You should read the following discussion and analysis in conjunction with our audited combined financial information together with the accompanying notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. Our audited combined financial information has been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. Please see the section headed "Risk Factors" in this prospectus.

OVERVIEW

Our business

We are one of the leading suppliers of HVAC systems for SUVs, pickup trucks and heavy trucks in terms of sales volume in 2011 in China. We principally engage in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components. Our automotive HVAC systems represented approximately 94.5%, 95.7% and 90.4% respectively, of our total turnover for the Track Record Period. Our automotive HVAC systems are mainly used in SUVs, pickup trucks and heavy trucks. According to the Timer Auto Report, in terms of sales volume, we were the fifth largest supplier of automotive HVAC systems (with the market share of 9.9%) for SUVs and pickup trucks and the largest supplier of automotive HVAC systems (with the market share of 19.1%) for heavy trucks in China in 2011. According to the same report, we are the ninth largest automotive HVAC systems supplier in terms of sales volume in the overall automotive HVAC system market in the PRC with a market share of 2.8% in 2011. We also supply HVAC systems and HVAC components for construction machineries and other types of vehicles such as light trucks, sedans and buses.

Our production bases

Currently, we have two production bases. One is located at Jiangning District, Nanjing, Jiangsu, for the manufacture of HVAC systems and HVAC components (including evaporators, condensers, heater cores, HVAC hoses, HVAC housings, radiators, intercoolers and oil coolers). The other production base is located at Fushun Economic Development Zone, Fushun, Liaoning, for the manufacture of HVAC systems (without installing the compressors). We have an annual production capacity of 567,984 units of HVAC systems and 114,972 pieces of HVAC components in aggregate as at 31 December 2011. In order to further enhance our service to our customers and improve our competitive strengths, we have also acquired the land use right of a parcel of land at Daxing District, Beijing with a total site area of 45,178.23 sq.m. and plan to build our third production base.

Our products

According to the Timer Auto Report, driven by the growth of China's automotive market and rising penetrating rate of HVAC systems in automobile, the sales of automotive HVAC systems has grown rapidly over the past few years. As an integral part of an automotive, the primary function of a HVAC system is to maintain the temperature level of the vehicle for the comfort of its occupants. Automotive HVAC systems are assembled from different automotive HVAC components, such as, evaporators, condensers, heater cores, compressors, HVAC hoses, radiators, intercooler, oil cooler, receiver drier, expansion valve and HVAC control units. We primarily develop, manufacture and sell automotive HVAC systems and components (such as evaporators, condensers, heater cores and HVAC hoses). For manufacturing of our HVAC systems, we also source some other HVAC components from other suppliers (such as compressors, receiver driers, expansion valves and HVAC control units).

Our research and development

As the technical specifications and requirements of an automotive HVAC system differs depending on the model of vehicle which the HVAC system is to be used, automotive HVAC systems have to be designed, developed and manufactured based on the technical requirements and specifications of each different model of vehicles. In order to succeed in this industry, we place emphasis on strengthening our research and development capabilities. Our research and development team has a proven record of research and development capabilities and experience on automotive HVAC systems as well as related production techniques. We have 9 registered patents and have applied for registration of 6 other patents as at the Latest Practicable Date. In 2009, we have been accredited with the title 高新技術企業 (High and New Technology Enterprise*). To further strengthen our research and development capabilities, we are in the course of constructing a research and development building with a gross floor area of 15,631.00 sq.m. in the Jiangning Plant. We have purchased the environment simulation laboratory equipment, which is expected to put into use at the end of 2012. For information on our research and development capabilities, please refer to the paragraph titled "Our competitive strengths — Strong research and development capabilities and ability to offer customised products to customers" and "Our Strategies — Strengthening our research and development capabilities and developing HVAC systems for electric vehicles" in the section headed "Business" in this prospectus.

Our customers

We offer automotive HVAC systems to automakers in China such as Foton, Hawtai Motor, Shuguang Automotive, Zhongxing Auto, Great Wall and Sinotruk. We also offer automotive HVAC components to automakers and other automotive HVAC system and component suppliers in China. Our products are mainly used in SUVs, pickup trucks and heavy trucks. The major customers of our HVAC systems for SUVs, pickup trucks and heavy trucks include, Foton, Shuguang Automotive, Hawtai Motor, and Sinotruk, which we have approximately 9 years, 9 years, 6 years and 9 years of business relationship, respectively. According to the Timer Auto Report, Foton and Sinotruk are two leading domestic heavy trucks manufacturers. In addition to strengthening our leading position in the automotive HVAC systems for SUVs, pickup trucks and heavy trucks market in China, we are also actively developing our presence in the automotive HVAC systems for construction machineries and other types of vehicles, such as sedans. One of our operating subsidiaries, Xiezhong Nanjing, has been recognised as an "Excellent Supplier" by certain customers, such as Foton, Hawtai Motor, Zhongxing Auto and SANY.

Our recognitions

Our HVAC systems and HVAC components are marketed under our own trademark " " and this trademark has been recognised as a "Nanjing Municipal Well-known Trademark (南京市著名商標)" in 2010 and as a "Jiangsu Province Well-known Trademark (江蘇省著名商標)" in 2011. Our products have been recognised as "Nanjing Famous Brand (南京名牌產品)" by 南京市人民政府 (Nanjing Municipal People's Government*) in 2011.

Other information

For the Track Record Period, turnover attributable to our five largest customers represented approximately 82.5%, 66.5% and 65.2% of our total turnover, respectively. For the same periods, turnover attributable to our largest customer represented approximately 44.7%, 20.4% and 29.2%, respectively, of our total turnover.

For the Track Record Period, turnover attributable to sales of automotive HVAC systems accounted for approximately 94.5%, 95.7% and 90.4% of our total turnover, respectively. For the same periods, turnover attributable to sales of automotive HVAC components accounted for approximately 5.5%, 4.3% and 9.6%, respectively, of our total turnover.

During the Track Record Period, all of our turnover was generated from our sales to the PRC domestic market.

BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 30 September 2011. To rationalise the corporate structure in preparation of the listing of the Company's shares on the Stock Exchange, the Company underwent the Reorganisation as detailed in the section headed "History and Development" in this prospectus. The Group is principally engaged in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components.

Upon completion of the group reorganisation on 20 January 2012, the Company became the holding company of Xiezhong BVI, and the companies now comprising the Group are owned by the same equity shareholders, i.e. CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto and Sunrise International, both before and after the group reorganisation mentioned above. As the Company was formed for the sole purpose of the Reorganisation and had no operations prior to the acquisition of Xiezhong BVI, no business combination has occurred and there were no changes in the economic substance of the ownership and the business of the Group. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition as set out in IFRS 3, Business combinations. The combined financial statements of the Company are considered as a continuation of the consolidated financial statements of Xiezhong BVI with the assets and liabilities of Xiezhong BVI recognised and measured at their historical carrying amounts prior to the Reorganisation.

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

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial positions and results of operations have been and will be significantly affected by a number of factors, many of which may not be within our control. The principal factors affecting our results of operations are set out below.

Economic conditions in China

Our revenue was generated by the sale of automotive HVAC systems and automotive HVAC components in the PRC domestic market. Our customers are mainly PRC automakers of SUVs, pickup trucks and heavy trucks and other automotive HVAC systems and components suppliers. During the Track Record Period, the growth in domestic consumption of consumer and manufactured goods, which has risen in line with the growth in the PRC GDP, has resulted in increased demand for our products. The economic growth in the PRC and in particular the growth of the PRC automotive industry have a significant impact on all aspects of our operations, including but not limited to the demand for and pricing of our products.

Cost of raw materials

The primary raw materials for our production are aluminium and HVAC components. For the Track Record Period, the total cost of raw materials accounted for 87.9%, 89.7% and 88.5%, respectively of our total cost of sales. The price of aluminium is subject to fluctuations in the domestic commodity market and changes in aluminium prices will affect our cost of aluminium raw materials and results of operations. As we increase our production in accordance with our capacity expansion plans, we expect that our demand for raw materials will increase. Although we believe that we benefit from economies of scale in our procurement efforts and can obtain favorable pricing terms from our suppliers, fluctuations in the prices of raw materials will continue to have an impact on our results of operations.

Market competition

Increased competition or our inability to sustain our competitive advantages could adversely affect our results of operations. We, as one of the leading suppliers of HVAC systems for SUVs, pickup trucks and heavy trucks based in China, were able to maintain a stable gross margin through developing new products, engaging new customers, benefits of economies of scale and stringent cost control. During the Track Record Period, the gross profit margins of our Group were 28.0%, 27.7% and 27.8% respectively.

Production capacity

During the Track Record Period, our results of operations have been and are expected to continue to be affected by our production capacity in the future. In order to strengthen our market position in the PRC, we intend to further expand our production capacity as set out in the section headed "Business — Production Facilities and Production Capacities" in this prospectus. We believe that increasing our production capacity will help us to increase market share, revenue and profit. However, if we over-expand our production capacity beyond the demand for our products, our results of operations may be adversely affected.

Taxation

Under the new EIT Law which passed by the Fifth Plenary Session of the Tenth NPC, effective from 1 January 2008, the PRC's statutory income tax rate is 25%.

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not derive any income which was subject to Hong Kong Profits Tax during the Track Record Period.

Xiezhong Nanjing was entitled to a tax holiday of two-year full exemption from income tax followed by three-year 50% reduction of the applicable income tax rate commencing from the first profit-making year from PRC income tax perspective ("**2 + 3 tax holiday**") based on the then effective tax regulations prior to 1 January 2008. Xiezhong Nanjing started its tax holiday in 2006.

The 2 + 3 tax holiday is grandfathered under the new EIT Law and its relevant regulations. Further, Xiezhong Nanjing is recognised as a High and New Technology Enterprise under the new EIT Law and is subject to income tax at a reduced rate of 15% for a period of 3 years from 2009 to 2011. According to the grandfathering regulations, Xiezhong Nanjing cannot enjoy multiple preferential policies during the grandfathering period. As such, Xiezhong Nanjing has chosen to complete the 2 + 3 tax holiday until its expiry in 2010.

