During the year ended 31 December 2010, our turnover from the OEM Market increased by 35.6% to RMB512.4 million from RMB378.0 million in 2009. Such increase was mainly due to (i) stronger demand for our products from the automobile manufacturers. In 2010, we secured 20 newly developed vehicle models; and (ii) the expansion of our production capacity from 4.3 million pieces per year in 2009 to 6.0 million pieces per year in 2010.

Turnover from the Automobile Aftermarket increased by 115.9% to RMB31.3 million from RMB14.5 million in 2009. Such increase was mainly due to the significant increase in production capacity as mentioned above, so that the Group was able to handle higher volume of Automobile Aftermarket production and sales, after fulfilling the orders of the automobile manufacturers.

### *Cost of sales*

During the year ended 31 December 2010, our cost of sales increased by 35.1% to RMB405.8 million from RMB300.3 million. Cost of sales for the OEM Market increased by 32.4% to RMB383.8

---

## FINANCIAL INFORMATION

---

million from RMB289.8 million in 2009. Such increase was in line with the turnover growth from OEM Market. Cost of sales for the Automobile Aftermarket increased by 109.5% to RMB22.0 million from RMB10.5 million in 2009. Such increase is in line with the growth of business and increase in revenue in the Automobile Aftermarket.

### ***Gross profit***

The amount of our gross profit during the period increased by 49.6%. Such increase was mainly due to (i) the increase in revenue in OEM Market, in particular on those new products and items launched during the year; and (ii) the higher volume of Automobile Aftermarket sales due to the significant increase in production capacity.

### ***Gross profit for the OEM Market***

The amount of our gross profit increased by 46.0% from RMB88.1 million to RMB128.6 million. Such increase was mainly due to the increase in revenue in OEM Market, in particular on those new products and items launched during the year. The gross profit margin increased from 23.3% to 25.1%. Such mild increase was mainly due to the economies of scale on raw material purchases and manufacturing overhead benefited from higher production volume.

### ***Gross profit for the Automobile Aftermarket***

The amount of our gross profit increased by 129.3% from RMB4.1 million to RMB9.4 million. Such increase was mainly due to the higher volume of Automobile Aftermarket sales due to the significant increase in production capacity. The gross profit margin maintained at a stable level, being 28.1% in 2009 and 29.9% in 2010.

### ***Other income, other gains and losses***

The other income, other gains and losses decreased from gain of RMB7.9 million to gain of RMB4.2 million, such decrease was mainly due the compound effect of (i) the decrease in interest income from loan receivables, related parties and banks of RMB6.8 million; (ii) the increase in gain from sales of raw material of RMB 1.9 million; and (iii) the increases in losses on contingent liabilities of RMB2.9 million.

### ***Selling and distribution expenses***

The selling and distribution expenses increased by 39.8% from RMB24.9 million to RMB34.8 million. Such increase was in line with the growth in the revenue.

### ***Research and development expenditure***

The research and development expenditure increased by 22.6% from RMB13.3 million to RMB16.3 million. The increase is due to (i) the enhancement on research of applying absorber related technology on different types of vehicles and (ii) the additional development costs of absorbers for newly developed vehicles.

---

## FINANCIAL INFORMATION

---

### *Administrative expenses*

The administrative expenses increased by 54.2% from RMB19.0 million to RMB29.3 million, such increase was mainly due to the cost of share based payment of RMB9.9 million charged to the profit and loss account.

### *Other expenses*

Other expenses represent the legal and other professional fees together with printing and other expenses incurred relating to the Global Offering. There was no such expense incurred for the year ended 31 May 2009.

### *Finance cost*

Our finance cost increased by 35.5% from RMB11.0 million to RMB14.9 million, such increase was mainly due to (i) the long-term borrowings were drawn down in November 2010, December 2010 and January 2011 respectively; (ii) the weighted average interest rate on borrowings maintained at 6.2%; and (iii) part of the interest expense could not be capitalized in 2010 after the completion of the production capacity expansion in June 2010.

### *Profit before tax*

Our profit before tax increased by 38.1% from RMB32.0 million to RMB44.2 million for the factors described above.

### *Income tax*

Our income tax increased by 86.1% from RMB3.6 million to RMB6.7 million, mainly due to the combined effect of (i) increase in profit before tax as described above; and (ii) increase in expenses on entertainment expense and provision for contingent liabilities not deductible for tax purpose.

### *Net profit and net profit margin for the year*

Profit for the year increased by 32.0% from RMB28.4 million to RMB37.5 million, such increase was mainly due to the factors described above. Our net profit margin decreased from 7.2% to 6.9% mainly due to the decrease in other income, other gains and losses, and increase in administrative expenses stated above.

## **Year ended 31 December 2009 compared to year ended 31 December 2008**

### *Revenue*

During the year ended 31 December 2009, our turnover from the OEM Market increased by 37.4% to RMB378.0 million from RMB275.1 million in 2008. Such increase was mainly due to (i)

---

## FINANCIAL INFORMATION

---

stronger demand for our products from the automobile manufacturers. In 2009, we secured 18 new developed vehicle models; (ii) the production line utilization rate increased from 69% in 2008 to 82% in 2009; and (iii) the expansion of our production capacity from 4.0 million pieces per year in 2008 to 4.3 million pieces per year in 2009.

Turnover from the Automobile Aftermarket decreased by 35.0% to RMB14.5 million from RMB22.3 million in 2008. Such decrease was mainly due to the strong demand from automobile manufacturers, and the production capacity was prioritized to fulfill their demands before production of Automobile Aftermarket absorbers.

### *Cost of sales*

During the year ended 31 December 2009, our cost of sales increased by 33.9% to RMB300.3 million from RMB224.3 million. Cost of sales for the OEM Market increased by 40.6% to RMB289.8 million from RMB206.1 million in 2008. Such increase was slightly higher than the turnover growth from OEM Market, it was mainly due to the cost of spring (which is one of the key components of absorber) increased during the year. Cost of sales for the Automobile Aftermarket decreased by 42.3% to RMB10.5 million from RMB18.2 million in 2008, which was similar to the trend of the turnover growth of the Automobile Aftermarket during this period.

### *Gross profit*

The amount of our gross profit during the period increased by 26.2%. Such increase is in line with our turnover growth.

### *Gross profit for the OEM Market*

The amount of our gross profit increased by 27.7% from RMB69.0 million to RMB88.1 million and the gross profit margin, however, decreased from 25.1% to 23.3%. The decrease in gross profit margin was mainly due to the cost of spring (which is one of the key components of absorber) increased during the year.

### *Gross profit for the Automobile Aftermarket*

The amount of our gross profit maintained at a level of RMB4.1 million and the gross profit margin, however, increased from 18.5% to 28.1%. The increase in our gross profit margin for the Automobile Aftermarket was mainly due to the fact that the Company has changed its target market of aftersales market from domestic to overseas vehicle models, which demands higher quality products with higher gross margin.

### *Other income, other gains and losses*

The other income, other gains and losses decreased from a gain of RMB12.7 million to a gain of RMB7.9 million. Such decrease was mainly due the provision of impairment losses on trade receivables of RMB4.3 million.

---

## FINANCIAL INFORMATION

---

### *Selling and distribution expenses*

The selling and distribution expenses for the year ended 31 December 2008 and 2009 were RMB24.4 million and RMB24.9 million respectively. The selling and distribution expenses maintained at similar level despite the 32.0% increase in revenue in 2009 because (i) the research and development expenses incurred enhanced product quality and decreased the warranty cost and (ii) the Group increased the performance requirement of salespersons and it led to decrease in their commission.

### *Research and development expenditure*

The research and development expenditure increased from RMB4.2 million to RMB13.3 million. The increase is due to the change of research focus from technology improvement to applying absorber related technology on different types of vehicles.

### *Administrative expenses*

The administrative expenses increased by 6.7% from RMB17.8 million to RMB19.0 million, such increase was mainly due to increase in salaries, welfares and other benefits.

### *Finance cost*

Our finance cost decreased by 36.0% from RMB17.2 million to RMB11.0 million, such decrease was mainly due to the combined effect of the facts that (i) less notes discounted expenses were incurred during 2009; and (ii) the weighted average interest rate on borrowings decreased from 7.17% to 6.2%.

### *Profit before tax*

Our profit before tax increased by 44.1% from RMB22.2 million to RMB32.0 million for the factors described above.

### *Income tax*

Our income tax maintained at a level of RMB3.6 million in both 2008 and 2009, mainly due to the combined effect of (i) increase in profit before tax as described above; and (ii) increase in additional qualified research and development expenses deductible for tax purpose.

### *Net profit and net profit margin for the year*

Profit for the year increased by 51.9% from RMB18.7 million to RMB28.4 million, such increase was mainly due to the factors described above. Our net profit margin increased from 6.3% to 7.2% due to the reasons stated above.

---

## FINANCIAL INFORMATION

---

### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, the Group mainly funded its operation through capital contribution from shareholders, bank borrowings, cash generated from operations and general working capital. Our cash is principally used for payment of purchase from our suppliers, our various operating expenses and our capital expenditure. There were no material changes in our underlying derives of the sources and the uses of cash during the Track Record Period.

Generally, we manage our cash flow through annual budgeting, conducting monthly analysis of funds, procurement and production planning on a monthly basis, controlling the sales returns of each customer, utilisation of bank loans and controlling our capital expenditure. Our annual budget is planned by taking into account of figures including our estimates of sales, costs of production, purchase of raw materials, operation costs, management costs, and costs of financing. Based on our estimated sales figures, our production department will formulate a production plan and our procurement department will prepare a procurement plan and estimated the funds required. We will also formulate a budget for purchase of equipment and construction of new facilities. To control the sales returns of our customers, we will determine the estimated monthly receivable based on the credit cycle of each customer and the monthly sales figures. We may cease to supply products to customers who exceed the credit line, and for customers who fail to pay by the end of their credit period, we will investigate into the reasons and take appropriate recovery action. Our Board controls borrowings by closely monitoring anticipated cash outflow, and makes decisions on our borrowings and loan utilizations based on factors including our financial status, ability to repay, and the prevailing market interest rates.

Our finance department will formulate an annual capital expenditure budget based on our expansion plan, properties, land and equipment purchase amount, and the annual capital expenditure budget is approved by our Board. All our capital expenditure and the relevant agreements are approved by our development strategic department, production department and finance department. Our finance department includes the details of our capital expenditures in its monthly report to our management. There is review and verification procedure of the capital expenditure upon completion of the project. The capital expenditure is either funded by internal finance resources or external loans.

Following completion of the Listing, our Directors believe that our liquidity requirements will be satisfied by a combination of net proceeds from the Global Offering, cash generated from our operating activities and banking facilities in Hong Kong and China. We will use part of the net proceeds from the Global Offering to fulfill our capital commitments for future expansion and, based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that we have the ability to generate sufficient cash from our operations to fund our ongoing operating cash needs and the continuing expansion of our business.

---

## FINANCIAL INFORMATION

---

### Cash flows

The following table sets out selected cash flow data from the consolidated statements of cash flow for Track Record Period.

	2008	2009	2010	Five months ended 31 May	
				2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash (used in) from operating activities	(62,069)	48,926	64,299	58,807	12,822
Net cash (used in) from investing activities	(51,197)	(104,042)	67,486	91,639	(30,586)
Net cash from (used in) financing activities	117,157	80,957	(126,859)	(138,709)	29,479
Net increase in cash and cash equivalents	3,891	25,841	4,926	11,737	11,715
Cash and cash equivalents at the beginning of the year/period	7,375	11,266	37,107	37,107	42,033
Cash and cash equivalents at the end of the year/period	11,266	37,107	42,033	48,844	53,748

### *Cash flow used in/from operating activities*

Net cash from operating activities was principally derived from the receipt of payments for the sale of the Group's products. Cash used in operating activities is mainly used to pay the costs and expenses relating to operating activities.

For the financial year ended 31 December 2008, the net cash used in operating activities was approximately RMB62.1 million while the profit before taxation was RMB22.2 million. The difference was mainly attributable to the adjustment of non-cash item, depreciation of property, plant and equipment of RMB10.1 million, the adjustment of interest expense of RMB17.2 million and cash outflow arising from the decrease in trade and other payables of RMB110.7 million.

For the financial year ended 31 December 2009, the net cash generated from operating activities was RMB48.9 million while the profit before taxation was RMB32.0 million. The difference was mainly attributable to the adjustment of non-cash item, depreciation of property, plant and equipment of RMB10.7 million, the adjustment of interest expense of RMB11.0 million and cash outflow arising from the combined effect of (i) the increase in trade and other receivables of approximately RMB81.7 million; (ii) the increase in trade and other payables of RMB86.2 million, both as a result of higher level of operation and revenue.



---

## FINANCIAL INFORMATION

---

For the financial year ended 31 December 2010, the net cash generated from operating activities was RMB64.3 million while the profit before taxation was RMB44.2 million. The difference was mainly attributable to the adjustment of non-cash item, depreciation of property, plant and equipment of RMB15.9 million, the adjustment of interest expense of RMB14.9 million and the cash outflow arising from the combined effect of (i) the increase in inventories of RMB17.3 million; (ii) the increase in trade and other receivables of RMB31.9 million; (iii) the increase in trade and other payables of RMB32.1 million, contributed by higher level of operation and revenue.

For the five months ended 31 May 2011, the net cash generated from operating activities was RMB12.8 million while the profit before taxation was RMB46.9 million. The difference was mainly attributable to the adjustment of non-cash item, depreciation of property, plant and equipment of RMB6.0 million, the adjustment of interest expense of RMB5.4 million and cash inflow arising from the combined effect of (i) the decrease in inventories of RMB29.4 million; and (ii) the increase in trade and other receivables of RMB62.6 million.

### *Cash flow used in/from investing activities*

Cash flow used in/from investing activities mainly consisted of purchase of property, plant and equipment, movements in restricted bank deposit and loan receivables.

For the financial year ended 31 December 2008, the net cash used in investing activities was RMB51.2 million which was mainly due to (i) the purchase of property, plant and equipment of RMB18.2 million; (ii) net advance of loan receivables of RMB3.0 million; (iii) net placement of restricted bank deposits of RMB63.6 million.

For the financial year ended 31 December 2009, the net cash used in investing activities was RMB104.0 million which was mainly due to (i) the purchase and deposits of acquisition of property, plant and equipment of RMB15.4 million; (ii) net advance of loan receivables of RMB64.4 million; (iii) net placement of restricted bank deposits of RMB14.6 million; and (iv) payment of prepaid lease payments of RMB24.7 million.

For the financial year ended 31 December 2010, the net cash from investing activities was RMB67.5 million which was mainly due to (i) the purchase and deposits of acquisition of property, plant and equipment of RMB70.0 million; (ii) deposit for acquisition of land use rights of RMB60.2 million; (iii) net repayment of loan receivables of RMB106.0 million; and (iv) net proceeds from release of restricted bank deposits of RMB83.7 million.

For the five months ended 31 May 2011, the net cash used in investing activities was RMB30.6 million which was mainly due to (i) deposit made for acquisition of property, plant and equipment of RMB43.3 million; and (ii) net release of restricted bank deposits of RMB6.9 million.

---

## FINANCIAL INFORMATION

---

### *Cash flow from/used in financing activities*

Cash flow from/used in financing activities mainly consisted of new borrowing and capital contribution. Cash flow used in financing activities mainly consisted of interest paid, repayment of borrowing and dividend paid.

For the financial year ended 31 December 2008, the net cash from financing activities was RMB117.2 million which was resulted from the net borrowing of RMB133.8 million and the interest paid of RMB16.6 million.

For the financial year ended 31 December 2009, the net cash from financing activities was RMB81.0 million which was resulted from the net borrowing of RMB67.0 million, deemed capital contribution of RMB23.3 million and the interest paid of RMB13.3 million.

For the financial year ended 31 December 2010, the net cash used in financing activities was RMB126.9 million which was resulted from the interest paid of approximately RMB15.9 million, net repayment of borrowing of RMB63.6 million, deemed capital contribution of RMB26.6 million and dividend paid to shareholders of RMB70.0 million.

For the five months ended 31 May 2011, the net cash generated from financing activities was RMB29.5 million which was mainly due to the net borrowings raised of RMB35.4 million offset by interest paid of RMB5.9 million.

---

## FINANCIAL INFORMATION

---

### NET CURRENT LIABILITIES

The following set forth details of our current assets and current liabilities as of 31 December 2008, 2009 and 2010, 31 May 2011 and 31 August 2011:-

	As at 31 December			As at 31 May 2011	As at 31 August 2011
	2008	2009	2010	2011	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
<b>CURRENT ASSETS</b>					
Inventories	55,504	55,941	75,850	50,893	42,979
Trade and other receivables	91,332	193,320	228,094	261,005	233,752
Prepaid lease payments	294	884	884	2,154	2,154
Loan receivables	22,914	106,047	—	—	—
Amounts due from related parties	17,340	3,191	—	—	—
Amounts due from shareholders	8,760	—	330	326	—
Restricted bank balances	133,100	147,670	64,000	57,076	62,945
Bank balances and cash	<u>11,266</u>	<u>37,107</u>	<u>42,033</u>	<u>53,748</u>	<u>43,109</u>
	340,510	544,160	411,191	425,202	384,939
<b>CURRENT LIABILITIES</b>					
Trade and other payables	135,686	245,361	280,931	270,458	215,542
Advance from customers	6,452	1,575	3,475	1,344	2,946
Amount due to a related party	17,837	—	—	—	—
Amounts due to shareholders	—	3,896	70,068	—	—
Dividends payable	—	13,127	—	—	—
Borrowings — due within one year	259,883	295,870	223,300	158,674	155,000
Income tax payable	2,674	5,738	9,760	11,866	12,769
Deferred income	—	1,267	—	—	—
Other financial liability	2,430	16,992	19,701	—	—
Provisions	<u>779</u>	<u>1,628</u>	<u>7,684</u>	<u>6,157</u>	<u>5,975</u>
	<u>425,741</u>	<u>585,454</u>	<u>614,919</u>	<u>448,499</u>	<u>392,232</u>
Net current liabilities	<u>(85,231)</u>	<u>(41,294)</u>	<u>(203,728)</u>	<u>(23,297)</u>	<u>(7,293)</u>

As at 31 December 2008, 2009 and 2010, 31 May 2011 and 31 August 2011, the Group recorded net current liabilities of approximately RMB85.2 million, RMB41.3 million, RMB203.7 million, RMB23.3 million and RMB7.3 million, respectively.

---

## FINANCIAL INFORMATION

---

During the Track Record Period, our Group's current assets mainly consisted of inventories, trade and other receivables, loan receivables from non-related parties, amounts due from related parties, restricted bank balance and cash. Our Group's current liabilities mainly consisted of trade and interest-bearing borrowings.

The net current liabilities of the Group during the Track Record Period was mainly attributable to: (i) most of the borrowings available to the Group are short-term due within one year, and part of them were used to finance long term assets like production capacity expansion; (ii) payables and provision for contingent liabilities were made due to the litigations, further details of the litigations are set out in section "Legal proceedings" below; (iii) as part of the Group Reorganisation set out in section headed "Basis of presentation of financial information" above, on 23 June 2010, Guang Da Automotive Components acquired 100% interest in Nanyang Cijan from the Founders for a consideration of HK\$80 million. The amount payable by Guang Da Automotive Components was recognized as amount due to shareholders, which has been capitalized and removed from liabilities pursuant to the sale and purchase agreement between the Company and the then existing shareholders of Merit Leader dated 22 May 2011; and (iv) dividends of RMB13.6 million and RMB56.5 million were recognised as distribution to shareholders of Nanyang Cijan for the year ended 31 December 2009 and 2010, respectively.

Our net current liabilities decreased by approximately RMB16.0 million during the three months ended 31 August 2011 and the decrease was mainly attributable to (i) the net increase in trade and other receivables and payables of RMB27.7 million; (ii) the increase in restricted bank balances of RMB5.9 million; and (iii) decrease in bank balance of RMB10.6 million.

### *Legal proceedings*

#### *(i) Case with Biyadi Automobile Company Limited*

On 31 May 2010, Biyadi Automobile Company Limited (比亞迪汽車有限公司) ("Biyadi") commenced proceedings against Nanyang Cijan in relation to a contractual dispute, claiming damages in respect of a batch of goods which were returned due to quality issues. On 6 December 2010, the judgment of the legal proceeding was delivered and Nanyang Cijan was ordered to settle compensation of RMB3.0 million to Biyadi. In January 2011, Nanyang Cijan appealed the judgment to the court and as at the Latest Practicable Date, no final judgment was delivered and the case remains pending. Provisions of RMB2.9 million has been made as of 31 December 2010 and 31 May 2011 regarding this case.

#### *(ii) Case with Henan Jinguan Wangma Information Industry Company Limited*

In 2007, Nanyang Cijan agreed to assume payment obligation of RMB31.9 million on behalf of a shareholder - Henan Jinguan Wangma Information Industry Company Limited (河南金冠王碼信息產業股份有限公司) ("**Jinguan Wangma**" or the "**Ex-shareholder**") (a state-owned company) and in return to receive cash reimbursement of RMB10.1 million from the Ex-shareholder and offsetting the remaining balance of RMB21.8 million to be settled through current account owed to Jinguan Wangma.

---

## FINANCIAL INFORMATION

---

The balance of RMB17.8 million was recognised in amount due to a related party as at 31 December 2008. In April 2009, Jinguan Wangma disposed of its entire equity interest in Nanyang Cijan to the Founder. The balance of RMB17.8 million and RMB15.4 million due to the ex-shareholder of Nanyang Cijan was included in other payables as at 31 December 2009 and 2010.

RMB10.1 million was recognised as amount due from shareholders as at 31 December 2008, and same amount was included in other receivables in 2009 and 2010 representing costs to be recovered from from Jinguan Wangma in relation to payment for employment termination benefits.

On 23 June 2010, Jinguan Wangma commenced proceedings against Nanyang Cijan in relation to a contractual dispute, claiming an aggregate amount of RMB18.0 million allegedly owed by Nanyang Cijan to Jinguan Wangma. Nanyang Cijan defended against Jinguan Wangma on the basis that Nanyang Cijan did not owe Jinguan Wangma any money. On 21 December 2010, Nanyang Cijan filed petition for dismissing the charges and demanded RMB2.2 million from Jinguan Wangma as compensation. During the Track Record Period, no receivable has been recognised in respect of the demanded disbursement.

On 9 May 2011, Nanyang Cijan and Jinguan Wangma entered into a settlement agreement (the “**Settlement Agreement**”). Pursuant to the Settlement Agreement, (a) Jinguan Wangma agreed that it shall unconditionally and irrevocably withdraw its claim from the court on the date of the Settlement Agreement; (b) commencing from the date of the Settlement Agreement, all disputes relating to claims and liabilities between both parties shall be offset, all rights and obligations in relation to the claims and liabilities between the parties up to the date of the Settlement Agreement shall be terminated, and the parties shall have no other disputes; (c) both parties agreed that the outstanding balances of payables to Jinguan Wangma to be offset against the receivable from Jinguan Wangma held by Nanyang Cijan. As a result, the Group recognise a gain of RMB5.4 million, being the difference between the balances of receivable from/payable to Jinguan Wangma held/owed by Nanyang Cijan upon the completion of the Settlement Agreement. During the Track Record Period, no provision had been made on this case as in the opinion of the Company’s PRC legal counsel, the case was in favour to the Company on sound grounds.

Following to the Settlement Agreement, the claims in relation to Jinguan Wangma were withdrawn and approved by the relevant PRC court on 11 May 2011.

### (iii) *Case with Nanyang City Commercial Bank*

In 2008, Nanyang Cijan provided financial guarantees to Nanyang Sanbo in relation to bank loans from Nanyang City Commercial Bank (“**NCCB**”) for RMB13.7 million in aggregate. In December 2008, Nanyang Cijan entered into a memorandum of understanding with a shareholder of Nanyang Sanbo (the “**Shareholder**”) (the “**MOU**”), pursuant to which the Shareholder agreed to reimburse Nanyang Cijan all losses should Nanyang Cijan was demanded by NCCB to fulfil its joint guarantee obligation towards Nanyang Sanbo. Starting from 31 December 2008, Nanyang Sanbo had defaulted repayment of the loans.

---

## FINANCIAL INFORMATION

---

On 6 December 2010, NCCB commenced legal proceedings against Nanyang Sanbo demanded repayment of default loans with an aggregate principal amount of RMB23.5 million, pursuant to which Nanyang Cijan was a guarantor in respect of RMB13.7 million assumed joint liability, and associated interest and penalties thereon.

On 22 March 2011, the first judgment was issued ordering Nanyang Sanbo to repay NCCB in full as demanded by the plaintiff, and that Nanyang Cijan shall carry out their guarantee obligations within the scope of their guarantee agreement. On 12 April 2011, Nanyang Sanbo appealed against the decision. Provisions of RMB2.4 million, RMB17.0 million and RMB19.7 million representing aggregate amount of principal of relevant default loans, interests and penalties, have been provided for as at 31 December 2008, 2009 and 2010, respectively, regarding this guarantee. Taking into account of the MOU with the Shareholder, a corresponding receivable from the Shareholder (including in other receivables) amounting to RMB2.4 million, RMB17.0 million and RMB19.7 million were recognised as at 31 December 2008, 2009 and 2010, respectively.

On 21 April 2011, the Shareholder submitted a request to the Nanyang City Government in relation to the release of the guarantee obligations of Nanjian Cijan with respect to default loans made by Nanyang Sanbo, and was approved by the mayor of Nanyang City. On 6 May 2011, NCCB, the Shareholder, Nanyang Cijan and Nanyang Sanbo executed a “Letter of undertaking in relation to the release of the guarantee by Nanyang Cijan to NCCB” (“**Letter of Undertaking**”), pursuant to which the parties agreed and confirmed that:

- (a) All the guarantee obligations of Nanyang Cijan to NCCB in respect of the default loans of Nanyang Sanbo are to be released, and Nanyang Cijan shall have no further guarantee obligations or any other related obligations. NCCB shall completely withdraw its claim against Nanyang Cijan; and
- (b) The Letter of Undertaking shall be irrevocable from the date of execution.

No offsetting can be and have been made between the provisions on the financial guarantee to Nanyang Sanbo and receivable from the shareholder of Nanyang Sanbo.

On 9 May 2011, Nanyang Sanbo issued a letter confirming that it would compensate Nanyang Cijan any amounts incurred by Nanyang Cijan should Nanyang Cijan have to carry out any guarantee obligations in relation to the Nanyang Sanbo loans.

---

## FINANCIAL INFORMATION

---

### *Inventories*

The following table sets forth our inventories as of the balance sheet dates indicated and the average inventory turnover days for the periods indicated:

	<b>At 31 December</b>			<b>At</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>31 May</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	9,827	8,297	10,075	8,758
Work-in-progress	5,195	3,567	6,447	6,464
Finished goods	<u>40,482</u>	<u>44,077</u>	<u>59,328</u>	<u>35,671</u>
 Inventories	 <u>55,504</u>	 <u>55,941</u>	 <u>75,850</u>	 <u>50,893</u>
 Average inventory turnover days <sup>(1)</sup>	 <u>88.5</u>	 <u>67.7</u>	 <u>59.3</u>	 <u>45.8</u>

*Note:*

- (1) Calculated using the average of the beginning and ending inventory balances of the period, divided by cost of sales for the period and multiplied by 365 days for the years ended 31 December 2008, 2009 and 2010 and 151 days for the five months ended 31 May 2011.

The significant decrease in inventory turnover days from 88.5 days in 2008 to 67.7 days in 2009 to 59.3 days in 2010 to 45.8 days in the five months ended 31 May 2011 was mainly due to better sales planning and inventory management.

As at 31 August 2011, 90.6% of the inventories balance as at 31 May 2011 have been utilised.

---

## FINANCIAL INFORMATION

---

### *Trade and other receivables*

The following table sets forth the total amounts of our trade and other receivables as of the balance sheet dates indicated and the average trade and other receivables turnover days for the periods indicated:

	<b>At 31 December</b>			<b>At</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>31 May</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	74,973	135,736	165,727	241,048
Less: allowance for doubtful debts	<u>(4,507)</u>	<u>(8,844)</u>	<u>(8,673)</u>	<u>(8,602)</u>
	70,466	126,892	157,054	232,446
Bills receivables	11,487	27,571	30,897	9,050
Other receivables				
— from a shareholder of Nanyang Sanbo	2,430	16,992	19,701	—
— from Jinguan Wangma <sup>(2)</sup>	—	10,076	10,076	—
— others	<u>3,907</u>	<u>8,733</u>	<u>7,208</u>	<u>12,980</u>
	6,337	35,801	36,985	12,980
Advances to suppliers	3,006	3,056	2,292	3,339
Others	<u>36</u>	<u>—</u>	<u>866</u>	<u>3,190</u>
	<u>91,332</u>	<u>193,320</u>	<u>228,094</u>	<u>261,005</u>
 Average trade receivables turnover days <sup>(1)</sup>	 <u>88.8</u>	 <u>91.8</u>	 <u>95.3</u>	 <u>102.7</u>

*Notes:*

- (1) Calculated using the average of the beginning and ending trade receivable balances (net of allowance for doubtful debts) of the period, divided by revenue for the period and multiplied by 365 days for the years ended 31 December 2008, 2009 and 2010 and 151 days for the five months ended 31 May 2011.
- (2) The outstanding balance of RMB10.1 million due from Jinguan Wangma as of 31 December 2010 was subsequently derecognised from the financial statements in accordance with Settlement Agreement entered into by Jinguan Wangma and Nanyang Cijan. Please refer to I-51 of Appendix I for details.

The average trade receivables turnover days for 2008 to 2010 and for the five months ended 31 May 2011 were slightly higher than our credit period to customers, which was generally 90 days. The main reason was certain customers did not settle the outstanding amount within the credit period. Trade bills usually have a credit period of 90 to 180 days.



---

## FINANCIAL INFORMATION

---

The other receivables include the following items:

1. As at 31 December 2008, 2009 and 2010, included in the balances RMB2.4 million, RMB17.0 million and RMB19.7 million, represent receivables from a shareholder of Nanyang Sanbo for reimbursement of relevant principals, interests and penalties in respect of several loans under financial guarantees provided by Nanyang Cijan during the Track Record Period.
2. As at 31 December 2009 and 2010, included in the balances RMB10.1 million represent costs to be recovered from the Jinguan Wangma in relation to payment for employment termination benefits. After Jinguan Wangma disposed of its 12.5% equity interest in Nanyang Cijan to the Founders in April 2009, the amount due from Jinguan Wangma was reclassified from amounts due from related parties to other receivables.
3. Except for the items disclosed above, the closing balances comprise of employees' travel advances, deposits paid to local tax authorities, rental deposits and bid performance deposits and deposits to a creditor as securities for other borrowings.

As at 31 August 2011, 69.5% of the trade receivables balances as at 31 May 2011 had been subsequently settled.

The following table set forth an aging analysis of trade receivables that are neither individually nor collectively considered to be impaired:-

	<b>At 31 December</b>			<b>At</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>31 May</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables				
0 - 90 days	65,632	125,975	148,506	210,514
91 - 180 days	2,895	48	7,678	20,420
181 - 365 days	<u>1,939</u>	<u>869</u>	<u>870</u>	<u>1,512</u>
	<u>70,466</u>	<u>126,892</u>	<u>157,054</u>	<u>232,446</u>

The increase in the trade receivables and bills receivables balance over 3 months as at 31 May 2011 as compared with the balance as at 31 December 2010 was due to delay in settling outstanding balances by certain customers. Taking into account that the customers continues to make payment to us subsequent to 31 May 2011, the Directors consider that the slow repayment is only temporary in nature and do not foresee any significant risks in receiving the outstanding amount.

---

## FINANCIAL INFORMATION

---

The above balances are past due for which the Group has not provided for impairment loss as the Directors considered there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

The following table shows the movement in the allowance for doubtful debts of the Group for the Track Record Period:

	2008	2009	2010	Five months ended 31 May 2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Beginning balance	4,875	4,507	8,844	8,673
Addition	—	4,341	—	—
Reversal of allowance for doubtful debts	(368)	—	(171)	(71)
Written off as uncollectible	—	(4)	—	—
	<u>—</u>	<u>(4)</u>	<u>—</u>	<u>—</u>
Ending balance	<u>4,507</u>	<u>8,844</u>	<u>8,673</u>	<u>8,602</u>

### *Loan receivables*

As at December 31, 2008 and 2009, the Group's loan receivables represented loans lent to three and four independent third parties respectively and not connected to the Group. They carried variable interest rates, which were determined by referencing to prevailing market rates, ranging from 5.6% to 8.9% during the Track Record Period, and were unsecured and were repayable on demand.

The receivables were advanced to the borrowers to fund their working capital needs and also for the purposes of maximizing of the Group's capital utilization rate that would benefit to the Group. According to the《貸款通則》, the People's Bank of China may impose on the lender a fine of an amount equals to more than one time above but less than five times of the income derived by the lender. However, according to a written confirmation issued by Xichuan County Branch of the People's Bank of China, the Group has reported the issues to the Branch, and no penalty would be enforced to the Group in relation to the fund advanced to other parties.

Our PRC legal advisor is of the opinion that under to the relevant PRC laws and regulations in relation to inter-company loans, Nanyang Cijan may recover the principal of the loans lent to other companies, but the interest on the loan amounts may be confiscated by the relevant PRC authorities in the event that it is found to be in breach of the relevant PRC laws and regulations. The maximum amount of penalty which we may be subject to if we are found to be in breach of the relevant PRC laws and regulations is the interest amount, which amounts to approximately RMB6.2 million for the two years ended 31 December 2009. As confirmed by the Directors, during the Track Record Period, most of the borrowings available to our Group were short-term in nature and would fall due within one year while most of such borrowings were used to finance long term plans like expansion of production capacity. In order to maintain the use of our credit line at a reasonable level to keep good renewal condition of these credits, we at some time had maintained a borrowing amount in addition

---

## FINANCIAL INFORMATION

---

to the amount needed for operations and working capital. At the same time, in order to reduce the cost of financing incurred by the utilisation of such excess funds, we advanced funds to other parties at a similar interest rate. Further, in utilising such funds, the management would take into consideration the working capital needs of our Group, and as such, the funds advanced to other parties are not fixed term loans but are repaid to us upon our demand so as to provide flexibility to our Group to satisfy its working capital needs. However, our PRC legal advisor is of the opinion that, as the loan was settled before 31 December 2009, the possibility of such interests of the loan amount being confiscated by the PRC authorities is low. The Group did not have any interest-bearing advance to any third parties as at the latest Practicable Date, and does not intend to continue making any interest-bearing advances to any third parties after the Listing.

### *Restricted bank balances, bank balances and cash*

Restricted bank balances represent amounts deposited with banks as pledge for the bills payable with an original maturity of three months or less issued to suppliers for the purchase of raw materials and securities for bank borrowings with maturity of three to six months.

The increase in the bank and cash balances as at 31 December 2009 as compared to 31 December 2008 was mainly due to the draw down of long term and short term borrowings, and the increase in trade and other payables. The decrease in the bank and cash balances as at 31 December 2010 as compared to 31 December 2009 was mainly due to dividends of RMB56.5 million recognised as distribution to shareholders of Nanyang Cijan for the year ended 31 December 2010. The increase in bank and cash balances as at 31 May 2011 as compared to 31 December 2010 was due to the additional bank borrowing obtained in the five months ended 31 May 2011 offset by the capital expenditure made during the same period.

---

## FINANCIAL INFORMATION

---

### *Trade and other payables*

The following table sets forth the total amounts of our trade and other payables as of the balance sheet dates indicated and the average trade and other payables turnover days for the periods indicated:

	At 31 December			At
	2008	2009	2010	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	94,806	148,470	195,693	193,413
Bills payables	20,267	53,134	36,670	35,163
Other payables to employees	22,040	15,404	9,734	3,984
Payroll and welfare payables	7,178	6,997	6,572	8,041
Other tax payable	2,777	7,034	7,669	13,942
Other payables	2,881	21,211	21,427	4,090
Other accruals <sup>(1)</sup>	<u>607</u>	<u>2,677</u>	<u>6,050</u>	<u>14,332</u>
	150,556	254,927	283,815	272,965
Less: Amount shown under non-current liabilities	<u>(14,870)</u>	<u>(9,566)</u>	<u>(2,884)</u>	<u>(2,507)</u>
Total trade and other payables shown under current liabilities	<u>135,686</u>	<u>245,361</u>	<u>280,931</u>	<u>270,458</u>
Average trade payables turnover days <sup>(2)</sup>	<u>144.3</u>	<u>147.8</u>	<u>154.8</u>	<u>140.7</u>

*Note:*

- (1) The other accruals increased from RMB6.1 million as at 31 December 2010 to RMB14.3 million as at 31 May 2011 was mainly due to accruals of the expenses in respect of the Global Offering.
- (2) Calculated using the average of the beginning and ending trade payable balances of the period, divided by cost of sales for the period and multiplied by 365 days for the years ended 31 December 2008, 2009 and 2010 and 151 days for the five months ended 31 May 2011.

---

## FINANCIAL INFORMATION

---

The following table set forth an aging analysis of our trade payables as at the dates indicated.

	<b>At 31 December</b>			<b>At</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>31 May</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables				
0-90 days	58,062	122,934	174,769	171,823
91-180 days	24,220	18,150	16,162	19,292
Over 181 days	<u>12,524</u>	<u>7,386</u>	<u>4,762</u>	<u>2,298</u>
	<u>94,806</u>	<u>148,470</u>	<u>195,693</u>	<u>193,413</u>

The average trade payables turnover days throughout the Track Record Period of our Group were higher than the credit terms granted by our suppliers, which was normally 90 days. The reason was mainly due to (i) the bargaining power of the Group has been relatively higher than that of the suppliers and hence the Group managed to extend the credit period of certain payments beyond the general payment terms; and (ii) according to the Group's internal policy, the Company only settled trade payables with suppliers during the period from 25th of each month to 5th of the next month, and this would result in delay in settlements with certain suppliers. As at 31 August 2011, 61.6% of the trade payables balance as at 31 May 2011 have been paid by the Group.

### WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to us including the estimated net proceeds of the Global Offering, the available credit facilities and our internally generated funds, our Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this prospectus.

---

## FINANCIAL INFORMATION

---

### INDEBTEDNESS

#### Borrowings

	<b>2008</b>	<b>At 31 December</b>		<b>At</b>	<b>At 30</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>31 May</b>	<b>September</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
Bank borrowings	236,583	293,570	230,000	245,000	240,000
Entrusted loans	20,000	30,000	30,000	50,000	60,000
Other borrowings	<u>3,300</u>	<u>3,300</u>	<u>3,300</u>	<u>3,674</u>	<u>7,206</u>
	<u>259,883</u>	<u>326,870</u>	<u>263,300</u>	<u>298,674</u>	<u>307,206</u>
Unsecured	86,050	134,300	134,300	160,000	150,000
Secured	<u>173,833</u>	<u>192,570</u>	<u>129,000</u>	<u>138,674</u>	<u>157,206</u>
	<u>259,883</u>	<u>326,870</u>	<u>263,300</u>	<u>298,674</u>	<u>307,206</u>

Except for HK\$4.4 million (equivalent to approximately RMB3.7 million) borrowing as at 31 May 2011, all other borrowings are denominated in RMB. The Group's borrowings carry fixed interest rate at 31 December 2008, 2009 and 2010 and 31 May 2011. The contractual maturity dates are as follows:

	<b>2008</b>	<b>At 31 December</b>		<b>At</b>	<b>At 30</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>31 May</b>	<b>September</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	259,883	295,870	223,300	158,674	150,000
More than two years, but not exceeding five years	<u>—</u>	<u>31,000</u>	<u>40,000</u>	<u>140,000</u>	<u>157,206</u>
	259,883	326,870	263,300	298,674	307,206
Less: Amounts due for settlement within 12 months (shown under current liabilities)	<u>(259,883)</u>	<u>(295,870)</u>	<u>(223,300)</u>	<u>(158,674)</u>	<u>(150,000)</u>
Amounts shown under non-current liabilities	<u>—</u>	<u>31,000</u>	<u>40,000</u>	<u>140,000</u>	<u>157,206</u>

---

## FINANCIAL INFORMATION

---

During the Track Record Period, the Group entered into entrusted loan arrangements with banks to receive funding from certain specific lenders through the banks. The balances carried fixed interest rates of 9.90%, 8.82%, 8.82% and 8.31% per annum at 31 December 2008, 2009 and 2010 and 31 May 2011, respectively.

Since the bargaining power of the Group increased over the Track Record Period and become relatively higher than that of the suppliers, the Group managed to extend the credit period of certain payments beyond the general payment terms. As such, the Group's need for short term bank borrowing to finance its working capital (i.e. mainly trade and bills payables) decreased and it led to the decrease in total bank borrowing balances as at 31 December 2010.

As at 31 December 2010, the outstanding balance of entrusted loans was borrowed from Xichuan County Construction Investment Company Limited, through China Construction Bank. The outstanding balance of entrusted loans as at 31 December 2010 was fully repaid and an additional loan of RMB 50.0 million was raised from the same lender through China Construction Bank during the five months ended 31 May 2011.

In December 2009, Nanyang Cijan and Xichuan County Finance Bureau (浙川縣財政局) entered into a loan agreement under which Nanyang Cijan borrowed an amount of RMB3.3 million from the Xichuan County Finance Bureau. The term of the loan was from 27 December 2009 to 27 December 2010, and the interest rate was 6.696% per annum. Our PRC Legal Advisers is of the opinion that, pursuant to a confirmation from the Xichuan County People's Government dated 20 June 2011, the loan granted by the Xichuan County Finance Bureau was to encourage investment in research, and Nanyang Cijan has applied the loan to research and development. The loan was repaid in full on 21 March 2011. Our PRC Legal Advisers are of the opinion that Nanyang Cijan did not breach any PRC laws or regulations in relation to the loan.

In order to obtain debt financing from banks and satisfy the requirements set forth for such financing, the Group entered into guarantee agreements with independent third parties. Under such agreements, the Group provides guarantees to certain loans of the independent third parties in return for guarantees by these independent third parties to its loans from banks. As the amounts of loans guaranteed were approximately matching others, the Group and the independent third parties agreed to enter into such arrangements at no charges.

## FINANCIAL INFORMATION

The borrowings are guaranteed and/or secured by the following:

	Assets At 31 December			Asset at 31 May
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Type A	—	—	39,000	30,000
Type B	30,000	50,000	20,000	—
Type C	143,833	142,570	70,000	108,674
Type D	20,000	30,000	81,000	51,000
Type E	62,750	91,000	40,000	40,000
Type F	—	10,000	10,000	19,000
	<u>256,583</u>	<u>323,570</u>	<u>260,000</u>	<u>248,674</u>

Type A: Borrowings are guaranteed by companies controlled by Mr. Xi and secured by assets of the Group (note).

Type B: Borrowings were guaranteed by third parties and secured by assets of the Group (note).

Type C: Borrowings are secured by assets of the Group (note).

Type D: Borrowings are guaranteed by companies controlled by Mr. Xi.

Type E: Borrowings are guaranteed by third parties.

Type F: Borrowings are guaranteed by third parties and companies controlled by Mr. Xi.

The guarantees provided as mentioned in Type A, B, D to F had been released upon repayment of the respective borrowings or before the Latest Practicable Date.

*Note:*

The Group has pledged certain assets to secure banking facilities granted to the Group. The carrying values of the assets pledged are as follows:

	At 31 December			At 31 May
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	6,187	21,580	21,041	20,563
Land use right	6,129	11,812	40,476	40,118
Restricted bank balances	133,100	147,670	64,000	57,076
Other receivables	—	—	—	4,350
	<u>145,416</u>	<u>181,062</u>	<u>125,517</u>	<u>122,107</u>



---

## FINANCIAL INFORMATION

---

### Contingent liabilities

(a) *Financial guarantees*

During the Track Record Period, the Group provided the following guarantees to related parties:

Name of related parties	Relationship	Year ended 31 December			Five months ended
		2008	2009	2010	31 May 2011
		RMB'000	RMB'000	RMB'000	RMB'000
Nanyang Pukang Pharmaceutical Co., Ltd. (南陽普康藥業有限公司)	Company controlled by Mr. Xi	—	—	30,000	—
Nanyang Jinguan Electrical Appliances Limited (南陽金冠電器有限公司)	Company controlled by Mr. Xi	20,000	65,000	30,000	—
Nanyang Sanbo	Company controlled by Mr. Xi	15,900	15,900	15,900	—

During the Track Record Period, the Group provided the following guarantees to banks in respect of bank borrowings to independent third parties at no charge:

	Year ended 31 December			Five months ended
	2008	2009	2010	31 May 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Amount guaranteed	65,000	40,000	—	—

In order to obtain debt financing from banks and satisfy the requirements set forth for such financing, the Group entered into guarantee agreements with independent third parties. Under such agreements, the Group provides guarantees to certain loans of the independent third parties in return for guarantees by these independent third parties to its loans from banks. As the amounts of loans guaranteed were approximately matching others, the Group and the independent third parties agreed to enter into such arrangements at no charges.

The fair value of financial guarantees contracts at date of inception is insignificant.

---

## FINANCIAL INFORMATION

---

As at the Latest Practicable Date, all guarantees provided by the Group to banks in respect of bank borrowings to independent third parties have been fully released.

Save as disclosed above, as of 30 September 2011, we did not have any material contingent liabilities or guarantees.

(b) *Other financial liability*

	<i>RMB'000</i>
Financial guarantee	
At 1 January 2008	—
Additions	<u>2,430</u>
At 31 December 2008	2,430
Additions	<u>14,562</u>
At 31 December 2009	16,992
Additions	<u>2,709</u>
At 31 December 2010	19,701
Release during the period	<u>(19,701)</u>
At 31 May 2011	<u>—</u>

The balance represented financial guarantees provided to Nanyang Sanbo. On 6 May 2011, the Group entered into an agreement with Nanyang Sanbo to release the financial guarantees provided by Nanyang Cijan to NCCB, concurrently the other financial liability and receivable in relation to this case were derecognised during the five months period ended 31 May 2011.

---

## FINANCIAL INFORMATION

---

(c) *Provisions*

	<b>Warranty Provision</b>	<b>Litigation</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(note i)</i>	<i>(note ii)</i>	
At 1 January 2008	—	—	—
Additions	8,607	—	8,607
Utilisations	<u>(7,828)</u>	<u>—</u>	<u>(7,828)</u>
At 31 December 2008	779	—	779
Additions	7,088	—	7,088
Utilisations	<u>(6,239)</u>	<u>—</u>	<u>(6,239)</u>
At 31 December 2009	1,628	—	1,628
Additions	11,523	2,900	14,423
Utilisations	<u>(8,367)</u>	<u>—</u>	<u>(8,367)</u>
At 31 December 2010	4,784	2,900	7,684
Additions	4,136	—	4,136
Utilisations	<u>(5,663)</u>	<u>—</u>	<u>(5,663)</u>
At 31 May 2011	<u>3,257</u>	<u>2,900</u>	<u>6,157</u>

*Notes*

- (i) The warranty provision represents management's best estimate of the Group's liability under an average warranty period of two years granted on products, based on prior experience for defective products.

The warranty provision increased by 109.0% to RMB 1.6 million at 31 December 2009 from RMB 0.8 million at 31 December 2008 and further increased by 193.9% to RMB4.8 million at 31 December 2010. Such increase was in line with the turnover growth of the Company for the three years ended 31 December 2010.

The warranty provision decreased by 31.9% to RMB3.3 million at 31 May 2011 from RMB4.8 million at 31 December 2010 because more sophisticated and efficient technical and quality control procedures in place.

- (ii) Please refer to the sub-section headed "Net current liabilities" above for the details of the litigations in relation to (i) Biyadi; (ii) Jinguan Wangma; and (iii) NCCB respectively.

---

## FINANCIAL INFORMATION

---

### Off-balance sheet commitments and arrangements

As at the Latest Practicable Date, (1) we had not provided any guarantees to third parties and related companies; (2) we have not entered into any derivative financial instruments, interest rate swap transactions or foreign currency forward contracts. We do not engage in speculative transactions involving derivatives; (3) we have not entered into any off-balance sheet guarantees or other commitments to guarantee the payment obligations of any third parties; and (4) we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

Save as disclosed in this section headed “Financial Information — Liquidity and Capital resources — Indebtedness” as of 30 September 2011 being the latest practicable date for determining indebtedness, we did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, guarantees or any other material contingent liabilities. Our Directors confirm that there have not been any material changes in our indebtedness since 30 September 2011.

### MAJOR FINANCIAL RATIOS

The following table sets forth the major financial ratios as of the dates indicated.

	2008	2009	2010	31 May 2011
Current ratio <sup>(1)</sup>	0.80	0.93	0.67	0.95
Quick ratio <sup>(2)</sup>	0.67	0.83	0.55	0.83
Gearing ratio <sup>(3)</sup>	0.54	0.51	0.41	0.43
Return on equity <sup>(4)</sup>	24.7%	28.5%	40.6%	76.1%
Return on assets <sup>(5)</sup>	3.8%	4.5%	5.1%	12.1%

*Notes:*

<sup>(1)</sup> Current assets / current liabilities

<sup>(2)</sup> (Current assets — inventories) / Current liabilities

<sup>(3)</sup> (Borrowings + bills payable) / total assets

<sup>(4)</sup> Profit for the year (or annualised profit based on profit for the period) / ((total equity at the beginning of the period + total equity at the end of the period)/2)

<sup>(5)</sup> Profit for the year (or annualised profit based on profit for the period) / ((total assets at the beginning of the period + total assets at the end of the period)/2)

---

## FINANCIAL INFORMATION

---

### *Current ratio*

Current ratio is calculated by dividing current assets by current liabilities. The current ratio increased from 0.80 as at 31 December 2008 to 0.93 as at 31 December 2009, due to (i) the enhanced operating scale of the Group, and hence the increases in trade and other receivables, and trade and other payables; and (ii) the increase in current portion of loans receivables by RMB83.1 million. The current ratio decreased from 0.93 as at 31 December 2009 to 0.67 as at 31 December 2010, due to the expansion of production facilities and payment of dividend by short term internal resources of the Group. The restricted bank balances, bank balances and cash dropped significantly by RMB78.7 million, and the decrease in loans receivables by RMB 106.0 million. The current ratio increased from 0.67 as at 31 December 2010 to 0.95 as at 31 May 2011, due to (i) the decrease of borrowings due within one year of RMB64.6 million and (ii) the settlement of amounts due to shareholders of RMB70.1 million. The current ratios have been less than 1 for 31 December 2008, 2009 and 2010 and 31 May 2011. For further details, please refer to sub-section headed “Net current liabilities”.

### *Quick ratio*

Quick ratio is calculated by dividing current assets less inventories by current liabilities. The quick ratio increased from 0.67 as at 31 December 2008 to 0.83 as at 31 December 2009, due to the factors for the increase in current ratio as mentioned above. The quick ratio decreased from 0.83 as at 31 December 2009 to 0.55 as at 31 December 2010, the factors for the decrease in current ratio as mentioned above. The quick ratio increased from 0.55 as at 31 December 2010 to 0.83 as at 31 May 2011, due to the factors for the increase in current ratio as mentioned above. The quick ratios have been less than 1 for 31 December 2008, 2009 and 2010 and 31 May 2011. For further details, please refer to sub-section headed “Net current liabilities”.

### *Gearing ratio*

Gearing ratio is calculated based on borrowings and bills payable divided by the total assets at the end of the respective year. The gearing ratio decreased from 0.54 as at 31 December 2008 to 0.51 as at 31 December 2009 due to the rate of increase in borrowings is smaller than the rate of increase in assets. The borrowings increased by RMB 67.0 million, while the increase in loans receivables by RMB68.1 million. The gearing ratio decreased from 0.51 as at 31 December 2009 to 0.41 as at 31 December 2010 due to the expansion of production facilities and payment of dividend by short term internal resources of the Group. The restricted bank balances, bank balances and cash dropped significantly by RMB78.7 million, and the decrease in loans receivables by RMB 106.0 million. The gearing ratio remained stable at 0.43 as at 31 May 2011 as compared with 0.41 as at 31 December 2010.

### *Return on equity*

Return on equity is calculated by dividing the profit for the year by the arithmetic mean of the opening and closing balances of total equity of the relevant year expressed as a percentage. The return on equity increased significantly from 40.6% for the year ended 31 December 2010 to 76.1% for the

---

## FINANCIAL INFORMATION

---

five months ended 31 May 2011 mainly due to the substantial increase in other income, other gains and losses because of (i) the gain from settlement of a legal proceeding of RMB5.4 million; (ii) the increase in gain from scrap sales of RMB4.5 million; and (iii) government grant of RMB8.0 million.

Our return on equity increased from 28.5% for the year ended 31 December 2009 to 40.6% for the year ended 31 December 2010 mainly due to the substantial increase in the profit for the year from RMB28.4 million for the year ended 31 December 2009 to RMB37.5 million for the year ended 31 December 2010, an increase of RMB9.1 million or 32.0%. Details of the increase in profit for the year are set out in the paragraph headed “Net profit and net profit margin for the year” of this prospectus.

Our return on equity increased from 24.7% for the year ended 31 December 2008 to 28.5% for the year ended 31 December 2009. The increase was mainly due to the increase in profit for the year by 51.9% offset by the increase in average total equity by 31.8% owing to deemed capital contribution in the year ended 31 December 2009.

### ***Return on assets***

Return on assets is calculated by dividing the profit for the year by the arithmetic mean of the opening and closing balances of total assets of the relevant year expressed as a percentage. The return on assets increased significantly from 5.1% for the year ended 31 December 2010 to 12.2% for the five months ended 31 May 2011 mainly due to the substantial increase in other income, other gains and losses because of reasons mentioned above.

Our return on assets increased from 4.5% for the year ended 31 December 2009 to 5.1% for the year ended 31 December 2010 mainly due to the increase in the profit for the year by 32.0% offset by the increase in average total assets by 16.5% owing to the increase in average trade and other receivables. Details of the increase in profit for the year are set out in the paragraph headed “Net profit and net profit margin for the year” of this prospectus.

Our return on assets increased from 3.8% for the year ended 31 December 2008 to 4.5% for the year ended 31 December 2009. The increase was mainly due to the increase in profit for the year by 51.9% offset by the increase in average total assets by 30.9% owing to the increase in average trade and other receivables.

## **CAPITAL COMMITMENTS, CONTRACTUAL OBLIGATIONS AND OTHER ARRANGEMENTS**

### **Operating Lease Commitments**

The minimum lease payment under operating lease in respect of office premises amounted to RMB1.5 million, RMB1.8 million, RMB2.3 million and RMB1.2 million for the year ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011, respectively.

---

## FINANCIAL INFORMATION

---

At the end of each reporting period, the Group had commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	<b>At 31 December</b>			<b>At</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>31 May</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2011</b>
Within one year	505	301	353	285
Between second and fifth year inclusive	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>513</u>	<u>301</u>	<u>353</u>	<u>285</u>

Operating lease payments represent rental payable by the Group for certain office premises. Leases are negotiated for a term of 1 to 2 years with fixed rental.

### Other Commitments

	<b>At 31 December</b>			<b>At</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>31 May</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2011</b>
Capital expenditure in respect of acquisition of plant and machinery				
- Contracted for but not provided in the consolidated financial statements	<u>1,793</u>	<u>1,137</u>	<u>28,725</u>	<u>18,011</u>
	<u>1,793</u>	<u>1,137</u>	<u>28,725</u>	<u>18,011</u>

## MARKET RISKS

### Financial risk management objectives and policies

The management monitors and manages the financial risks relating to the operations of the Group and the Company through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

---

## FINANCIAL INFORMATION

---

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the restricted bank balances, bank balances and loan receivables. The Group's borrowings have fixed interest rates and therefore, are subject to fair value interest rate risk.

No sensitivity analysis was prepared for restricted bank balances, bank balances and loan receivables as the financial impact arising on changes in interest rates was minimal throughout the Track Record Period.

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

### Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. At 31 December 2008, 2009 and 2010 and 31 May 2011, the Group had concentration of credit risk on trade receivables as 59%, 83%, 46% and 76% of total trade receivables were due from top 10 customers.

At 31 December 2008 and 2009, the Group had concentration of credit risk on loan receivables as the balances were due from 4 and 5 counterparties, respectively.

The Group manages this risk by reviewing the recoverable amount of each individual trade debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management consider that the Group's credit risk is significantly reduced.

In addition, the Group is also exposed to credit risk in respect of guarantees given to banks for bank borrowings to related parties and independent third parties as at 31 December 2008, 2009 and 2010 and 31 May 2011. Except for guarantees provided to Nanyang Sanbo, a company controlled by Mr. Xi where Nanyang Sanbo defaulted payments on the related borrowings, in the opinion of the management of the Group, the credit risk in relation to guarantees provided to others is considered insignificant as the counterparties are in good financial positions.

The credit risk on liquid funds is limited because the counterparties are state-owned banks located in the PRC or banks with high credit ratings assigned by PRC credit-rating agencies.

The Group had concentration of credit risk by geographical location as trade receivables and bills receivable comprise various debtors which are located in PRC during the Track Record Period.

Other than the concentration of the credit risk on trade receivables, bills receivables, amounts due from shareholders, loan receivables, restricted bank balances and bank balances, the Group does not have any other significant concentration of credit risk.



---

## FINANCIAL INFORMATION

---

The Company had concentration of credit risk exposure on the amount due from a subsidiary. The Company members the level of credit risk exposure to ensure that appropriate follow up action are taken when required.

### **Liquidity risk**

In the management of the liquidity risk, the Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by the management to meet in full its financial obligations as they fall due for the foreseeable future. The management monitors the utilisation of bank and other borrowings. The Group has been improving their cash flow management as mentioned in the paragraphs under the paragraphs headed “Liquidity and Capital Resources” under this section. Given its improvement, the financial position of the Group has been recovering. The net current liabilities of the Group decreased significantly from RMB203.7 million as at 31 December 2010 to RMB23.3 million as at 31 May 2011.

As at 31 December 2008, 2009 and 2010 and 31 May 2011, the Group had net current liabilities of RMB85.2 million, RMB41.3 million, RMB203.7 million and RMB23.3 million, respectively. This exposes the Group to liquidity risk if the Group could not fulfill its financial obligations.

The Directors are satisfied and the Sponsor concurred that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the next twelve months from the issuance date of this prospectus after taking into consideration of (i) the estimated net proceeds of the Global Offering; (ii) available undrawn bank facilities amounting to RMB210.0 million as at 30 September 2011 and (iii) internal generated funds. In the opinion of the Directors, taking into account of the aforesaid measures and operating cash inflow, the Group will have sufficient working capital for its present requirements for the next twelve months from the issuance date of this report.

### **DIVIDEND POLICY**

We may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as our Board may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law. Our Shareholders in general meeting may approve and make any declaration of dividends, which must not exceed the amount recommended by our Board. In addition, our Directors may from time to time pay such interim dividends as appear to them to be justified by our profits. No dividend shall be declared or payable except out of our profits or reserves set aside from profits in our Directors’ discretion. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for such purpose in accordance with the Companies Law and our Articles of Association. Any declaration of dividends may or may not reflect our prior declarations of dividends and any dividend recommendation will be at the absolute discretion of our Board.

---

## FINANCIAL INFORMATION

---

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including HKFRS. Some of our subsidiaries in China, which are foreign-invested enterprises, set aside part of their net profit as statutory reserves, in accordance with the requirements of relevant PRC laws and the provisions of their respective articles of association. These portions of our subsidiaries' net profits are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries and associated companies may enter into in the future.

Our Board has absolute discretion in whether to declare any dividend for any year and, if it decides to declare a dividend, how much dividend to declare. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future.

### PROPERTY VALUATION

Our properties were revalued at RMB167.6 million as at 31 August 2011 by Jones Lang LaSalle Sallmanns Limited. Details of the valuation are summarised in Appendix III to this prospectus.

Disclosure of the reconciliation of the property interests and the valuation of such property interests as required under Rule 5.07 of the Listing Rules are set out below:

	<i>RMB'000</i> (unaudited)
Net book value of property interests of our Group as at 31 May 2011	
— Buildings	45,502
— Prepaid lease payments	<u>104,279</u>
Net book value of property interests as at 31 May 2011	149,781
Movements for the three months ended 31 August 2011	
Additions	70
Depreciation	<u>(924)</u>
Revised net book value as at 31 August 2011	148,927
Valuation surplus as at 31 August 2011	<u>18,721</u>
Valuation as at 31 August 2011 as per Appendix III to this prospectus	<u><u>167,648</u></u>

---

## FINANCIAL INFORMATION

---

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Public Offering on our net tangible assets as of 31 May 2011 as if it had taken place on 31 May 2011.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustration purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets as of 31 May 2011 or any future date following the Global Offering. It is prepared based on our net assets as of 31 May 2011 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountants' Report in Appendix I to this prospectus.

	<b>Audited consolidated net tangible assets attributable to owners of the Company as at 31 May 2011</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted net tangible assets</b>	<b>Unaudited pro forma adjusted net tangible assets per Share</b>	
	<i>RMB'000<sup>(1)</sup></i>	<i>RMB'000<sup>(2)(4)</sup></i>	<i>RMB'000</i>	<i>RMB<sup>(3)(4)</sup></i>	<i>HK\$</i>
Based on an Offer Price of HK\$1.40 per Share	143,533	75,758	219,291	0.69	0.84
Based on an Offer Price of HK\$1.80 per Share	143,533	100,477	244,010	0.76	0.94

*Notes:*

- (1) The audited consolidated net tangible assets attributable to owners of the Company as at 31 May 2011 has been derived from deducting intangible assets and goodwill of approximately RMB30,965,000 as set out in the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK\$1.40 and HK\$1.80 per Share, respectively (after deducting the underwriting fees and expenses related to the Global Offering).
- (3) The number of shares used for the calculation of unaudited pro forma adjusted net tangible assets per Share attributable to equity shareholders of the Company is based on 320,000,000 Shares in issue immediately after the Global Offering.
- (4) The estimated net proceeds from the Global Offering and Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share in HK\$ are converted at the PBOC rate from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.00 to RMB0.8131 prevailing on 4 November 2011. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or viceversa, at that rate or at any other rates or at all.

---

## **FINANCIAL INFORMATION**

---

- (5) By comparing the valuation of the property interests of the Group as set out in Appendix III to the Prospectus and the unaudited net book value of these properties as of 31 August 2011, the valuation surplus was approximately RMB18,736,000. The valuation surplus of the property interests will not be incorporated in the Group's consolidated financial statements in the future. If the valuation surplus was to be included in the consolidated financial statements, an additional depreciation charge of approximately RMB432,000 per annum would be incurred.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **NO MATERIAL ADVERSE CHANGE**

The Directors have confirmed that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 May 2011 (being the date to which the Group's latest consolidated results were prepared which was set out in the Accountants' Report in Appendix I to this prospectus).

---

## FUTURE PLANS AND USE OF PROCEEDS

---

### FUTURE PLANS

Leveraging our Group's competitive strengths and to further enhance our leading position in the market targeting to become one of the leading international parts and components suppliers, our Directors plan to pursue certain growth strategies. Please refer to the section headed "Business — Our strategies" for a detailed description of our Group's future plans.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$1.60 per Share (being the mid-point of the indicative Offer Price range of HK\$1.40 to HK\$1.80 per Share), the net proceeds from the Global Offering, after deducting the underwriting fees and estimated expenses payable by our Company in connection with the Global Offering (including a discretionary underwriting commission of 1.5% to the Underwriters), are estimated to be approximately HK\$92.1 million. Our Directors presently intend to apply the net proceeds as follows:

- (a) Approximately HK\$42.7 million or 46.3% of the net proceeds for the purchases and installation of machinery and equipment for the capacity expansion plan in the Expanding Production Facilities, and we expect that the aggregate annual production capacity will increase to 15.0 million pieces of absorbers by the end of 2012 after the expansion;
- (b) Approximately HK\$26.8 million or 29.1% of the net proceeds for the construction of factory and buildings relating to capacity expansion plan in Expanding Production Facilities and we expect that the construction in relation to this capacity expansion plan will be completed by the end of 2012;
- (c) Approximately HK\$22.0 million or 23.9% of the net proceeds will be used to support and strengthen our product research and development capability in respect of our existing product portfolio and potential new products, including (i) building a new research and development centre; and (ii) purchases and installation of machinery and equipment to enhance our R&D facilities and meet the changing market needs; and
- (d) Approximately HK\$0.6 million or 0.7% of the net proceeds will be used for working capital and other general purposes.

In the event that the Offer Price is determined at the indicative Offer Price range between HK\$1.60 to HK\$1.80 per Share, the additional net proceeds from the Global Offering will be up to approximately HK\$15.0 million. In such case, our Directors intend to apply the additional net proceeds to the purposes described in item (a) above, and we expect that the aggregate annual production capacity will increase to 15.0 million pieces of absorbers by the end of 2012 after the expansion. Save for the above changes, there will not be any further changes in the use of proceeds from the Global Offering under such circumstance.

---

## FUTURE PLANS AND USE OF PROCEEDS

---

In the event that the Offer Price is set at the indicative Offer Price range between HK\$1.40 to HK\$1.60, our Directors will apply the net proceeds in the manner and proportion as shown above. Any shortfall is intended to be financed by internal resources and unutilized banking facilities of our Group.

In the event that the discretionary underwriting commission to the Underwriters is lower than 1.5%, our Directors intend to apply the additional net proceeds to the purposes described in item (a) above.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes, it is the present intention of our Directors that such proceeds will be placed on short term deposits with licenced banks and/or authorised financial institutions in Hong Kong and/or the PRC.

---

## UNDERWRITING

---

### **Hong Kong Underwriters**

China Everbright Securities (HK) Limited  
BOCOM International Securities Limited  
First Shanghai Securities Limited

### **UNDERWRITING ARRANGEMENTS AND EXPENSES**

#### **Hong Kong Underwriting Agreement**

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Public Offer Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst others, the International Underwriting Agreement becoming unconditional and not having been terminated.

Subject to the listing of and permission to deal in our Shares in issue and to be issued as mentioned in this prospectus being granted by the Listing Committee of the Stock Exchange and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers, for the Hong Kong Public Offer Shares.

#### **Grounds for termination**

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to the termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) by notice in writing given to our Company prior to 8:00 a.m. (Hong Kong time) on the Listing Date if any of the following events shall occur prior to such time:

- (a) there shall develop, occur or come into force:
  - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the PRC or Hong Kong or any other jurisdiction(s) relevant to our Company and its subsidiaries or any other similar event which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) has a material adverse effect on the existing and/or prospective business or financial conditions of our Group as a whole; or
  - (ii) any change (whether or not permanent) in the PRC, Hong Kong and other countries or territories relevant to our Group's present business operation in relation to national, regional, financial, military, industrial or economic conditions, or the stock market, fiscal or political conditions, or regulatory or market conditions and matters and/or

---

## UNDERWRITING

---

disasters which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) has a material adverse effect on the existing and/or prospective business or financial conditions of our Group as a whole; or

- (iii) without prejudice to sub-paragraph (i) or (ii) above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange; or
- (iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God, accident, terrorism, outbreak of disease or epidemic (including but not limited to severe acute respiratory syndrome, H5N1, H1N1, avian influenza and such related or mutated forms)) which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) would constitute a material adverse effect on the existing and/or prospective business or financial conditions of our Group as a whole; or
- (v) any change or development occurs involving a prospective change in taxation or in exchange control in the PRC, Hong Kong, the BVI, the Cayman Islands or any other countries or territories to which any member of our Group is subject or the implementation of any exchange controls which in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) would or might adversely affect any member of our Group in a material way; or
- (vi) any litigation or claim which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) has a material adverse effect on the existing and/or prospective business or financial conditions of our Group as a whole; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for any countries or territories relevant to our Group's present operation which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) has a material adverse effect on the existing and/or prospective business or financial conditions of our Group as a whole;

and in any such other event, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), has a material adverse effect on the Global Offering; or

- (b) there comes to the notice of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) any matter or event showing (i) any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be materiale



---

## UNDERWRITING

---

- or (ii) any of the obligations or undertakings expressed to be assumed by or imposed on the warrantors not to have been complied with in any respect considered by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the overall context of the Global Offering; or
- (c) any statement contained in this prospectus, the submissions, documents or information provided to the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal adviser to the Joint Global Coordinators and the Underwriters and any other parties involved in the Global Offering which in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or
  - (d) matters have arisen or have been discovered which would, if this prospectus was to be issued at that time, constitute, in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), a material omission of such information; or
  - (e) there is any other adverse change in the business or in the financial or trading position of our Group which in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) is material in the overall context of the Global Offering; or
  - (f) there comes to the notice of the Joint Global Coordinators any information, matter or event which in the reasonable opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) would cast any serious doubt on the reputation of our Group and/or the Directors to the extent that any statements in this prospectus will be misleading or incorrect in a material way.