Accordingly, Xiezhong Nanjing is subject to income tax at 12.5% for 2009 and 2010, at 15% for 2011.

The recognition of Xiezhong Nanjing as a High and New Technology Enterprise will expire on 21 December 2012 and the preferential tax treatment enjoyed by Xiezhong Nanjing has ended in 2011. As advised by our PRC Legal Advisers, for recognition as a High and New Technology Enterprise, an enterprise shall meet the following conditions:

(a) being an enterprise registered in China (excluding Hong Kong, Macao and Taiwan regions) and owns the independent intellectual property rights in the core technology of its main products (or services) through its own independent research and development, assignment, endowment, mergers and acquisitions, etc. during the past three years, or through an exclusive license therefor of at least five years;

(b) its products (or services) falling within the scope specified in 國家重點支持的高新領域 (Hi-tech Sectors Supported by the State on a Priority Basis*);

(c) science and technology personnel who have received tertiary education or above accounted for at least 30% of its total workforce during the years in question, and the research and development personnel therein accounted for at least 10% of its total workforce during the years in question;

(d) engages in research and development activities on an ongoing basis in order to obtain new scientific and technological (excluding humanities and social science) knowledge, creatively apply new scientific and technological knowledge or substantively improve its technology, products (or services) and, during the most recent three financial years, the percentage of its total sales revenues accounted for by its total research and development expenses should be in line with the following requirements: (i) for an enterprise with sales revenue of less than RMB50 million during the most recent year, a percentage of not less than 6%; (ii) for an enterprise with sales revenue of at least RMB50 million but less than RMB200 million during the most recent year, a percentage of not less than 4%; (iii) for an enterprise with sales revenue of at least RMB200 million during the most recent year, a percentage of not less than 3%; furthermore, its total research and development expenses incurred within territory of the PRC shall account for not less than 60% of the total expenses of the research and development; in the event that the enterprise has been incorporated for less than three years, the calculation shall be made in accordance with the actual number of years it has been in operation;

(e) the revenue from its hi-tech products (or services) accounted for at least 60% of its total revenue for the year in question; and

(f) its indicators such as the management level of its research and development organisation, capacity to apply practically its scientific and technological achievements, the quantity of its independent intellectual property rights, sales and total assets growth, etc., shall be in line with the requirements set forth in 高新技術企業認定管理工作指引 (Guidelines for the Management of Recognition of High and New Technology Enterprise*), the aforesaid four indicators are used to evaluate the enterprise's technology resources for innovation, management innovation, innovation to achieve results, etc., and to take a weighted scoring method that is required to achieve more than 70 points.

Xiezhong Nanjing has submitted the application for the extension of the recognition to the competent high and new technology enterprise recognition authority on 18 April 2012. In respect of the condition (d) above in relation to research and development costs, we have engaged an independent PRC registered accountant to prepare a specific report to verify our research and development costs in accordance with 高新技術企業認定管理辦法(Administrative Measures for Recognition of High and New Technology Enterprise*) and 高新技術企業認定管理工作指引 (Guidelines for the Management of Recognition of High and New Technology Enterprise*). According to such PRC official guidelines, research and development costs includes, among other things, staff costs, costs of the purchase of raw materials for the research and development projects such as cost of moulds, cost of producing samples, testing of equipments, experiments, maintenance of equipments, rental, depreciation and amortisation charges of devices, equipments and properties used for research purpose and other research-related miscellaneous expenses. The amount of research and development cost quantified according to such PRC official guidelines is different from the amount qualified according to IFRS. This is because while costs directly and indirectly related to research and development are quantified under the above PRC official guidelines for the purpose of ascertaining the condition (d) above, IFRS includes only those costs directly attributable to research and development (chiefly comprising the costs of research-related staff, expendable supplies and depreciation of research equipments) as research and development cost. Based on the specific report issued by the PRC registered accountant that we engaged, total research and development costs spent by Xiezhong Nanjing which falls within the definition under the above PRC official guidelines during 2009 to 2011 accounted for more than 3% of turnover of Xiezhong Nanjing of the same years and Xiezhong Nanjing is able to fulfill condition (d) above. On the basis that Xiezhong Nanjing has met the aforementioned conditions for the extension through (a) to (e), our PRC Legal Advisers further advised that there should be no material legal impediment for Xiezhong Nanjing to extend the recognition as a High and New Technology Enterprise, provided that Xiezhong Nanjing is recognised by the relevant authority to have achieved more than 70 points with reference to the aforementioned indicators such as intellectual property rights, capacity to apply practically its science and technological achievements, the management level of its research and development organisation, and growth rate. However, there can be no assurance that we will succeed in extending the recognition. We expect Xiezhong Nanjing would be able to obtain the extension of the recognition as a High and New Technology Enterprise by the end of 2012 and in such case Xiezhong Nanjing would be subject to a preferential tax rate of 15% for the year ending 31 December 2012 as well as the two years onwards. In the event that the application for extension is unsuccessful or is not obtained by the end of 2012, Xiezhong Nanjing will be subject to income tax rate of 25% for the year ending 31 December 2012.

Xiezhong Liaoning, Xiezhong Hubei and Xiezhong Beijing are subject to income tax rate of 25%.

Any changes in the income tax rate applicable to us would have a significant impact on our financial condition and results of operations.

CRITICAL ACCOUNTING POLICIES, ESTIMATE AND JUDGMENTS

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

(a) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Government grants

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

(b) Goodwill

Goodwill represents the excess of

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

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

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

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

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(c) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

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

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

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

— Plant and buildings	15–20 years
— Machinery and equipment	3–10 years
— Furniture, fixtures and office equipment	5 years
— Motor vehicles	5 years
— Leasehold improvement	Over the term of lease

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

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses. Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(d) Intangible assets (other than goodwill)

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

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

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

Core technology	10 years
Customer relationships	5–10 years
Software and patent	5–10 years

The estimated useful life of the Group's core technology to manufacture automotive HVAC system is determined after taking into account the product life cycles for automotive products and anticipated technological and other charges.

Both the period and method of amortisation are reviewed annually.

(e) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

— For investments in subsidiaries and jointly controlled entities (including those recognised using the equity method), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

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

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

(ii) Impairment of other assets

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

— property, plant and equipment;

— lease prepayments;

— intangible assets; and

— goodwill.

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(f) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with the relevant accounting policy. Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with the relevant accounting policy.

(ii) Other provisions and contingent liabilities

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

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

RESULTS OF OPERATIONS

The following table sets forth our combined income statements for the Track Record Period as extracted from the Accountants' Report included in Appendix I to this prospectus:

	Years ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	346,539	545,502	619,904
Cost of sales	(249,614)	(394,516)	(447,727)
Gross profit	96,925	150,986	172,177
Other revenue and net income	3,169	5,444	6,835
Distribution costs	(18,521)	(28,785)	(24,730)
Administrative expenses	(21,948)	(26,856)	(37,767)
Other operating expenses	(37)	(71)	(186)
Profit from operations	59,588	100,718	116,329
Finance costs	(1,529)	(1,930)	(7,554)
Share of losses of jointly controlled entities	—	(1,939)	(235)
Profit before taxation	58,059	96,849	108,540
Income tax	(9,031)	(16,144)	(21,531)
Profit for the year	49,028	80,705	87,009
Attributable to:			
Equity shareholders of the Company	33,821	79,441	86,066
Non-controlling interests	15,207	1,264	943
Profit for the year	49,028	80,705	87,009

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

Our turnover is derived from the sale of automotive HVAC systems which accounted for 94.5%, 95.7% and 90.4% respectively, of our total turnover during the Track Record Period and HVAC components, which mainly includes evaporators, condensers, heater cores, HVAC hoses, radiators, intercoolers and oil coolers, which accounted for 5.5%, 4.3% and 9.6% respectively, of our total turnover during the Track Record Period.

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

Products	2009		2010		2011	
	Years ended 31 December					
	RMB'000	*% of total turnover*	*RMB'000*	*% of total turnover*	*RMB'000*	*% of total turnover*
HVAC systems	327,513	94.5	521,869	95.7	560,576	90.4
HVAC components[(1)]	19,026	5.5	23,633	4.3	59,328	9.6
Total turnover	346,539	100.0	545,502	100.0	619,904	100.0

Note:

(1) HVAC components mainly comprises of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing).

Our HVAC systems are mainly used in SUVs, pickup trucks and heavy trucks.

The following table sets out a breakdown of our sales turnover by different types of vehicles for the Track Record Period:

	2009		2010		2011	
	Years ended 31 December					
	RMB'000	*% of total turnover*	*RMB'000*	*% of total turnover*	*RMB'000*	*% of total turnover*
HVAC systems						
SUVs and pickup trucks	181,082	52.2	254,570	46.7	286,572	46.2
Heavy trucks	120,285	34.7	150,222	27.6	126,946	20.5
Construction machineries	10,271	3.0	32,841	6.0	57,959	9.3
Other vehicles[(1)]	15,875	4.6	84,236	15.4	89,099	14.4
HVAC components[(2)]	19,026	5.5	23,633	4.3	59,328	9.6
Total turnover	346,539	100.0	545,502	100.0	619,904	100.0

Notes:

(1) Other vehicles mainly comprised of light trucks, buses, MPVs and sedans.

(2) HVAC components mainly comprise of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing) for all types of vehicles.