### Undertakings

Each of the Controlling Shareholders jointly and severally undertakes to and covenants with our Company, the Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters that:

- (a) he and it will not, and will procure that none of his or its associates or the companies controlled by him or it will, within the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six Month Period**”), sell, transfer, dispose of or create any right (including without limitation the creation of any option, pledge, charge or other encumbrance or rights) on any of our Shares or any interests therein owned by him or it or any of their associates or in which he or it or any of their associates is, directly or indirectly interested immediately after the completion of the Global Offering (or any other shares or securities of or interest in our Company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise), or sell, transfer, dispose of or create any right (including the creation of any option, pledge, charge or other encumbrance or rights) on any shares or interest in any

---

## UNDERWRITING

---

company controlled by him or it or any of their associates which is the beneficial owner (directly or indirectly) of any of such Shares or any interests therein as aforesaid (or any other shares or securities of or interest in our Company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise); and

- (b) save with the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) (such consent shall not be unreasonably withheld or delayed), within a further six months commencing on the expiry of the First Six Month Period (the “**Second Six Month Period**”), he and it will not, and will procure that none of his or its associates or the companies controlled by him or it or any of their associates will sell, transfer, dispose of or create any rights (including the creation of any option, pledge, charge or other encumbrance or rights) on any Shares or any interests therein referred to in paragraph (a) above or sell, transfer, dispose of or create any rights (including the creation of any option, pledge, charge or other encumbrance or rights) on any shares in any company controlled by him or it or any of their associates which is the beneficial owner (directly or indirectly) of such Shares or any interests therein as aforesaid if, immediately following such disposal or creation of rights, any of the Controlling Shareholders and its shareholders (together with his or its associates), either individually or taken together with the others, would, directly or indirectly, cease to be a controlling shareholder (within the meaning of the Listing Rules) of our Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, in any of the companies controlled by him or it and/or any of their associates which owns such Shares or interests as aforesaid.

Our Company undertakes to and covenants with the Joint Global Coordinators and the Hong Kong Underwriters that and each of the Controlling Shareholders and the executive Directors undertakes to and covenants with the Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters that he/it will procure our Company that, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), save pursuant to the Global Offering, the Capitalisation Issue, the grant of any option under the Share Option Scheme, or the issue of Shares upon exercise of any option granted under the Share Option Scheme, (a) within the First Six Month Period, our Company and its subsidiaries will not, issue or agree to issue (conditionally or unconditionally) any shares or securities of, or grant or agree to grant (conditionally or unconditionally) any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for any securities of, our Company or any of its subsidiaries; and (b) at any time during the Second Six Month Period, issue or grant (conditionally or unconditionally) any options or right to subscribe for or otherwise convert into or exchange for shares or securities in our Company or any of its subsidiaries so as to result in any of the Controlling Shareholders or its shareholders (together with any of their associates) either individually or taken together with the others of them cease to be a controlling shareholder (within the meaning of the Listing Rules) of our Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer in any of the companies controlled by him or it or any of their associates which owns any Shares or our Company ceasing to hold a controlling interest of over 30%, directly or indirectly, in any of such subsidiaries.

---

## UNDERWRITING

---

Each of our Company, the Controlling Shareholders and the executive Directors undertakes to and covenants with the Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters that save with the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), no subsidiaries will during the First Six Month Period purchase any Shares.

Without prejudice to the above, each of the Controlling Shareholders undertakes and covenants with our Company, the Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters that:

- (a) save with the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) (such consent shall not be unreasonably withheld or delayed), during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is 12 months from the Listing Date, he or it shall not and shall procure that none of his or its associates shall pledge or charge or create any other rights or encumbrances in any Shares or any interest therein owned by him, her or it or any of their associates or in which he or it or any of their associates is, directly or indirectly, interested immediately following completion of the Global Offering (or any other Shares or interest arising or deriving therefrom) or any share or interest in any company controlled by him or it or any of their associates which is the beneficial owner (directly or indirectly) of such Shares or interest therein as aforesaid (or any other Shares or interest in our Shares arising or deriving therefrom); and
  
- (b) in the event that consent is granted by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), when he or it or any of their associates shall pledge, charge or create any encumbrance or other right or any of our Shares or interests referred to in paragraph (a) above, he or it shall give prior written notice of not less than three Business Days to the Stock Exchange, our Company, the Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) giving details of the number of Shares, shares in our Company which is the beneficial owner of such Shares, or the interests as aforesaid, the identities of the pledgee or person (the “**Mortgagee**”) in favour of whom the pledge, charge, encumbrance or interest is created and further if he or it or any of their associates is aware of or receives indications or notice, either verbal or written, from the Mortgagee that the Mortgagee will dispose of or transfer any of our Shares or interests referred to in paragraph (a) above, he or it will immediately notify the Stock Exchange, our Company, the Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in writing of such indications and provide details of such disposal or transfer to the Stock Exchange, our Company, the Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) as they may require.

---

## UNDERWRITING

---

Our Company undertakes and covenants with the Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters that our Company shall forthwith inform the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Stock Exchange in writing immediately after it has been informed of the matters referred to in paragraph (b) above and our Company shall, if so required by the Stock Exchange or the Listing Rules, disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

### **The International Placing**

In connection with the International Placing, it is expected that our Company and the International Underwriters will enter into the International Underwriting Agreement. Under the International Underwriting Agreement, our Company will offer the International Placing Shares for subscription by certain professional, institutional and private investors at the Offer Price payable in full on subscription, on and subject to the terms and conditions set out in the International Underwriting Agreement. The International Underwriters will agree to severally underwrite the International Placing Shares.

### **Commission**

The Hong Kong Underwriters will receive a commission of 5% of the aggregate Offer Price of the Hong Kong Public Offer Shares underwritten by the Hong Kong Underwriters and the International Underwriters will receive an underwriting commission of 5% of the aggregate of the Offer Price of the International Placing Shares underwritten by the International Underwriters, out of which they will pay any sub-underwriting commissions. The Company will pay a discretionary underwriting commission of up to 1.5% of the aggregate Offer Price to the Underwriters.

The Sponsor will in addition receive sponsorship fees. The underwriting commission, financial advisory fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK\$1.60 (being the mid-point of Offer Price range between HK\$1.40 per Offer Share and HK\$1.80 per Offer Share), are estimated to amount to approximately HK\$36.0 million in total.

### **Hong Kong Underwriters' interests in our Company**

First Shanghai Capital Limited will be appointed as the compliance adviser of our Company with effect from the Listing Date until the despatch of our Company's financial results for the first full financial year of our Company after the Listing Date, and our Company will pay an agreed fee to First Shanghai Capital Limited for its provision of services.

Save for their interests and obligations under the Underwriting Agreements, none of the Sponsor, the Joint Global Coordinators or the Underwriters is interested beneficially or non-beneficially in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

---

## UNDERWRITING

---

### **Minimum public float**

Our Directors will ensure that there will be a minimum of 25% of the total issued share capital of our Company in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

### DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the price determination agreement to be entered into between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on Wednesday, 16 November 2011, and in any event, not later than Friday, 18 November 2011.

**Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than indicative Offer Price range as stated in this prospectus.** The Offer Price will not be more than HK\$1.80 per Offer Share and is expected to be not less than HK\$1.40 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where they consider appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of our Company, reduce the indicative Offer Price range below that 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, our Company 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 lodging applications under the Hong Kong Public Offer, cause there to be published on the website of our Company at <http://www.china-cvct.com> and the website of the Stock Exchange at <http://www.hkexnews.hk> notice of reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. **If applications for 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 Offer Price range is so reduced, such applications cannot be subsequently withdrawn.** In the absence of any notice being published on the website of our Company at <http://www.china-cvct.com> and the website of the Stock Exchange at <http://www.hkexnews.hk> of a reduction in the indicative Offer Price range as 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 with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

**If, for any reason, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to enter into the price determination agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed.**

Announcement of (i) the Offer Price; (ii) the indication of the level of interest in the International Placing; (iii) the level of applications in the Hong Kong Public Offer; (iv) the basis of allocation of the Hong Kong Public Offer Shares under the Hong Kong Public Offer; and (v) the

---

## STRUCTURE OF THE GLOBAL OFFERING

---

number of Offer Shares reallocated, if any, between the Hong Kong Public Offer and the International Placing is expected to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese), the website of our Company at <http://www.china-cvct.com> and the website of the Stock Exchange at <http://www.hkexnews.hk> on Tuesday, 22 November 2011.

### PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.80 per Offer Share and is expected to be not less than HK\$1.40 per Offer Share. Applicants under the Hong Kong Public Offer should pay, on application, the maximum price of HK\$1.80 per Offer Share and 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. That means a total of HK\$3,636.29 is payable for every board lot of 2,000 Shares. The Application Forms have tables showing the exact amount payable for certain multiples of Hong Kong Public Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$1.80 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to the applicants, without interest. Further details are set out in the section headed “How to apply for Hong Kong Public Offer Shares” of this prospectus.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of the application for the Offer Shares is conditional upon:

#### 1. Listing

The Listing Committee of the Stock Exchange granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on the Main Board.

#### 2. Underwriting Agreements

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated, prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Details of the Underwriting Agreements, its conditions and grounds for termination are set out in the section headed “Underwriting” of this prospectus; and
- (ii) the execution and delivery of the International Underwriting Agreement in accordance with their terms, prior to or on the Price Determination Date.

#### 3. Price determination

The Offer Price having been determined and the execution of the price determination agreement on the Price Determination Date.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed “Refund of your monies” in the relevant Application Forms.

In the meantime, the application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

### THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offer. A total of initially 80,000,000 Offer Shares will be made available under the Global Offering, of which 72,000,000 International Placing Shares (subject to re-allocation, representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the International Placing. The remaining 8,000,000 Hong Kong Public Offer Shares (subject to re-allocation), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Hong Kong Public Offer.

The Hong Kong Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Public Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters will severally underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

### International Placing

Our Company is expected to offer initially 72,000,000 International Placing Shares (subject to re-allocation) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters. Investors subscribing for the International Placing Shares are also required to pay the maximum Offer Price of HK\$1.80 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy of the Offer Price.

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business



---

## STRUCTURE OF THE GLOBAL OFFERING

---

involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offer.

Our Company, our Directors, the Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offer from investors who receive Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offer.

The International Placing is expected to be subject to the conditions as stated in the paragraph headed “Conditions of the Global Offering” of this section.

### **Hong Kong Public Offer**

Our Company is initially offering 8,000,000 Hong Kong Public Offer Shares for subscription (subject to re-allocation) by members of the public in Hong Kong under the Hong Kong Public Offer, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters. Applicants for the Hong Kong Public Offer Shares are required on application to pay the maximum Offer Price of HK\$1.80 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy.

The Hong Kong Public Offer is open to all members of the public in Hong Kong. An applicant for Shares under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the Application Form submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Hong Kong Public Offer is liable to be rejected.

For allocation purposes only, the number of the Hong Kong Public Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Public Offer Shares in pool A will consist of 4,000,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Public Offer Shares in the value of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy thereon) or less. The Hong Kong Public Offer

---

## STRUCTURE OF THE GLOBAL OFFERING

---

Shares available in pool B will consist of 4,000,000 Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares in the value of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pool is under-subscribed, the surplus Hong Kong Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Hong Kong Public Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Public Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of the Hong Kong Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would result in some applicants being allotted more Hong Kong Public Offer Shares than others who have applied for the same number of Hong Kong Public Offer Shares, and applicants who are not successful in the ballot not receiving any Hong Kong Public Offer Shares.

### **BASIS OF ALLOCATION OF THE OFFER SHARES**

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offer is subject to reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offer will be increased to 24,000,000 Shares, representing 30% of the Offer Shares available under the Global Offering;
- (b) if the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 32,000,000 Shares, representing 40% of the Offer Shares available under the Global Offering; and

---

## STRUCTURE OF THE GLOBAL OFFERING

---

- (c) if the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 40,000,000 Shares, representing 50% of the Offer Shares available under the Global Offering.

In all cases, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

If the Hong Kong Public Offer is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any of the unsubscribed Hong Kong Public Offer Shares originally included in the Hong Kong Public Offer to the International Placing in such proportions as it deems appropriate.

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

### I. METHODS OF APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

There are two ways to make an application for the Hong Kong Public Offer Shares. You may apply for the Hong Kong Public Offer Shares by either using a white or yellow Application Form or giving electronic application instructions to 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 you and 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 by giving electronic application instructions to HKSCC.

### II. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

#### 1. Which Application Form to use

- (a) Use a **white** Application Form if you want the Hong Kong Public Offer Shares to be issued in your own name.
- (b) Use a **yellow** Application Form if you want the Hong Kong Public Offer Shares to be 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.

*Note:* The Hong Kong Public Offer Shares are not available to existing beneficial owners of Shares in our Company, Directors or chief executives of our Company or any of its subsidiaries, or associates of any of them or a connected person of our Company or any of its subsidiaries or a person who will become a connected person of our Company or any of its subsidiaries immediately upon completion of the Global Offering or any person(s) who have been allotted or have applied for International Placing Shares under the International Placing or persons who do not have a Hong Kong address.

#### 2. Where to collect the Application Forms

- (a) You can collect a **white** Application Form and this prospectus from:

Any of the following addresses of the Hong Kong Underwriters:

China Everbright Securities (HK) Limited  
36th Floor, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

BOCOM International Securities Limited  
9th Floor, Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

First Shanghai Securities Limited  
1905 Wing On House  
71 Des Voeux Road Central  
Hong Kong

or any of the following branches of The Bank of East Asia, Limited:

<b>Hong Kong Island</b>	<b>Main Branch</b>	<b>10 Des Voeux Road Central, Hong Kong</b>
	<b>North Point Branch</b>	<b>326-328 King's Road</b>
	<b>Taikoo Shing Branch</b>	<b>Shop G1010-1011, Yiu Sing Mansion</b>
	<b>Wanchai Branch</b>	<b>Shop A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road, Wanchai</b>
<b>Kowloon</b>	<b>Tsim Sha Tsui Branch</b>	<b>Shop A &amp; B, Milton Mansion, 96 Nathan Road</b>
	<b>Waterloo Road Branch</b>	<b>Shop A, G/F, Richland House, 77B &amp; 77C Waterloo Road</b>
	<b>Millennium City 5 Branch</b>	<b>Shop 1, G/F, Millennium City 5, 418 Kwun Tong Road, Kwun Tong, Kowloon</b>
	<b>Wong Tai Sin Branch</b>	<b>Shop UG15, Upper Ground Floor, Wong Tai Sin Plaza, Kowloon</b>
<b>New Territories</b>	<b>Tai Po Branch</b>	<b>62-66 Po Heung Street, Tai Po Market</b>
	<b>Tsuen Wan Branch</b>	<b>239-243 Sha Tsui Road</b>

(b) You can collect a yellow Application Form and this prospectus during normal business hours from 9:00 a.m. on Friday, 11 November 2011 till 12:00 noon on Wednesday, 16 November 2011 from:

- (1) the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) your stockbroker, who may have such Application Forms and this prospectus available.

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

### 3. How to complete the Application Form and make payment

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 at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, you (and if you are joint applicants, each of you jointly and severally), for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee, among other things:

- (i) agree with our Company and each Shareholder, and our Company agrees with each of its Shareholders, to observe and comply with the Hong Kong Companies Ordinance, the Companies Law, the memorandum of association of our Company and the Articles;
- (ii) agree with our Company and each Shareholder that our Shares in our Company are freely transferable by the holders thereof;
- (iii) authorise our Company to enter into a contract on your behalf with each of our Directors and officers of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders as stipulated in the memorandum of association of our Company and the Articles;
- (iv) confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (v) agree that our Company and our Directors are liable only for the information and representations in this prospectus and any supplement to this prospectus;
- (vi) undertake and confirm that, you (if the application is made for your benefit) or the person(s) for 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 Offer Shares under the International Placing;
- (vii) agree to disclose to our Company, its registrar, receiving banker, the Joint Global Coordinators and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- (viii) instruct and authorise our Company and/or the Joint Global Coordinators as agent for our Company (or their respective agents or nominees) to do on your behalf all things necessary to effect registration of any Hong Kong Public Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the Application Form;

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

- (ix) agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (x) warrant the truth and accuracy of the information contained in your application;
- (xi) agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- (xii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;
- (xiii) undertake and agree to accept our Shares applied for, or any lesser number allocated to you under the application; and
- (xiv) represent, warrant and undertake that you are not restricted by any applicable laws of Hong Kong or elsewhere from making the application, paying any application monies for, or being allotted on taking up any Hong Kong Public Offer Shares; and you are not a person to or by whom the allotment of or application for the Hong Kong Public Offer Shares is made would require our Company to comply with any requirement under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong.

In order for the **yellow** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signature will be accepted.

(i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

- (a) the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(ii) **If the application is made by an individual CCASS Investor Participant:**

- (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card number; and
- (b) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(iii) **If the application is made by a joint individual CCASS Investor Participant:**

- (a) 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

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

(b) the participant I.D. must be inserted in the appropriate box in the Application Form.

(iv) **If the application is made by a corporate CCASS Investor Participant:**

- (a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
- (b) 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 of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorised attorney, our Company and the Joint Global Coordinators as its agent (and their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Our Company and the Joint Global Coordinators (and their respective agents or nominees), in the capacity as its agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

#### 4. How to Make Payment for the Application

Each completed **white** or **yellow** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- bear an account name (or, in the case of joint applicants, the name of the first-named applicant) (either pre-printed on the cheque or endorsed on the reverse of the cheque by an authorised signatory of the bank on which it is drawn), which must be the same as the name on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant);
- be made payable to "The Bank of East Asia (Nominees) Limited — China Vehicle Components Public Offer";
- be crossed "Account Payee Only"; and
- not be post-dated.



---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

Your application may be rejected if your cheque does not meet all of these requirements or is dishonoured on first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be in Hong Kong dollars;
- be issued by a licenced bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;
- be made payable to "The Bank of East Asia (Nominees) Limited — China Vehicle Components Public Offer";
- be crossed "Account Payee Only"; and
- not be post-dated.

Your application may be rejected if your banker's cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Wednesday, 16 November 2011. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application money. The right is also reserved to retain any Share certificates and/or any surplus application money or refund cheques pending clearance of your cheque or banker's cashier order.

### 5. **Members of the Public — Time for applying 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, 16 November 2011, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of The Bank of East Asia, Limited listed under the section entitled "Where to collect the Application Forms" above at the following times:

**Friday, 11 November 2011 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, 12 November 2011 — 9:00 a.m. to 1:00 p.m.**  
**Monday, 14 November 2011 — 9:00 a.m. to 5:00 p.m.**  
**Tuesday, 15 November 2011 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 16 November 2011 — 9:00 a.m. to 12:00 noon**

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

The application lists will be open **from 11:45 a.m. to 12:00 noon on Wednesday, 16 November 2011.**

No proceedings will be taken on applications for the Hong Kong Public Offer Shares and no allotment of any such Hong Kong Public Offer Shares will be made until after the closing of the application lists. No application for the Hong Kong Public Offer Shares will be made later than Wednesday, 16 November 2011.

### 6. 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

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 16 November 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 Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

### 7. Publication of results

Announcement of (i) the Offer Price; (ii) the indication of the level of interest in the International Placing; (iii) the level of applications in the Hong Kong Public Offer; (iv) the basis of allocation of the Hong Kong Public Offer Shares under the Hong Kong Public Offer; and (v) the number of Offer Shares reallocated, if any, between the Hong Kong Public Offer and the International Placing is expected to be published in *The Standard* (in English) and the *Hong Kong Economic Journal* (in Chinese) and the website of our Company at <http://www.china-cvct.com> and the website of the Stock Exchange at <http://www.hkexnews.hk> on Tuesday, 22 November 2011.

Announcement of results of allocations, the number of the Hong Kong Public Offer Shares successfully applied for, and Hong Kong identity card numbers, passport numbers, Hong Kong business registration certificate numbers of successful applicants under the Hong Kong Public Offer will be made available at the times and dates and in the manner specified below:-

- Results of allocations will be available from the website of our Company at <http://www.china-cvct.com> and the website of the Stock Exchange at <http://www.hkexnews.hk> and at 9:00 a.m. on Tuesday, 22 November 2011;
- Results of allocations will also be available from the website of Tricor Investor Services Limited at <http://www.tricor.com.hk/ipo/result> on a 24-hour basis from 8:00 a.m. on Tuesday, 22 November 2011 to 12:00 midnight on Monday, 28 November 2011. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its application form to search for his/her/its own allocation result;

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

- Results of allocations will be available from the Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 22 November 2011 to Friday, 25 November 2011;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of the designated branches of The Bank of East Asia, Limited from Tuesday, 22 November 2011 to Thursday, 24 November 2011 at the addresses set forth in the paragraphs under “Where to collect the Application Forms” in this section.

### 8. Despatch/Collection of Share certificates and refund cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than HK\$1.80 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Global Offering” of this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application money, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued with respect to the Hong Kong Public Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

- (a) for applications on **white** Application Forms: (i) Share certificate(s) for all the Hong Kong Public Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on yellow Application Forms: Share certificates for their Hong Kong Public Offer Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **white** or **yellow** Application Forms, refund cheque(s) 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 money for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application money, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

Subject to personal collection as mentioned below, refund cheques for surplus application money (if any) with respect to wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Share initially paid on application (if any) under **white** or **yellow** Application Forms; and Share certificates for wholly and partially successful applicants under **white** Application Forms are expected to be posted on or around Tuesday, 22 November 2011. The right is reserved to retain any Share certificate(s) and any surplus application money pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the section entitled “Underwriting — Grounds for termination” of this prospectus has not been exercised.

(a) *If you apply using a white Application Form:*

If you apply for 1,000,000 Hong Kong Public Offer Shares or more on a **white** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from Tricor Investor Services Limited and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and Share certificate(s) (where applicable) from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 22 November 2011 or such other place and date as notified by our Company in the newspapers as the place and date of collection/despatch of refund cheques/Share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Hong Kong branch share registrar. If you do not collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) will be sent to the address on your Application Form on Tuesday, 22 November 2011, by ordinary post and at your own risk.

(b) *If you apply using a yellow Application Form:*

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) in person, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on Tuesday, 22 November 2011, by ordinary post and at your own risk.

If you apply for Hong Kong Public Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Tuesday, 22 November 2011, or under contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the newspapers on Tuesday, 22 November 2011. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 22 November 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account, you can check the number of Hong Kong Public Offer Shares allotted to you via the CCASS Phone System or the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account.

### III. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

#### 1. General

CCASS Participants may give electronic application instructions to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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>) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

HKSCC can also input electronic application instructions for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer Service Centre  
2/F, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

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 the Hong Kong Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and its registrars.

### 2. **Giving electronic application instructions to HKSCC to apply for Hong Kong Public Offer Shares by HKSCC Nominees on your behalf**

Where a white Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
  - 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 the credit of the stock account of the CCASS Participant who has inputted electronic application instructions on that person's behalf or that person's CCASS Investor Participant stock account;
  - undertakes and agrees to accept the Hong Kong Public Offer Shares with respect to which that person has given electronic application instructions or any lesser number;
  - undertakes and confirms that that person has not applied for or taken up any Offer Shares under the International Placing nor otherwise participated in the International Placing;

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

- (if the electronic application instructions are given for that person's own benefit) declares that only one set of electronic application instructions has been given for that person's benefit;
- (if that person is an agent for another person) declares that that person has only given one set of electronic application instruction for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by our Company, the Sponsor, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in deciding whether or not to make any allotment of the Hong Kong Public Offer Shares in respect of the electronic application instructions given by that person and that that person may be prosecuted if he makes a false declaration;
- authorises our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's electronic application instructions and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus giving that person's electronic application instructions or instructing that person's broker or custodian to give electronic application instructions on that person's behalf;
- agrees that our Company and our Directors are only liable for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company and its registrars, receiving banker, advisers and agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to the electronic application instructions given by that person is irrevocable before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company;

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

- to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or a public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance (as applied by section 342E of the Hong Kong Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to the Hong Kong Public Offer Shares;
- agrees with our Company (for our Company itself and for the benefit of each shareholder of our Company) that Shares in our Company are freely transferable by the holders thereof; and
- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

### 3. Effect of giving electronic application instructions 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 done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participant) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, the brokerage fee of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005% by debiting your designed bank account and, in the case of a wholly or



---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

partially unsuccessful application and/or the Offer Price is less than the initial price per Share paid on application, refund of the application monies, in each case including the brokerage fee of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%, by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

#### 4. Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of the Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of the 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 instructions** 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. No application for any other number of the Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

#### 5. Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the multiples set out in the table in the Application Forms.

#### 6. Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Friday, 11 November 2011 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, 12 November 2011 — 9:00 a.m. to 1:00 p.m.**  
**Monday, 14 November 2011 — 9:00 a.m. to 5:00 p.m.**  
**Tuesday, 15 November 2011 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 16 November 2011 — 9:00 a.m. to 12:00 noon**

- (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, 11 November 2011 until 12:00 noon on Wednesday, 16 November 2011 (24 hours daily, except the last application day).

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

### 7. Effect of bad weather on the last application day

The latest time for inputting your **electronic application instructions** will be 12:00 noon, Wednesday, 16 November 2011. If:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon, Wednesday, 16 November 2011, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong during 9:00 a.m. to 12:00 noon on such day.

### 8. Allocation of Hong Kong Public Offer Shares

For the purpose of allocating the 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 instructions is given will be treated as an applicant.

### 9. Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Hong Kong Companies Ordinance.

### 10. Personal data

The section of the Application Forms headed “Personal Data” applies to any personal data held by our Company and the registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 11. 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. Our Company, our Directors, the Sponsor, the Joint Global Coordinators, the Hong Kong Underwriters and any persons involved in the Global Offering take no responsibility for 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 not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to CCASS Phone System or the CCASS Internet System to submit their **electronic application**

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

**instructions**, they should either (a) submit a white or yellow Application Form; or (b) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 16 November 2011 or such later date as stated in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" above.

### 12. Despatch/collection of Share certificates and refund monies

#### (1) *If you apply by giving electronic application instructions to HKSCC:*

##### *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 each such instructions is given will be treated as an applicant.

##### *Deposit of Share certificates into CCASS and refund of application monies*

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Tuesday, 22 November 2011, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in accordance with the details in the newspaper on Tuesday, 22 November 2011. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 22 November 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

(if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 22 November 2011. Immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 22 November 2011. No interest will be paid thereon.

#### IV. HOW MANY APPLICATIONS YOU CAN MAKE

- (a) You may make more than one application for the Hong Kong Public Offer Shares only if:
- you are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a white or **yellow** Application Form and lodging more than one application in your own name on behalf of different beneficial owners. In the box on the **white** or **yellow** Application Form marked "For nominees" you must include:
    - an account number; or
    - some other identification code

for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being made for your own benefit.

- (b) All of your applications for the Hong Kong Public Offer Shares (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:
- make more than one application (whether individually or jointly with others) on **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant); or

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

- apply (whether individually or jointly) on one (or more) **white** or **yellow** Application Form or by giving electronic application instructions to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) for more than 100% of the Hong Kong Public Offer Shares being initially available in either pool A or pool B to the public as referred to under the section headed “Structure of the Global Offering” of this prospectus; or
  - make one application whether individually or jointly with others on one **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS; and, make application for the International Placing Shares; or
  - have applied for or taken up, or indicated an interest in, or have been or will be placed (whether conditionally or not) the Offer Shares (other than the Hong Kong Public Offer Shares).
- (c) All of your applications for the Hong Kong Public Offer Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting **on electronic application instructions**. If an application is made by an unlisted company and:
- (i) the only business of that company is dealing in securities; and
  - (ii) you exercise statutory control over that company, then the application will be deemed to be made for your own benefit.

**Unlisted company** means a company with no equity securities listed on the Stock Exchange.

**Statutory control** in relation to a company means you:

- (i) control the composition of the board of directors of that company; or
- (ii) control more than half of the voting power of that company; or
- (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

### V. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE 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 the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

- **If your application is revoked:**

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf may only be revoked before the fifth Business Day after the time of the opening of the application lists of the Hong Kong Public Offer. This agreement will take effect as a collateral contract with our Company, 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 Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person on or before that day except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may be revoked 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 (as applied by section 342E of the Hong Kong Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press announcement 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 (as the case may be).

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

- **At the discretion of our Company or its agents or nominees, your application is rejected:**

Our Company, the Joint Global Coordinators (on behalf of our Company) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. Our Company, the Joint Global Coordinators (on behalf of our Company) or their respective agents or nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of the Hong Kong Public Offer Shares is void:**

The allotment of the Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give electronic application instructions or apply by a yellow Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list our Shares in issue and to be issued as mentioned in this prospectus either:

- within three weeks from the closing of the application lists in respect of the Hong Kong Public Offer; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing of the application lists in respect of the Hong Kong Public Offer.

- **If your application is rejected or not be accepted:**

Your application will be rejected or not be accepted if:

- it is a multiple or suspected multiple application;
- your Application Form is not completed correctly in accordance with the instructions therein;
- you or the person(s) for whose benefit you are applying have applied for and/or been allotted or will be allotted with the International Placing Shares;
- your payment is not in the correct form;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- our Company and the Joint Global Coordinators (on behalf of our Company) believe that the acceptance of your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address appeared in the Application Form is located;

---

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

---

- your application is for more than 100% of the Hong Kong Public Offer Shares initially offered for public subscription in either pool A or pool B; or any of the Underwriting Agreements does not become unconditional in accordance with its terms or is terminated in accordance with its terms.

### VI. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in our Shares on the Stock Exchange are expected to commence on Wednesday, 23 November 2011.

Our Shares will be traded in board lots of 2,000 Shares each.

The Stock Exchange stock code for our Shares is 1269.



The following is the text of a report received from the Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

**Deloitte.**  
德勤

德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

11 November 2011

The Directors  
China Vehicle Components Technology Holdings Limited

China Everbright Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to China Vehicle Components Technology Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2010 and the five months ended 31 May 2011 (the "Track Record Period") for inclusion in the prospectus of the Company dated 11 November 2011 (the "Prospectus") in connection with the initial listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 April 2011. Pursuant to a group reorganisation, as more fully explained in the section headed "History and Development" to the Prospectus (the "Group Reorganisation"), the Company became the holding company of the entities comprising the Group on 22 May 2011.

As at the date of this report, the Company has the following indirectly held, unless otherwise stated, subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group				Principal activities	Legal form
			As at 31 December		As at 31 May			
			2008	2009	2010	2011		
Merit Leader Investment Limited ("Merit Leader")	British Virgin Islands ("BVI") 10 March 2010	United States dollar ("US\$") 50,000	N/A	N/A	100% (directly)	100% (directly)	100% (directly)	Investment holding Private limited

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group				At the date of this report	Principal activities	Legal form
			as at 31 December		As at				
			2008	2009	31 May 2010	2011			
Guang Da (China) Automotive Components Holdings Limited ("Guang Da Automotive") 光大(中國)車輛零部件控股有限公司	Hong Kong 14 June 2010	Hong Kong dollar ("HK\$") 1	N/A	N/A	100%	100%	100%	Investment holding	Private limited liability company
Nanyang Cijan Automotive Shock Absorber Company Limited ("Nanyang Cijan") 南陽漸減汽車減振器有限公司	People's Republic of China ("PRC") 23 June 2005	HK\$80,000,000	87.5%#	100%#	100%	100%	100%	Research, development and manufacture of automobile shock absorber and suspension system products	Foreign invested limited liability company
Haikou Danjiang Auto Shock Absorber Company Limited ("Haikou Danjiang") 海口丹江汽車減振器有限公司	PRC 20 March 2006	RMB1,000,000	87.5%*	100%*	100%*	100%*	100%	Not yet commenced business	Domestic limited liability company
Nanyang Ying Saite Vehicle Shock Absorber Company Limited ("Ying Saite") 南陽英賽特車輛減振器有限公司	PRC 19 March 2007	RMB5,000,000	100%	100%	100%	100%	100%	Trading of shock absorber and related components	Domestic limited liability company

\* Nanyang Cijan exercised effective control over Haikou Danjiang through contractual agreements with two individual equity holders of Haikou Danjiang since the date of establishment of Haikou Danjiang up to 28 September 2011, the date Nanyang Cijan obtained the legal ownership of Haikou Danjiang from the two individual equity holders.

# The Founders (as defined in Note 2 to the Financial Information) acquired additional 12.5% equity interest in Nanyang Cijan on 9 April 2009.

The financial year end of all the entities now comprising the Group is 31 December.

No audited financial statements have been prepared for the Company and Merit Leader since their respective dates of incorporation as they were incorporated in countries where they were not subject to statutory audit requirements. No audited financial statements have been prepared for Guang Da Automotive since its date of incorporation as its first statutory financial statements are not yet due to be issued.

The statutory financial statements of Nanyang Cijan, Ying Saite and Haikou Danjiang for the three years ended 31 December 2010 were prepared in accordance with relevant accounting principles and financial regulations applicable in the PRC and were audited by the following certified public accountants registered in the PRC:

<b>Name of subsidiary</b>	<b>Financial year</b>	<b>Name of auditors</b>
Nanyang Cijan	The year ended 31 December 2008	河南君廣信會計師事務所 有限公司
	The year ended 31 December 2009	河南和信聯合會計師事務所
	The year ended 31 December 2010	南陽中州聯合會計師事務所
Ying Saite	The year ended 31 December 2008	河南君廣信會計師事務所 有限公司
	The year ended 31 December 2009	南陽中州聯合會計師事務所
	The year ended 31 December 2010	南陽中州聯合會計師事務所
Haikou Danjiang	The three years ended 31 December 2008, 2009 and 2010	南陽中州聯合會計師事務所

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries for the Track Record Period (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period as set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 2 to the Financial Information. No adjustments are considered necessary to the Underlying Financial Statements in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 2 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2008, 2009, 2010 and 31 May 2011, and of the Company as at 31 May 2011 and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the five months ended 31 May 2010 together with the notes thereon (the “May 2010 Financial Information”) have been extracted from the Group’s unaudited consolidated financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the May 2010 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. Our review of the May 2010 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the May 2010 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the May 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with HKFRSs.

## A. FINANCIAL INFORMATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Five months ended 31 May	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					<i>(unaudited)</i>	
Revenue	8	297,331	392,505	543,716	202,949	286,291
Cost of sales		(224,261)	(300,290)	(405,768)	(150,500)	(208,865)
Gross profit		73,070	92,215	137,948	52,449	77,426
Other income, other gains and losses	9	12,721	7,926	4,224	4,018	19,265
Selling and distribution expenses		(24,406)	(24,850)	(34,842)	(14,439)	(15,173)
Research and development expenditure		(4,174)	(13,348)	(16,299)	(6,530)	(8,745)
Administrative expenses		(17,761)	(18,964)	(29,309)	(9,402)	(13,506)
Other expenses		—	—	(2,599)	—	(6,971)
Finance costs	10	(17,242)	(10,975)	(14,921)	(7,377)	(5,361)
Profit before tax	11	22,208	32,004	44,202	18,719	46,935
Taxation	12	(3,550)	(3,629)	(6,666)	(1,916)	(8,764)
		<u>18,658</u>	<u>28,375</u>	<u>37,536</u>	<u>16,803</u>	<u>38,171</u>
Profit and total comprehensive income for the year/period attributable to:						
Owners of the Company		16,051	28,229	37,536	16,803	38,171
Non-controlling interests		2,607	146	—	—	—
		<u>18,658</u>	<u>28,375</u>	<u>37,536</u>	<u>16,803</u>	<u>38,171</u>
Earnings per share - Basic	15	<u>0.07</u>	<u>0.12</u>	<u>0.16</u>	<u>0.07</u>	<u>0.16</u>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	At 31 December			At 31 May
		2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	16	101,953	107,730	150,821	163,166
Prepaid lease payments	17	12,943	41,484	40,600	102,125
Deposits paid for acquisition of land use right		4,784	10,000	70,193	8,065
Deposits for acquisition of property, plant and equipment		10,208	10,336	22,213	47,735
Loan receivables	23	15,008	—	—	—
Intangible assets	18	2,923	2,336	1,759	1,310
Goodwill	19	29,655	29,655	29,655	29,655
Deferred tax assets	20	2,945	3,246	3,470	2,806
		<u>180,419</u>	<u>204,787</u>	<u>318,711</u>	<u>354,862</u>
<b>CURRENT ASSETS</b>					
Inventories	21	55,504	55,941	75,850	50,893
Trade and other receivables	22	91,332	193,320	228,094	261,005
Prepaid lease payments	17	294	884	884	2,154
Loan receivables	23	22,914	106,047	—	—
Amounts due from related parties	32(a)	17,340	3,191	—	—
Amounts due from shareholders	32(a)	8,760	—	330	326
Restricted bank balances	24	133,100	147,670	64,000	57,076
Bank balances and cash	24	11,266	37,107	42,033	53,748
		<u>340,510</u>	<u>544,160</u>	<u>411,191</u>	<u>425,202</u>
<b>TOTAL ASSETS</b>		<u><u>520,929</u></u>	<u><u>748,947</u></u>	<u><u>729,902</u></u>	<u><u>780,064</u></u>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	25	135,686	245,361	280,931	270,458
Advance from customers		6,452	1,575	3,475	1,344
Amount due to a related party	32(a)	17,837	—	—	—
Amounts due to shareholders	32(a)	—	3,896	70,068	—
Dividends payable		—	13,127	—	—
Borrowings - due within one year	26	259,883	295,870	223,300	158,674
Income tax payable		2,674	5,738	9,760	11,866
Deferred income	27	—	1,267	—	—
Other financial liability	33	2,430	16,992	19,701	—
Provisions	34	779	1,628	7,684	6,157
		<u>425,741</u>	<u>585,454</u>	<u>614,919</u>	<u>448,499</u>

**APPENDIX I****ACCOUNTANTS' REPORT**

		At 31 December			At 31 May
	NOTES	2008	2009	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES					
Borrowings - due after one year	26	—	31,000	40,000	140,000
Other payables	25	14,870	9,566	2,884	2,507
Deferred income	27	—	4,447	5,844	12,160
Deferred tax liability	20	—	—	—	2,400
		<u>14,870</u>	<u>45,013</u>	<u>48,728</u>	<u>157,067</u>
TOTAL LIABILITIES		<u>440,611</u>	<u>630,467</u>	<u>663,647</u>	<u>605,566</u>
NET CURRENT LIABILITIES		<u>(85,231)</u>	<u>(41,294)</u>	<u>(203,728)</u>	<u>(23,297)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>95,188</u>	<u>163,493</u>	<u>114,983</u>	<u>331,565</u>
OWNERS' EQUITY					
Share capital/paid-in capital	28	81,924	81,924	330	4
Reserves		<u>(8,715)</u>	<u>36,556</u>	<u>65,925</u>	<u>174,494</u>
		73,209	118,480	66,255	174,498
Non-controlling interests		<u>7,109</u>	<u>—</u>	<u>—</u>	<u>—</u>
TOTAL OWNERS' EQUITY		<u>80,318</u>	<u>118,480</u>	<u>66,255</u>	<u>174,498</u>
TOTAL LIABILITIES AND OWNERS' EQUITY		<u>520,929</u>	<u>748,947</u>	<u>729,902</u>	<u>780,064</u>

## STATEMENT OF FINANCIAL POSITION

THE COMPANY	NOTES	At 31 May 2011 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	35	316
Amount due from a subsidiary	32(e)	<u>70,068</u>
TOTAL ASSETS		<u>70,384</u>
OWNER'S EQUITY		
Share capital	28	4
Share premium		<u>70,380</u>
TOTAL OWNER'S EQUITY		<u>70,384</u>



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Reserves					Attributable to owners of the Company	Non-controlling interests	Total owners' equity
	Share capital/paid-in capital	Share premium	Capital reserves	Surplus reserves	(Accumulated deficits) retained earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note a)	(note b)				
At 1 January 2008	81,924	—	(35,976)	2,384	8,826	57,158	4,502	61,660
Profit and total comprehensive income for the year	—	—	—	—	16,051	16,051	2,607	18,658
Appropriations	—	—	—	1,473	(1,473)	—	—	—
At 31 December 2008 and 1 January 2009	81,924	—	(35,976)	3,857	23,404	73,209	7,109	80,318
Profit and total comprehensive income for the year	—	—	—	—	28,229	28,229	146	28,375
Acquisition of additional interest in a subsidiary (note c)	—	—	7,255	—	—	7,255	(7,255)	—
Appropriations	—	—	—	3,312	(3,312)	—	—	—
Deemed capital contribution (note d)	—	—	23,337	—	—	23,337	—	23,337
Dividends recognised as distribution (Note 14)	—	—	—	—	(13,550)	(13,550)	—	(13,550)
At 31 December 2009 and 1 January 2010	81,924	—	(5,384)	7,169	34,771	118,480	—	118,480
Profit and total comprehensive income for the year	—	—	—	—	37,536	37,536	—	37,536
Appropriations	—	—	—	5,210	(5,210)	—	—	—
Deemed distribution arising from Group Reorganisation (note e)	—	—	(70,068)	—	—	(70,068)	—	(70,068)
Group Reorganisation (note f)	(81,594)	—	81,924	—	—	330	—	330
Deemed capital contribution (note d)	—	—	26,552	—	—	26,552	—	26,552
Group Reorganisation (notes g, h)	—	—	9,875	—	—	9,875	—	9,875
Dividends recognised as distribution (Note 14)	—	—	—	—	(56,450)	(56,450)	—	(56,450)
At 31 December 2010	330	—	42,899	12,379	10,647	66,255	—	66,255
Profit and total comprehensive income for the period	—	—	—	—	38,171	38,171	—	38,171
Group Reorganisation (note i)	(326)	70,380	18	—	—	70,072	—	70,072
As at 31 May 2011	4	70,380	42,917	12,379	48,818	174,498	—	174,498

	Reserves							
	Share capital/paid-in capital	Share premium	Capital reserves	Surplus reserves	(Accumulated deficits) retained earnings	Attributable to owners of the Company	Non-controlling interests	Total owners' equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note a)	(note b)				
Unaudited								
At 1 January 2010	81,924	—	(5,384)	7,169	34,771	118,480	—	118,480
Profit and total comprehensive income for the period	—	—	—	—	16,803	16,803	—	16,803
Deemed capital contribution (note d)	—	—	26,552	—	—	26,552	—	26,552
Dividend recognised as distribution (Note 14)	—	—	—	—	(56,450)	(56,450)	—	(56,450)
As at 31 May 2010	<u>81,924</u>	<u>—</u>	<u>21,168</u>	<u>7,169</u>	<u>(4,876)</u>	<u>105,385</u>	<u>—</u>	<u>105,385</u>

*Notes:*

- (a) The balance at 1 January 2008 arose from the acquisition of 60% and 27.5% equity interest in Nanyang Cijan by the Founders (as defined in Note 2) from ex-shareholders on 29 November 2006, representing the difference between the sum of paid-in capital and surplus reserves of Nanyang Cijan at the acquisition date and the purchase consideration. Details of which are set out in Note 2.
- (b) The balance comprising statutory surplus reserve and discretionary surplus reserve, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the PRC and by the board of directors of the PRC subsidiaries in accordance with the Article of Associate of the subsidiaries. Statutory surplus reserve can be used to make up for previous years' losses or convert into additional capital of the PRC subsidiaries of the Company. Discretionary surplus reserve can be used to expand the existing operations of the Company's PRC subsidiaries.
- (c) The amount represents acquisition of 12.5% equity interest in Nanyang Cijan from the non-controlling interests on 9 April 2009 by the Founders through an open auction. The amount is regarded as deemed capital contribution from the Founders (as defined in Note 2).
- (d) Pursuant to the approval notices issued by Cichuan local government in September 2009 and December 2009, Nanyang Cijan received cash compensation amounting to approximately RMB23,337,000 and RMB26,552,000 in December 2009 and in December 2010, respectively.

The amounts represent the difference between the amount measured at the proportionate share of paid-in capital and the net value of assets contributed by a former shareholder of Nanyang Cijan at the date of establishment in June 2005. The amounts paid by Cichuan local government is regarded as deemed capital contribution as reimbursement of capital contribution deficit from a former shareholder.

- (e) On 23 June 2010, Guang Da Automotive acquired 100% interest in Nanyang Cijan from the Founders for a consideration of HK\$80 million (equivalent to approximately RMB70.1 million) and the balance included in amounts due to shareholders (Note 32(a)). The amount payable by Guang Da Automotive was debited to capital reserve.
- (f) On 26 June 2010, Merit Leader became the holding company of Guang Da Automotive. The paid-in capital of Nanyang Cijan was transferred to capital reserves upon the Group Reorganisation.

- (g) On 16 August 2010, the Founders awarded shares, representing 3.95% equity interest in Merit Leader, to senior management of Nanyang Cijan for no consideration and vested immediately. The fair value of shares awarded at the grant date was credited to capital reserve. Details of which are set out in Note 29.
- (h) On 16 August 2010, Merit Leader issued and allotted new shares, representing 13% equity interest in Merit Leader, to four BVI companies controlled by four individuals not connected to the Group nor the Founders. The new shares were fully paid by four individuals at par value whereas a purchase consideration amounting to approximately RMB32.5 million was paid to the Founders for the share allotment.
- (i) The Company was incorporated on 27 April 2011 and became the holding company of Merit Leader on 22 May 2011. The Company acquired the entire share capital of Merit Leader and the amounts owed by Guang Da Automotive of HK\$80 million (equivalent to approximately RMB70.1 million as disclosed in note (e) above) to the Founders by way of the allotment and issue of an aggregate of 49,999 shares at par to the then shareholders of Merit Leader in proportion to their then existing shareholding in Merit Leader. The aggregate amount of RMB70.1 million and the total equity of Merit Leader as of 27 April 2011 in excess of the par value of 49,999 shares of the Company was recognised in share premium upon the Group Reorganisaton.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>				
OPERATING ACTIVITIES					
Profit before tax	22,208	32,004	44,202	18,719	46,935
Adjustments for:					
Reversal of provision for obsolete and slow-moving inventories	(884)	(1,768)	(2,578)	—	(4,426)
(Reversal of) impairment loss recognised in respect of trade receivables	(368)	4,341	(171)	—	(71)
Interest income	(6,746)	(9,025)	(2,273)	(853)	(367)
Interest expense	17,242	10,975	14,921	7,377	5,361
Depreciation of property, plant and equipment	10,120	10,682	15,899	6,830	5,951
Provisions	—	—	2,900	—	—
Amortisation of intangible assets	588	587	577	240	449
Release of prepaid lease payments	294	392	892	352	662
Deferred income released to profit or loss	—	(1,676)	(1,710)	(712)	(184)
(Gain) loss on disposal of property, plant and equipment	(37)	(150)	(130)	(107)	23
Share-based compensation	—	—	9,875	—	—
Gain from settlement of a legal proceeding	—	—	—	—	(5,367)
Operating cash flows before movements in working capital	42,417	46,362	82,404	31,846	48,966
(Increase) decrease in inventories	(1,395)	1,331	(17,331)	(52,743)	29,383
Decrease (increase) in trade and other receivables	3,924	(81,691)	(31,894)	(10,388)	(62,617)
(Decrease) increase in trade and other payables	(110,690)	86,167	32,088	90,665	2,815
Increase (decrease) in advance from customers	4,381	(4,877)	1,900	651	(2,131)
Increase in deferred income	—	2,500	—	—	—
Cash (used in) generated from operations	(61,363)	49,792	67,167	60,031	16,416
Income tax paid	(706)	(866)	(2,868)	(1,224)	(3,594)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(62,069)	48,926	64,299	58,807	12,822

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
INVESTING ACTIVITIES					
Interest received	6,746	9,025	2,273	853	367
Proceeds from disposal of property, plant and equipment	2,969	1,998	660	582	300
Additions of property, plant and equipment	(17,300)	(5,018)	(47,781)	(34,531)	(2,775)
Deposits for acquisition of property, plant and equipment	(855)	(10,336)	(22,213)	(9,370)	(40,573)
Deposit for acquisition of land use rights	—	(10,000)	(60,193)	(3,635)	—
Grants received in relation to acquisition of property, plant and equipment	—	4,890	1,840	1,840	6,500
Payment of prepaid lease payments	—	(24,739)	(8)	(8)	(1,329)
Repayment of advance to shareholders	19,967	8,760	—	—	—
Repayment of advance to a related party	3,815	393	3,191	3,191	—
Advance of loan receivables	(141,859)	(163,445)	(60,388)	(60,388)	—
Repayment of loan receivables	138,920	99,000	166,435	166,435	—
Placement of restricted bank deposits	(195,600)	(392,190)	(218,000)	(120,800)	(42,076)
Release of restricted bank deposits	132,000	377,620	301,670	147,470	49,000
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(51,197)</u>	<u>(104,042)</u>	<u>67,486</u>	<u>91,639</u>	<u>(30,586)</u>
FINANCING ACTIVITIES					
Interest paid	(16,626)	(13,263)	(15,945)	(7,795)	(5,895)
New borrowings raised	303,833	393,570	229,000	159,000	158,674
Repayment of borrowings	(170,050)	(326,583)	(292,570)	(242,570)	(123,300)
Advance from (repayment of advance from) shareholders	—	3,896	(3,896)	(3,896)	—
Deemed capital contribution from a former shareholder	—	23,337	26,552	26,552	—
Dividends paid to shareholders	—	—	(70,000)	(70,000)	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>117,157</u>	<u>80,957</u>	<u>(126,859)</u>	<u>(138,709)</u>	<u>29,479</u>

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,891	25,841	4,926	11,737	11,715
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	<u>7,375</u>	<u>11,266</u>	<u>37,107</u>	<u>37,107</u>	<u>42,033</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	<u>11,266</u>	<u>37,107</u>	<u>42,033</u>	<u>48,844</u>	<u>53,748</u>
Cash and cash equivalents represented by Bank balances and cash	<u>11,266</u>	<u>37,107</u>	<u>42,033</u>	<u>48,844</u>	<u>53,748</u>

**NOTES TO THE FINANCIAL INFORMATION****1. GENERAL**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 April 2011. Its immediate parent is Wealth Max Holdings Limited (“Wealth Max”) (incorporated in the British Virgin Islands). The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries established in the PRC are primarily engaged in research, development and manufacture of automobile shock absorber and automobile suspension system products.

**2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

Nanyang Cijan, the holding company of Haikou Danjiang and Ying Saite, was a sino-foreign cooperative joint venture established in the PRC on 23 June 2005. Mr. Xi Chunying (“Mr. Xi”) and other individuals who have agreed to act-in-concert (collectively referred to as the “Founders”) acquired an aggregate of 87.5% equity interest in Nanyang Cijan from two ex-shareholders in November 2006. The Founders, through their wholly owned entities, acquired the remaining 12.5% equity interest in Nanyang Cijan from the non-controlling shareholders in April 2009 through an open auction.

The Founders incorporated Merit Leader and Guang Da Automotive on 10 March 2010 and 14 June 2010 respectively. In June 2010, the Founders transferred their entire interest in Guang Da Automotive to Merit Leader and Guang Da Automotive acquired the entire equity interest in Nanyang Cijan (the “First Transfer”). Merit Leader then became the holding company of Guang Da Automotive and Nanyang Cijan upon completion of the First Transfer.

In August 2010, Merit Leader allotted 6,500 shares of US\$1 each, representing 13% of the enlarged issued share capital of Merit Leader, to four entities controlled by independent third parties at par.

In preparation for the listing of the shares of the Company on the Stock Exchange, the Company was incorporated on 27 April 2011 and issued 1 share of HK\$0.1 at nil paid to Wealth Max. The Company acquired the entire issued share capital of Merit Leader and shareholders’ loans of HK\$80 million (equivalent to approximately RMB70.1 million) owed by Guang Da Automotive on 22 May 2011 by allotment and issued 49,999 fully paid ordinary shares of the Company to the then existing shareholders of Merit Leader in proportion to their then existing shareholding in Merit Leader (the “Second Transfer”).

Since the shareholders’ interest in Merit Leader is the same before and after the Second Transfer, the Group, comprising the Company, Merit Leader and its subsidiaries, resulting from the group reorganisation is regarded as a continuing entity. The Financial Information of the Group has been prepared as if the Company had been the holding company of Merit Leader and its subsidiaries throughout the Track Record Period.

The Financial Information is presented in Renminbi (“RMB”), the currency of the primary economic environment in which the principal subsidiaries of the Company operate.

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has consistently early adopted the relevant Hong Kong Accounting Standards (“HKAS”) Hong Kong Financial Reporting Standards (“HKFRSs”), amendments and the related Interpretations which are effective for the financial year beginning on 1 January 2011 throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new and revised standards and amendments which are not yet effective. The Group has not early adopted these standards and amendments in the preparation of the Financial Information for the Track Record Period.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>(1)</sup>
HKFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets <sup>(1)</sup>
HKFRS 9	Financial Instruments <sup>(2)</sup>
HKFRS 10	Consolidated Financial Statements <sup>(2)</sup>
HKFRS 11	Joint Arrangements <sup>(2)</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>(2)</sup>
HKFRS 13	Fair Value Measurement <sup>(2)</sup>
HKAS 1 (Amendments)	Presentation of items of Other Comprehensive Income <sup>(4)</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>(3)</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>(2)</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>(3)</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>(3)</sup>

<sup>(1)</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>(2)</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>(3)</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>(4)</sup> Effective for annual periods beginning on or after 1 July 2012

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from annual period beginning on or after 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. The application of HKFRS 9 will not affect the classification and measurement of the Group’s financial assets based on an analysis of the Group’s financial assets as at 31 May 2011.



HKFRS 9 was revised in November 2010 by adding the requirements for the classification and measurement of financial liabilities. One major change relates to the presentation of a gain or loss on a financial liability designated at fair value to profit or loss. The Group currently does not designate any financial liabilities as at fair value through profit or loss. The application of such revised requirement may have effect on the result and financial position of the Group should such designation be made in the future.

In June 2011, a number of new or revised standards on consolidation, joint arrangements and disclosures, including HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements, HKFRS 12 Disclosures of Interests in Other Entities, HKAS 27 Separate Financial Statements (as revised in 2011) and HKAS 28 Investments in Associates and Joint Ventures (as revised in 2011) have been issued.

These five new or revised standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that certain of these five new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces part of HKAS 27 Consolidated and Separate Financial Statements that deals with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires extensive use of judgment.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. HKFRS 12 establishes disclosure objectives and specifies minimum disclosures that entities must provide to meet those objectives. The objective of HKFRS 12 is that entities should disclose information that helps users of financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on financial statements. The disclosure requirements set out in HKFRS 12 are more extensive than those in the current standards. Significant effort may be required to collect the necessary information.

HKAS 27 deals with how to prepare separate financial statements of an investor and what disclosures should be made in the separate financial statements.

Except for HKFRS 9, the directors of the Company anticipate that the application of the other new and revised standards and amendments will have no material impact on the Financial Information.

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared on the historical cost basis and in accordance with the following accounting policies which conform to HKFRSs. These policies have been consistently applied throughout the Track Record Period.

In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

##### **Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All significant intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

##### **Allocation of total comprehensive income to non-controlling interests**

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

##### **Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

##### **Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

### **Investment in a subsidiary**

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment losses.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business.

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### **The Group as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments made to state-managed retirement benefit scheme are charged as expenses when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the current tax charge and the movement in deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss.

### **Property, plant and equipment**

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted to on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes are carried at cost, less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year/period in which the item is derecognised.

#### **Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis.

#### **Intangible assets**

##### ***Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

**Impairment of tangible and intangible assets**

The Group's tangible and intangible assets are reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognised when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognised in profit or loss.

The recoverable amount is the greater of the asset's 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

#### **Prepaid lease payments**

Prepaid lease payments representing land use rights in the PRC are stated at cost and amortised on a straight-line basis over the lease terms. Prepaid lease payments which are to be amortised in the next twelve months or less are classified as current assets.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

#### **Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

#### **Share-based payment**

For shares granted to senior management by the shareholders (i.e. Founders), the fair value of the employee services received is determined by reference to the fair value of shares granted at the grant date and recognised as an expense in full at the grant date when the shares granted vest immediately, with a corresponding amount recognised in capital reserve as deemed contribution from owners.



**Financial instruments**

The financial assets and liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and liabilities of fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition.

**Financial assets**

Financial assets are classified as loans and receivables.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period, loans and receivables (including trade and other receivables, amounts due from shareholders/related parties/a subsidiary, loan receivables, restricted bank balances and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counter party; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### **Financial liabilities and equity instruments**

Financial liabilities and equity instruments issued by the group entities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group entities after deducting all of its liabilities.

### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

The Group's financial liabilities, which include trade and other payables, amounts due to a related party/shareholders, dividends payable and borrowings are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue cost.

### ***Financial guarantee contracts***

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

### **Derecognition**

Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire; or the financial assets are transferred and the Group or the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 4, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

**(a) *Useful lives of property, plant and equipment***

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. Change in these estimations may have a material impact on the results of the Group. Details of the movement of property, plant and equipment and the estimated useful lives are set out in Note 16.

**(b) *Estimated impairment of trade receivables***

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, 2009, 2010 and 31 May 2011, the carrying amount of trade receivable is RMB70,466,000, RMB126,892,000, RMB157,054,000 and RMB232,446,000, respectively. A reversal of the allowance for doubtful debts of approximately RMB368,000 and RMB171,000 and RMB71,000 was recognised for the years ended 31 December 2008 and 2010 and the five months ended 31 May 2011, respectively. An impairment loss of approximately RMB4,341,000 in respect of trade receivables was recognised in profit or loss during the year ended 31 December 2009. Details are disclosed in Note 22.

**(c) *Impairment of inventories***

The Group records inventories at the lower of cost and net realisable value. Net realisation value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales.

Operational procedures have been in place to monitor this risk, including regular review by the management of the inventory ageing listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made for any obsolete and slow-moving items. If the selling price is lower than expected, additional allowance would be recognised. As at 31 December 2008, 2009 and 2010 and 31 May 2011, the carrying amount of

inventories is RMB55,504,000, RMB55,941,000, RMB75,850,000 and RMB50,893,000, respectively. A reversal of provision for obsolete and slow-moving inventories of approximately RMB884,000, RMB1,768,000, RMB2,578,000 and RMB4,426,000 was recognised for the years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2011, respectively.

(d) *Provision for warranty claims*

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts historically. In case where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. At 31 December 2008, 2009 and 2010 and 31 May 2011, the carrying amount of provision for warranty is approximately RMB779,000, RMB1,628,000, RMB4,784,000 and RMB3,257,000, respectively.

(e) *Impairment loss on goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit (“CGU”) to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, further impairment loss may arise. As at 31 December 2008, 2009 and 2010 and 31 May 2011, the carrying amount of goodwill was RMB29,655,000 and no impairment loss was recognised during the Track Record Period. Details of the impairment testing on goodwill are disclosed in Note 19.

## **6. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance. The Group’s overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of net debts (which include borrowings), cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, paid-in capital, capital and surplus reserves, and retained earnings.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associated with each class of capital and will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

## 7. FINANCIAL INSTRUMENTS

## (a) Categories of financial instruments

The Group

	Financial instrument classification	Carrying amount at 31 December			Carrying amount at
		2008	2009	2010	31 May 2011
		RMB'000	RMB'000	RMB'000	RMB'000
<i>Financial assets</i>					
Trade and other receivables*	Loans and receivables	88,290	190,264	224,936	254,476
Loan receivables	Loans and receivables	37,922	106,047	—	—
Amounts due from related parties	Loans and receivables	17,340	3,191	—	—
Amounts due from shareholders	Loans and receivables	8,760	—	330	326
Restricted bank balances	Loans and receivables	133,100	147,670	64,000	57,076
Bank balances and cash	Loans and receivables	<u>11,266</u>	<u>37,107</u>	<u>42,033</u>	<u>53,748</u>
		<u>296,678</u>	<u>484,279</u>	<u>331,299</u>	<u>365,626</u>
<i>Financial liabilities</i>					
Trade and other payables**	At amortised cost	139,994	238,219	263,524	236,650
Amount due to a related party	At amortised cost	17,837	—	—	—
Amounts due to shareholders	At amortised cost	—	3,896	70,068	—
Dividends payable	At amortised cost	—	13,127	—	—
Borrowings - due within one year	At amortised cost	259,883	295,870	223,300	158,674
Borrowings - due after one year	At amortised cost	—	31,000	40,000	140,000
Other financial liability	(note)	<u>2,430</u>	<u>16,992</u>	<u>19,701</u>	<u>—</u>
		<u>420,144</u>	<u>599,104</u>	<u>616,593</u>	<u>535,324</u>
<u>The Company</u>					
<b>Financial asset</b>					
Amount due from a subsidiary		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>70,068</u>

*Note:* The other financial liability represents financial guarantee contracts, measured at the higher of (a) the amount determined in accordance with HKAS 37 which represented probable amount of economic outflows reliably estimated by the management arose from the financial guarantee contracts provided by the Group; and (b) the amount initially recognised, which represented fair values of the financial guarantee contracts, less cumulative amortisation recognised in accordance with HKAS 18.

\* Excluded advances to suppliers and others.

\*\* Excluded payroll and welfare payables, other tax payable and accruals.

**(b) Financial risk management objectives and policies**

The management monitors and manages the financial risks relating to the operations of the Group and the Company through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the restricted bank balances, bank balances and loan receivables. The Group's borrowings have fixed interest rates and therefore, are subject to fair value interest rate risk.

No sensitivity analysis was prepared for restricted bank balances, bank balances and loan receivables as the financial impact arising on changes in interest rates was minimal throughout the Track Record Period.

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

**(d) Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. At 31 December 2008, 2009 and 2010 and 31 May 2011, the Group had concentration of credit risk on trade receivables as 59%, 83%, 46% and 76% of total trade receivables were due from top 10 customers.

At 31 December 2008 and 2009, the Group had concentration of credit risk on loan receivables as the balances were due from 4 and 5 counterparties, respectively.

The Group manages this risk by reviewing the recoverable amount of each individual trade debt and loan at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management consider that the Group's credit risk is significantly reduced.

In addition, the Group is also exposed to credit risk in respect of guarantees given to banks for bank borrowings to related parties and independent third parties as at 31 December 2008, 2009 and 2010. Except for guarantees provided to Nanyang Sanbo Automotive Gear Company Limited (南洋三博汽車齒輪有限公司) (“Nanyang Sanbo”), a company controlled by Mr. Xi where Nanyang Sanbo defaulted payments on the related borrowings (Notes 32 and 33), in the opinion of the management of the Group, the credit risk in relation to guarantees provided to others is considered insignificant as the counterparties are in good financial positions.

The credit risk on liquid funds is limited because the counterparties are state-owned banks located in the PRC or banks with high credit ratings assigned by PRC credit-rating agencies.

The Group had concentration of credit risk by geographical location as trade receivables and bills receivable comprise various debtors which are located in PRC during the Track Record Period.

Other than the concentration of the credit risk on trade receivables, bills receivables, amounts due from shareholders, loan receivables, restricted bank balances and bank balances, the Group does not have any other significant concentration of credit risk.

The Company had concentration of credit risk exposure on the amount due from a subsidiary. The Company monitors the level of credit risk exposure to ensure that appropriate follow up actions are taken when required.

**(e) Liquidity risk**

In the management of the liquidity risk, the Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by the management to meet in full its financial obligations as they fall due for the foreseeable future. The management monitors the utilisation of bank and other borrowings.

As at 31 December 2008, 2009 and 2010 and 31 May 2011, the Group had net current liabilities of approximately RMB85,231,000, RMB41,294,000, RMB203,728,000 and RMB23,297,000, respectively. This exposes the Group to liquidity risk if the Group could not fulfill its financial obligations.

The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the next twelve months from the issuance date of this report after taking into consideration of (i) available undrawn bank facilities amounting to approximately RMB210,000,000 as at 30 September 2011 and (ii) internal generated funds.

The following table details the Group's remaining contractual maturity for its financial liabilities as at 31 December 2008, 2009 and 2010 and 31 May 2011. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay and expected maximum amounts for settlement under financial guarantee contracts provided by the Group. The table includes both interest and principal cash flows.



*Liquidity and interest risk tables*

	Weighted average effective interest rate %	Within 3 months 3 months RMB'000	3 months to 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>As at 31 December 2008</b>								
Trade and other payables	—	100,687	17,267	—	—	—	117,954	117,954
Other payables to employees	3.6	—	7,429	6,050	8,818	1,841	24,138	22,040
Amount due to a related party	—	17,837	—	—	—	—	17,837	17,837
Borrowings	7.17	118,915	144,489	—	—	—	263,404	259,883
Financial guarantee contracts (note)	—	19,800	81,100	—	—	—	100,900	2,430
		<u>257,239</u>	<u>250,285</u>	<u>6,050</u>	<u>8,818</u>	<u>1,841</u>	<u>524,233</u>	<u>420,144</u>
<b>As at 31 December 2009</b>								
Trade and other payables	—	189,715	33,100	—	—	—	222,815	222,815
Other payables to employees	3.6	—	6,050	7,162	2,221	1,276	16,709	15,404
Amounts due to shareholders	—	3,896	—	—	—	—	3,896	3,896
Dividends payable	—	13,127	—	—	—	—	13,127	13,127
Borrowings	6.2	158,428	144,001	1,686	33,835	—	337,950	326,870
Financial guarantee contracts (note)	—	53,700	67,200	—	—	—	120,900	16,992
		<u>418,866</u>	<u>250,351</u>	<u>8,848</u>	<u>36,056</u>	<u>1,276</u>	<u>715,397</u>	<u>599,104</u>
<b>As at 31 December 2010</b>								
Trade and other payables	—	233,510	20,280	—	—	—	253,790	253,790
Other payables to employees	3.6	—	7,162	929	1,627	940	10,658	9,734
Amounts due to shareholders	—	70,068	—	—	—	—	70,068	70,068
Borrowings	6.2	64,946	165,507	2,175	41,379	—	274,007	263,300
Financial guarantee contracts (note)	—	43,700	32,200	—	—	—	75,900	19,701
		<u>412,224</u>	<u>225,149</u>	<u>3,104</u>	<u>43,006</u>	<u>940</u>	<u>684,423</u>	<u>616,593</u>
<b>As at 31 May 2011</b>								
Trade and other payables	—	205,858	26,808	—	—	—	232,666	232,666
Other payables to employees	3.6	—	1,541	844	1,443	821	4,649	3,984
Borrowings	6.5	67,891	104,924	9,916	146,990	—	329,721	298,674
		<u>273,749</u>	<u>133,275</u>	<u>10,760</u>	<u>148,433</u>	<u>821</u>	<u>567,036</u>	<u>535,324</u>

*Note:* The amounts represented the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount was claimed by the counterparty to the guarantee. Based on the expectation at the end of the reporting period, the Group considered that it was more likely than not that no amount would be payable under the arrangement except for guarantees provided to Nanyang Sanbo (Note 33). All guarantees have been fully released upon repayment of relevant borrowings or during the period ended 31 May 2011.

**(f) Fair value**

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

**8. SEGMENT INFORMATION**

**(a) Products within each operating segment**

The segment information reported was determined by the types of products and the types of customers to which the products are sold, which is consistent with the internal information that are regularly reviewed by the directors of the Company, who are the chief operating decision makers (the “CODM”) of the Group, for the purposes of resource allocation and assessment of performance.