During the Track Record Period, our turnover contributed from HVAC systems for SUVs and pickup trucks, construction machineries, other vehicles and HVAC components had been increasing. This was mainly because of the business growth of our existing customers as well as our expansion of customer base by our efforts in finding new customers. In 2010, turnover contributed from HVAC systems for heavy trucks and construction machineries increased mainly because the PRC government had, during 2009 and 2010, expedited infrastructure with a view to boosting economy growth after the financial crisis in 2008, which had in turn led to an increased demand for HVAC systems for heavy trucks and construction machineries. In 2011, turnover contributed from HVAC systems for heavy trucks decreased mainly because the PRC government had implemented policies to cool down the booming property market which had in turn led to a decreased demand for HVAC systems for heavy trucks. In 2011, sales of HVAC systems for construction machineries increased mainly because (i) we had four new customers of construction machineries manufacturers in the year, which contributed about RMB1.8 million of our revenue; and (ii) our existing customers of construction machineries manufacturers increased purchases from us as they are satisfied with the quality of our products and find our selling price reasonable.

The following table sets out the number of units and average selling price of our products sold for each of the three years ended 31 December 2011:

	Years ended 31 December					
	2009		2010		2011	
	Number of units	Average selling price *(RMB/Unit)*	Number of units	Average selling price *(RMB/Unit)*	Number of units	Average selling price *(RMB/Unit)*
HVAC systems						
SUVs and pickup trucks	126,762	1,429	180,839	1,408	201,042	1,425
Heavy trucks	110,806	1,086	140,785	1,067	120,903	1,050
Construction machineries	3,945	2,604	12,850	2,556	22,959	2,524
Other vehicles[b]	29,001	547	93,223	904	106,521	836
	270,514		427,697		451,425	
HVAC components[a]	84,773	224	107,317	220	258,783	229

Notes:

(a) HVAC components mainly comprises of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing) for all types of vehicles.

(b) Other vehicles mainly comprised of light trucks, buses, MPVs and sedans.

During the Track Record Period, the unit price of HVAC systems for SUVs and pickup trucks were stable and fluctuated by less than 2%. This was because we had new product models launched and at the same time we had existing product models being sold at a discounted price. The unit price of HVAC systems for heavy trucks and construction machineries decreased slightly by less than 2% in each of the year 2010 and 2011. This was mainly because models of heavy trucks and construction machineries during these two years had been relatively stable and therefore our HVAC systems for heavy trucks and construction machineries had been stable, and there was a slight price discount on existing product models in 2011. The unit price of HVAC systems for other vehicles increased in 2010 mainly because we began to sell HVAC systems for vans in 2010 which is of a higher unit price than HVAC systems for light trucks and sedans. The unit price of

HVAC systems for other vehicles decreased in 2011 mainly because of the differences in proportion of various products. During the Track Record Period, average unit price for HVAC components was relatively stable.

Our automotive HVAC systems are primarily sold to the automakers and construction machinery manufacturers in China such as, Foton, Hawtai Motor, Shuguang Automotive, Zhongxin Auto, Sinotruk and SANY. Our operating subsidiary, Xiezhong Nanjing, has been recognised as an "Excellent Supplier" by certain customers, including Foton, Hawtai Motor, Zhongxin Auto and SANY. Our HVAC systems and HVAC components are marketed under our own trademark " ". We also sell our automotive HVAC components to automakers and other automotive HVAC systems and components suppliers.

During the Track Record Period, all of our turnover was generated from the sale of automotive HVAC systems and automotive HVAC components in the PRC.

Cost of sales

Our cost of sales primarily comprises raw materials, direct labour and manufacturing overhead. For the Track Record Period, our cost of sales was RMB249.6 million, RMB394.5 million and RMB447.7 million respectively, representing 72.0%, 72.3% and 72.2% of our turnover respectively.

The following table sets forth the breakdown of our cost of sales for the Track Record Period:

	Years ended 31 December					
Cost of sales	**2009**		**2010**		**2011**	
	RMB'000	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*
Raw materials						
Aluminum	17,463	7.0	35,331	9.0	52,577	11.8
Compressors	70,655	28.3	96,391	24.4	86,512	19.3
Other HVAC components	131,393	52.6	222,148	56.3	257,120	57.4
	219,511	87.9	353,870	89.7	396,209	88.5
Direct labour	15,665	6.3	21,687	5.5	27,780	6.2
Manufacturing overhead	14,438	5.8	18,959	4.8	23,738	5.3
Total	249,614	100.0	394,516	100.0	447,727	100.0

The major component in the cost of sales was the cost of raw materials, principally aluminium and HVAC components such as compressors and other HVAC components such as receiver driers, expansion valves and HVAC control units which we do not manufacture. We purchase processed aluminium in various forms such as aluminium tubes, aluminium foil and aluminium plates. For the Track Record Period, the cost of aluminium accounted for 7.0%, 9.0% and 11.8%, respectively, of our total cost of sales. During the Track Record Period, our average purchase cost of processed aluminium was approximately RMB32,229 per tonne, RMB33,755 per tonne, and RMB34,090 per tonne respectively. Such purchase cost comprised the cost of aluminium (which was approximately RMB13,272 per tonne, RMB15,741 per tonne and RMB16,676 per tonne during the Track Record Period respectively) and processing fee (which was approximately RMB18,957 per tonne, RMB18,014 per tonne and RMB17,414 per tonne during the Track Record Period respectively). The cost of aluminium is determined with reference to market price while the processing fee of aluminium varies depending on the type of aluminium to be processed and the negotiation between us and our suppliers at the beginning of a year when the framework agreement is entered into. The increase in our purchase cost of processed aluminium was in line with upward trend of aluminium market price, which was partly offset by the decrease in processing fee. The decrease in processing fee was mainly brought by the intense competition amongst the aluminium processors and suppliers.

For the Track Record Period, the cost of sales of compressors accounted for 28.3%, 24.4% and 19.3%, respectively, of our total cost of sales. The decrease in the cost of compressors (as a percentage of our total cost of sales) was mainly because some of our customers elected to purchase compressors by themselves. As such we did not need to purchase and install compressors into our HVAC systems for them and we can save our cost of sales and the related distribution and administrative costs as well. Besides, the decrease in cost of compressors (as a percentage of our total cost of sales) was also in line with the trend that the price of compressors has tended to decline. During the Track Record Period, our per unit cost of compressor was approximately RMB485, RMB462 and RMB452 respectively. The decrease in per unit cost of compressor despite the increase in market price of aluminium was primarily brought by the intense competition amongst compressors manufacturers. Aotecar Nanjing, a connected person of us as defined under the Listing Rules, is one of our suppliers of compressors. During the Track Record Period, the per unit purchase price of compressors from Aotecar Nanjing was similar to our average unit cost of compressors, and was similar to the purchase price of compressors from other Chinese manufacturers. In some cases, we are requested by customers to purchase compressors of specified brands or models from manufacturers which are sino-foreign joint ventures. In such cases, the per unit purchase price from these sino-foreign joint ventures would be generally higher than the per unit purchase price from Chinese manufacturers including Aotecar Nanjing. Details of our transactions with Aotecar Nanjing are set out in the section headed “Connected Transactions” in this prospectus.

The cost of other HVAC components has remained relatively stable for the Track Record Period and has accounted for 52.6%, 56.3% and 57.4%, respectively, of our total cost of sales for the same periods. During the Track Record Period, the cost of raw materials accounted for 87.9%, 89.7% and 88.5%, respectively, of our total cost of sales.

Direct labour costs primarily consist of expenses related to wages and bonus. During the Track Record Period, direct labour costs accounted for 6.3%, 5.5% and 6.2%, respectively, of our total cost of sales.

Manufacturing overhead costs primarily consist of depreciation of our plant and equipment and fixed manufacturing costs, including utilities and maintenance costs. During the Track Record Period, manufacturing overhead costs accounted for 5.8%, 4.8% and 5.3%, respectively, of our total cost of sales.

Gross profit

For the Track Record Period, our gross profit was RMB96.9 million, RMB151.0 million and RMB172.2 million, respectively. Our gross profit margin, which is equal to gross profit divided by turnover, was 28.0%, 27.7% and 27.8%, respectively, for the same periods.

The following table sets forth the breakdown of our gross profits and gross profit margins by products during the Track Record Period:

	Years ended 31 December					
	2009		2010		2011	
Products	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**	**Gross profit**	**Gross profit margin**
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HVAC systems	92,117	28.1	146,290	28.0	155,606	27.8
HVAC components	4,808	25.3	4,696	19.9	16,571	27.9
Total	96,925	28.0	150,986	27.7	172,177	27.8

During the Track Record Period, our gross profit margin was relatively stable. This was because (i) while the market price of aluminium had been increasing moderately, we have made our evaporators and condensers thinner (hence, lighter) which has in turn reduced our usage of aluminium in our production; (ii) because of the intense price competition among the aluminium suppliers, we possess strong bargaining power to negotiate our purchase cost of aluminium; and (iii) HVAC systems for SUVs, pickup trucks, heavy trucks and construction machineries remained as our major products during the Track Record Period and there had not been material fluctuation of selling price of such products during the Track Record Period.

Other revenue and net income

Other revenue and net income primarily include interest income and government grants. During the Track Record Period, we received government grants from local government authorities in the form of subsidies as an encouragement for our development in the science aspect and as one of the core enterprises in local economy. As advised by our PRC Legal Advisers, most of the government grants were granted on an one-off basis, except as otherwise additionally granted by the local government authorities, we may not be able to continue to enjoy such governmental subsidiaries in the future.

The following table sets forth the breakdown of our other revenue and net income during the Track Record Period:

	Years ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Other revenue			
Government grants	1,807	3,987	2,677
Interest income	350	203	1,608
Others	1,012	1,187	2,550
	3,169	5,377	6,835
Other net income			
Gains on disposal of property, plant and equipment	—	67	—
Total	3,169	5,444	6,835

Distribution costs

Our distribution costs consist primarily of transportation cost, product warranty expenses, salary paid to our sales and marketing employees, and depreciation and amortisation charges. During the Track Record Period, our distribution costs represented 5.3%, 5.3% and 4.0% of our total turnover, respectively.