The Group has two reportable operating segments as follows:

- OEM Market (“OEM”) - manufacturing and selling of automobile shock absorber and suspension system products to the automobile market of original automobile manufacturers.
- Automobile Aftermarket - manufacturing and selling of automobile shock absorber and suspension system products to the secondary market of the automobile industry.

## (b) Segment revenue and segment results

	Segment revenue					Segment results				
	Year ended			Five months		Year ended			Five months	
	31 December			ended		31 December			ended	
	2008	2009	2010	2010	2011	2008	2009	2010	2010	2011
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					<i>(unaudited)</i>					
OEM	275,054	377,974	512,395	192,642	272,106	68,957	88,135	128,588	49,711	72,648
Automobile										
Aftermarket	22,277	14,531	31,321	10,307	14,185	4,113	4,080	9,360	2,738	4,778
Total segment and consolidated	297,331	392,505	543,716	202,949	286,291	73,070	92,215	137,948	52,449	77,426
Other income, other gains and losses						12,721	7,926	4,224	4,018	19,265
Selling and distribution expenses						(24,406)	(24,850)	(34,842)	(14,439)	(15,173)
Research and development expenditure						(4,174)	(13,348)	(16,299)	(6,530)	(8,745)
Administrative expenses						(17,761)	(18,964)	(29,309)	(9,402)	(13,506)
Other expenses						—	—	(2,599)	—	(6,971)
Finance costs						(17,242)	(10,975)	(14,921)	(7,377)	(5,361)
Profit before tax						22,208	32,004	44,202	18,719	46,935
Taxation						(3,550)	(3,629)	(6,666)	(1,916)	(8,764)
Profit and total comprehensive income for the year/period						18,658	28,375	37,536	16,803	38,171

Revenue reported above represents revenue generated from sales of goods to external customers. There was no inter-segment sales during the Track Record Period.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment results represent the gross profit of each operating segment. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Other than the segment revenue and segment profit analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is disclosed.

(c) **Geographical information**

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). No non-current assets of the Group are located outside the PRC.

All of the Group's revenue from external customers is attributed to the group entities' countries of domicile (i.e. the PRC).

(d) **Information about major customers**

Revenue from major customers which accounts for 10% or more of the Group's revenue are as follows:

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
OEM - Customer A	79,020	98,134	147,762	58,433	61,143
OEM - Customer B	N/A*	81,667	105,236	49,810	43,992
OEM - Customer C	N/A*	50,682	60,195	35,857	N/A*
OEM - Customer D	41,549	N/A*	N/A*	N/A*	N/A*
OEM - Customer E	N/A*	N/A*	N/A*	N/A*	35,375
OEM - Customer F	<u>N/A*</u>	<u>N/A*</u>	<u>N/A*</u>	<u>N/A*</u>	<u>32,457</u>

\* The corresponding revenue did not contribute over 10% of the total sales of the Group.

## 9. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Income from suppliers on defects claim	5,270	40	282	282	—
Interest income from					
- loan receivables	2,833	3,363	—	—	—
- related parties	2,406	1,142	—	—	—
- banks	1,507	4,520	2,273	853	367
	6,746	9,025	2,273	853	367
(Loss) gain from scrap sales	(659)	(30)	1,886	1,423	4,481
Storage services income	350	770	—	—	—
Gain (loss) on disposal of property, plant and equipment	37	150	130	107	(23)
Reversal (provision) of impairment losses on trade receivables	368	(4,341)	171	—	71
Government grant (note)	—	—	—	—	8,000
Release of asset-related government grants (Note 27)	—	1,676	1,710	712	184
Provision for litigation (Note 34(ii)1)	—	—	(2,900)	—	—
Gain from settlement of a legal proceeding (Note 34(ii)2)	—	—	—	—	5,367
Others	609	636	672	641	818
	<u>12,721</u>	<u>7,926</u>	<u>4,224</u>	<u>4,018</u>	<u>19,265</u>

Note: The amount represented reimbursement from local authority received by Nanyang Cijan for termination benefits payment made to staff under Transformation Agreement (as defined and described in Note 25) in prior years.

## 10. FINANCE COSTS

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Interest on:					
Bank borrowings wholly repayable within five years	15,390	10,553	13,150	6,632	4,695
Entrusted loans wholly repayable within five years	1,226	2,478	2,563	1,067	1,191
Other borrowings wholly repayable within five years	10	232	232	96	9
Accretion on other payables (Note 25)	2,933	793	379	158	259
	19,559	14,056	16,324	7,953	6,154
Less: Amounts capitalised	(2,317)	(3,081)	(1,403)	(576)	(793)
	<u>17,242</u>	<u>10,975</u>	<u>14,921</u>	<u>7,377</u>	<u>5,361</u>

Interest has been capitalised at the rate of interest applicable to the specific borrowings financing the assets under construction, or, where financed through general borrowings, at a capitalisation rate representing the average interest rate on such borrowings.

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	%	%	%	%	%
				<i>(unaudited)</i>	
Capitalisation rate	<u>7.58</u>	<u>6.01</u>	<u>6.20</u>	<u>6.20</u>	<u>5.97</u>

## 11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Employee benefits expenses (including directors):					
- salaries and other benefits	21,732	25,465	29,383	13,586	15,295
- retirement benefit scheme contributions	4,723	5,467	7,026	2,571	4,332
- share-based compensation (included in administrative expenses) (Note 29)	—	—	9,875	—	—
Total staff costs	26,455	30,932	46,284	16,157	19,627
Auditors' remuneration	20	125	20	20	—
Amortisation of intangible assets (included in administrative expenses)	588	587	577	240	449
Cost of inventories recognised as expenses (included in cost of sales and research and development expenditure)	225,508	307,135	416,178	155,284	215,907
Depreciation of property, plant and equipment	10,120	10,682	15,899	6,830	5,951
Listing expenses (included in other expenses)	—	—	2,599	—	6,971
Release of prepaid lease payments	294	392	892	352	662
Reversal of provision for obsolete and slow-moving inventories (included in cost of sales)*	(884)	(1,768)	(2,578)	—	(4,426)

\* As a result of recovery from global financial crisis and economic downturn, the reversal of provision for slow-moving inventories amounting to approximately RMB884,000 RMB1,768,000, RMB2,578,000 and RMB4,426,000 were recognised for the year ended 31 December 2008, 2009 and 2010, and the five months ended 31 May 2011, respectively, upon realization of sales.

## 12. TAXATION

	At 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Tax expense comprises:					
Current tax expense	3,379	3,930	6,890	2,009	5,700
Deferred tax expense (credit) (Note 20)	171	(301)	(224)	(93)	3,064
	<u>3,550</u>	<u>3,629</u>	<u>6,666</u>	<u>1,916</u>	<u>8,764</u>

The income tax expense of the Track Record Period represents the PRC Enterprise Income Tax which is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Merit Leader was incorporated in the BVI and is not subject to any income tax.

Guang Da Automotive was incorporated in Hong Kong and has had no assessable profit subject to Hong Kong Profits Tax since its incorporation.

In accordance with Foreign Enterprise Income Tax ("FEIT") Laws in PRC, Nanyang Cijan was approved to be exempted from FEIT for two years starting from its first profit making year since its establishment and followed by a 50% tax relief for the next three years. Nanyang Cijan was subject to 12.5% tax rate for the years ended 31 December 2008, 2009 and 2010. On 15 December 2009, Nanyang Cijan obtained "High Technology Enterprise" status for 3 years that entitles Nanyang Cijan a preferential tax rate of 15% for the period from 2011 to 2012 according to PRC tax law.

Haikou Danjiang and Ying Saite did not have any taxable profit during the Track Record Period.



The tax charge for the Track Record Period can be reconciled to the profit before tax per consolidated statements of comprehensive income as follows:

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(unaudited)</i>				
Profit before tax	<u>22,208</u>	<u>32,004</u>	<u>44,202</u>	<u>18,719</u>	<u>46,935</u>
Tax at 25%	5,552	8,001	11,051	4,680	11,734
Tax effect of tax losses not recognised	501	945	84	123	54
Tax effect of expenses not deductible for tax purpose	1,418	315	4,839	601	1,428
Tax effect of income not taxable for tax purpose	—	—	—	—	(2,000)
Tax effect of additional qualified expenses deductible for tax purpose (note)	(507)	(1,582)	(2,037)	(912)	(1,093)
Effect of tax concessions granted to a PRC subsidiary	(3,414)	(4,050)	(6,692)	(1,997)	(3,759)
Increase in deferred tax liability resulting from PRC withholding tax	—	—	—	—	2,400
Tax effect of changes in future tax rate	<u>—</u>	<u>—</u>	<u>(579)</u>	<u>(579)</u>	<u>—</u>
	<u>3,550</u>	<u>3,629</u>	<u>6,666</u>	<u>1,916</u>	<u>8,764</u>

*Note:* The amount represents additional 50% income tax deduction in respect of qualifying research and development expenditures incurred during the Track Record Period.

## 13. DIRECTORS' AND EMPLOYEES' REMUNERATION

## (a) Directors' emoluments

Details of the emoluments paid to the directors of the Company for the Track Record Period are as follow:

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Directors'					
- fees	—	—	—	—	—
- salaries and other benefits	329	424	264	110	110
- discretionary bonus	259	428	450	—	—
- retirement benefits scheme contributions	14	16	20	9	7
- share-based compensation	—	—	2,250	—	—
	<u>602</u>	<u>868</u>	<u>2,984</u>	<u>119</u>	<u>117</u>

The emoluments of the directors of the Company on a named basis are as follows:

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Mr. Zhao Zhi Jun	398	537	277	53	53
Mr. Wang Wen Bo	158	216	1,477	33	33
Ms. Yang Wei Xia	46	115	1,230	33	31
	<u>602</u>	<u>868</u>	<u>2,984</u>	<u>119</u>	<u>117</u>

## (b) Employees' emoluments

The five highest paid individuals of the Group for the years ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2010 and 2011 included 2 directors. The remunerations of the five highest paid individuals are as follows:

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Employees					
- salaries and other benefits	599	714	360	170	170
- discretionary bonus	450	678	750	—	—
- retirement benefits scheme contributions	20	25	30	15	15
- share-based compensation	—	—	6,502	—	—
	<u>1,069</u>	<u>1,417</u>	<u>7,642</u>	<u>185</u>	<u>185</u>

Their emoluments were within the following bands:

	Year ended 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
				<i>(unaudited)</i>	
Nil to HK\$1,000,000 (equivalents to approximately Nil to RMB851,000)	5	5	—	5	5
HK\$1,000,001 to HK\$1,500,000 (equivalents to approximately RMB851,001 to RMB1,277,000)	—	—	—	—	—
HK\$1,500,001 to HK\$2,000,000 (equivalents to approximately RMB1,277,001 to RMB1,702,000)	—	—	4	—	—
HK\$2,000,001 to HK\$2,500,000 (equivalents to approximately RMB1,702,001 to RMB2,128,000)	—	—	1	—	—
	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>

During the Track Record Period, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company waived any remuneration during the Track Record Period.

#### **14. DIVIDENDS**

Dividends of RMB13,550,000, RMB56,450,000 and RMB56,450,000 (unaudited) were recognised as distribution to owners of Nanyang Cijan for the year ended 31 December 2009, 2010 and the five months ended 31 May 2010, respectively. No dividend has been proposed since 31 May 2011 up to the date of this report.

No rate of dividend paid was presented as such information was not meaningful for the Financial Information as a whole throughout the Track Record Period.

#### **15. EARNINGS PER SHARE**

The calculation of the basic earnings per share for the Track Record Period is based on the profit attributable to owners of the Company for each of the years/periods in the Track Record Period and the weighted average number of 240,000,000, 240,000,000, 240,000,000, 240,000,000 and 240,000,000 of ordinary shares assumed to be in issue for the year ended 31 December 2008, 2009 and 2010 and the five months ended 31 May 2010 and 2011 respectively.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the Track Record Period has been retrospectively adjusted for the capitalisation issue, as more fully discussed in section C “Subsequent Events”.

No diluted earnings per share are presented for the Track Record Period as there was no potential ordinary share outstanding.

## 16. PROPERTY, PLANT AND EQUIPMENT

The Group

	<b>Buildings</b>	<b>Motor vehicles</b>	<b>Furniture, fixture and equipment</b>	<b>Machinery</b>	<b>Construction in progress</b>	<b>Others</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>COST</b>							
At 1 January 2008	25,839	3,430	2,070	76,315	7,757	3,882	119,293
Additions	150	1,981	149	4,254	12,067	1,016	19,617
Transfer	949	—	496	—	(1,445)	—	—
Disposal	(2)	(2,163)	(20)	(1,425)	—	—	(3,610)
At 31 December 2008 and 1 January 2009	26,936	3,248	2,695	79,144	18,379	4,898	135,300
Additions	1,142	1,936	149	4,866	10,125	89	18,307
Transfer	715	—	—	—	(715)	—	—
Disposal	—	(2,020)	—	(192)	—	—	(2,212)
At 31 December 2009 and 1 January 2010	28,793	3,164	2,844	83,818	27,789	4,987	151,395
Additions	622	3,032	705	50,236	4,838	87	59,520
Transfer	20,665	—	139	—	(25,767)	4,963	—
Disposal	—	(691)	—	—	—	—	(691)
At 31 December 2010 and 1 January 2011	50,080	5,505	3,688	134,054	6,860	10,037	210,224
Additions	631	632	203	2,582	14,445	126	18,619
Disposal	—	—	—	(558)	—	(9)	(567)
At 31 May 2011	50,711	6,137	3,891	136,078	21,305	10,154	228,276
<b>ACCUMULATED DEPRECIATION</b>							
At 1 January 2008	(1,887)	(621)	(500)	(19,514)	—	(1,383)	(23,905)
Provided for the year	(801)	(312)	(298)	(8,090)	—	(619)	(10,120)
Eliminated on disposals	—	359	2	317	—	—	678
At 31 December 2008 and 1 January 2009	(2,688)	(574)	(796)	(27,287)	—	(2,002)	(33,347)
Provided for the year	(828)	(319)	(338)	(8,577)	—	(620)	(10,682)
Eliminated on disposals	—	197	—	167	—	—	364

	<b>Buildings</b>	<b>Motor vehicles</b>	<b>Furniture, fixture and equipment</b>	<b>Machinery</b>	<b>Construction in progress</b>	<b>Others</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2009 and 1 January 2010	(3,516)	(696)	(1,134)	(35,697)	—	(2,622)	(43,665)
Provided for the year	(1,141)	(410)	(350)	(13,280)	—	(718)	(15,899)
Eliminated on disposals	—	161	—	—	—	—	161
At 31 December 2010 and 1 January 2011	(4,657)	(945)	(1,484)	(48,977)	—	(3,340)	(59,403)
Provided for the period	(552)	(258)	(139)	(4,697)	—	(305)	(5,951)
Eliminated on disposals	—	—	—	240	—	4	244
At 31 May 2011	(5,209)	(1,203)	(1,623)	(53,434)	—	(3,641)	(65,110)
<b>CARRYING VALUES</b>							
At 31 December 2008	<u>24,248</u>	<u>2,674</u>	<u>1,899</u>	<u>51,857</u>	<u>18,379</u>	<u>2,896</u>	<u>101,953</u>
At 31 December 2009	<u>25,277</u>	<u>2,468</u>	<u>1,710</u>	<u>48,121</u>	<u>27,789</u>	<u>2,365</u>	<u>107,730</u>
At 31 December 2010	<u>45,423</u>	<u>4,560</u>	<u>2,204</u>	<u>85,077</u>	<u>6,860</u>	<u>6,697</u>	<u>150,821</u>
At 31 May 2011	<u>45,502</u>	<u>4,934</u>	<u>2,268</u>	<u>82,644</u>	<u>21,305</u>	<u>6,513</u>	<u>163,166</u>

The above items of property, plant and equipment, other than construction in progress, are depreciated on straight-line basis over the following estimated useful lives:

Buildings	Over the shorter of the term of lease, or 30 years
Motor vehicles	10 years
Furniture, fixture and equipment	7 years
Machinery	1 - 15 years
Others	3 - 20 years

At 31 December 2008, 2009 and 2010 and 31 May 2011, the Group is in the process of obtaining the property certificate for the buildings with carrying values approximate to RMB175,000, RMB1,980,000, RMB2,148,000 and RMB2,184,000 which are located in the PRC.

## 17. PREPAID LEASE PAYMENTS

The Group

	<i>RMB'000</i>
At 1 January 2008	13,531
Charged to profit and loss	<u>(294)</u>
At 31 December 2008 and 1 January 2009	13,237
Additions	29,523
Charged to profit and loss	<u>(392)</u>
At 31 December 2009 and 1 January 2010	42,368
Additions	8
Charged to profit and loss	<u>(892)</u>
At 31 December 2010	41,484
Additions	63,457
Charged to profit and loss	<u>(662)</u>
At 31 May 2011	<u><u>104,279</u></u>

	<b>At 31 December</b>			<b>At 31 May</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed for reporting purposes:				
Current assets	294	884	884	2,154
Non-current assets	<u>12,943</u>	<u>41,484</u>	<u>40,600</u>	<u>102,125</u>
	<u><u>13,237</u></u>	<u><u>42,368</u></u>	<u><u>41,484</u></u>	<u><u>104,279</u></u>

The Group's prepaid lease payments comprise medium-term leasehold land located in the PRC. Prepaid lease payments are released to profit or loss over the lease terms ranging between 48 to 50 years.

## 18. INTANGIBLE ASSETS

The Group

	<b>Customer relationship</b> <i>RMB'000</i>	<b>Patents</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>COST</b>			
At 1 January 2008, 31 December 2008, 2009, 2010 and 31 May 2011	<u>3,593</u>	<u>555</u>	<u>4,148</u>
<b>AMORTISATION</b>			
At 1 January 2008	(487)	(150)	(637)
Charge for the year	<u>(449)</u>	<u>(139)</u>	<u>(588)</u>
At 1 January 2009	(936)	(289)	(1,225)
Charge for the year	<u>(448)</u>	<u>(139)</u>	<u>(587)</u>
At 31 December 2009	(1,384)	(428)	(1,812)
Charge for the year	<u>(450)</u>	<u>(127)</u>	<u>(577)</u>
At 31 December 2010	(1,834)	(555)	(2,389)
Charged for the period	<u>(449)</u>	<u>—</u>	<u>(449)</u>
At 31 May 2011	<u>(2,283)</u>	<u>(555)</u>	<u>(2,838)</u>
<b>CARRYING VALUES</b>			
At 31 December 2008	<u>2,657</u>	<u>266</u>	<u>2,923</u>
At 31 December 2009	<u>2,209</u>	<u>127</u>	<u>2,336</u>
At 31 December 2010	<u>1,759</u>	<u>—</u>	<u>1,759</u>
At 31 May 2011	<u>1,310</u>	<u>—</u>	<u>1,310</u>

The above customer relationship and patents were purchased as part of a business combination in 2006.



The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods from the acquisition date:

Customer relationship	8 years
Patents	4 years

## 19. GOODWILL

### The Group

	<i>RMB'000</i>
<b>COST</b>	
At 1 January 2008, 31 December 2008, 2009, 2010 and 31 May 2011	<u>29,655</u>
<b>IMPAIRMENT</b>	
At 1 January 2008, 31 December 2008, 2009, 2010 and 31 May 2011	<u>—</u>
<b>CARRYING VALUES</b>	
At 31 December 2008, 2009, 2010 and 31 May 2011	<u><u>29,655</u></u>

For the purposes of impairment testing, goodwill has been allocated to an individual CGU, representing one PRC subsidiary engages in manufacturing of automobile shock absorber and suspension system products.

During the Track Record Period, the management determines that there is no impairment of the CGU containing goodwill.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period. The CGU's cash flows beyond the 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry long-term growth rate in the jurisdiction the CGU operates. The discount rate applied is 13.68%.

Key assumptions for the value in use calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

## 20. DEFERRED TAXATION

The Group

The following is the analysis of the deferred tax assets (liability):

	Allowance for doubtful debts <i>RMB'000</i>	Provision for obsolete or slow-moving inventories <i>RMB'000</i>	Total deferred tax assets <i>RMB'000</i>	Deferred tax liability on undistributable profits of a subsidiary <i>RMB'000</i>
At 1 January 2008	553	2,563	3,116	—
Charge to profit or loss (Note 12)	<u>(61)</u>	<u>(110)</u>	<u>(171)</u>	<u>—</u>
At 31 December 2008 and 1 January 2009	492	2,453	2,945	—
Credit (charge) to profit or loss (Note 12)	<u>522</u>	<u>(221)</u>	<u>301</u>	<u>—</u>
At 31 December 2009 and 1 January 2010	1,014	2,232	3,246	—
Charge to profit or loss (Note 12)	(33)	(322)	(355)	—
Effect of changes in tax rate (Note 12)	<u>197</u>	<u>382</u>	<u>579</u>	<u>—</u>
At 31 December 2010 and 1 January 2011	1,178	2,292	3,470	—
Charge to profit or loss (Note 12)	<u>—</u>	<u>(664)</u>	<u>(664)</u>	<u>(2,400)</u>
At 31 May 2011	<u>1,178</u>	<u>1,628</u>	<u>2,806</u>	<u>(2,400)</u>

The Group had unrecognised tax losses as follows:

	RMB'000	Expiry date
At 1 January 2008	152	2011~2012
Addition	<u>2,005</u>	
At 31 December 2008	2,157	2011~2013
Addition	<u>3,780</u>	
At 31 December 2009	5,937	2011~2014
Addition	<u>335</u>	
At 31 December 2010	6,272	2011~2015
Addition	<u>216</u>	
At 31 May 2011	<u><u>6,488</u></u>	<u><u>2011~2016</u></u>

The tax losses are principally attributable to subsidiaries in the PRC with no deferred tax asset has been recognised due to the unpredictability of future profits streams. The Group has no other significant unprovided deferred tax for the Track Record Period or at the end of each reporting period.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries that are received by non-PRC resident entities from 1 January 2008 onwards. No deferred tax liability was recognised at 31 December 2008, 2009 and 2010 as there is no undistributed earnings of PRC subsidiaries at the end of each reporting period. At 31 May 2011, a deferred tax liability of RMB2,400,000 was recognised in respect of temporary difference attributable to undistributable profits of Nanyang Cijan.

## 21. INVENTORIES

### The Group

	At 31 December			At 31 May
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	9,827	8,297	10,075	8,758
Work-in-progress	5,195	3,567	6,447	6,464
Finished goods	<u>40,482</u>	<u>44,077</u>	<u>59,328</u>	<u>35,671</u>
	<u><u>55,504</u></u>	<u><u>55,941</u></u>	<u><u>75,850</u></u>	<u><u>50,893</u></u>

## 22. TRADE AND OTHER RECEIVABLES

The Group

Trade and other receivables comprise the following:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	74,973	135,736	165,727	241,048
Less: allowance for doubtful debts	<u>(4,507)</u>	<u>(8,844)</u>	<u>(8,673)</u>	<u>(8,602)</u>
	70,466	126,892	157,054	232,446
Bills receivables	11,487	27,571	30,897	9,050
Other receivables				
— from a shareholder of Nanyang Sanbo (note a)	2,430	16,992	19,701	—
— from Jinguan Wangma (note b)	—	10,076	10,076	—
— others (note c)	<u>3,907</u>	<u>8,733</u>	<u>7,208</u>	<u>12,980</u>
	6,337	35,801	36,985	12,980
Advances to suppliers	3,006	3,056	2,292	3,339
Others	<u>36</u>	<u>—</u>	<u>866</u>	<u>3,190</u>
	<u>91,332</u>	<u>193,320</u>	<u>228,094</u>	<u>261,005</u>

*Notes:*

- a. The balances represent receivables from a shareholder of Nanyang Sanbo Automotive Gear Company Limited (南洋三博汽車齒輪有限公司) (“Nanyang Sanbo”) for reimbursement of relevant principals, interests and penalties in respect of several loans under financial guarantees provided by Nanyang Cijan during the Track Record Period. Pursuant to an agreement entered into by various parties on 9 May 2011, the balance was derecognised upon the guarantee obligations of Nanyang Cijan was released. Details of which are set out in Note 33.
- b. The balances represent costs to be recovered from Henan Jinguan Wangma Information Industry Company Limited (河南金冠王碼信息產業股份有限公司) (“Jinguan Wangma”) in relation to payment for employment termination benefits, details of which are set out in Note 25.

After Jinguan Wangma disposed of its 12.5% equity interest in Nanyang Cijan to the Founders in April 2009, the amount due from Jinguan Wangma was reclassified from amounts due from related parties to other receivables.

Pursuant to a settlement agreement entered into between Nanyang Cijan and Jinguan Wangma on 9 May 2011, the balance receivable from Jinguan Wangma was offset against the outstanding balance payable to Jinguan Wangma.

- c. The balances comprise of employees’ travel advances, deposits paid to local tax authorities, rental deposits, bid performance deposits and deposits to a creditor as security for other borrowings.

The Group generally allows a credit period of 90 days to its trade customers. The ageing of trade receivables presented based on invoice date, net of allowance for doubtful debts, is as follows:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 90 days	65,632	125,975	148,506	210,514
91 to 180 days	2,895	48	7,678	20,420
181 to 365 days	1,939	869	870	1,512
	<u>70,466</u>	<u>126,892</u>	<u>157,054</u>	<u>232,446</u>

Movement in the allowance for doubtful debts:

	Year ended 31 December			Five months ended
	2008	2009	2010	31 May 2011
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning balance	4,875	4,507	8,844	8,673
Addition	—	4,341	—	—
Reversal of allowance for doubtful debts	(368)	—	(171)	(71)
Written off as uncollectible	—	(4)	—	—
Ending balance	<u>4,507</u>	<u>8,844</u>	<u>8,673</u>	<u>8,602</u>

The ageing of bills receivables is as follows:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 90 days	11,487	22,571	30,897	9,050
91 to 180 days	—	5,000	—	—
	<u>11,487</u>	<u>27,571</u>	<u>30,897</u>	<u>9,050</u>

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit limit of each customer. Limits attributed to customers are reviewed once a year.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period and no impairment is necessary for those balances which are not past due.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB4,834,000, RMB917,000, RMB8,548,000 and RMB21,932,000 at 31 December 2008, 2009, 2010 and 31 May 2011, respectively, which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

*Ageing of trade receivables which are past due but not impaired*

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
91 to 180 days	2,895	48	7,678	20,420
181 to 365 days	1,939	869	870	1,512
	<u>4,834</u>	<u>917</u>	<u>8,548</u>	<u>21,932</u>

## 23. LOAN RECEIVABLES

### The Group

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Floating-rate interest bearing	37,922	101,047	—	—
Non-interest bearing	—	5,000	—	—
	<u>37,922</u>	<u>106,047</u>	<u>—</u>	<u>—</u>
Analysed as				
Current	22,914	106,047	—	—
Non-current*	15,008	—	—	—
	<u>37,922</u>	<u>106,047</u>	<u>—</u>	<u>—</u>

\* The carrying amount which the management expects to demand repayment after the next twelve months is classified as non-current.

The Group's loan receivables carried variable interest rates, which determined by reference to prevailing market rates, ranging from 5.6% to 8.9% during the Track Record Period, and were unsecured and repayable on demand.

#### 24. RESTRICTED BANK BALANCES/BANK BALANCES AND CASH

##### The Group

Bank balances carry interest rates ranging from 0.36% to 3.51% per annum for the Track Record Period.

Restricted bank balances, carrying interest rate ranging from 1.98% to 3.78% per annum, represent amounts deposited with banks as pledge for the bills payable with an original maturity of three months or less issued to suppliers for the purchase of raw materials and securities for bank borrowings with maturity of three to six months.

#### 25. TRADE AND OTHER PAYABLES

##### The Group

Trade and other payables comprise the following:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	94,806	148,470	195,693	193,413
Bills payables	<u>20,267</u>	<u>53,134</u>	<u>36,670</u>	<u>35,163</u>
	115,073	201,604	232,363	228,576
Other payables to employees (note b)	22,040	15,404	9,734	3,984
Payroll and welfare payables	7,178	6,997	6,572	8,041
Other tax payable	2,777	7,034	7,669	13,942
Other payables (note a)	2,881	21,211	21,427	4,090
Other accruals	<u>607</u>	<u>2,677</u>	<u>6,050</u>	<u>14,332</u>
	150,556	254,927	283,815	272,965
Less: Amount shown under non-current liabilities	<u>(14,870)</u>	<u>(9,566)</u>	<u>(2,884)</u>	<u>(2,507)</u>
Total trade and other payables shown under current liabilities	<u>135,686</u>	<u>245,361</u>	<u>280,931</u>	<u>270,458</u>

The following is an ageing analysis of trade payables presented based on invoice date at the end of each reporting period:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	58,062	122,934	174,769	171,823
91 - 180 days	24,220	18,150	16,162	19,292
Over 181 days	12,524	7,386	4,762	2,298
	<u>94,806</u>	<u>148,470</u>	<u>195,693</u>	<u>193,413</u>

The following is an ageing analysis of bills payables, presented based on issuance date at the end of each reporting period:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	—	7,867	8,530	8,992
31 to 60 days	—	6,780	7,860	1,930
61 to 90 days	3,000	5,387	—	19,020
91 to 180 days	9,767	26,203	20,280	—
181 to 270 days	7,500	6,897	—	5,221
	<u>20,267</u>	<u>53,134</u>	<u>36,670</u>	<u>35,163</u>

Trade payables and bills payables principally comprise amounts outstanding for purchase of materials. The average credit period for purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that sufficient financial resources are maintained to meet its financial obligation as they fall due.

*Notes:*

- a. Pursuant to several government notices in 2007, Nanyang Cijan agreed to bear employment termination costs of RMB8,000,000 and assume payment obligation of approximately RMB31,933,000 on behalf of a shareholder — Henan Jinguan Wangma Information Industry Company Limited (河南金冠王碼信息產業股份有限公司) (“Jinguan Wangma” or the “Ex-shareholder”) (a state-owned enterprise) and in return to receive cash reimbursement of RMB10,076,000 from the Ex-shareholder and the remaining balance of RMB21,857,000 to be settled through current account owed to Jinguan Wangma.

The payment obligation arose from termination of employment of staffs with Jinguan Wangma (“Transformation Agreement”) and represented termination benefits payable to the employee under the Transformation Agreement.



Immediately after Jinguan Wangma disposed of its 12.5% equity interest in Nanyang Cijan to the Founders in April 2009, the balance of RMB17,837,000 and RMB15,443,000 due to the Ex-shareholder was reclassified from amount due to a related party and included in other payables as at 31 December 2009 and 2010.

Pursuant to a settlement agreement entered between Nanyang Cijan and Jinguan Wangma on 9 May 2011, the payable to Jinguan Wangma was offset against the receivable from Jinguan Wangma and the difference, amounting to RMB5,367,000, was derecognised and a gain (included in other income, other gains and losses) was recognised upon the completion of the Settlement Agreement. Details of which are set out in Note 34(ii)2.

- b. Other payables to employees are interest-free and the settlement of the obligations is estimated to occur through to 2026. The payable to employee are calculated at the net present value of estimated future net cash flows of the payment obligation, discounted at 3.6% per annum at 31 December 2008, 2009, 2010 and 31 May 2011, respectively. Management has allocated the payables that are expected to be settled within twelve months after the end of each reporting period as current liabilities. No asset was legally restricted for the purposes of settling the payables.

	<b>At 31 December</b>			<b>At 31 May</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period	30,673	22,040	15,404	9,734
Payment	(11,566)	(7,429)	(6,049)	(6,009)
Accretion during the year/period	2,933	793	379	259
	<u>22,040</u>	<u>15,404</u>	<u>9,734</u>	<u>3,984</u>
Analysed for reporting purposes:				
Current liabilities	7,170	5,838	6,850	1,477
Non-current liabilities	14,870	9,566	2,884	2,507
	<u>22,040</u>	<u>15,404</u>	<u>9,734</u>	<u>3,984</u>

## 26. BORROWINGS

### The Group

	<b>Year ended 31 December</b>			<b>At 31 May</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowings	236,583	293,570	230,000	245,000
Entrusted loans (note a)	20,000	30,000	30,000	50,000
Other borrowings	3,300	3,300	3,300	3,674
	<u>259,883</u>	<u>326,870</u>	<u>263,300</u>	<u>298,674</u>
Unsecured	86,050	134,300	134,300	160,000
Secured	173,833	192,570	129,000	138,674
	<u>259,883</u>	<u>326,870</u>	<u>263,300</u>	<u>298,674</u>

Except for HK\$4.4 million (equivalent to approximately RMB 3.7 million) borrowing as at 31 May 2011, all other borrowings are denominated in RMB. The Group's borrowings carry fixed interest rate at 31 December 2008, 2009 and 2010 and 31 May 2011. The contractual maturity dates are as follows:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	259,883	295,870	223,300	158,674
More than two years, but not exceeding five years	—	31,000	40,000	140,000
	<u>259,883</u>	<u>326,870</u>	<u>263,300</u>	<u>298,674</u>
Less: Amounts due for settlement within 12 months (shown under current liabilities)	<u>(259,883)</u>	<u>(295,870)</u>	<u>(223,300)</u>	<u>(158,674)</u>
Amounts shown under non-current liabilities	<u>—</u>	<u>31,000</u>	<u>40,000</u>	<u>140,000</u>

*Note:*

- (a) During the Track Record Period, the Group entered into entrusted loans arrangements with several banks to receive funding from certain specific lenders through the banks. The balances carried fixed interest rates of 9.90%, 8.82%, 8.82% and 8.31% per annum at 31 December 2008, 2009 and 2010 and 31 May 2011, respectively.