The following table sets forth the breakdown of distribution costs for the Track Record Period:

	Years ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Transportation cost	4,605	7,920	7,370
Product warranty expenses	2,346	4,870	2,395
Staff cost	2,525	6,269	4,861
Depreciation and amortisation	4,964	4,992	5,917
Others	4,081	4,734	4,187
Total	18,521	28,785	24,730

Administrative expenses

Our administrative expenses consist primarily of salary expenses paid to our management and administrative personnel, research and development expenses, professional fees, depreciation expenses and impairment losses on trade debtors. During the Track Record Period, our administrative expenses represented 6.3%, 4.9% and 6.1% of our total turnover, respectively.

The following table sets forth the breakdown of our administrative expenses for the Track Record Period:

	Years ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Staff cost	13,232	11,131	12,414
Research and development expenses	4,077	6,559	9,886
Listing expenses	—	—	5,156
Professional fees	845	1,661	1,826
Depreciation and amortisation	692	820	2,178
Impairment losses on trade debtors	414	2,310	164
Others	2,688	4,375	6,143
Total	21,948	26,856	37,767

Included in the administrative staff cost, there were share-based payment expenses amounting to approximately RMB6.3 million, RMB1.3 million and RMB0 for the Track Record Period respectively.

Pursuant to a resolution of the board of directors of Xiezhong Nanjing passed on 29 October 2008, a share incentive plan was adopted by Xiezhong Nanjing. In accordance with the share incentive plan, the board of directors of Xiezhong Nanjing is authorised to invite its employees of Xiezhong Nanjing to take up options at nil consideration to acquire the shares of the Company from existing equity shareholders, i.e. CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto, Sunrise International, as incentives or rewards if certain conditions are met.

The total number of shares to be acquired upon the exercise of all options granted under the share incentive plan is 30,000,000.

Further details of the terms of the share incentive plan are set out in the paragraph headed "Share incentive plan" in the "History and Development" section of this prospectus.

Finance costs

Our finance costs mainly represent interest expenses on bank loans and discounted bills. During the Track Record Period, the finance costs of the Group were approximately RMB1.5 million, RMB1.9 million and RMB7.6 million respectively.

Income tax

Our income tax expenses increased from RMB9.0 million in 2009 to RMB16.1 million in 2010, and to RMB21.5 million in 2011, mainly because of the increase in profit. In 2009 and 2010, our effective tax rate was relatively stable and was about 15.6% and 16.7% respectively. In 2011, our effective tax rate increased to 19.8%, mainly because one of our subsidiaries, Xiezhong Nanjing, completed the 2 + 3 tax holiday in 2010, and was subject to income tax at 12.5% in 2009 and 2010, and at 15% in 2011.

REVIEW OF HISTORICAL RESULTS OF OPERATION

Year ended 31 December 2011 compared with year ended 31 December 2010

Turnover

Turnover for the year ended 31 December 2011 was RMB619.9 million, an increase of RMB74.4 million, or 13.6%, from turnover of RMB545.5 million for the year ended 31 December 2010. The increase in turnover was attributable to the increase in sale of both automotive HVAC systems and HVAC components. Sales of HVAC systems increased by 7.4% mainly because of expansion of our client base and business scale. In particular, the increase of our turnover was mainly driven by the increase in sales of HVAC systems for SUVs and pickup trucks and construction machineries. Sales of HVAC components increased by 151.0% mainly because we have expanded our products offerings of HVAC components and have raised the grade of our products for sale, resulting in an increased turnover for our HVAC components from our customers. Besides, during 2011, we have a new customer of HVAC components which contributed about RMB8.8 million of our turnover, and one of our HVAC components customers who is a component wholesaler has increased sales locations and enlarged operation scale in the PRC and thus increased purchases of HVAC components from us, leading to an increase in turnover from sales of HVAC components.

Cost of sales

Cost of sales increased by 13.5% from RMB394.5 million in 2010 to RMB447.7 million in 2011. The increase in cost of sales was in line with our increase in sales. Cost of sales as a percentage of turnover was relatively stable and was about 72.2% in 2011 as compared to about 72.3% in 2010.

Gross profit

Gross profit for the year ended 31 December 2011 was RMB172.2 million, an increase of RMB21.2 million, or 14.0%, from the gross profit of RMB151.0 million for the year ended 31 December 2010. Overall gross profit margin of the Group was relatively stable and was about 27.8% in 2011 as compared to 27.7% in 2010. Gross profit margin of HVAC components increased from 19.9% in 2010 to 27.9% in 2011. This was mainly because we have upgraded the standard of our products and expanded product offerings of HVAC components and as a result we are able to sell HVAC components at a higher gross profit margin. During 2011, we have a new customer for HVAC components which is an automaker and demanded for more high-end HVAC components and the gross profit for such high-end products is higher. Besides, another customer of HVAC components which is a component wholesaler increased its sales locations in the PRC and enlarged operation scale in 2011 and it also demanded for more high-end products. As a result, our gross profit of HVAC components increased in 2011.

Distribution costs

Distribution costs for the year ended 31 December 2011 were RMB24.7 million, a decrease of RMB4.1 million, or 14.2%, from the distribution costs of RMB28.8 million for the year ended 31 December 2010. The decrease was mainly because in 2011, we have improved efficiency in logistic and successfully reduced transportation cost by about 6.9%. Besides, as we have strengthened our quality control and as the proportion of our sales without warranty term increased, less warranty provision was required and our product warranty expenses decreased by about 50.8%. Our sales of HVAC components to a HVAC component wholesaler are without warranties terms. Such products include evaporators, condensers, heater cores and other miscellaneous HVAC parts that we manufacture. When we started our business with this wholesaler in 2009, this wholesaler was relatively small in scale and as it possesses its own engineering staff, it handles maintenance by itself and it does not request us to provide warranty in exchange for better trading terms and our supply of components. In 2011, it increased sales locations in the PRC and therefore increased purchases from us, leading to a higher percentage of our sales without warranty terms. During the year ended 31 December 2011, percentage of our turnover from sales without warranty terms increased from 2% in 2010 to 7% in 2011.

Administrative expenses

Administrative expenses for the year ended 31 December 2011 were RMB37.8 million, an increase of RMB10.9 million, or 40.5%, from RMB26.9 million for the year ended 31 December 2010. The increase was mainly because of the increase in our research and development cost from RMB6.6 million in 2010 to RMB9.9 million in 2011; the listing expenses of RMB5.2 million; and the the increase of depreciation and amortisation charges due to the addition of fixed assets and machinery.

Finance costs

Finance costs for the year ended 31 December 2011 were RMB7.6 million, an increase of RMB5.7 million, or 300.0%, from RMB1.9 million for the year ended 31 December 2010. The increase in finance costs was mainly due to the increase in interest-bearing borrowings which provided us with additional working capital as our business scales up.

Share of losses of jointly controlled entities

We recorded share of losses of jointly controlled entities of RMB1.9 million in 2010 and the amount decreased to RMB235,000 in 2011. We hold equity interest of 50% in Xiezhong Beijing and 51% in Xiezhong Hubei. We acquired 50% equity interests in Xiezhong Beijing from third parties in March 2010, while Xiezhong Hubei was established in April 2010. The two companies, Xiezhong Beijing and Xiezhong Hubei, were accounted for as our jointly controlled entities in 2010. On 26 January 2011, we obtained an effective control over the majority of the board of directors of Xiezhong Beijing and the equity holders of Xiezhong Beijing authorised its board of directors their power to govern the financial and operating policies of Xiezhong Beijing. As a result, we accounted for Xiezhong Beijing as our subsidiary since 26 January 2011. Therefore, in 2011, our share of losses of jointly controlled entities was mainly attributable to Xiezhong Hubei. Xiezhong Hubei incurred losses in 2011 because Xiezhong Hubei was just established in April 2010 and it was at its early stage of business development and had not yet achieved economies of scale. Xiezhong Beijing would engage in the business of manufacturing and sales of HVAC systems and components and we intend to commence construction of the production plant of Xiezhong Beijing in the second half of 2012. Xiezhong Hubei is also engaged in the business of manufacturing and sales of HVAC systems and components.

Profit before taxation

For the above reasons, our profit before taxation increased by RMB11.7 million, or 12.1% from RMB96.8 million in 2010 to a RMB108.5 million in 2011.

Income tax

Our income tax expenses increased by RMB5.4 million, or 33.5% from RMB16.1 million in 2010 to RMB21.5 million in 2011. Our effective tax rates calculated from income tax expenses over our profit before taxation was 19.8% in 2011, as compared to 16.7% in 2010. The increase in effective tax rate was because one of our subsidiaries, Xiezhong Nanjing, completed the 2 + 3 tax holiday in 2010, and was subject to income tax at 12.5% in 2009 and 2010, and at 15% in 2011.

Profit for the year

As a result of the foregoing, profit attributable to equity shareholders of the Company for the year increased by about 8.4%, from RMB79.4 million in 2010 to RMB86.1 million in 2011. Our net profit margin decreased from 14.6% in 2010 to 13.9% in 2011.

Year ended 31 December 2010 compared with year ended 31 December 2009

Turnover

Turnover for the year ended 31 December 2010 was RMB545.5 million, an increase of RMB199.0 million, or 57.4%, from turnover of RMB346.5 million for the year ended 31 December 2009. The increase in turnover was mainly attributable to the increase in sale of automotive HVAC systems, which increased from approximately RMB327.5 million in 2009 to RMB521.9 million in 2010, representing an increase of 59.4%. The increase in sales of automotive HVAC systems was primarily due to the increase in demand of SUVs, pickup trucks, heavy trucks and construction machineries, which in turn increased the demand of our core products. According to Timer Auto Consulting, increasing automotive HVAC system penetration rate and the economic growth in 2010 in China led to the increase market demand for SUV and pickup trucks. Our Directors also believe that increase in infrastructure and construction work in China during 2010 has led to the increase in demand for construction machineries.

Cost of sales

Cost of sales increased by 58.1% from RMB249.6 million in 2009 to RMB394.5 million in 2010. The increase in cost of sales corresponded with our increase in sales.

Cost of sales as a percentage of turnover was relatively stable and was about 72.0% in 2009 and about 72.3% in 2010.

Gross profit

Gross profit for the year ended 31 December 2010 was RMB151.0 million, an increase of RMB54.1 million, or 55.8%, from the gross profit of RMB96.9 million for the year ended 31 December 2009. The gross profit margin of HVAC components decreased from 25.3% in 2009 to 19.9% in 2010 as the Group offered a competitive price to attract a new customer which generated more than 10% of the HVAC components sales in 2010. Overall gross profit margin of the Group was relatively stable and was about 28.0% in 2009 and about 27.7% in 2010.

Distribution costs

Distribution costs for the year ended 31 December 2010 were RMB28.8 million, an increase of RMB10.3 million, or 55.7%, from the distribution costs of RMB18.5 million for the year ended 31 December 2009. The increase was mainly due to (i) the increase in transportation cost by RMB3.3 million as a result of the increase in sales during the year ended 31 December 2010; and (ii) the increase in staff cost in respect of our sales and marketing employees by RMB3.7 million.

Administrative expenses

Administrative expenses for the year ended 31 December 2010 were RMB26.9 million, an increase of RMB5.0 million, or 22.8%, from administrative expenses of RMB21.9 million for the year ended 31 December 2009. The increase was mainly due to the increase in research and development expenses by RMB2.5 million and the increase in impairment losses on trade debtors by RMB1.9 million.

Finance costs

Finance costs for the year ended 31 December 2010 were RMB1.9 million, an increase of RMB0.4 million, or 26.7%, from RMB1.5 million for the year ended 31 December 2009. The increase in finance costs was mainly due to the increase in interests of discounted bills in 2010.

Profit before taxation

For the above reasons, our profit before taxation increased by RMB38.7 million, or 66.6% from RMB58.1 million in 2009 to a RMB96.8 million in 2010.

Income tax

Our income tax expenses increased by RMB7.1 million, or 78.9% from RMB9.0 million in 2009 to RMB16.1 million in 2010. Our effective tax rates calculated from income tax expenses over our profit before taxation was relatively stable and were 15.6% and 16.7% in 2009 and 2010, respectively.

Profit for the year

As a result of the foregoing, profit attributable to equity shareholders of the Company for the year increased by about 134.9% from RMB33.8 million in 2009 to RMB79.4 million in 2010. Our net profit margin increased from 9.8% in 2009 to 14.6% in 2010.

ANALYSIS OF FINANCIAL POSITION

The following table sets forth a summary of our combined balance sheets, position for the Track Record Period as extracted from the Accountants' Report included in Appendix I to this prospectus and you should read the entire financial statements included therein, including the notes thereto, for more details.

	At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	81,321	134,438	197,201
Lease prepayments	26,674	35,309	56,050
Intangible assets	54,206	47,789	44,383
Goodwill	46,832	46,832	46,832
Interests in jointly controlled entities	—	27,111	4,659
Non-current prepayments	8,238	16,114	33,038
Deferred tax assets	—	1,654	5,012
Total non-current assets	217,271	309,247	387,175
Current assets			
Inventories	78,600	119,648	127,991
Trade and other receivables	211,514	331,083	390,745
Amounts due from related parties	600	31,035	3,607
Deposits with banks	—	—	50,961
Cash	39,148	4,969	28,063
Total current assets	329,862	486,735	601,367

	At 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Trade and other payables	127,407	216,438	198,291
Amounts due to related parties	217,128	218,970	24,903
Interest-bearing borrowings	21,057	73,852	154,618
Income tax payables	4,479	8,729	11,361
Provision	1,658	4,971	3,799
Total current liabilities	371,729	522,960	392,972
Net current (liabilities)/assets	(41,867)	(36,225)	208,395
Total assets less current liabilities	175,404	273,022	595,570
Non-current liabilities			
Deferred income	—	5,020	21,695
Deferred tax liabilities	19,525	21,322	25,918
Total non-current liabilities	19,525	26,342	47,613
Net assets	155,879	246,680	547,957
Capital and reserves			
Share capital	—	7	7
Reserves	62,187	241,932	520,049
Total equity attributable to equity shareholders of the Company	62,187	241,939	520,056
Non-controlling interests	93,692	4,741	27,901
Total equity	155,879	246,680	547,957

Property, plant and equipment

Property, plant and equipment consist of plants and machinery and office equipment, motor vehicles and construction-in-progress. As at 31 December 2009, 2010 and 2011, the net book value of our property, plant and equipment amounted to RMB81.3 million, RMB134.4 million and RMB197.2 million, respectively. The increase was mainly brought by additions of machinery and equipments and construction cost incurred in building or expanding the Jiangning Plant and the Fushun Plant.

Lease prepayments

Lease prepayments represent our payments for acquisition of land use rights in Nanjing, Beijing and Fushun, the PRC, on which our plant and buildings were built. The carrying amount of lease prepayments amounted to RMB26.7 million, RMB 35.3 million and RMB56.1 million as at 31 December 2009, 2010 and 2011 respectively. The increase in lease prepayments in 2010 was mainly due to acquisition of the land use right of a parcel of land with a total site area of 30,893.00 sq.m. located in Fushun in Liaoning by Xiezhong Liaoning. The increase in lease prepayments in 2011 was mainly due to consolidation of Xiezhong Beijing into our Group as a subsidiary.

Intangible assets

Our intangible assets mainly represent core technology for our automotive HVAC systems and customer relationships, the fair value of which were recognised using purchase method of accounting as a result of the acquisition of Xiezhong Nanjing by our Group in June 2008. The intangible assets are subject to straight line amortisation and both period and method of amortisation are reviewed annually. The estimated useful life of our core technology to manufacture HVAC systems is in line with the product life cycles for automotive products, such as SUVs, pickup trucks and heavy trucks, of our major customers. We have already sold certain types of HVAC systems for SUVs and pickup trucks to Foton and Zhongxing Auto for more than 10 years based on the historical sales information. Therefore, the average economic life of our core technology to manufacture HVAC systems is approximately 10 years based on our historical experience and the latest available information taking into account anticipated technological and other changes. As at 31 December 2009, 2010 and 2011, net book value of intangible assets amounted to RMB54.2 million, RMB47.8 million and RMB44.4 million respectively.

Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is tested annually for impairment. In June 2008, we acquired Xiezhong Nanjing. Pursuant to the accounting standards, the purchase price has been allocated to tangible assets, identifiable intangible assets and goodwill. As at 31 December 2009, 2010 and 2011, carrying amount of goodwill amounted to RMB46.8 million. No impairment losses had been recognised.

Non-current prepayments

Non-current prepayments mainly represent the prepayments for procurement of machinery and equipment as we are expanding our operation in Nanjing and Fushun, the PRC. As at 31 December 2009, 2010 and 2011, we had non-current prepayments amounting to RMB8.2 million, RMB16.1 million and RMB33.0 million respectively. In 2010, the increase in non-current prepayments represented prepayments for purchase of our environment simulation laboratory equipment and construction of the research and development building at our existing production base at Nanjing. In 2011, the non-current prepayments further increased as we further made payments for purchase of of our environment simulation laboratory equipment. Besides, in 2011, we prepaid for additional moulds in preparation for new product models. As the equipments and moulds involved are relatively expensive, we are required to make prepayments for procurement. When the equipments and moulds are delivered to us, the total cost (including the prepayments made) will be accounted for as our fixed assets.

Inventories

Our inventories consist of raw materials, mainly aluminium raw materials and other HVAC components such as compressors, receiver driers, expansion valves and HVAC control units, work in progress and finished products.

The following table sets forth a summary of our inventory balances as at the end of each reporting period indicated, as well as the turnover days of our inventory for the periods indicated:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	19,920	36,785	34,821
Work in progress	7,204	14,351	20,305
Finished goods	51,476	68,512	72,865
Total inventories	78,600	119,648	127,991

	Years ended 31 December		
	2009	**2010**	**2011**
Inventory turnover days	96	92	101

Our inventory balance increased by RMB41.0 million, or 52.2%, from 2009 to 2010. This was mainly because of our significant increase of about 57.4% in turnover in 2010 as driven by market demand. Due to such increase in market demand and as our production capacity also increased in 2010, we increased the stock level of raw materials to cater our production needs and we increase our stock of finished goods to ensure that we could meet the demand of our customers in time. Our inventory balance increased by RMB8.3 million, or 7.0%, from 2010 to 2011. This was mainly because we have increased our stock of work in progress and finished goods in preparation for meeting the market demand in the first quarter of 2012. In 2012, the Chinese New Year was in January which was earlier than the Chinese New Year in 2011 and 2010. As such, we stocked up more goods in December 2011 than in December 2010. In addition, during 2011, as our customer base expanded, we have to prepare more stock in various locations and warehouses to meet our customers' demand.

We review and monitor our inventory level on a periodical basis. This involves the maintenance of an appropriate level of inventory as well as any write-down or provision for any obsolete and slow-moving inventory items. During the Track Record Period, write down of inventories amounted to RMB81,000, RMB1.4 million and RMB1.3 million respectively. Generally, our sales are higher during the months of March to May and October to December each year. As such, we maintain considerable amount of stock of raw materials in December (which is our reporting period end) to meet our production needs. Besides, we also maintain a certain level of stock of finished goods to ensure that our customers' demands are fulfilled timely. Such inventory level of finished goods is monitored with reference to the monthly orders placed by our customers and changes in market demand as noted through our close communication with customers.

Inventory turnover days are derived by dividing the average of the beginning and ending balances of inventory for the relevant period by cost of sales of the corresponding period and multiplying by 365 days. The decrease in inventory turnover days from 96 days in 2009 to 92 days in 2010 was primarily attributable to the growth in sales in 2010 because of the substantial increase in sales during 2010 as driven by market demand and, as a result, our inventories were sold in a relatively shorter period of time. The increase in inventory turnover days from 92 days in 2010 to 101 days in 2011 was primarily attributable to the increase in stock level of work in progress and finished goods as explained above.