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings other than bills discounted are as follows:

	2008	At 31 December		At 31 May
		2009	2010	2011
Fixed-rate borrowings	4% - 10.80% <u>per annum</u>	1.08% - 10.80% <u>per annum</u>	2.11% - 8.82% <u>per annum</u>	3.00% - 8.82% <u>per annum</u>

The borrowings are guaranteed and/or secured by the following:

	At 31 December			At
	2008	2009	2010	31 May
	RMB'000	RMB'000	RMB'000	2011
Type A	—	—	39,000	30,000
Type B	30,000	50,000	20,000	—
Type C	143,833	142,570	70,000	108,674
Type D	20,000	30,000	81,000	51,000
Type E	62,750	91,000	40,000	40,000
Type F	—	10,000	10,000	19,000
	<u>256,583</u>	<u>323,570</u>	<u>260,000</u>	<u>248,674</u>

Type A: Borrowings are guaranteed by companies controlled by Mr. Xi and secured by assets of the Group (note).

Type B: Borrowings were guaranteed by third parties and secured by assets of the Group (note).

Type C: Borrowings are secured by assets of the Group (note).

Type D: Borrowings are guaranteed by companies controlled by Mr. Xi.

Type E: Borrowings are guaranteed by third parties.

Type F: Borrowings are guaranteed by third parties and companies controlled by Mr. Xi.

The guarantees provided as mentioned in Types A, B, D to F had been released upon repayment of respective borrowings or before the date of issuance of this report.

*Note:*

The Group has pledged certain assets to secure loan facilities granted to the Group. The carrying values of the assets pledged are as follows:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	6,187	21,580	21,041	20,563
Land use right	6,129	11,812	40,476	40,118
Restricted bank balances	133,100	147,670	64,000	57,076
Other receivables	—	—	—	4,350
	<u>145,416</u>	<u>181,062</u>	<u>125,517</u>	<u>122,107</u>

## 27. DEFERRED INCOME

The Group

	Note a RMB'000	Note b RMB'000	Total RMB'000
At 1 January 2008 and 31 December 2008	—	—	—
Addition	6,700	690	7,390
Released to profit or loss	<u>(1,521)</u>	<u>(155)</u>	<u>(1,676)</u>
At 31 December 2009	5,179	535	5,714
Addition	—	1,840	1,840
Released to profit or loss	<u>(1,491)</u>	<u>(219)</u>	<u>(1,710)</u>
At 31 December 2010	<u>3,688</u>	<u>2,156</u>	<u>5,844</u>
Addition	—	6,500	6,500
Released to profit or loss	<u>(145)</u>	<u>(39)</u>	<u>(184)</u>
At 31 May 2011	<u>3,543</u>	<u>8,617</u>	<u>12,160</u>

Analysed for reporting purposes as:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities*	—	1,267	—	—
Non-current liabilities	—	4,447	5,844	12,160
	<u>—</u>	<u>5,714</u>	<u>5,844</u>	<u>12,160</u>

\* The carrying amount of deferred income designated for expenditure which is expected to be released to profit or loss in the next twelve months is classified as current liabilities.

During the year ended 31 December 2010, government grants of RMB5,000,000 were recognised and deducted from research and development expenditure.

*Notes:*

- a. Included in the grants received during the year ended 31 December 2009 was amount of approximately RMB2,500,000 as compensation for specific expenditure not yet incurred and will be recognised in profit or loss in the period the related costs are incurred for which the grants are intended to compensate. The remaining balance of the grants amounting to RMB4,200,000 were designated for the expenditure on development of the recycling and purifying facilities and were deferred and are credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

- b. Grants received in relation to acquisition of certain plant and equipment and were recorded as deferred income in the consolidated statement of financial position and is credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

## 28. SHARE CAPITAL/PAID-IN CAPITAL

### The Group

The share capital/paid-in capital shown in the consolidated statements of financial position represents:

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Paid-in capital of Nanyang Cijan	81,924	81,924	—	—
Issued share capital of Merit Leader	—	—	330	—
Issued share capital of the Company	—	—	—	4
	<u>81,924</u>	<u>81,924</u>	<u>330</u>	<u>4</u>

### The Company

	Number of shares	Amount
Ordinary shares of the HK\$0.1 each		
<i>Authorised:</i>		
At incorporation and at 31 May 2011	<u>3,900,000</u>	<u>HK\$390,000</u>
<i>Issued &amp; fully paid:</i>		
At incorporation	1	HK\$0.1
Issued in consideration for the acquisition of the entire share capital of Merit Leader	<u>49,999</u>	<u>HK\$4,999.9</u>
At 31 May 2011	<u>50,000</u>	<u>HK\$5,000.0</u>
		<b>At 31 May 2011</b>
		<b>RMB'000</b>
Shown on the statement of financial position		<u>4</u>

**29. SHARE BASED PAYMENT TRANSACTION**

During the year ended 31 December 2010, the Founders granted 3.95% equity interest of Merit Leader to certain senior management of Nanyang Cijan as share based awards (the "Awards"). No consideration is payable on the grant of the shares and no vesting period/condition attached to the Awards. The fair value of the Awards was determined based on a valuation performed by Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), a firm of independent qualified valuer not connected to the Group, using a market approach by reference to recent equity transactions of the shares of Merit Leader with independent third parties. The Group recorded total expenses of RMB9,875,000 during the year ended 31 December 2010 in respect of the Awards, with a corresponding adjustment to the capital reserve as contribution from the Founders. As the Awards was fully vested upon the grant date, no expense is expected to be incurred subsequent to 31 December 2010.

The address of Sallmanns is 6/F, Three Pacific Place, 1 Queen's Road East, Hong Kong.

**30. OPERATING LEASE COMMITMENTS****The Group**

The minimum lease payment under operating lease in respect of office premises amounted to RMB1,517,000, RMB1,845,000, RMB2,307,000, RMB1,024,000 (unaudited) and RMB1,208,000 for the year ended 31 December 2008, 2009, 2010 and the five months ended 31 May 2010 and 2011, respectively.

At the end of each reporting period, the Group had commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	<b>At 31 December</b>			<b>At 31 May</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	505	301	353	285
Between second and fifth year inclusive	<u>8</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>513</u>	<u>301</u>	<u>353</u>	<u>285</u>

Operating lease payments represent rental payable by the Group for certain office premises. Leases are negotiated for a term of 1 to 2 years with fixed rental.

## 31. OTHER COMMITMENTS

The Group

	At 31 December			At 31 May
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of acquisition of plant and machinery				
- Contracted for but not provided in the consolidated financial statements	1,793	1,137	28,725	18,011
	<u>1,793</u>	<u>1,137</u>	<u>28,725</u>	<u>18,011</u>

## 32. RELATED PARTY DISCLOSURES

- (a) At the end of the respective reporting period, the Group has the following balances with related parties:

Name of related parties	Relationship	At 31 December		At 31 May	
		2008	2009	2010	2011
		Non-trade RMB'000	Non-trade RMB'000	Non-trade RMB'000	Non-trade RMB'000
<i>Amounts due from related parties</i>					
河南藍天科技信息諮詢公司 (“河南藍天”) (notes 1 and 3)	Company controlled by close family members of Mr. Xi	3,584	3,191	—	—
Nanyang Sanbo (notes 3 and 5)	Company controlled by Mr. Xi	3,680	—	—	—
Jinguan Wangma (notes 2 and 4)	Shareholder of Nanyang Cijan (prior to 9 April 2009)	10,076	—	—	—
		<u>17,340</u>	<u>3,191</u>	<u>—</u>	<u>—</u>
<i>Amounts due from shareholders</i>					
Megabiz Group Limited (notes 2 and 3)	Company controlled by Mr. Xi	—	—	330	326
河南合協創業投資管理有限公司 (“合協創業”) (notes 1 and 3)	Company controlled by the Founders	8,760	—	—	—
		<u>8,760</u>	<u>—</u>	<u>330</u>	<u>326</u>

Name of related parties	Relationship	At 31 December		At 31 May	
		2008	2009	2010	2011
		Non-trade	Non-trade	Non-trade	Non-trade
		RMB'000	RMB'000	RMB'000	RMB'000
<i>Amount due to a related party:</i>					
Jinguan Wangma (notes 2 and 4)	Shareholder of the Nanyang Cijan (prior to 9 April 2009)	(17,837)	—	—	—
<i>Amounts due to shareholders:</i>					
合協創業 (note 2)	Company controlled by the Founders	—	(3,896)	—	—
Guang Da Investments Holdings Limited 光大投資控股有限公司 (note 2)	Company controlled by the Founders	—	—	(70,068)	—
		—	(3,896)	(70,068)	—

*Notes:*

- The balances carried interest rates ranging between 5.6% to 8.9%, unsecured and without fixed repayment terms.
- The balances are interest free, unsecured and without fixed repayment terms.
- Maximum amount outstanding during the Track Record Period are as follows:

	Year ended 31 December			Five months ended
	2008	2009	2010	31 May 2011
	RMB'000	RMB'000	RMB'000	RMB'000
河南藍天	3,584	3,584	3,191	—
Nanyang Sanbo	3,680	3,680	—	—
合協創業	24,907	25,154	4,149	—
Megabiz	—	—	330	330

- Immediately after Jinguan Wangma disposed of its 12.5% equity interest in Nanyang Cijan in April 2009, the outstanding balances due from/to Jinguan Wangma were reclassified and included in other receivables/payables at 31 December 2009 and 2010.
- The balance was interest free, unsecured and without fixed repayment terms. By entering into a contractual agreement between Nanyang Sanbo and Nanyang Cijan in 2009, the balance was fully taken up by an independent third party. The amount was reclassified to loan receivables as at 31 December 2009 and carried interest rate at 6.4% per annum.

At the date of issuance of this report, the balances have been fully settled.



- (b) During the Track Record Period, other than the financial guarantees provided by the related parties on the Group's borrowings as disclosed in Note 26, the Group entered into the following significant transactions with related parties:

Name of related parties	Nature of transaction	Year ended 31 December			Five months ended 31 May	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
河南藍天	Interest income received	265	191	—	—	—
合協創業	Interest income received	2,141	951	—	—	—
		<u>2,141</u>	<u>951</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (c) During the Track Record Period, the Group provided the following financial guarantees to related parties:

Name of related parties	Relationship	Year ended 31 December			Five months ended
		2008	2009	2010	31 May 2011
		RMB'000	RMB'000	RMB'000	RMB'000
南陽普康藥業有限公司	Company controlled by Mr. Xi	<u>—</u>	<u>—</u>	<u>30,000</u>	<u>—</u>
南陽金冠電器有限公司	Company controlled by Mr. Xi	<u>20,000</u>	<u>65,000</u>	<u>30,000</u>	<u>—</u>
Nanyang Sanbo (see Note 33)	Company controlled by Mr. Xi	<u>15,900</u>	<u>15,900</u>	<u>15,900</u>	<u>—</u>

The fair value of financial guarantees contracts at date of inception is insignificant.

At the date of issuance of this report, the guarantees have been fully released.

## (d) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management of the Group during the Track Record Period were as follows:

	At 31 December			Five months ended 31 May	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Short-term benefits	1,089	1,501	1,824	320	200
Post-employment benefits	26	32	52	28	16
Share-based payment	<u>—</u>	<u>—</u>	<u>9,875</u>	<u>—</u>	<u>—</u>
	<u>1,115</u>	<u>1,533</u>	<u>11,751</u>	<u>348</u>	<u>216</u>

(e) At 31 May 2011, the outstanding balance due from a subsidiary held by the Company is interest free, unsecured and without fixed repayment term.

## 33. OTHER FINANCIAL LIABILITY

**The Group**

	<i>RMB'000</i>
<i>Financial guarantee</i>	
At 1 January 2008	—
Addition	<u>2,430</u>
At 31 December 2008	2,430
Addition	<u>14,562</u>
At 31 December 2009	16,992
Addition	<u>2,709</u>
At 31 December 2010	19,701
Release during the period	<u>(19,701)</u>
At 31 May 2011	<u>—</u>

The balance represents financial guarantees provided to Nanyang Sanbo and measured at the higher of (a) the amount determined in accordance with HKAS 37 which represented probable amount of economic outflows reliably estimated by the management arose from the financial guarantee contracts provided by the Group; and (b) the amount initially recognised, which represented fair values of the financial guarantee contracts, less cumulative amortisation recognised in accordance with HKAS 18.

In 2008, Nanyang Cijan provided financial guarantees to Nanyang Sanbo in relation to bank loans from Nanyang City Commercial Bank (“NCCB”) for RMB13,700,000 in aggregate. In December 2008, Nanyang Cijan entered into a memorandum of understanding with a shareholder of Nanyang Sanbo (the “NS Shareholder”) (the “MOU”), pursuant to which the NS Shareholder agreed to reimburse Nanyang Cijan all losses should Nanyang Cijan be demanded by NCCB to fulfill its joint guarantee obligation towards Nanyang Sanbo. Starting from 31 December 2008, Nanyang Sanbo had defaulted repayment of the loans.

On 6 December 2010, NCCB commenced legal proceedings against Nanyang Sanbo demanded repayment of default loans with an aggregate principal amount of RMB23,500,000, pursuant to which Nanyang Cijan was a guarantor in respect of RMB13,700,000 assumed joint liability, and associated interest and penalties thereon.

On 22 March 2011, the first judgment was issued ordering Nanyang Sanbo to repay NCCB in full as demanded by the plaintiff, and that Nanyang Cijan shall carry out its guarantee obligations within the scope of the guarantee agreement. On 12 April 2011, Nanyang Sanbo appealed against the decision.

Provisions of RMB2,430,000, RMB16,992,000 and RMB19,701,000 representing aggregate amount of principal of relevant default loans, interests and penalties, have been provided for as at 31 December 2008, 2009 and 2010, respectively, regarding this guarantee. Taking into account of the MOU with the NS Shareholder, a corresponding receivable from the NS Shareholder (including in other receivables) amounting to RMB2,430,000, RMB16,992,000 and RMB19,701,000 were recognised as at 31 December 2008, 2009 and 2010, respectively.

On 21 April 2011, the NS Shareholder submitted a request to the Nanyang City Government in relation to the release of the guarantee obligations of Nanyang Cijan with respect to default loans of Nanyang Sanbo, and was approved by the mayor of Nanyang City. On 6 May 2011, NCCB, the NS Shareholder, Nanyang Cijan and Nanyang Sanbo executed a “Letter of undertaking in relation to the release of the guarantee by Nanyang Cijan to NCCB” (“Letter of Undertaking”), pursuant to which the parties agreed and confirmed that:

- (a) All the guarantee obligations of Nanyang Cijan to NCCB in respect of the default loans of Nanyang Sanbo are to be released, and Nanyang Cijan shall have no further guarantee obligations or any other related obligations. NCCB shall completely withdraw its claim against Nanyang Cijan; and

(b) The Letter of Undertaking shall be irrevocable from the date of execution.

Pursuant to the Letter of Undertaking, the financial guarantee liability and receivables from a shareholder of Nanyang Sanbo were derecognised concurrently. No net gain or loss arising from the financial guarantee or resulted from the Letter of Undertaking was recognised during the Track Record Period.

During the Track Record Period, other than those guarantees provided to related parties as disclosed in Note 32(c) and Nanyang Sanbo as mentioned above, the Group provided the following guarantees to banks in respect of bank borrowings to independent third parties at no charge:

	Year ended 31 December			Five months ended
	2008	2009	2010	31 May 2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount guaranteed	<u>65,000</u>	<u>40,000</u>	<u>—</u>	<u>—</u>

The fair value of financial guarantees contracts at date of inception is insignificant. At the date of this report, all guarantees have been fully released.

## 34. PROVISIONS

The Group

	<b>Warranty Provision</b>	<b>Litigation</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(note i)</i>	<i>(note ii)</i>	
At 1 January 2008	—	—	—
Additions	8,607	—	8,607
Utilisations	<u>(7,828)</u>	<u>—</u>	<u>(7,828)</u>
At 31 December 2008	779	—	779
Additions	7,088	—	7,088
Utilisations	<u>(6,239)</u>	<u>—</u>	<u>(6,239)</u>
At 31 December 2009	1,628	—	1,628
Additions	11,523	2,900	14,423
Utilisations	<u>(8,367)</u>	<u>—</u>	<u>(8,367)</u>
At 31 December 2010	4,784	2,900	7,684
Additions	4,136	—	4,136
Utilisations	<u>(5,663)</u>	<u>—</u>	<u>(5,663)</u>
At 31 May 2011	<u>3,257</u>	<u>2,900</u>	<u>6,157</u>

*Notes:*

(i) The warranty provision represents management's best estimate of the Group's liability under an average warranty period of two years granted on products, based on prior experience for defective products.

(ii) Legal proceedings

- On 31 May 2010, Biyadi Automobile Company Limited (比亞迪汽車有限公司) ("Biyadi") commenced proceedings against Nanyang Cijan in relation to a contractual dispute, claiming damages in respect of a batch of goods which were returned due to quality issues. On 6 December 2010, the judgment of the legal proceeding was delivered and Nanyang Cijan was ordered to settle compensation of approximately RMB2,951,000 to Biyadi. In January 2011, Nanyang Cijan appealed the judgment to the court and as at the date of this report, no final judgment was delivered and the case remains pending. Provisions of RMB2,900,000 has been made as of 31 December 2010 and 31 May 2011 regarding this case.

2. On 23 June 2010, Jinguan Wangma commenced proceedings against Nanyang Cijan in relation to a contractual dispute, claiming an aggregate amount of RMB18,000,000 allegedly owed by Nanyang Cijan to Jinguan Wangma. Nanyang Cijan defended against Jinguan Wangma on the basis that Nanyang Cijan did not owe Jinguan Wangma any money. On 21 December 2010, Nanyang Cijan filed petition for dismissing the charges and demanded approximately RMB2,150,000 from Jinguan Wangma as compensation. During the Track Record Period, no receivable has been recognised in respect of the demanded disbursement.

On 9 May 2011, Nanyang Cijan and Jinguan Wangma entered into a settlement agreement (the "Settlement Agreement"). Pursuant to the Settlement Agreement, (a) Jinguan Wangma agreed that it shall unconditionally and irrevocably withdraw its claim from the court on the date of the Settlement Agreement; (b) commencing from the date of the Settlement Agreement, all disputes relating to claims and liabilities between both parties shall be offset, all rights and obligations in relation to the claims and liabilities between the parties up to the date of the Settlement Agreement shall be terminated, and the parties shall have no other disputes; and (c) both parties agreed that the outstanding balances of payables to Jinguan Wangma to be offset against the receivable from Jinguan Wangma held by Nanyang Cijan. As a result, the Group recognises a gain of approximately RMB 5,367,000, being the difference between the receivable from Jinguan Wangma of RMB10,076,000 and the payable to Jinguan Wangma of RMB15,443,000, upon the completion of the Settlement Agreement. During the Track Record Period, no provision had been made on this case as in the opinion of the Company's PRC legal counsel, the case was in favour to the Group on sound grounds.

Following to the Settlement Agreement, all claims commenced by Jinguan Wangma or Nanyang Cijan were withdrawn and approved by the relevant PRC court on 11 May 2011.

### 35. INVESTMENT IN A SUBSIDIARY

#### The Company

	<b>At 31 May 2011</b>
	<i>RMB'000</i>
Unlisted equity investment, at cost	<u>316</u>

### 36. RETIREMENT BENEFIT PLAN

The employees of the Group are members of state-managed retirement benefit scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

### 37. MAJOR NON-CASH TRANSACTION

During the five months ended 31 May 2011, the balance of receivables from Jinguan Wangma amounting to RMB10,076,000 was offset against payables to Jinguan Wangma amounting to RMB15,443,000 pursuant to the Settlement Agreement set out in Note 34 (ii)2.

**B. DIRECTORS' REMUNERATION**

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Track Record Period. Under the arrangement presently in force, the aggregate amount of the directors' fees and other emolument excluding bonus payable, if any, for the year ending 31 December 2011 will approximately be RMB976,000.

**C. SUBSEQUENT EVENTS**

The following significant events took place subsequent to 31 May 2011:

On 19 October 2011, shareholders' resolutions of the Company were passed to approve:

- The Company increased its authorised share capital to HK\$1,000,000,000 divided into 10,000,000,000 shares, with a par value of HK\$0.1 each, through creation of a further 9,996,100,000 shares with a par value of HK\$0.1 each. Such additional shares rank pari passu in all aspects with the existing shares.
- Conditional on the share premium account of the Company being credited as a result of the issue of the shares by the Company pursuant to the listing of the shares of the Company on the Stock Exchange, the directors of the Company authorised to capitalize an amount of HK\$23,995,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par the 239,950,000 shares for allotment and issue to the shareholders whose name appear on the register of the Company as of the close of business on 19 October 2011 and the shares shall rank pari passu in all aspects with the existing shares.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any financial period subsequent to 31 May 2011.

Yours faithfully

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

---

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

---

*For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with paragraph 4.29 of the Listing Rules is set forth below to provide the prospective investors with further information on how the proposed listing might have affected the financial position of the Group after the completion of the Global Offering.*

*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 position of the Group upon completion of the Global Offering or at any further date.*

*The information set forth in this appendix does not form part of accountants' report on the historical financial information of the Group (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the 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 forth in Appendix I to this prospectus.*



---

**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

---

**A.    UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma statement of adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Global Offering on our net tangible assets as of 31 May 2011 as if it had taken place on 31 May 2011.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustration purpose only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets as of 31 May 2011 or any future date following the Global Offering. It is prepared based on our net assets as of 31 May 2011 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountants' Report in Appendix I to this prospectus.

	<b>Audited consolidated net tangible assets attributable to owners of the Company as at 31 May 2011 RMB'000<sup>(1)</sup></b>	<b>Estimated net proceeds from the Global Offering RMB'000<sup>(2)(4)</sup></b>	<b>Unaudited pro forma adjusted net tangible assets RMB'000</b>	<b>Unaudited pro forma adjusted net tangible assets per Share RMB<sup>(3)(4)</sup>                      HK\$</b>	
Based on an Offer Price of HK\$1.40 per Share	143,533	75,758	219,291	0.69	0.84
Based on an Offer Price of HK\$1.80 per Share	143,533	100,477	244,010	0.76	0.94

*Notes:*

- (1) The audited consolidated net tangible assets attributable to owners of the Company as at 31 May 2011 has been derived from deducting intangible assets and goodwill of approximately RMB30,965,000 as set out in the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on an Offer Price of HK\$1.40 and HK\$1.80 per Share, respectively (after deducting the underwriting fees and expenses related to the Global Offering).
- (3) The number of shares used for the calculation of unaudited pro forma adjusted net tangible assets per Share attributable to equity shareholders of the Company is based on 320,000,000 Shares in issue immediately after the Global Offering.
- (4) The estimated net proceeds from the Global Offering and unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share in HK\$ are converted at the PBOC rate from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.00 to RMB0.8131 prevailing on 4 November 2011. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.
- (5) By comparing the valuation of the property interests of the Group as set out in Appendix III to the Prospectus and the unaudited net book value of these properties as of 31 August 2011, the valuation surplus was approximately RMB18,736,000. The valuation surplus of the property interests will not be incorporated in the Group's consolidated financial statements in the future. If the valuation surplus was to be included in the consolidated financial statements, an additional depreciation charge of approximately RMB432,000 per annum would be incurred.

**(B) COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma financial information for the purpose of incorporation in this prospectus.*

**Deloitte.**  
**德勤**

德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF CHINA VEHICLE COMPONENTS TECHNOLOGY HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of China Vehicle Components Technology Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the global offering of 80,000,000 shares of HK\$0.1 each in the Company, might have affected the financial information presented, for inclusion in part A of Appendix II to the prospectus dated 11 November 2011 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out on page II-1 and II-2 of Appendix II to the Prospectus.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. 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. This engagement did not involve independent examination of any of the underlying financial information.

---

**APPENDIX II                      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 purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing 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 it has been carried out in accordance with those standards.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 May 2011 or any future date.

**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 29(1) of Chapter 4 of the Listing Rules.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

11 November 2011

*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 31 August 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

仲量聯行西門有限公司  
香港皇后大道東1號太古廣場三期6樓  
電話 +852 2169 6000 傳真 +852 2169 6001  
牌照號碼: C-030171

11 November 2011

The Board of Directors  
China Vehicle Components Technology Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which China Vehicle Components Technology Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), 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 31 August 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".

We have valued the property interests by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Due to the nature of the buildings and structures of property nos. 1 and Part A of 2 in Group I and the particular location in which they are situated, there are unlikely to be relevant market comparables sales readily available. The property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the

current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interest of Part B of property no. 2 and property no. 3 in Group I which are currently under construction as at the date of valuation, we have assumed that they 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 Group II, 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.

We have also attributed no commercial value to the property interest in Group III, which has not been assigned to the Group as at the date of valuation, thus the title of the property is not vested in the Group.

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 interests 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 State-owned Land Use Rights Certificates, Building Ownership Certificates 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 Legal Advisers — Grandall Law Firm (Shanghai), 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*

**Gilbert C.H. Chan**  
*MRICS MHKIS RPS(GP)*  
*Director*

*Note: Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 32 years of property valuation experience in Hong Kong, the United Kingdom as well as relevant experience in the Asia-Pacific region.*

*Gilbert C.H. Chan is a Chartered Surveyor who has 19 years' experience in the valuation of properties in the PRC and 18 years of property valuation experience in Hong Kong, the United Kingdom as well as relevant experience in the Asia-Pacific region.*

## SUMMARY OF VALUES

## Group I - Property interests held and occupied by the Group in the PRC

No.	Property	Capital value in existing state as at 31 August 2011 RMB
1	3 parcels of land, various buildings and structures located at No. 76 Lao Street Chengguan Town Xichuan County Nanyang City Henan Province the PRC	42,760,000
2	2 parcels of land, various buildings and structures located at Danyang Community Shangji Town Xichuan County Nanyang City Henan Province the PRC	117,150,000
3.	A parcel of land and a building and various structures being constructed located at northern side of Huyundai Road Haikou City Hainan Province the PRC	7,200,000
4.	3 residential units Yingtai Garden Chengguan Town Xichuan County Nanyang City Henan Province the PRC	538,000
	Sub-total:	<u>167,648,000</u>

**Group II - Property interests rented and occupied by the Group in the PRC**

<b>No. Property</b>	<b>Capital value in existing state as at 31 August 2011 RMB</b>
5. 30 units Block 17 Longcheng Garden Site 2 Shangjiu Road Xichuan County Henan Province the PRC	No commercial value
6. Various units located Laojie Road Northern side Chengguan Town Xichuan County Henan Province the PRC	No commercial value
7. An office building and a workshop building located at Xiwan Village Industrial Zone Chengguan Town Xichuan County Henan Province the PRC	No commercial value
Sub-total:	<u><u>Nil</u></u>

**Group III - Property interest proposed to be acquired by the Group in the PRC**

<b>No. Property</b>	<b>Capital value in existing state as at 31 August 2011 RMB</b>
8. A parcel of land, located at Danyang Community Shangji Town Xichuan County Nanyang City Henan Province the PRC	No commercial value
Sub-total:	<u><u>Nil</u></u>
Total:	<u><u>167,648,000</u></u>



## VALUATION CERTIFICATE

## Group I - Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2011 RMB
1.	3 parcels of land, various buildings and structures located at No. 76 Lao Street Chengguan Town Xichuan County Nanyang City Henan Province the PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 46,203.8 sq.m. and 35 buildings and various ancillary structures erected thereon which were completed in various stages between 1974 and 2009.</p> <p>The buildings have a total gross floor area of approximately 35,218.33 sq.m.</p> <p>The structures mainly include boundary fences, roads, open area, water tanks, shelters and gates.</p> <p>The land use rights of the property have been granted for a common term with the expiry date on 19 December 2053 for industrial use.</p>	The property is currently occupied by the Group for production, ancillary office and staff quarter purposes.	42,760,000  100% interest attributable to the Group: RMB42,760,000

*Notes:*

- Pursuant to 3 State-owned Land Use Rights Certificates — Xi Guo Yong (2006) Zi Di Nos. 178, 179 and 180, the land use rights of 3 parcels of land with a total site area of approximately 46,203.8 sq.m. have been granted to Nanyang Cijan Automotive Shock Absorber Company Limited (“Nanyang Cijan”) (南陽浙減汽車減振器有限公司 浙川汽車減振廠) for a common terms with expiry date between 19 December 2053 for industrial use.
- Nanyang Cijan is a wholly-foreign owned enterprise and wholly-owned subsidiary of the Company.
- Pursuant to 7 Building Ownership Certificates - Xi Zi Di Nos. 00014710, 00019992, 00019993, 00019994, 00019995, 00019996 and 00019997, 7 buildings with total gross floor area of approximately 2,239.14 sq.m. are owned by Nanyang Jinguang Automotive Shock Absorber Company Limited (南陽金冠減振器公司 浙川汽車減振器廠).
- Pursuant to 24 Building Ownership Certificates - Cheng Guan Zhen Zi Di Nos. 00021466, 00021470, 00021468, 00021467, 00021465, 00021469, 00021540, 00021541, 00021542, 00021538, 00021539, 00021537, 00021536, 00021535, 00021534, 00021533, 00021532, 0002531, 00021530, 00012529, 00021525, 00021526, 00021527 and 00021528, 24 buildings with total gross floor area of approximately 30,202.65 are owned by Nanyang Jinguang Automotive Shock Absorber Company Limited (南陽金冠減振器公司 浙川汽車減振器廠).
- Pursuant to 2 Building Ownership Certificates — You Cheng Jie Dao Zi Di Nos. 00027933 and 00027934, 4 buildings with total gross floor area of approximately 2,776.54 sq.m. are owned by Nanyang Cijan Automotive Shock Absorber Company Limited (南陽浙減汽車減振器有限公司).

6. We have been provided with a legal opinion regarding the property interest by the Company's Legal Advisers, which contains, *inter alia*, the following:
- a. The right of land use owned by Nanyang Cijan aforementioned is legitimate and valid, and protected by laws of PRC. Nanyang Cijan has the rights to occupy, use, transfer, lease, mortgage and otherwise legally sub-title of the lands in accordance with the valid term and usages stipulated by the title certificates. Such land is not in the legal procedure of mandatory requisition, preservative measures or other procedure of significant adverse effects, and has not violated any provisions on usage of land; and
  - b. Building Ownership Certificates mentioned above are legitimate and valid, the real properties thereof are owned by Nanyang Cijan and protected by laws of PRC. Nanyang Cijan has the rights to occupy, use, transfer, lease, mortgage and otherwise legally sub-title of the real properties in accordance with the valid term and usages stipulated by the title certificates. Such real properties are not in the legal procedure of preservative measures or other procedure of significant adverse effects. There is no violation of any provisions on usage of real property and no administrative penalty arising from such violation.
  - c. 4 buildings with a total gross floor area of approximately 332.23 sq.m. are categorized as simple structures for ancillary services and are not required to obtain Building Ownership Certificates.
  - d. The absence of Building Ownership Certificates will not have material impact to the business operation.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2011 RMB
2.	2 parcels of land, various buildings and structures located at Danyang Community Shangji Town Xichuan County Nanyang City Henan Province the PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 345,368 sq.m. and 3 buildings and various ancillary structures erected thereon which were completed in 2008. (“Part A”)</p> <p>The buildings have a total gross floor area of approximately 12,322.10 sq.m.</p> <p>The buildings mainly include industrial buildings, office buildings, ancillary buildings, dormitory, canteen and a guardhouse.</p> <p>The structures mainly include boundary fences, roads, open area, water tanks and gates.</p> <p>The property also comprises 2 industrial buildings which were being constructed as at the date of valuation (the “CIP”). (“Part B”)</p> <p>The CIP is scheduled to be completed by end of November 2011. Upon completion, the CIP will have a total planned gross floor area of approximately 17,462 sq.m.</p> <p>The total construction cost is estimated to be approximately RMB14,880,000 (excluding marketing, finance and other indirect costs, of which about RMB10,560,000 has been incurred up to date of valuation.</p> <p>The land use rights of the property have been granted for a term various terms with the expiry date between 4 October 2059 and 8 January 2061 for industrial use.</p>	<p>The property is currently occupied by the Group for production, ancillary office and staff quarter purposes except for portions of the 2 industrial buildings are under construction.</p>	<p>117,150,000</p> <p>100% interest attributable to the Group: RMB117,150,000</p>

*Notes:*

1. Nanyang Cijan Automotive Shock Absorber Company Limited (“Nanyang Cijan”) (南陽浙減汽車減振器有限公司 浙川汽車減振廠) (“Nanyang Cijan”) is a wholly-foreign owned enterprise and wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate — Xi Guo Yong (2009) Zi Di No. 037, the land use rights of a parcel of land with a total site area of approximately 126,766 sq.m. have been granted to Nanyang Cijan for a term with expiry date on 4 October 2059 for industrial use.

3. Pursuant to a State-owned Land Use Rights Certificate — Xi Guo Yong (2011) Zi Di No. 031, the land use rights of a parcel of land with a site area of approximately 218,602 sq.m. have been granted to Nanyang Cijan for a term with expiry date on 8 January 2061 for industrial use with the land premium and associated costs of RMB63,455,740.
4. Pursuant to a Building Ownership Certificates — Shang Ji Zhen Zi Di No. 00027932, 3 buildings with total gross floor area of approximately 12,322.10 sq.m. are owned by Nanyang Cijan Automotive Shock Absorber Company Limited (南陽漸減汽車減振器有限公司).
5. Pursuant to a Construction Project Site Selection Opinion Letter Xi Xuan Zi Di No. (2010) 6, developer name is under Nanyang Cijan for a proposed development project on the land of a site area of 218,602 sq.m. has met the requirement of urban and rural planning.
6. Pursuant to a Certification from Xichuan County Housing and Urban and Rural Construction Bureau dated 21 October 2011, the construction works in the second phase of Nanyang Cijan are certified complied with the requirement of entire planning and agreed to construct and apply for construction permit concurrently in progress. The application for construction permit is expected to be completed in 20 November 2011.
7. We have been provided with a legal opinion regarding the property interest by the Company's Legal Advisers, which contains, *inter alia*, the following:
  - a. The right of land use owned by Nanyang Cijan aforementioned is legitimate and valid, and protected by laws of PRC. Nanyang Cijan has the rights to occupy, use, transfer, lease, mortgage and otherwise legally sub-title of the lands in accordance with the valid term and usages stipulated by the title certificates. Such land is not in the legal procedure of mandatory requisition, preservative measures or other procedure of significant adverse effects, and has not violated any provisions on usage of land; and
  - b. Building Ownership Certificates mentioned above are legitimate and valid, the real properties thereof are owned by Nanyang Cijan and protected by laws of PRC. Nanyang Cijan has the rights to occupy, use, transfer, lease, mortgage and otherwise legally sub-title of the real properties in accordance with the valid term and usages stipulated by the title certificates. Such real properties are not in the legal procedure of preservative measures or other procedure of significant adverse effects. There is no violation of any provisions on usage of real property and no administrative penalty arising from such violation.
  - c. Nanyang Cijan has fully paid for the land transfer premium and obtained all necessary approvals and licenses from the relevant departments of PRC.
  - d. The CIP of Nanyang Cijan mentioned above has obtained agreement from the authority, and the related procedure of construction permit application is being processed. If Nanyang Cijan in accordance with the law follows the legal procedure to obtain building ownership, obtaining such building ownership will have no substantial legal obstacles.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2011 RMB
3.	A parcel of land and a building and various structures being constructed located at northern side of Huyundai Road Haikou City Hainan Province the PRC	<p>The property comprises a parcel of land with a site area of approximately 15,736.21 sq.m. and an industrial building and a guardhouse which were being constructed on the parcels of land of the property as at the date of valuation (the "CIP").</p> <p>The CIP is scheduled to be completed by end of November of 2011. Upon completion, the CIP will have a total planned gross floor area of approximately 2,938.47 sq.m.. The total construction cost is estimated to be approximately RMB2,740,000. As advised by the Company, RMB2,603,000 has been made as at the date of valuation.</p> <p>The structures mainly include boundary fences, roads, open area, water tanks and gates.</p> <p>The land use rights of the property have been granted for a term expiring on 25 August 2055.</p>	<p>The property is under construction whilst portion of property is currently occupied by the Group for temporary assembly plant and ancillary office purposes.</p>	<p>7,200,000</p> <p>100% interest attributable to the Group: RMB7,200,000</p>

*Notes:*

1. Haikou Danjing Auto Shock Absorder Company Limited ("Haikou Danjing") (海口丹江汽車減振器有限公司) is a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Certificate- Hai Kou Shi Guo Yong Zi (2006) Di No. 008178, the land use rights of the property with a site area of approximately 15,736.21 sq.m. have been granted to Haikou Danjing Auto Shock Absorder Company Limited (海口丹江汽車減振器有限公司).
3. Pursuant to a Construction Land Planning Permit — Hai Bao 2006-12 in favour of Haikou Danjing, has been approved for construction on the Land of a site area of 15,736.21 sq.m.
4. Pursuant to a Construction Work Planning Permit — Hai Gao Xin Gui Zheng Jian (2009)-No.12, a building with a gross floor area of approximately 2,938.47 sq.m has been approved for construction.
5. Pursuant to a Certification from Haikou National High Technology Industrial Development Zone Management Committee Planning and Construction Land Bureau dated 18 May 2011, the construction work of Haikou Danjing is certified complied with the requirement of entire planning. Application for construction permit of the subject CIP is expected to be completed before 31 December 2011.

6. We have been provided with a legal opinion regarding the property interest by the Company's Legal Advisers, which contains, *inter alia*, the following:
  - a. The right of land use owned by Haikou Danjing aforementioned is legitimate and valid, and protected by laws of PRC. Haikou Danjing has the rights to occupy, use, transfer, lease, mortgage and otherwise legally sub-title of the land in accordance with the valid term and usages stipulated by the title certificates. Such land is not the legal procedure of mandatory requisition, preservative measures or other procedure of significant adverse effect, and has not violated any provisions on usage of land.; and
  - b. Haikou Danjing has fully paid for the land transfer premium and obtained all necessary approvals and licenses from the relevant departments of PRC.
  - c. The CIP of Haikou Danjing mentioned above has obtained agreement from the authority, and the related procedure of construction permit application is being processed.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2011 RMB
4.	3 residential units Yingtai Garden Chengguan Town Xichuan County Nanyang City Henan Province the PRC	The property comprises 3 units on Level 3 and 4 of a 6-storey residential building completed in about 2006.  The property has a total gross floor area of approximately 383.94 sq.m.	The property is currently occupied by the Group for staff quarter purpose.	538,000  100% interest attributable to the Group: RMB538,000

*Notes:*

1. Nanyang Cijan Automotive Shock Absorber Company Limited (南陽浙減汽車減振器有限公司) (formerly known as Nanyang Jinguang Automotive Shock Absorber Company Limited (南陽金冠汽車減振器有限公司)), a wholly-foreign owned enterprise established in China on 23 June 2005 and one of our wholly-owned subsidiaries.
2. Pursuant to 2 Building Ownership Certificates — Cheng Guan Zhen Zi Di Nos. 00021263, and 00021264, 2 units with a total gross floor area of approximately 255.96 sq.m. are owned by Nanyang Jinguang Automotive Shock Absorber Company Limited (南陽金冠汽車減振器有限公司浙川汽車減振器廠).
3. Pursuant to a Building Ownership Certificate — Cheng Guan Zhen Zi Di No. 000214000, a unit with gross floor area of approximately 127.98 sq.m. is owned by Nanyang Cijan Automotive Shock Absorber Company Limited (南陽浙減汽車減振器有限公司浙川汽車減振器廠).
4. We have been provided with a legal opinion regarding the property interest by the Company's Legal Advisers, which contains, *inter alia*, the following:
  - a. Building Ownership Certificates mentioned above are legitimate and valid, the real properties thereof are owned by Nanyang Cijan and protected by laws of PRC. Nanyang Cijan has the rights to occupy, use, transfer, lease, mortgage and otherwise legally sub-title of the real properties in accordance with the valid term and usages stipulated by the title certificates. Such real properties are not in the legal procedure of preservative measures or other procedure of significant adverse effects. There is no violation of any provisions on usage of real property and no administrative penalty arising from such violation.

## 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 31 August 2011 RMB
5.	30 units Block 17 Longcheng Garden Site 2 Shangjiu Road Xichuan County Henan Province the PRC	<p>The property comprises 30 units of a 6-storey residential building completed in about 2010.</p> <p>The property has a total gross floor area of approximately 1,650 sq.m.</p> <p>Pursuant to a Tenancy Agreement made between Nanyang Cijan Automotive Shock Absorber Company Limited (南陽浙減汽車減振器有限公司浙川汽車減振器廠), as Lessee and Xichuan County Subsidized Housing Management Office (浙川縣廉租住房管理所) as Lessor and independent third party, the property is leased by the Group for a term commencing from 15 March 2011 and expiring on 14 March 2012, at a rental of RMB19,800 per annum respectively, exclusive of other outgoing expenses.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

*Notes:*

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's Legal Advisers, which contains, inter alia, the following:
  - a. Both parties signed the Tenancy Agreement is valid, legally binding and enforceable in accordance with the PRC Laws.
  - b. Nanyang Cijan has the rights to occupy and use the property in accordance with the conditions of tenancy agreement, not being revoked, terminated or declared invalid situation.



## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2011 RMB
6.	Various units located Laojie Road Northern side Chengguan Town Xichuan County Henan Province the PRC	<p>The property comprises 9 units on Level 1 of a 6-storey warehouse building completed in about 2005.</p> <p>The property has a total gross floor area of approximately 437.13 sq.m.</p> <p>Pursuant to a Tenancy Agreement made between Nanyang Cijan Automotive Shock Absorber Company Limited (南陽漸減汽車減振器有限公司浙川汽車減振器廠), as Lessee and (浙川縣寶春源醬料食品有限公司) as Lessor an independent third party, the property is leased by the Group for a term commencing from 1 March 2011 and expiring on 1 March 2012, at a rental of RMB23,000 per annum, exclusive of other outgoing expenses.</p>	The property is currently occupied by the Group for storage purpose.	No commercial value

*Notes:*

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's Legal Advisers, which contains, inter alia, the following :
  - a. Both parties signed the Tenancy Agreement is valid, legally binding and enforceable in accordance with the PRC Laws.
  - b. Nanyang Cijan has the rights to occupy and use the property in accordance with the conditions of tenancy agreement, not being revoked, terminated or declared invalid situation.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2011 RMB								
7.	An office building and a workshop building located at Xiwan Village Industrial Zone Chengguan Town Xichuan County Henan Province the PRC	<p>The property comprises a 2-storey workshop building and a 3-storey office building completed in about 2000 and 1998 respectively.</p> <p>The property has a total gross floor area of approximately 2,065.89 sq.m. and detail are set out as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Workshop</td> <td>1,400</td> </tr> <tr> <td>Office</td> <td><u>665.89</u></td> </tr> <tr> <td>Total</td> <td><u>2,065.89</u></td> </tr> </tbody> </table> <p>Pursuant to a Tenancy Agreement made between Nanyang Cijan Automotive Shock Absorber Company Limited (南陽浙減汽車減振器有限公司浙川汽車減振器廠), as Lessee and (浙川縣寶春源醬料食品有限公司) as Lessor an independent third party, the property is leased by the Group for a term commencing from 1 September 2011 and expiring on 1 March 2012, at a lump sum rental of RMB22,500, exclusive of other outgoing expenses.</p>		Area (sq.m.)	Workshop	1,400	Office	<u>665.89</u>	Total	<u>2,065.89</u>	The property is currently occupied by the Group for production and office purposes.	No commercial value
	Area (sq.m.)											
Workshop	1,400											
Office	<u>665.89</u>											
Total	<u>2,065.89</u>											

*Notes:*

1. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's Legal Advisers, which contains, inter alia, the following:
  - a. Both parties signed the Tenancy Agreement is valid, legally binding and enforceable in accordance with the PRC Laws.
  - b. Nanyang Cijan has the rights to occupy and use the property in accordance with the conditions of tenancy agreement, not being revoked, terminated or declared invalid situation.

## VALUATION CERTIFICATE

## Group III — Property interest proposed to be acquired by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 August 2011 RMB
8.	A parcel of land, located at Danyang Community Shangji Town Xichuan County Nanyang City Henan Province the PRC	The property comprises a parcel of land with a site area of approximately 123,139 sq.m. which was under site formation as at the date of valuation.	The property is vacant.	No commercial value

*Notes:*

- Pursuant to a Construction Project Site Selection Opinion Letter Xi Xuan Zi Di No. (2010) 6, developer name is under Nanyang Cijan for a proposed development project on the land of a site area of 123,139 sq.m. has met the requirement of urban and rural planning.
- Pursuant to an Agreement of Requisition of Land in 2009, Nanyang Cijan requisitioned the land of 400 Mu from the Chenjie Village Villagers Committee with compensation at RMB 23,000 per Mu.
- Pursuant to an Agreement of Requisition of Land in 2009, Nanyang Cijan requisitioned the land of 200 Mu from the Xichuan County Shangji Town Residents Committee with compensation at RMB 23,000 per Mu.
- Pursuant to an Agreement of Commissioning Replacement of Farm Land dated 20 December 2010, Nanyang Cijan engaged Xichuan County Golden Land Development Co., Ltd for farm land reclamation of 122,611 sq.m. with corresponding quality for farming, and agreed in accordance with the stipulation in "Notification of Strengthening Control over Serious Land Management from Henan Province Public Government Office" to pay a replacement fee at RMB 13 per sq.m. for occupying general farm land.
- As at the date of valuation, the property has not been assigned to the Group and thus the title of the property has not been vested in the Group. Therefore we have attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the capital value of the Land as at the date of valuation would be RMB22,000,000, on condition the relevant title certificates have been obtained by the Group and the Group is entitled to freely transfer, lease, mortgage or otherwise dispose of the property.

6. We have been provided with a legal opinion regarding the property interest by the Company's Legal Advisers, which contains, *inter alia*, the following:
  - a. Nanyang Cijan has submitted the application for land use rights of this property with a site area of approximately 123,139 sq.m. (subject to the approved area from Land Use Rights Certificates). The land use rights is expected to be obtained by the end of March 2012, with the land premium estimated at RMB22,000,000 and for industrial purposes.
  - b. The Agreements of Requisition of Land and Agreement of Commissioning Replacement of Farm Land mentioned above are not offending against the PRC Laws, legitimate and valid. If Nanyang Cijan with its own funds in accordance with the law follows the legal procedure to obtain land use rights, obtaining such land use rights will have no substantial legal obstacles.

---

## **APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW**

---

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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 April 2011 under the Companies Law. The Memorandum of Association of the Company (the “Memorandum”) and the Articles comprise its constitution.

### **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that 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) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

### **2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 19 October 2011 to take effect upon all the conditions set forth in the section headed “Structure of the Global Offering” in this prospectus being fulfilled. The following is a summary of certain provisions of the Articles:

#### **(a) Directors**

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as 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). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, 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 Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by 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.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits

---

## APPENDIX IV    SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by 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, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

---

## APPENDIX IV    SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

- (cc) any contract or arrangement 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 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;
  - (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
  - (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of 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 accorded generally to the class of persons to which such scheme or fund relates.
- (vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing



---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

### (vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

---

**APPENDIX IV    SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND THE CAYMAN ISLANDS COMPANIES LAW**

---

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with 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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

(viii) Borrowing powers

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 assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, 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.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that 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 thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) **Special resolution-majority required**

Pursuant to the Articles, a special resolution of 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, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

### (f) **Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of 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 shareholder in contravention of such requirement or restriction shall not be counted.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

### (g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

### (h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) **Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of 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 ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other



---

## **APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW**

---

place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, 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.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to 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.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) **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. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) **Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

---

## **APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW**

---

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies 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 the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly 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.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

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, 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, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of 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. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) **Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, 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 Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to 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.

(u) **Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

### 3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### (a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. 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 authorised share capital.

#### (b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

---

## **APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW**

---

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) **Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) **Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.



---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

### (g) **Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### (h) **Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

### (i) **Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

### (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-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 10 May, 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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

### (k) **Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

### (l) **Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

### (m) **Inspection of corporate records**

Members of the Company will have no general right under the 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.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

### (n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

---

## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

---

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) **Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

---

**APPENDIX IV    SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND THE CAYMAN ISLANDS COMPANIES LAW**

---

**4.    GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. 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 in the Cayman Islands under the Companies Law as an exempted company on 27 April 2011 under the name of China Vehicle Components Technology Holdings Ltd., which was changed to our current name on 15 July, 2011. The registered office of our Company as of the date of this prospectus is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our Company was registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 12 October 2011. Our principal place of business in Hong Kong is situated at Unit 390, 3rd Floor, Peninsula Centre, 67 Mody Road, Tsimshatsui East, Kowloon, Hong Kong. Wu Tai Cheung of Room H, 3/F., Block 8, Willow Mansions, Whampoa Garden, Hung Hom, Kowloon, Hong Kong has been appointed as our authorised representative for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As we were incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitutional documents comprising the Articles and the memorandum of association of our Company. A summary of the relevant aspect of the Companies Law and certain provisions of the Articles are set forth in Appendix IV to this prospectus.

**2. Changes in the share capital of our Company**

The following changes in the share capital of our Company have taken place since the date of incorporation up to the date of this prospectus:-

- (a) As of the date of incorporation of our Company on 27 April 2011, the authorised share capital of our Company was HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. Upon incorporation, one nil-paid Share was allotted and issued to Codan Trust Company (Cayman) Limited as the initial subscriber which transferred the said one nil-paid Share to Wealth Max on the same date.
- (b) On 19 October 2011, pursuant to written resolutions passed by all Shareholders, our authorised share capital was conditionally increased from HK\$390,000 to HK\$1,000,000,000 by the creation of 9,996,100,000 new Shares ranking pari passu in all respects with the then existing issued Shares to take effect upon all the conditions set forth in the section headed “Structure of the Global Offering” in this prospectus being fulfilled.
- (c) Immediately upon the Capitalisation Issue is completed, the Global Offering becomes unconditional and our Offer Shares are issued but taking no account of the Shares that may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme, our authorised share capital will be HK\$1,000,000,000 divided into 10,000,000,000 Shares, of which 320,000,000 Shares will be issued fully paid or credited as fully paid, and 9,680,000,000 Shares will remain unissued.

Other than the issue of the Offer Shares and the Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme and pursuant to the Issuing Mandate, our Directors have no present intention to issue any part of our authorised but unissued share capital and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company within twelve months from the Listing Date.

Save as disclosed in this prospectus, there has been no alteration in our share capital since incorporation.

### **3. Written resolutions of all the Shareholders**

Pursuant to the written resolutions by all the Shareholders on 19 October 2011:

- (a) conditional upon all the conditions set forth in the section headed “Structure of the Global Offering” in this prospectus being fulfilled:-
  - (i) the Articles were conditionally adopted and approved as the new articles of association of our Company to take effect upon all the conditions set forth in the section headed “Structure of the Global Offering” in this prospectus being fulfilled;
  - (ii) the authorised share capital of our Company was increased conditionally from HK\$390,000 to HK\$1,000,000,000 by the creation of 9,996,100,000 new Shares;
  - (iii) conditional on the share premium account of our Company being credited as a result of the Global Offering on the terms set forth in this prospectus, our Directors were authorised to issue and allot Shares pursuant to the Capitalisation Issue;
  - (iv) the Global Offering at the Offer Price on the terms and subject to conditions set forth in this prospectus and the Application Forms was approved and our Directors were authorised to effect the same and to allot and issue new Shares pursuant thereto;
  - (v) the Share Option Scheme was approved and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of any option that may be granted thereunder and to take all such actions as they consider necessary or desirable to implement or give effect to the provisions of the Share Option Scheme;
  - (vi) a general unconditional mandate was granted to our Directors authorising them to exercise all the powers of our Company to allot, issue and deal with, other than by way of a rights issue or an issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of any option which may be granted under the Share Option Scheme and any other option scheme or similar arrangements for the time being adopted for the grant or issue to officers and/or employees of our Company and/or any of our subsidiaries or any other person of shares or rights to acquire shares or 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 or a specific authority granted by our Shareholders in general meeting, Shares not exceeding the aggregate of 20% of the issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering;

(vii) a general unconditional mandate was granted to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or any other stock exchange on which Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, provided that the number of Shares which our Directors were authorised to purchase may not exceed 10% of the issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering; and

(viii) the general unconditional mandate as mentioned in paragraph (vi) above was extended by the addition of an amount representing our Shares repurchased by our Company pursuant to paragraph (vii) above, provided that such extended amount shall not exceed the aggregate of 10% of the issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering.

Each of the general mandates referred to in paragraphs (vi) and (vii) above will remain in effect until the earliest of: (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Companies Law or the Articles or any applicable laws; or (3) the passing of an ordinary resolution of our Shareholders in general meeting revoking, varying or renewing such mandate.

#### 4. Reorganisation

The companies comprising our Group underwent a reorganisation in preparation for the Listing. As a result, our Company became the holding company of our Group. Details of the Reorganisation undertaken are as follows:

##### (a) Incorporation of our Company

On 27 April 2011, our Company was incorporated in the Cayman Islands with limited liability with an authorised share capital of HK\$390,000 divided into 3,900,000 shares of HK\$0.10 each. Upon incorporation, one nil-paid Share was allotted and issued to Codan Trust Company (Cayman) Limited as the initial subscriber which transferred the said one nil-paid Share to Wealth Max on the same date.



**(b) Our Company acquired Merit Leader**

Pursuant to a sale and purchase agreement dated 22 May 2011, our Company acquired from the then existing shareholders of Merit Leader (i) the entire issued share capital of Merit Leader; and (ii) loans in the aggregate principal amount of HK\$80,000,000 owed by Guang Da Automotive Components for the consideration of (i) credited as fully paid at par value one nil-paid Share owned by Wealth Max; and (ii) the allotment and issue of an aggregate of 49,999 fully paid Shares to the then existing shareholders of Merit Leader as follows:

Name of shareholders	Number of Shares allotted and issued
Megabiz	7,025
Wealth Max	14,999
Plenty Venture	5,475
Wingco Development	4,400
Jumbo Ace	3,500
China Genesis	2,500
King Win	2,400
Zhou Hua Rui (周華蕊)	2,200
Wealth Core	2,000
Pacific Express	2,000
Silver Goal	1,500
Ever-Full Development	1,000
Sino Lotus	1,000
	<u>49,999</u>

**(c) Wealth Max acquired Shares from Megabiz and Jumbo Ace**

On 22 May 2011, Megabiz and Jumbo Ace transferred their respective Shares (as to 7,025 Shares from Megabiz and 3,500 Shares from Jumbo Ace) to Wealth Max for cash at par value.

**5. Changes in the share capital of the subsidiaries of our Company**

Further information on our subsidiaries is set forth in the accountants' report, the text of which is set forth in Appendix I to this prospectus and in the paragraphs under "B. Further Information About the Business of our Group — 3. Further information about members of our Group" in this appendix.

The following alterations in the share capital of our subsidiaries have taken place within two years immediately preceding the date of this prospectus:-

***Merit Leader***

Merit Leader was incorporated on 10 March 2010 in the BVI with an authorised share capital of US\$50,000 comprising 50,000 shares of US\$1.00 each. Upon incorporation, 1 share was allotted and issued fully paid at par to Megabiz. On 16 August 2010, further shares of Merit Leader were allotted and issued to the following shareholders fully paid at par:

<b>Name of Merit Leader shareholders</b>	<b>Number of Merit Leader shares allotted and issued</b>
Megabiz	7,024
Wealth Max	15,000
Plenty Venture	5,475
Wingco Development	4,400
Jumbo Ace	3,500
China Genesis	2,500
King Win	2,400
Zhou Hua Rui (周華蕊)	2,200
Wealth Core	2,000
Pacific Express	2,000
Silver Goal	1,500
Ever-Full Development	1,000
Sino Lotus	1,000
	<u>49,999</u>

***Guang Da Automotive Components***

Guang Da Automotive Components was incorporated on 14 June 2010 in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Guang Da Automotive Components is a wholly-owned subsidiary of Merit Leader.

***Nanyang Cijan***

Nanyang Cijan was established on 23 June 2005 in China with a registered capital of HK\$80,000,000 and at the time of establishment was owned by Independent Third Parties. In March 2010, Nanyang Cijan changed from a sino-foreign cooperative joint venture company to a wholly foreign owned enterprise. In June 2010, Guang Da Automotive Components acquired the entire equity interest in Nanyang Cijan from its then sole shareholder.

Save as set forth in the above paragraphs and in this prospectus, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

## 6. Repurchase of our own securities

This section includes the information relating to the repurchase by us of our own securities and includes the information required by the Stock Exchange to be included in this prospectus concerning such repurchases.

### (1) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:-

#### (a) *Shareholders' approval*

The Listing Rules provide that all repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

*Note:* Pursuant to the resolutions in writing passed by all Shareholder on 19 October 2011, the Repurchase Mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase our Shares on the Stock Exchange or on any other stock exchange on which our Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of not more than 10% of the issued share capital of our Company immediately following completion of the Capitalisation Issue and the Global Offering. The Repurchase Mandate will remain in effect until the earliest of: (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by the Companies Law or the Articles or any applicable laws; or (3) the time when such mandate is revoked, renewed or varied by an ordinary resolution of our Shareholders in general meeting.

#### (b) *Shares to be repurchased*

The Listing Rules provide that Shares proposed to be repurchased by our Company must be fully paid-up.

#### (c) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Company which, in the opinion of our Directors, are from time to time appropriate for our Company. However, there might be a material adverse impact on the working capital requirements of our Company as set forth in this prospectus in the event that the Repurchase Mandate is exercised in full.

(d) *Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) shall be automatically cancelled and the related share certificates shall be cancelled and destroyed.

(e) *Connected parties*

The Listing Rules prohibit a company from knowingly repurchasing securities on the Stock Exchange from a connected person and a connected person shall not knowingly sell his or her or its securities to our Company.

**(2) Reasons for repurchase**

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares on the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share and will only be made when our Directors believe that such repurchase will benefit our Company and our Shareholders.

**(3) Exercise of the Repurchase Mandate**

Exercise in full of the Repurchase Mandate on the basis of 320,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Global Offering could accordingly result in up to 32,000,000 Shares being repurchased by our Company during the period prior to (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required by the Companies Law or the Articles to be held or any applicable laws; or (3) the revocation or variation of the Repurchase Mandate by ordinary resolution of Shareholders in general meeting, whichever is the earliest.

**(4) General**

None of our Directors or, to the best of their knowledge after having made all reasonable enquiries, any of their respective associates have any present intention to sell any Shares to our Company or its subsidiaries if the Repurchase Mandate is exercised. No connected person of our Company has notified our Company that he or she or it has a present intention to sell Shares to our Company, or has he or she or it undertaken not to do so if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles and the applicable laws and regulations of the Cayman Islands. If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Our Directors are not aware of any other consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised. No repurchase of Shares has been made by our Company since its incorporation other than as disclosed in this prospectus.

## **B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**

### **1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:-

- (1) the Trademark Assignment Agreement dated 6 May 2011 and entered into among Xichuan Automotive Parts Factory (浙川汽車配件廠) and Nanyang Cijan regarding the assignment of a trademark for a consideration of RMB844,800;
- (2) the agreement relating to the sale and purchase of the entire issued share capital of Merit Leader dated 22 May 2011 and entered into among our Company and the then shareholders of Merit Leader (Wealth Max, Plenty Venture, Wingco Development, China Genesis, King Win, Zhou Hua Rui, Wealth Core, Pacific Express, Silver Goal, Ever-Full Development, Sino Lotus, Megabiz and Jumbo Ace), pursuant to which, amongst other matters, our Company acquired from the then shareholders of Merit Leader the entire issued share capital of Merit Leader;
- (3) a deed of assignment of shareholders' loan dated 22 May 2011 and entered into among Wealth Max, Plenty Venture, Wingco Development, China Genesis, King Win, Zhou Hua Rui, Wealth Core, Pacific Express, Silver Goal, Ever-Full Development, Sino Lotus, Megabiz and Jumbo Ace as assignors, our Company as assignee and Guang Da Automotive Components, pursuant to which each of the assignors assigned and transferred to our Company all its/her right, title, benefit and interest in and to the shareholders' loan in the aggregate principal amount of HK\$80,000,000 owed by Guang Da Automotive Components;
- (4) a deed of non-competition dated 19 October 2011 and entered into among the Controlling Shareholders, Zhao Zhijun, Wang Wenbo and Yang Weixia as covenantors and our Company, pursuant to which each of the covenantors undertook not to involve in competing business with the existing business activity and in any future business activities of our Group;

- (5) a deed of indemnity dated 19 October 2011 given by the Controlling Shareholders as indemnifiers in favour of our Company and our subsidiaries, pursuant to which each of the Controlling Shareholders provided certain indemnities in respect of tax and other matters in favour of our Group; and
- (6) the Hong Kong Underwriting Agreement.

## 2. Intellectual Property Rights

As at the Latest Practicable Date, our Group has registered or has applied for the registration of the following intellectual property rights which are material to our Group's business:


### (a) Trademarks

- (i) As of the Latest Practicable Date, we has registered the following trademarks:-

	Trademark	Registrant	Place of Registration	Class	Registration Number	Expiry Date
1.		Xichuan Automobile	PRC	12	5599777	27 June 2019
2.	减浙	Xichuan Automobile	PRC	12	6374622	27 February 2020
3.	浙汽配	Xichuan Automobile	PRC	12	6374847	27 February 2020
4.	浙汽减	Xichuan Automobile	PRC	12	6374849	27 February 2020
5.	浙减	Xichuan Automobile	PRC	12	6375052	27 February 2020
6.	减浙	Xichuan Automobile	PRC	12	6375054	27 February 2020
7.		Xichuan Automobile	Hong Kong	12	301884222	7 April 2021

Class 12: Tires for vehicle wheels; brake linings for vehicles; bumpers for automobiles; shock absorbers for automobiles; vehicle bumpers; shock absorbers (suspension) for vehicles; shock absorbing springs for vehicles; hydraulic circuits for vehicles; propulsion mechanisms for land vehicles; cycle cars.

- (ii) Pursuant to the Trademark Assignment Agreement, our Group is authorised to use and in the process of acquiring the following registered trademark:-

Trademark	Place of Registration	Class	Registration Number	Expiry Date
	PRC	19	155935	28 February 2013

(b) *Patents*

As of the Latest Practicable Date, our Group had registered the following patents in the PRC:-

Title	Type	Registered Owner	Patent Number	Term of Validation
1. Restoration damping valve of hydraulic shock absorber (液壓減振器復原阻尼閥)	實用新型 (Utility model)	Nanyang Cijan	ZL 2005 2 0143793.9	12/31/2005 to 12/30/2015
2. Compression damping valve of hydraulic shock absorber (液壓減振器壓縮阻尼閥)	實用新型 (Utility model)	Nanyang Cijan	ZL 2005 2 0143794.3	12/31/2005 to 12/30/2015
3. Pump type displacement correlated damping shock absorber (泵式位移相關變阻尼減振器)	發明 (Invention)	Nanyang Cijan	ZL 2007 1 0054822.8	7/23/2007 to 7/22/2027
4. Pump type displacement correlated damping shock absorber (泵式位移相關變阻尼減振器)	實用新型 (Utility model)	Nanyang Cijan	ZL 2007 2 0091121.7	7/23/2007 to 7/22/2017
5. Production process method for piston rod of automobile shock absorber (汽車減振器活塞杆生產工藝方法)	發明 (Invention)	Nanyang Cijan	ZL 2008 1 0231020.4	11/24/2008 to 11/23/2028
6. Automatic error proofing external connection assembling apparatus for automobile shock absorber and assembling method thereof (汽車減振器自動防錯外連接組裝裝置及組裝方法)	發明 (Design)	Nanyang Cijan	ZL 2008 1 0231021.9	11/24/2008 to 11/23/2028
7. Welding process for piston rod assembly of shock absorber (一種減振器活塞杆總成焊接工藝方法)	發明 (Invention)	Nanyang Cijan	ZL 2008 1 0231250.0	12/8/2008 to 12/7/2028

	Title	Type	Registered Owner	Patent Number	Term of Validation
8.	Horizontal punching die for lower support of shock absorber (減振器下支架橫向沖孔模具)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0148202.0	7/25/2008 to 7/24/2018
9.	Shock absorber dust cover (一種減振器防塵罩蓋)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0148203.5	7/25/2008 to 7/24/2018
10.	Spring damping shock absorber (彈簧緩衝減振器)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0148204.X	7/25/2008 to 7/24/2018
11.	Anti-off shackle of automobile shock absorber (防脫汽車減振器吊耳)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0148205.4	7/25/2008 to 7/24/2018
12.	Hydraulic damping shock absorber (液壓緩衝減振器)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0148206.9	7/25/2008 to 7/24/2018
13.	Tighten clamping fixture for pull rod of shock absorber (減振器拉杆上緊夾具)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0148227.0	7/28/2008 to 7/27/2018
14.	Automatic error proofing external connection assembling apparatus (減振器自動防錯外連接組裝裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0221233.4	11/24/2008 to 11/23/2018
15.	Welding fixture for piston rod assembly of shock absorber (減振器活塞杆總成焊接夾具)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0221234.9	11/24/2008 to 11/23/2018
16.	Piston rod assembly of automobile shock absorber (一種汽車減振器活塞杆總成)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0221479.1	12/2/2008 to 12/1/2018
17.	Hoisting ring welding fixture for oil storage cylinder of shock absorber (減振器貯油缸總成吊環焊接工裝)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0221480.4	12/2/2008 to 12/1/2018
18.	Diameter finishing device for oil storage cylinder of shock absorber (減振器貯油缸整徑裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0230660.9	12/8/2008 to 12/7/2018
19.	Startup button capable of reducing operation movement distance (減少操作移動距離的啟動按鈕)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0230661.3	12/8/2008 to 12/7/2018
20.	Oil storage cylinder of car shock absorber (一種轎車減振器貯油缸)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0230662.8	12/8/2008 to 12/7/2018



Title	Type	Registered Owner	Patent Number	Term of Validation
21. Expansion convex hull mold for oil storage cylinder of shock absorber (減振器貯油缸脹凸包模具)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0230663.2	12/8/2008 to 12/7/2018
22. Small-end external grinding fixture of piston rod (活塞杆小端外圓磨削夾具)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0231028.6	12/22/2008 to 12/21/2018
23. Compression valve rod of shock absorber (一種減振器壓縮閥杆)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0231029.0	12/22/2008 to 12/21/2018
24. Oil storage cylinder of shock absorber (一種減振器貯油缸)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0231030.3	12/22/2008 to 12/21/2018
25. Guide wheel speed-limiting device of centerless grinder (無心磨床導輪限速裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0231031.8	12/22/2008 to 12/21/2018
26. Automatic feeding vehicle (自動上料車)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0231032.2	12/22/2008 to 12/21/2018
27. spot-welding tool for piston rod assembly of shock absorber (減振器活塞杆總成點焊工裝)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0231033.7	12/22/2008 to 12/21/2018
28. Combined seam welding electrode disc (組合式縫焊電極盤)	實用新型 (Utility model)	Nanyang Cijan	ZL 2008 2 0231034.1	12/22/2008 to 12/21/2018
29. Automobile shock absorber dust cover (汽車減振器防塵罩蓋)	外觀設計 (Design)	Nanyang Cijan	ZL 2008 3 0150430.7	7/25/2008 to 7/24/2018
30. Coiled lining pipe of shock absorber (減振器卷制襯套管)	外觀設計 (Design)	Nanyang Cijan	ZL 2008 3 0150431.1	7/25/2008 to 7/24/2018
31. Shock absorber (汽車減振器)	外觀設計 (Design)	Nanyang Cijan	ZL 2008 3 0150432.6	7/25/2008 to 7/24/2018
32. Shock absorber (II) (汽車減振器 (II))	外觀設計 (Design)	Nanyang Cijan	ZL 2008 3 0150440.0	7/28/2008 to 7/27/2018
33. Automatic cleaner for small-scale operation (小型工作自動清洗機)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089826.4	4/27/2009 to 4/26/2019
34. Adjusting and fixing device for automatic feeding frame (自動上料架調節固定裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089827.9	4/27/2009 to 4/26/2019