As at 25 May 2012, we used up 67.7% of the raw materials and work-in-progress outstanding as at 31 December 2011 and sold 70.3% of the finished goods outstanding as at as at 31 December 2011.

Trade and other receivables

The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Trade debtors	139,204	185,676	252,450
Less: allowance for doubtful debts	(1,172)	(3,482)	(3,646)
	138,032	182,194	248,804
Bills receivable	72,644	124,364	132,140
	210,676	306,558	380,944
Other receivables, deposits and prepayments	838	24,525	9,801
	211,514	331,083	390,745

Our trade debtors and bills receivable represent receivables from the sales of our products. We offer credit to our customers on a case-by-case basis, depending on our relationship with, and the location, credibility and volume of purchases of, each customer. We generally offer a credit of 90 days to our customers. We continuously monitor the status of the outstanding accounts receivable due to us from each customer.

Our trade debtors and bills receivable increased from RMB210.7 million as at 31 December 2009 to RMB306.6 million as at 31 December 2010, which was primarily due to the substantial increase in sales. Our trade debtors and bills receivable further increased to RMB380.9 million as at 31 December 2011 primarily because of our expansion in business scale. Besides, some of our customers were affected by the macro-control and tightening monetary policies implemented by the PRC government and they had to temporarily slow down their settlement schedule.

The following table sets forth the aging analysis of our trade debtors and bills receivable as at the end of each reporting period indicated, based on invoice date:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
1–90 days	162,239	222,262	300,040
91–180 days	34,990	65,628	61,195
181–360 days	2,458	14,727	18,923
Over 361 days	10,989	3,941	786
Total	210,676	306,558	380,944

The following table sets forth the aging analysis of our trade debtors and bills receivable as at the end of each reporting period indicated, based on the due date:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Current	183,530	255,125	323,413
Less than 1 month past due	6,490	24,369	15,341
1 to 3 months past due	6,963	9,172	22,424
3 to 12 months past due	12,868	15,757	19,697
Over 12 months past due	825	2,135	69
Amounts past due	27,146	51,433	57,531
Total	210,676	306,558	380,944

Our senior management and our credit control department would assess and approve such request for delay in settlement on a case-by-case basis based on the credit-worthiness, financial condition, repayment record and length of business relationship with us of such customers. We have strict credit policy on customers and seek to maintain strict control over our outstanding receivables and have a credit control team to minimise credit risk. Overdue balances are reviewed regularly by our senior management.

	Year ended 31 December		
	2009	**2010**	**2011**
Turnover days of trade debtors and bills receivable	202	173	202

Turnover days of trade debtors and bills receivable are derived by dividing the average of the opening and closing balances of trade debtors (net of allowance for doubtful debts) and bills receivable of the relevant period by turnover of the corresponding period and multiplying by 365 days for the three years ended 31 December 2009, 2010 and 2011. For the three years ended 31 December 2009, 2010 and 2011, our turnover days of trade debtors and bills receivable were 202 days, 173 days and 202 days, respectively. Certain of our customers pay us with bank acceptance bills, which are generally of a valid term of 180 days. Without taking into account the bills receivable, our turnover days of trade debtors calculated by dividing the average of the opening and closing balances of trade debtors (net of allowance for doubtful debts) of the relevant period by revenue of the corresponding period and multiplying by 365 days for the three years ended 31 December 2009, 2010 and 2011, were 159 days, 107 days and 127 days respectively.

Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing. On average, the credit term that we generally grant to our customers is 90 days. Our trade debtors and bills receivable turnover days were longer than 90 days was because, firstly, a relatively large amount of sales were carried out in November and December. During the Track Record Period, our turnover in the fourth quarter accounted for 40.7%, 31.9% and 31.9% of our total turnover in the respective year. As set out in the aging analysis based on invoice date, substantial portion (being 77.0%, 72.5% and 78.8% as at 31 December 2009, 2010 and 2011 respectively) of our trade and bills receivable were aged within 90 days. As disclosed in the section headed "Business — Sales and Marketing — Seasonality", November and December are months in which we usually record higher sales revenue. As our sales are directly related to sales trend in the automotive market, our seasonal fluctuation is similar to that in the automotive industry. In particular, vehicles dealers tend to offer sales promotions to stimulate sales during year-end time. Besides, in January to February, consumers tend to spend more during Chinese New Year time and may have higher purchasing power from their year-end bonus. As such, during November and December, automakers usually increase purchase of HVAC products from us for their production needs to meet the anticipated high consumer demand around Chinese New Year time. As a result, our trade receivable balance as at 31 December would be relatively high, leading to the number of turnover days being more than 90 days. Secondly, some of our customers use bills receivable to settle our invoices and bills receivable are generally of a longer term of 180 days. Thirdly, it takes some time for our customers to go through its internal process in checking the billings, arranging funding and processing payment. In particular, it is our understanding that some of our major customers process invoice settlement collectively once a month and this may have led to a longer time lag between our invoice date and payment date. Fourthly we sometimes grant temporary grace period to our major customers in respect of receivables that past due after the initial credit term. As at 31 December 2009, 2010 and 2011, about 12.9%, 16.8% and 15.1% of our trade and bills receivable were past due. In granting any grace period to our customers, our management considers, among other things, background information, asset base, financial resources, financial status, repayment record, future business plan and prospect and length of business relationship, specific circumstances of the customers, and categorise them according to their credit-worthiness. Based on such categorisation, we may grant grace period of one to six months to customers we consider with relatively low credit risk.

In general, the normal credit term that we offer to customers is three months and the maximum extended credit period granted to customers was six months. As at 31 December 2011, the trade and bills receivable is analysed as below:

	As at 31 December 2011	
	Trade and bills receivable	**Amount with credit period extended after the initial term**
	RMB'000	*RMB'000*
Current:		
Trade receivable (90 days credit term in general)	191,273	—
Bills receivable (180 days credit term in general)	132,140	—
	323,413	—
Less than 1 month past due	15,341	13,990
1 to 3 months past due	22,424	20,814
3 to 12 months past due	19,697	17,455
Over 12 months past due	69	—
	57,531	52,259
Total	380,944	52,259

As at 31 December 2011, out of the trade receivable which was past due which amounted to RMB57.5 million, approximately RMB52.3 million was receivable with extended credit period granted. Out of the trade receivable which was past due, RMB52.4 million had been settled up to 25 May 2012. The receivable with extended credit period comprised of receivable from 15 major customers of us, including ten large scale automakers and their affiliates in the PRC and five HVAC components manufacturers or suppliers. All of them were within top ten in term of transaction amount in our customers list having more than two years of business relationship with us, and seven of them have around nine years of business relationship with us.

In 2011, some of our customers requested us to extend credit period because they were affected by tightening monetary policies implemented by the PRC government and therefore they need more time to prepare working capital for settling our bills. Having considered the asset base, background and length of business relationship of such customers with us, our management estimated that the risk of such receivables being default or such customers going bankrupt is low, and therefore no impairment of such receivable is required. Furthermore, with a view to maintaining a stable and long-term business relationship with our major customers, we consider that it is appropriate to grant such extension. Up to the Latest Practicable Date, there had not been any incident of delay in payment by these customers after the extended credit period.

Number of turnover days decreased in 2010 as compared to 2009. The number of turnover days in 2009 was relatively high because China's economy was affected, though in a less severe manner than most western economies, by the sub-prime credit crises in the U.S. financial market in 2008 and the global financial crisis which followed. During such time, some customers requested temporary extension of settlement terms for in 2009. As China's economic growth regained the momentum in 2010, our customers settled trade debtors sooner than they did in 2009 and our trade receivables turnover days decreased as a result. Number of turnover days in 2011 increased because some of our customers were affected by the macro-control and tightening monetary policies implemented by the PRC government which aimed at stabilising economic development, and they had to temporarily slow down their settlement schedule. Nevertheless, we have been keeping close contact with our customers to assess their credit worthiness, latest financial status and prospects. Having considered (i) our collection progress up to 25 May 2012; (ii) the payment history of the customers; (iii) the current financial status, business and operation status of the customers and that the risk of liquidation of such customers is relatively low as noted by our management and sales team who keep close contact with the customers from time to time; and (iv) that provision has been made for nearly all of the trade receivables which aged over one year as at 31 December 2011, the Directors are of the view that adequate provision for trade receivables have been made.

As at 25 May 2012, about 83.7% of our trade debtors outstanding as at 31 December 2011 was subsequently settled.

Other receivables increased from RMB0.8 million as at 31 December 2009 to RMB24.5 million as at 31 December 2010. The increase was mainly because we advanced loans to certain entities which was in breach of Lending General Provision as disclosed in the paragraph headed "Legal Proceedings and Regulatory Compliance" in the "Business" section. Subsequent to 31 December 2010, the loans were fully settled and other receivables decreased to RMB9.8 million as at 31 December 2011 as a result.

Trade and other payable

The following table sets forth the components of our trade and other payable as of the dates indicated:

	As at 31 December		
	2009	2010	2011
Trade payables	110,952	169,837	155,201
Bills payable	4,979	15,100	9,559
	115,931	184,937	164,760
Other payables	5,772	26,107	24,349
Other tax payables	5,704	5,394	9,182
	127,407	216,438	198,291

Trade and bills payable were mainly incurred for the purchase of raw materials from various suppliers. We generally receive credit terms of 90 days from our suppliers. It is generally accepted by our suppliers that we settle our trade balances by means of cash or endorsing bank acceptance bills upon the expiration of the credit terms.