Title	Type	Registered Owner	Patent Number	Term of Validation
35. Pneumatic propping device for processing pole parts of numerical control lathe (數控車床長杆零件加工氣動頂緊裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089829.8	4/27/2009 to 4/26/2019
36. Liquid medicine supplying device of electroplating bath (電鍍槽藥液補給裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089830.0	4/27/2009 to 4/26/2019
37. Positioning device of rod-cutting machine (杆料切斷機定位裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089831.5	4/27/2009 to 4/26/2019
38. Water and acid-proof protective cover of motor used by electroplating production line (電鍍生產線電機防水防酸護罩)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089832.X	4/27/2009 to 4/26/2019
39. Switch control device for avoiding motor idling (避免電機空轉的開關控制裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089833.4	4/27/2009 to 4/26/2019
40. Assembly and fail-safe device for shock absorber (減振器裝配防錯裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089834.9	4/27/2009 to 4/26/2019
41. Welding spark anti-splash shield for butt welder (對焊機焊接火花防飛濺護罩)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089835.3	4/27/2009 to 4/26/2019
42. Constant pressure oiling device of oiling nozzle (加油嘴定壓加油裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089836.8	4/27/2009 to 4/26/2019
43. Production line counting device for car shock absorber (轎車減振器生產線計數裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089888.5	4/28/2009 to 4/27/2019
44. Drill head sharpening proofreading calipers (鑽頭刃磨校對卡規)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089889.X	4/28/2009 to 4/27/2019
45. Wear-resisting operation control panel of numerical control lathe (數控車床防磨操作控制面板)	實用新型 (Utility model)	Nanyang Cijan	ZL 2009 2 0089890.2	4/28/2009 to 4/27/2019

Title	Type	Registered Owner	Patent Number	Term of Validation
46. Self-protected restoration damping valve of hydraulic shock absorber (一種自保護液壓減振器復原阻尼閥)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0238074.6	6/25/2010 to 6/24/2020
47. Piston valve for rail vehicle shock absorber (一種軌道車輛減振器活塞閥)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0238075.0	6/25/2010 to 6/24/2020
48. Welding tool for oil cylinder assembly of shock absorber (減振器油缸總成焊接工裝)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0247141.0	7/5/2010 to 7/4/2020
49. External connection assembly tool for shock absorber (減振器外聯組裝工裝)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0247151.4	7/5/2010 to 7/4/2020
50. Piston rod assembly of shock absorber (一種減振器活塞杆總成)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0247168.X	7/5/2010 to 7/4/2020
51. Shock absorber with a centring piece (一種帶有定心片的減振器)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0247158.6	7/5/2010 to 7/4/2020
52. Drilling machine scrap iron anti-splash device (鑽床鐵屑防飛濺裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0251741.4	7/8/2010 to 7/7/2020
53. Pressured apparatus for leakage detection of shock absorber oil cylinder (減振器油缸試漏檢測增壓裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0251742.9	7/8/2010 to 7/7/2020
54. Sliding type workpiece transfer device (滑道式工件傳送裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0251744.8	7/8/2010 to 7/7/2020
55. Pneumatic stirring device for electroplating defatted liquid (電鍍脫脂液氣動翻攪裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0251761.1	7/8/2010 to 7/7/2020
56. Butt welding fixture for shock absorber (一種減振器對焊夾具)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0259718.X	7/15/2010 to 7/14/2020
57. Polish rod channeling device for shock absorber (減振器光杆滾槽裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0259719.4	7/15/2010 to 7/14/2020

Title	Type	Registered Owner	Patent Number	Term of Validation
58. Punching and riveting tool for connecting rod of restoration valve (復原閥連接杆沖鉚工裝)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0259721.1	7/15/2010 to 7/14/2020
59. Automatic separation device for electroplating transition joints (電鍍過渡頭自動分離裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0259720.7	7/5/2010 to 7/4/2020
60. Titanium pinch roller used in electroplating production line (一種電鍍生產線用鈦飛巴)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0269039.0	7/23/2010 to 7/22/2020
61. Cylinder components for oil storage cylinder of shock absorber (一種減振器貯油缸缸筒組件)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0560111.5	7/15/2010 to 7/14/2020
62. Oil storage cylinder of shock absorber (一種減振器貯油缸)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0560127.6	10/11/2010 to 10/10/2020
63. Rod welding fixture for adjustable shock absorber (可調式減振器拉杆焊接夾具)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0633513.3	11/30/2010 to 11/29/2020
64. Circuit control unit for mill electric cabinet excitation (軋機電櫃勵磁電路控制裝置)	實用新型 (Utility model)	Nanyang Cijan	ZL 2010 2 0633546.8	11/30/2010 to 11/29/2020

As at the Latest Practicable Date, our Group had applied for registration of the following patents in the PRC:

Title	Applicant	Application Number	Date of Application	Place of Application
1. Gas-filling and sealing technology for shock absorber (減振器充氣封口工藝方法)	Nanyang Cijan	201110088103.4	4/8/2011	PRC
2. Shock absorber big end rod inner hexagon processing machine and its processing method (減振器連杆大端內六方加工一體機及其加工方法)	Nanyang Cijan	201110093827.8	4/14/2011	PRC
3. Derusting device for inner side wall of oil tank of shock absorber (減振器貯油缸內壁除銹裝置)	Nanyang Cijan	201120101333.5	4/8/2011	PRC

Title	Applicant	Application Number	Date of Application	Place of Application
4. Double ended tube mold for shock absorber oil tank (減振器貯油缸雙頭縮口模具)	Nanyang Cijan	201120103393.0	4/11/2011	PRC
5. Shock absorber big end rod inner hexagon processing machine (減振器連杆大端內六方加工一體機)	Nanyang Cijan	201120109658.8	4/14/2011	PRC

### 3. Further information about members of our Group

The following sets forth further information on each member of our Group:

#### (a) PRC

##### (i) Nanyang Cijan

Type of company	Wholly-foreign owned enterprise
Business licence number of enterprise legal person	411300400000922
Address of registered office	No. 76 Laojie, Xichuan County, Henan Province, PRC
Date and place of establishment	23 June 2005, PRC
Registered capital	HK\$80,000,000
Total investment amount	HK\$100,000,000 (HK\$80,000,000 paid-up)
Business Scope	Research and development, manufacturing, marketing, providing service of automobile shock absorber and automobile suspension system products, import and export business (excluding distribution business)
Attributable interest to our Group	100%
Equity holder	Guang Da Automotive Components
Legal representative	Zhao Zhijun (趙志軍)
Term	23 June 2005 to 22 Jun 2025
Branch	Xichuan Automobile

(ii) *Haikou Danjiang*

Type of company	Limited company
Business licence number of enterprise legal person	460100000084325
Address of registered office	102B Room, the second assembly plant factory office, FAW Haima Automobile Co., Ltd. Haikou Free Trade Zone
Date and place of incorporation	22 March 2006, PRC
Registered capital	RMB1,000,000
Total investment amount	RMB1,000,000
Business scope	The research and development, manufacturing, sales shock absorbers for automobiles (any project that requires the administrative license is operating under the license) and services related to it
Attributable interest to our Group	100%
Equity holder	Nanyang Cijan
Legal representative	Zhao Zhijun (趙志軍)
Term	22 March 2003 to 22 March 2021

(iii) *Nanyang Yingsaite*

Type of company	Limited company
Business licence number of enterprise legal person	411300400000512
Address of registered office	No. 79 Laojie, Xichuan County, Nanyang City, Henan Province, PRC
Date and place of incorporation	19 March 2007, PRC
Registered capital	RMB5,000,000
Total investment amount	RMB5,000,000
Business scope	Shock absorbers and accessories for automobiles, shock absorber and accessories for motorcycles, auto parts, shock absorber and accessories for trains, the research and development, manufacturing, sales of rubber product and services related to it; import and export business (excluding distribution business)

Attributable interest to our Group	100%
Equity holder	Nanyang Cijan
Legal representative	Zhang Jianxiang (張建祥)
Term	19 March 2007 to 28 February 2022

(b) **Hong Kong**

*Guang Da Automotive Components*

Type of company	Limited company
Company number	1468316
Address of registered office	Unit 390, 3 <sup>rd</sup> Floor, Peninsula Centre, 67 Mody Road, Tsimshatsui East, Kowloon, Hong Kong
Date and place of incorporation	14 June 2010, Hong Kong
Authorised share capital	HK\$10,000 each divided into 10,000 shares of HK\$1.00
Issued share capital	HK\$1.00 (comprising 1 share of HK\$1.00 each)
Shareholder	Merit Leader (100%)
Director	Merit Leader
Term	Perpetual

(c) **BVI**

*Merit Leader*

Type of company	Limited company
Company number	1574635
Address of registered office	OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands
Date and place of incorporation	10 March 2010, the BVI
Authorised share capital	US\$50,000
Issued share capital	US\$50,000 (comprising 50,000 shares of US\$1.00 each)
Shareholder	Our Company (100%)
Director	He Yaobin (何耀彬)
Term	Perpetual

### C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND OUR SUBSTANTIAL SHAREHOLDERS

#### 1. Interests and short positions of the Directors and chief executive in the Shares, underlying Shares and debentures of our Company or its associated corporation

Immediately following completion of the Capitalisation Issue and the Global Offering without taking into consideration our Shares which may be taken up under the Global Offering and any option which may be granted under the Share Option Scheme, the interests and short positions of our Directors and the chief executive of our Company in our Shares, underlying Shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she is 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 recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:-

Name of Director	Name of entity	Capacity	Number of Share	Approximate percentage of shareholding
Xi Chunying (席春迎) <sup>1</sup>	Our Company	Interest in a controlled corporation	122,528,000	38.29%
Zhao Zhijun (趙志軍) <sup>2</sup>	Our Company	Interest in a controlled corporation	26,272,000	8.21%
Fu Pengxu (付蓬旭) <sup>3</sup>	Our Company	Interest in a controlled corporation	21,120,000	6.60%
Xie Qingxi (謝清喜) <sup>4</sup>	Our Company	Interest in a controlled corporation	11,520,000	3.60%

*Notes:*

- These Shares are held by Wealth Max. Mr. Xi is the sole beneficial owner of Wealth Max and hence is deemed to be interested in all the Shares held by Wealth Max under the SFO.
- These Shares are held by Plenty Venture. Zhao Zhijun (趙志軍) owns 63.93% issued share capital of Plenty Venture and hence is deemed to be interested in all the Shares held by Plenty Venture under the SFO.
- These Shares are held by Wingco Development. Fu Pengxu (付蓬旭) owns 45.46% issued share capital of Wingco Development and hence is deemed to be interested in all the Shares held by Wingco Development under the SFO.
- These Shares are held by King Win. Xie Qingxi (謝清喜) owns 50% issued share capital of King Win and hence is deemed to be interested in all the Shares held by King Win under the SFO.
- All interests stated above are long positions.



***Interests and short positions of the substantial shareholders in the Shares and the underlying Shares***

So far as is known to any Director or chief executive of our Company, the following persons (other than a Director or chief executive of our Company), will, following completion of the Capitalisation Issue and the Global Offering without taking into consideration our Shares which may be taken up under the Global Offering and that may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme, have an interest or short position in our Shares or the underlying shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly to 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 other member of our Group:-

<b>Name</b>	<b>Name of entity</b>	<b>Capacity</b>	<b>Number of Share</b>	<b>Approximate percentage of shareholding</b>
Wealth Max <sup>1</sup>	Our Company	Beneficial owner	122,528,000	38.29%
Plenty Venture <sup>2</sup>	Our Company	Beneficial owner	26,280,000	8.21%
Wingco Development <sup>3</sup>	Our Company	Beneficial owner	21,120,000	6.60%

*Notes:*

- Wealth Max is wholly beneficially owned by Mr. Xi.
- Plenty Venture is owned by Zhao Zhijun (趙志軍) as to 63.93%, Liu Baojun (劉保軍) as to 5.48%, Zhao Zeng (趙增) as to 4.57%, Wang Wenbo (王文波) as to 4.57%, Chu Xinyao (褚新耀) as to 4.57%, Liu Yonghong (劉永紅) as to 4.57%, Zhu Zihua (朱自華) as to 4.57%, Liu Jinyong (劉金永) as to 4.11% and Yang Weixia (楊瑋霞) as to 3.65%.
- Wingco Development is owned by Fu Pengxu (付蓬旭) as to 45.46%, Zhang Guangliang (張廣亮) as to 27.27% and Dou Changlun (竇長倫) as to 27.27%.
- All interests stated above are long positions.

Save as disclosed above, our Directors are not aware of any person who will, immediately following completion of the Capitalisation Issue and the Global Offering, have an interest or short position in Shares or, underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

**2. Particulars of our executive Directors' service contracts and appointment letters with our non-executive and independent non-executive Directors**

Each of our executive Directors has entered into a service contract with our Company for an initial term of three years commencing on the Listing Date. The service contract shall continue thereafter and may only be terminated in accordance with the provisions therein contained by either party giving to the other not less than three months' prior notice in writing.

The monthly salary of our executive Directors under their service contracts with our Company are as follows:-

<b>Name of our executive Director</b>	<b>Monthly salary</b>
Zhao Zhijun (趙志軍)	HK\$16,666.70
Wang Wenbo (王文波)	HK\$16,666.70
Yang Weixia (楊瑋霞)	HK\$16,666.70

Each of our executive Directors will also be entitled to a discretionary bonus, provided that the aggregate amount of bonus to be paid to all executive Directors in each year ending 31 December shall not exceed 1.0% of the audited consolidated net profit after taxation but before extraordinary items of our Group for the relevant year (and before deducting such discretionary bonus, salary and benefits).

Mr. Xi has been appointed from 27 April 2011 as our non-executive Director. Fu Pengxu (付蓬旭) and Xie Qingxi (謝清喜) have been appointed from 22 May 2011 as our non-executive Directors. Chu Kin Wang, Peleus (朱健宏), Li Zhiqiang (李志強) and Zhang Jinhua (張進華) have been appointed from 19 October 2011 as our independent non-executive Directors. Each of their annual fees is set forth below:-

<b>Name of our non-executive Directors</b>	<b>Annual fee</b>
Mr. Xi	HK\$144,000
Fu Pengxu (付蓬旭)	HK\$144,000
Xie Qingxi (謝清喜)	HK\$144,000

**Name of our independent non-executive Directors**

Chu Kin Wang, Peleus (朱健宏)	HK\$180,000
Li Zhiqiang (李志強)	HK\$180,000
Zhang Jinhua (張進華)	HK\$180,000

Save as disclosed above, none of our Directors has entered or has proposed to enter into any service agreements with our Company or any other member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

### 3. Directors' remuneration

Under the arrangements presently in force, all our executive Directors will be entitled to receive remuneration which, for the year ending 31 December 2012, is expected to be in the aggregate amount of approximately HK\$600,000, excluding the discretionary bonus payable to our executive Directors. All our non-executive Directors and independent non-executive Directors will be entitled to receive a director fee which, for the year ending 31 December 2012, is expected to be in the aggregate amount of approximately HK\$972,000.

Our Directors' remuneration is determined with regard to their experience, performance and the prevailing market conditions.

Save as disclosed in this prospectus, no Director in the promotion of our Company has been paid in cash or shares or otherwise by any person either to induce him or her to become, or to qualify him or her as a Director, or otherwise for services rendered by him or her in connection with the promotion or formation of our Company.

#### **4. Disclaimers**

- (a) Save as disclosed in this prospectus, none of our Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group.
- (b) None of the experts named in the paragraph headed "E. Other Information — 7. 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 date 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.
- (c) Save as disclosed in this appendix, none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole.

#### **5. Fees or commissions received**

The Underwriters will receive a commission as mentioned in the paragraph headed "Underwriting — Underwriting Arrangements and Expenses — Commission" in this prospectus.

Save as disclosed in this prospectus, none of our Directors or any of the persons whose names are listed in the paragraph headed "E. Other Information — 7. Consents of experts" in this appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years preceding the date of this prospectus.

**D. SHARE OPTION SCHEME****Summary of terms**

The following is a summary of the terms of the Share Option Scheme conditionally adopted pursuant to written resolutions of all the Shareholders passed on 19 October 2011:-

(a) *Who may join and purpose*

Our Board may at its discretion offer options to:-

- (i) any executive, non-executive or independent non-executive Director;
- (ii) any employee (the “Employee”) of our Group; and
- (iii) any customer, supplier, agent, business or joint venture partner, consultant, distributor, promoter, service provider, adviser or contractor of any member of our Group.

The above persons are collectively referred to as “Eligible Participants” and each an “Eligible Participant”. In order for a person to satisfy our Board that he or she is qualified to be (or, where applicable, continues to qualify to be) an Eligible Participant, such person shall provide all such information as our Board may request for the purpose of assessing his or her eligibility (or continuing eligibility). Subject to the terms and conditions of the Share Option Scheme, our Board shall have an absolute discretion as to granting options to any particular Eligible Participant.

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions that the Eligible Participants have made or may make to the business development of our Group. Apart from the determination of the subscription price, our Directors will have an absolute discretion to impose performance targets on the option holders before any option that can be exercised with reference to the objectives of the Share Option Scheme. A consideration of HK\$1.0 will be payable upon acceptance of the offer.

(b) *Subscription price of our Shares*

The subscription price in respect of each Share under the Share Option Scheme shall, subject to any adjustments made as described in paragraph (l) below, be a price determined by our Board and notified to the Eligible Participant and shall be no less than the highest of:-

- (i) the nominal value of a Share;
- (ii) the closing price of each Share as stated in the Stock Exchange’s daily quotations sheet on the date of offer to the Eligible Participant, which must be a day on which licenced banks are open for business in Hong Kong (a “Trading Day”); and
- (iii) the average closing price of each Share as stated in the Stock Exchange’s daily quotations sheets for the five (5) consecutive Trading Days immediately preceding the date of offer to the Eligible Participant, provided that the final Offer Price shall be used as the closing price for any Trading Day falling within the period before the Listing Date if our Shares have been listed on the Main Board for less than five Trading Days before the date of grant.

(c) *Grant of options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until an announcement of such price sensitive information has been published in accordance with the Listing Rules. In particular, during the period commencing one (1) month immediately preceding the earlier of (1) the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the 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 Listing Rules) and (2) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no option may be granted.

(d) *Maximum number of Shares available for subscription*

- (i) Subject to paragraphs (d)(ii), (iii) and (iv) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes involving the issue or grant of options or similar rights over Shares or other securities by our Company (the "**Scheme Mandate Limit**") shall not, in aggregate, exceed 10% of our Shares in issue upon completion of the Capitalisation Issue and the Global Offering on the Listing Date (being currently expected to be 32,000,000 Shares) unless approved by our Shareholders pursuant to paragraphs (d)(ii) and (iii) below.
- (ii) Subject to paragraphs (d)(iii) and (iv) below, the Scheme Mandate Limit may be refreshed by our Shareholders in general meeting from time to time, provided always that the Scheme Mandate Limit so refreshed must not exceed 10% of our Shares in issue as at the date of approval of such refreshment by our Shareholders in general meeting. Upon such refreshment, all options granted under the Share Option Scheme and any other share options schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) prior to the approval of such refreshment shall not be counted for the purpose of calculating whether the refreshed Scheme Mandate Limit has been exceeded. In such a case, we shall send to our Shareholders a circular containing such information from time to time as required under the Listing Rules.
- (iii) Subject to paragraph (d)(iv) below, our Board may seek separate Shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit (whether or not refreshed), provided that the options in excess of the Scheme Mandate Limit (whether or not refreshed) are granted only to the Eligible Participants specified by our Company before such approval is sought and we shall send to our Shareholders a circular containing such information from time to time required under the Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (iv) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share

option schemes of our Company must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. Options may not be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the said 30% limit being exceeded.

(e) *Maximum entitlement of each Eligible Participant*

Unless approved by our Shareholders, no option may be granted to any Eligible Participants which if exercised in full would result in the total number of Shares issued and to be issued upon exercise of the share options already granted or to be granted to such Eligible Participant (including exercised, cancelled and outstanding share option) in the 12-month period up to and including the date of such new grant exceeding 1% of the total number of Shares in issue as at the date of such new grant.

(f) *Grant of options to Substantial Shareholders, Directors and chief executive of our Company or connected persons*

Any grant of options under the Share Option Scheme to any Director and chief executive of our Company or a Substantial Shareholder or any of their respective associate must be approved by the independent non-executive Directors (excluding any independent nonexecutive Director who is the grantee of the options). Where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in our 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 under the Share Option Scheme and any other schemes of our Company in the 12-month period up to and including the date of such grant:-

- (i) representing in aggregate more than 0.1% of the total number of Shares in issue as at the date of such grant; and
- (ii) having an aggregate value, based on the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of each grant of option, in excess of HK\$5.0 million,

such further grant of options must be approved by Shareholders. For the purpose of seeking approval of Shareholders under paragraphs (d), (e) and (f) above, we shall send to our Shareholders a circular containing the information required under the Listing Rules and the vote at our Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll during which those persons required under the Listing Rules to abstain from voting, will not vote.

(g) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be notified by our Board to the grantee save that such period shall not be more than 10 years from the business day on which the option is deemed to have been granted in accordance with the terms of the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised.

(h) *Performance target*

Unless our Board otherwise determined and stated in the offer of grant of options to the grantee, a grantee is not required to achieve any performance target before any options granted under the Share Option Scheme can be exercised.

(i) *Rights are personal to grantee*

An option shall be personal to the grantee and shall not be assignable or transferable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option, failing which any outstanding option or any part thereof granted to the extent not already been exercised shall be cancelled.

(j) *Rights on death*

In the event of the grantee who is an Employee ceasing to be a participant of the Share Option Scheme by reason of his or her death before exercising his or her option in full and none of the events which would be a ground for termination of his or her employment as specified in the Share Option Scheme having arisen, his or her legal personal representative(s) may exercise the Option up to the Grantee's entitlement as at the date of death (to the extent not already exercised) within 12 months following his or her death.

(k) *Rights on ceasing employment*

- (i) In the event of the grantee who is an Employee ceasing to be a participant of Share Option Scheme by reason of the termination of his or her employment or directorship on one or more of the grounds specified in the Share Option Scheme, his or her option (to the extent not already exercised) shall lapse automatically and immediately and shall not be exercisable on or after the date of termination of his or her employment and to the extent the grantee has exercised the option in whole or in part pursuant to the Share Option Scheme, but Shares have not been allotted to him or her, the grantee shall be deemed not to have so exercised such option and we shall return to the grantee the amount of the subscription price for our Shares received by our Company in respect of the purported exercise of such option.
- (ii) In the event of the grantee who is an Employee ceasing to be a participant of the Share Option Scheme for any reason other than his or her death or the termination of his or her employment or directorship on one or more of the grounds specified in the Share Option Scheme, the option (to the extent not already exercised) shall lapse on the date of cessation or termination of such employment (which date shall be the grantee's last actual working day with our Company or our relevant subsidiary whether salary is paid in lieu of notice or not) and shall on that day cease to be exercisable.
- (iii) In the event of the grantee who is not an Employee ceasing to be a participant of the Share Option Scheme as and when determined by our Board by resolution for any reason other than his or her death, our Board may by written notice to such Grantee within one month from the date of such cessation determine the period within which the option (or such remaining part thereof) shall be exercisable following the date of such cessation.

(l) *Reorganisation of capital structure*

In the event of any alteration in the capital structure of our Company which arises from a capitalisation issue, bonus issue, rights issue, open offer, sub-division or consolidation of our Shares or reduction of capital of our Company (excluding any alteration in the capital structure of our Company as a result of an issue of securities as consideration in respect of a transaction to which our Company is a party) at any time after the Listing Date, such corresponding alterations (if any) certified in writing by an independent financial adviser appointed by our Company or the auditors for the time being of our Company as fair and reasonable will be made to the subscription price at which the offeror gives notice to acquire the remaining Shares and/or the number or nominal amount of Shares subject to the option so far as unexercised, provided that (i) any such alterations shall give a grantee as nearly as possible the same proportion of the issued share capital of our Company as that to the option he or she was previously entitled; (ii) no such alteration shall be made to the effect that Share would be issued at less than its nominal value; and (iii) any such alterations shall be in compliance with the requirements set forth in Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange from time to time, including those set forth in the letter from the Stock Exchange dated 5 September 2005.

(m) *Rights on a general offer*

If a general offer (whether by way of takeover 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 concert with the offeror) and such offer becomes or is declared unconditional (within the meaning of the Takeovers Code) prior to the expiry date of the relevant option, the grantee shall be entitled to exercise the option in full (to the extent not exercised) at any time within such period as shall be notified by our Company.

(n) *Rights on winding-up*

If notice is duly given by our Company to Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up our Company, we shall forthwith give notice thereof to the grantee and the grantee may at any time thereafter exercise the relevant option to its full extent or to the extent specified in such notice or in part and we shall, as soon as possible and in any event no later than three (3) business days immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which fall to be issued on such exercise, credited as fully paid and registered the grantee as holder thereof. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon lapse and not be exercisable.

(o) *Rights on a compromise or arrangement*

In the event of a compromise or arrangement between our Company and our Shareholders or its creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company (other than any relocation schemes as contemplated in Rule 7.14(3) of the Listing Rules), we shall give notice thereof to all grantees on the same date as we dispatch notice of the meeting to our Shareholders or creditors to consider such a compromise or arrangement and thereupon any



grantees may at any time thereafter exercise the relevant option in full or to the extent notified by our Company and we shall, as soon as possible and in any event no later than three business days, allot and issue such number of Shares to the grantee which fall to be issued on such exercise, credited as fully paid and registered the grantee as holder thereof. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as exercised under this paragraph.

(p) *Ranking of Shares*

Our Shares to be allotted and issued upon the exercise of an option shall be subject to all the provisions of the memorandum of association of our Company and the Articles in force as at the date of allotment and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on such date of allotment and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after such date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the date of allotment.

(q) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

(r) *Alteration*

Our Directors may from time to time amend the rules of the Share Option Scheme by resolution of our Board save and except the following which shall be approved by our Shareholders in general meeting:-

- (i) the provisions of the Share Option Scheme relating to the matters set forth in Rule 17.03 of the Listing Rules cannot be altered to the advantage of the Eligible Participant;
- (ii) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, except where such alterations take effect automatically under the existing terms of the Share Option Scheme; and
- (iii) any change to the authority of our Board as scheme administrator in relation to any alteration to the terms of the Share Option Scheme, provided always that the amended terms of the Share Option Scheme must continue to comply with the relevant provisions of the Listing Rules as may be amended from time to time.

(s) *Lapse of option*

An option (to the extent such option has not already been exercised) will lapse and not be exercisable on the earliest of:-

- (i) the expiry of the exercise period of the options;

- (ii) the expiry of any of the periods referred to in paragraphs (j) and (k) above;
  - (iii) subject to any competent court in any jurisdiction not making an order prohibiting the offeror to acquire the remaining Shares in the offer, the expiry of the period referred to in paragraph (m) above;
  - (iv) the date of the commencement of the winding-up of our Company;
  - (v) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph (o) above;
  - (vi) the date on which the grantee who is an Employee ceases to be an Employee by reason of the termination of his employment on the grounds set forth in paragraph (k)(ii) above;
  - (vii) the date on which the grantee commits a breach of paragraph (i); or
  - (viii) the date the grantee ceases to be a participant of the Share Option Scheme for any other reason (save for his death or termination of employment or directorship).
- (t) *Cancellation of options*

Our Board shall have the absolute discretion to cancel any option granted at any time at the request of the grantee, provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available Shares in the authorised but unissued share capital of our Company, and available and ungranted options within the limits referred to in paragraph (d) above (and for the purpose of calculating such limits, all cancelled options shall be treated as granted options).

(u) *Termination of the Share Option Scheme*

We may by ordinary resolution in general meeting or our Board may at any time terminate the Share Option Scheme and in such event, no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

**Conditions of the Share Option Scheme**

The Share Option Scheme is conditional on:-

- (a) the passing of the resolution by our Shareholders to approve and adopt the Share Option Scheme and to authorise our Board to grant options under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of any option under the Share Option Scheme;

- (b) the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, our Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme; and
- (c) the commencement of dealings in our Shares on the Main Board.

If any of the above conditions is not satisfied on or before the date falling 30 days after the date of this prospectus, the Share Option Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

#### **Disclosure in annual and interim reports**

Our Company shall disclose details of the Share Option Scheme in its annual and interim reports in accordance with the Listing Rules in force from time to time.

#### **Administration of the Share Option Scheme**

The Share Option Scheme shall be administered by our Board whose decision shall be final and binding on all parties.

#### **Present status of the Share Option Scheme**

As at the date of this Prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, Shares representing 10% of our Shares in issue upon completion or the Capitalisation Issue and the Global Offering on the Listing Date (being currently expected to be 32,000,000 Shares) which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

### **E. OTHER INFORMATION**

#### **1. Deed of Indemnity**

Each of our Controlling Shareholders has entered into a deed of indemnity with and in favour of our Company, being a material contract referred to in the paragraph headed “Further information about the business of our Group — 1. Summary of material contracts” in this appendix, to give joint and several indemnities in respect of, among other things:-

- (a) any tax liabilities which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Listing Date;
- (b) any tax liabilities which might be payable by any member of the Group under or by reason of any transfer of property to any member of the Group or to any other person, entity or company made or deemed to have been made on or before the Listing Date; and

- (c) all such non-compliance and relevant payments, suits, settlement payment, cost, liability, claim, fine, penalty, loss, damages or expense under the relevant PRC or Cayman Islands or Hong Kong laws, rules and regulations or any other applicable laws, rules and regulations, on or before the Listing Date or as a result of or in relation to all litigations, arbitration, claims (including counter-claims), complaints, demands and/or legal proceedings by or against the Group which was issued, accrued and/or arising from any act of the Group at any time on or before the Listing Date.

The indemnity shall not apply:

- (a) to the extent that full provision or allowance has been made for such taxation the audited accounts of the Group for the Track Record Period;
- (b) to the extent that such taxation arises or is incurred as a consequence of any retrospective change in law or the interpretation or practice thereof or retrospective increase in tax rates coming into force after the Listing Date;
- (c) to the extent that such any of the Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposal of capital assets after the Listing Date; or
- (d) to the extent of any provisions or reserve made for taxation in the audited accounts of the Group for the Track Record Period which is finally established to be an over-provision or an excessive.

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, the PRC and other jurisdictions in which the companies comprising our Group are incorporated.

## **2. 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 was known to our Directors to be pending or threatened against any member of our Group that would have a material adverse effect on our Group's results of operations or financial condition.

## **3. Sponsor**

China Everbright, being the sole sponsor to the Listing, has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Offer Shares and our Shares which may be issued pursuant to the exercise any option which may be granted under the Share Option Scheme.

All necessary arrangements have been made enabling such Shares to be admitted to CCASS.

**4. Preliminary expenses**

Our preliminary expenses are estimated to be approximately HK\$62,160 and are payable by us.

**5. Promoter**

We have no promoter and no cash, securities or other benefit has been paid, allotted or given, or proposed to be paid, allotted or given, to any promoters within two years preceding the date of this prospectus.

**6. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in, or referred to in, this prospectus:-

<b>Name of expert</b>	<b>Qualifications</b>
China Everbright	licensed under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Jones Lang LaSalle Sallmanns Limited	Property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Grandall Law Firm (Shanghai)	Qualified PRC legal adviser

**7. Consents of experts**

Each of China Everbright, Deloitte Touche Tohmatsu, Jones Lang LaSalle Sallmanns Limited, Conyers Dill & Pearman and Grandall Law Firm (Shanghai) has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and/or references to its name included in the form and context in which it is respectively included.

As of the Latest Practicable Date, none of the experts named above had any shareholding interests in our Group or the right (whether legally enforceable or not) to subscribe for or, to nominate persons to subscribe for securities in any member of our Group.

**8. Binding effect**

This prospectus shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

**9. Bilingual prospectus**

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Hong Kong Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**10. Miscellaneous**

- (1) Save as disclosed in this prospectus and, in particular, in the paragraphs under “B. Further information about the business of our Group — 1. Summary of material contracts”:-
  - (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) we have no outstanding convertible debt securities or debentures;
  - (iv) no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;
  - (v) within two years immediately preceding the date of this prospectus, 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 capital of our Company or any of its subsidiaries; and
  - (vi) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any Shares or any equity interest in any of the subsidiaries of our Company.
- (2) No member of our Group is presently listed on any stock exchange or traded on any trading system.
- (3) There is no arrangement under which future dividends are waived or agreed to be waived.
- (4) 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 twelve months immediately preceding the date of this prospectus.

- (5) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
  
- (6) Our Directors confirm that since 31 May 2011 (being the date on which the latest consolidated audited financial statements of the Group was made up), there has been no material adverse change in our financial or trading position or prospectus.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** Application Forms, the written consents referred to under the paragraph headed “E. Other Information — 7. Consents of experts” in Appendix V to this prospectus and copies of the material contracts referred to in the paragraph headed “B. Further Information about the Business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of K&L Gates at 44th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus;

- (a) the Memorandum of Association of our Company and the Articles;
- (b) the audited financial statements of each of the companies comprising our Group for each of the three years ended 31 December 2010 and five months ended 31 May 2011, except for those companies for which there are no statutory audit requirements in the respective jurisdictions of incorporation or establishment;
- (c) the accountants’ report containing consolidated audited financial statements of our Group for the three financial years ended 31 December 2010 and the five months ended 31 May 2011 prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (d) the letter prepared by Deloitte Touche Tohmatsu on the unaudited pro-forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the letter, summary of values and valuation certificate relating to property interests of the Group prepared by Jones Lang LaSalle Sallmanns Limited, the text of which are set out in Appendix III to this prospectus;
- (f) the letter of advice prepared by Conyers Dill & Pearman, summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
- (g) the Companies Law;
- (h) the material contracts referred to in the paragraph headed “B. Further Information about the Business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus;
- (i) the rules of the Share Option Scheme;



- (j) the written consents referred in the paragraph headed “E. Other Information — 7. Consents of experts” in Appendix V to this prospectus;
- (k) the service contracts referred in the paragraph headed “C. Further Information about our Directors and our Substantial Shareholders — 2. Particulars of our executive Directors’ service contracts and appointment letters with our non-executive and independent non-executive Directors” in Appendix V to this prospectus;
- (l) the legal opinions issued by our PRC Legal Advisers in respect of our Group and property interests in the PRC; and
- (m) the Application Forms.