The following table sets forth the aging analysis of our trade and bills payable as at the end of each reporting period indicated, based on the invoice date, as well as the turnover days of our trade and bills payable for the periods indicated:

	As at 31 December		
	2009	2010	2011
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	102,617	166,152	148,624
3 to 6 months	10,298	17,012	13,363
6 to 12 months	2,487	1,223	1,944
Over 12 months	529	550	829
	115,931	184,937	164,760

	Year ended 31 December		
	2009	2010	2011
Turnover days of trade and bills payable	136	139	143

Our trade and bills payable increased from RMB115.9 million as at 31 December 2009 to RMB184.9 million as at 31 December 2010. The increase was primarily due to the increase in purchase of raw materials as a result of increase in sales. Trade and bills payable decreased to RMB164.8 million as at 31 December 2011 we had to settle most of our trade payables before Chinese New Year which was in January 2012.

Turnover days of trade and bills payable are derived by dividing the average of the beginning and ending balances of trade and bills payable for the relevant period by cost of sales of the corresponding period and multiplying by 365 days. The trade and bills payable turnover days increased from 136 days in 2009 to 139 days in 2010 and increased to 143 days in 2011. The average trade and bills payable turnover days throughout the Track Record Period of our Group were higher than the credit terms granted by our suppliers was mainly because (i) VAT-input of 17% was included in trade and bills payable while it was not included in cost of sales in the calculation of turnover days. The amounts set out on suppliers' invoices include the cost of materials plus a 17% VAT. The cost of materials is accounted for as cost of sales in the income statement. The 17% VAT paid is not accounted for in the income statement, but is accounted for as a balance sheet item "VAT-input" which is deductible against the VAT payable by us in respect of our sales income. As such, in calculating the trade and bills payable turnover days, the number of turnover days is lengthened by about 15%. Besides, as it normally takes some time for the materials as well as the suppliers' invoices to be delivered to us, the trade payable turnover days would be longer than the credit term; and (ii) we used commercial acceptance bills to settle certain of our trade payables and bills payable are generally of a longer term of 180 days.

As at 25 May 2012, 77.8% of our trade payables outstanding as at 31 December 2011 was subsequently settled.

Our other payables mainly represented equipment and machinery payables, accrued delivery cost and pension fund payables. The increase in other payables as at 31 December 2010 was mainly attributable to the increase in amounts payable for purchases of machinery and equipment and construction cost incurred in building or expanding the Jiangning Plant and the Fushun Plant.

Other tax payables mainly represented value added tax and individual income tax.

Provision for warranty

We generally provide warranty coverage for our products. Generally, the warranty period we provide ranges from 60,000 kilometres to 100,000 kilometres of mileage of the relevant vehicle or 1 year to 3 years. In other contracts for sales of HVAC systems or HVAC components for construction machineries, we provide a warranty period of 1 year or 2,000 hours of operation of the machinery of which the HVAC systems are used, whichever is sooner. The amount of the provision for product warranties is estimated based on sales volumes and past experience of the level of repairs and claims. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During each of the year ended 31 December 2009, 2010 and 2011, about 3%, 2% and 7% respectively of our total turnover were generated from sales without warranty terms. The provision utilised during the Track Record Period represents the actual settlement to customers for repairs or claims of products sold.

As at 31 December 2009, 2010 and 2011, our balance of provision for warranty claims amounted to RMB1.7 million, RMB5.0 million and RMB3.8 million, respectively. The increase in warranty provision balance in 2010 was mainly because of the increase in revenue. The decrease in warranty provision balance in 2011 was mainly because we have strengthened our quality control and as the proportion of our sales without warranty term increased, less provision for warranty was required.

Based on the past experience of the level of repairs and claims, our Directors are of the view that we have made adequate provisions for product quality warranties.

The following table sets forth the movement in our provision for product warranties provided by our Group as at the end of each reporting period indicated:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Balance at the beginning of year	1,598	1,658	4,971
Additional provision	2,346	4,870	2,395
Provision utilised	(2,286)	(1,557)	(3,567)
Balance at the end of year	1,658	4,971	3,799

Deferred income

As at 31 December 2009, 2010 and 2011, we had deferred income amounting to RMB0, RMB5.0 million and RMB21.7 million respectively. The deferred income represented cash amounts received from government subsidizing the construction of the Fushun Plant and the Beijing Plant. Such government grants are recognised as income over the periods necessarily to match them with the related costs of assets constructed which they are intended to compensate over the periods and in the proportion in which depreciation on those assets is charged.

Amounts due from/to related parties

The following table sets forth a breakdown of balances with related parties as at 31 December 2011:

	At 31 December 2011
	RMB'000
Trade debtors from	
— Beijing Automotive Co., Ltd. ("Beijing Auto")	3,607

	At 31 December 2011
	RMB'000
Trade payables due to	
— Xiezhong Hubei	4,511
— Aotecar Nanjing	20,392
	24,903

The trade debtors due from Beijing Auto and the trade payables due to Xiezhong Hubei and Aotecar Nanjing are of trade nature arising from the normal course of business of the Group which will be continued after Listing.

LIQUIDITY AND CAPITAL RESOURCES

Financial resources

Based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that our proceeds from the Share Offer, our cash and bank deposits, cash flow from operations, our banking relationships and future financings will enable us to meet our working capital, capital expenditures, and other funding requirements for the foreseeable future. However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depend on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms, if at all.

In general, we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs. We may use short-term bank borrowings to finance operations and repay bank borrowings once our funding position is in surplus. We have not experienced and do not expect to experience any difficulties meeting our obligations as they become due. We will use part of the proceeds from the Share Offer to fulfill our capital commitments for future expansion.

Our cash as at 31 December 2009, 2010 and 2011 were RMB39.1 million, RMB5.0 million and RMB28.1 million, respectively.

Cash flows

We conduct our operations mainly through our operating subsidiaries and jointly controlled entity in the PRC. Cash flows generated by our operating subsidiaries and jointly controlled entities on a stand-alone basis may differ significantly from that presented in our combined cash flow statements.

The following table sets forth a condensed summary of our combined statements of cash flows for the periods indicated. Such summary of our combined statements of cash flows is extracted from the Accountants' Report included in Appendix I to this prospectus and you should read the entire financial statements included therein, including the notes thereto, for more details.

	Year ended 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Net cash flows from operating activities	73,349	23,716	22,896
Net cash flows used in investing activities	(27,955)	(92,700)	(90,938)
Net cash flows (used in)/from financing activities	(15,800)	34,805	91,118
Cash at the beginning of the year	9,554	39,148	4,969
Effect of foreign exchange rate changes	—	—	18
Cash at the end of the year	39,148	4,969	28,063

Operating activities

We derive our net cash flows from operating activities primarily through the receipt of payments for the sale of our products. Our cash flows used in operating activities is used primarily for raw material purchases, payment of utilities, selling costs, and staff salaries.

Our net cash flows from operating activities of RMB22.9 million in 2011 mainly arose from profit before taxation of RMB108.5 million, adjusted for non-cash expenses such as depreciation and amortisation charges which increased in 2011 as we had more property, plant and equipment along with our business expansion. The operation profit was partially off-set by changes in our working capital including increase in trade and other receivables of RMB23.3 million, and decrease in trade and other payables of RMB53.9 million. The increase in trade and other receivables was mainly because we have increased sales while the number of trade receivables turnover days was relatively longer in 2011. The decrease in trade and other payables was mainly because we have to settle most of the trade payables before the Chinese New Year in January 2012.

Our net cash flows from operating activities of RMB23.7 million in 2010 mainly arose from profit before taxation of RMB96.8 million, partially offset by an increase in inventories of RMB42.4 million, an increase in trade and other receivables of RMB121.9 million and income tax payment of RMB11.8 million. The increase in trade and other receivables was mainly due to the increase in sales of our products as a result of the rising market demand of our products as driven by increasing automotive HVAC system penetration rate and economic growth. The increase in inventories was mainly due to increase in purchase of raw materials for the production of our products as a result of the rising market demand.

Our net cash flows from operating activities of RMB73.3 million in 2009 mainly arose from profit before taxation of RMB58.1 million, an increase in trade and other payables of RMB44.5 million, and increase in amounts due to related parties and increase in discounted bank acceptance bills. The amount was partially offset by an increase in trade and other receivables of RMB39.9 million and income tax paid of RMB8.2 million. In 2009, PRC economy was affected by the global financial crisis in most western economies and therefore our trade debtor turnover days was longer during the year. In this light, we used more trade creditors, bank acceptance bills and amounts due to related parties to provide working capital for our operation.

Investing activities

Our net cash used in investing activities in 2011 was RMB90.9 million. This amount was primarily attributable to payment for purchases of property, plant and equipment and lease prepayments of RMB95.5 million, mainly for our production plant in Nanjing; and the increase in unrestricted bank deposits of RMB30.5 million. The cash outflow was partly off set by the increase in cash as a result of the consolidation of Xiezhong Beijing as our subsidiary in 2011.

Our net cash used in investing activities in 2010 was RMB92.7 million. This amount was primarily attributable to payment for acquisition of property, plant and equipment of RMB64.1 million as we expanded our production capacity during the year as part of our expansion plan and anticipated increase in market demand. In addition, during the year, we invested in our jointly controlled entities, Xiezhong Beijing and Xiezhong Hubei, which amounted to RMB29.1 million.

Our net cash used in investing activities in 2009 was RMB28.0 million. This amount was primarily attributable to payment for construction of plant and acquisition of machineries and equipment amounted to RMB28.3 million.

Financing activities

Our net cash flows from financing activities in 2011 was RMB91.1 million, representing our net proceeds from bank borrowings.

Our net cash generated from financing activities in 2010 was RMB34.8 million. This amount was primarily attributable to net borrowing bank loans of RMB32.0 million, capital contributions from non-controlling equity holder of RMB2.8 million. During the year, we sought debt financing to fund our expansion of production capacity and investment in our jointly controlled entities of Xiezhong Beijing and Xiezhong Hubei.

Our net cash flows used in financing activities in 2009 was RMB15.8 million. This amount was primarily attributable to net repayment of bank loans of RMB17.0 million, and capital contributions from non-controlling equity holder of RMB1.2 million.

Gearing ratio

Our gearing ratio is calculated as the debt (including the interest-bearing borrowings, bills payable and amounts due to related parties) divided by total equity attributable to equity shareholders of the Company and debt. As at 31 December 2009, 2010 and 2011, our gearing ratio was 79.6%, 56.0% and 26.7% respectively. The decrease in gearing ratio in 2010 and 2011 was mainly because of the strengthening of our financial position and that our amount due to CUAS of about RMB192 million was capitalised in 2011.

Net current assets/liabilities

We had net current liabilities of RMB41.9 million and RMB36.2 million as at 31 December 2009 and 2010, respectively and net current assets of RMB208.4 million as at 31 December 2011. The net current liabilities as at 31 December 2009 and 2010 mainly resulted from the amount due to CUAS by Xiezhong BVI of approximately USD29 million (equivalent to approximately RMB198 million and RMB192 million as at 31 December 2009 and 2010 respectively). Such amount due to CUAS was arisen from the funding from CUAS to Xiezhong BVI in financing Xiezhong BVI to acquire equity interest in Xiezhong Nanjing through Xiezhong HK in 2008, and the amount was capitalized as fully paid-up capital and capital reserve of Xiezhong BVI as part of the Group's reorganisation on 7 November 2011 as mentioned in the paragraph headed "Reorganisation — (b) Capitalisation of debts due from Xiezhong BVI to CUAS and insurance of shares from Xiezhong BVI to Sunrise International" in the section headed "History and Development". The following table sets out the composition of our unaudited current assets and liabilities as at 30 April 2012, being the latest practicable date for determining our indebtedness:

	As at 30 April 2012
	RMB'000
CURRENT ASSETS	
Inventories	164,146
Trade and other receivables	401,258
Amounts due from related parties	4,338
Deposits with banks	59,936
Cash	10,160
Total current assets	639,838
CURRENT LIABILITIES	
Trade and other payables	209,340
Amounts due to related parties	24,688
Interest-bearing borrowings	181,766
Income tax payable	6,677
Provision	3,636
Total current liabilities	426,107
NET CURRENT ASSETS	213,731

Working capital

We have historically financed our operations through cash from operating activities, bank borrowings and shareholder contributions. In the future, we expect to use funds from a combination of sources to fund our operation and expansion plan, including bank loans, internally generated cash flows, and proceeds from the Share Offer.

Taking into account the financial resources available to us including internally generated funds, available banking facilities and the estimated net proceeds of the Share Offer, our Directors are of the opinion that we have sufficient working capital to meet our present requirements, and at least for the period ending 12 months from the date of this prospectus.

INDEBTEDNESS

Bank borrowings

We typically use short-term borrowings in the course of financing our business. The following table sets forth our short-term interest-bearing bank borrowings as at the dates indicated:

	Our Group			
	As at 31 December			As at 30 April
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	8,000	40,000	81,118	76,229
Unsecured bank loans	—	—	50,000	50,000
Bank advances under discounted bills	13,057	33,852	23,500	55,537
Total	21,057	73,852	154,618	181,766

As at 31 December 2009, 2010 and 2011, our secured bank borrowings carried interest rates ranging from 2.64% to 5.84%, 4.78% to 5.94%, 4.16% to 9.36%, respectively, per annum and were secured by the following assets:

Our bank borrowings are secured by:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	10,054	9,457	8,861
Lease prepayments	26,674	26,056	25,438
Pledged deposits	—	—	6,200
Bills receivable	—	—	37,133
Total	36,728	35,513	77,632

We have not encountered any difficulty in obtaining bank borrowings during the Track Record Period.

Our bank borrowings are secured by mortgages over our Group's leasehold lands and buildings situated in the PRC. Sufficient level of security has been provided by our Group for obtaining and maintaining our bank borrowings. With the existing level of security, our Directors do not expect that we will have difficulty in renewing the existing loan facilitates or obtaining new bank loan facilities. During the Track Record Period and up to the Latest Practicable Date, the Group has not experienced (i) any withdrawal of loan facilities, increase in interest rate, early payment of loans, difficulties in obtaining facilities; and (ii) cancellation of customer order and customer default.

As at 30 April 2012, being the latest practicable date for determining our indebtedness, we had outstanding bank borrowings of approximately RMB181.8 million, all of which were short-term. As at 30 April 2012, we had a total available banking facilities of approximately RMB186.2 million, of which approximately RMB126.2 million had been utilised. Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 30 April 2012, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 30 April 2012 and up to the date of the Prospectus.

Capital commitments

The following table presents our capital commitments to make future contracted payments for the purchase of property, plant and equipment:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	1,172	47,600	28,172

CAPITAL EXPENDITURES

Capital expenditures during the Track Record Period

We historically financed our capital expenditure requirements primarily through cash generated from our operations and bank borrowings. During the Track Record Period, our capital expenditures primarily related to acquisition of land use rights, construction of production facilities and expenditures for plant, machinery and equipment for business expansion. The following table sets out our historical capital expenditures paid during the Track Record Period:

	As at 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment and lease prepayments	28,305	64,068	95,548

Following the Share Offer, we will continue to incur capital expenditure to grow our business. Our intended capital expenditures mainly include those related to (i) our expansion plan, details of which are set out in the section headed "Business — Production Facilities and Production Capacities — Expansion of production plant" in this prospectus; and (ii) research and development expenditures. We estimate our total capital expenditures to be not less than RMB110 million for the year ending 31 December 2012.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we did not have any material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

FINANCIAL RISKS

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

Our financial assets include cash and trade and other receivables. Financial liabilities of the Group include interest-bearing borrowings and trade and other payables.

Our exposure to these risks and the financial risk management policies and practices used by us to manage these risks are described below.

(a) Credit risk

Our credit risk is primarily attributable to trade and other receivables. We have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on our customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing.

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

	At 31 December		
	2009	**2010**	**2011**
	RMB'000	*RMB'000*	*RMB'000*
Largest customer	36,516	1,238	63,033
Five largest customers	85,349	116,139	151,424

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

(b) Liquidity risk

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

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

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

At 31 December 2009

	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	8,000	8,024	8,024	—
Bank advances under discounted bills	13,057	13,057	13,057	—
Trade and other payables	127,407	127,407	127,407	—
Amounts due to related parties	217,128	217,128	217,128	—
	365,592	365,616	365,616	—

At 31 December 2010

	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	40,000	41,292	862	40,430
Bank advances under discounted bills	33,852	33,852	33,852	—
Trade and other payables	216,438	216,438	216,438	—
Amounts due to related parties	218,970	218,970	218,970	—
	509,260	510,552	470,122	40,430

At 31 December 2011

	Carrying amount *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Within 6 months or on demand *RMB'000*	More than 6 months but less than 12 months *RMB'000*
Secured bank loans	81,118	84,671	32,374	52,297
Unsecured bank loans	50,000	52,676	1,640	51,036
Bank advances under discounted bills	23,500	23,500	23,500	—
Trade and other payables	198,291	198,291	198,291	—
Amounts due to related parties	24,903	24,903	24,903	—
	377,812	384,041	280,708	103,333

(c) Interest rate risk

(i) Interest rate profile

Cash at bank and interest-bearing borrowings are the major types of our financial instruments subject to interest rate risk.

Cash at bank is with variable interest rates ranging from 0.01%～0.36%, 0.01%～0.36% and 0.01%～0.50% per annum as at 31 December 2009, 2010 and 2011, respectively. Deposit with banks are with interest rates ranging from 0.01%～3.05% per annum as at 31 December 2011.

Our interest-bearing borrowings and interest rates as at 31 December 2009, 2010 and 2011 are set out as follows:

	At 31 December					
	2009		**2010**		**2011**	
	Interest rate %	*RMB'000*	*Interest rate %*	*RMB'000*	*Interest rate %*	*RMB'000*
Fixed rate borrowings						
Bank loans	—	—	4.78-5.00	40,000	4.16-6.56	61,309
Bank advances under discounted bills	2.64	13,057	4.82-5.94	33,852	9.00-9.36	23,500
		13,057		73,852		84,809
Net variable rate borrowings						
Bank loans	5.84	8,000		—	7.22-7.32	69,809
		8,000		—		69,809
Total net borrowings		21,057		73,852		154,618
Net fixed rate borrowings as a percentage of total net borrowings		62%		100%		55%

(ii) Sensitivity analysis

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) profit after tax and retained profits for the year
		RMB'000
At 31 December 2009		
Basis points	100	(70)
Basis points	(100)	70
At 31 December 2010		
Basis points	100	—
Basis points	(100)	—
At 31 December 2011		
Basis points	100	(593)
Basis points	(100)	593

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

(d) Foreign currency risk

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

Our businesses are principally conducted in RMB and most of our monetary assets and liabilities are denominated in RMB. Accordingly, our Directors are of the view that our exposure to foreign currency risk is not significant. We do not employ any financial instruments for hedging purposes.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent us from satisfying sufficient foreign currency demands and we may not be able to pay dividend in foreign currencies to our equity shareholders.

(e) Fair values

The carrying amounts of all financial assets and liabilities approximate their respective fair values as at 31 December 2009, 2010 and 2011 due to the short maturities of those instruments.

PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix III to this prospectus. Savills Valuation and Professional Services Limited, an independent property valuation firm, has valued the properties owned and leased by us as at 30 April 2012. The text of their letters, summaries of values and valuation certificates are set out in Appendix III to this prospectus.

A reconciliation of the net book value of our Group's property interests as at 31 December 2011 to their fair value as at 30 April 2012 as stated in Appendix III to this prospectus is as follows:

	RMB'000
Net book value of our Group's property interests as at 31 December 2011	130,618
Additions	2,876
Depreciation and amortisation	(1,106)
Net book value of our Group's property interests as at 30 April 2012	132,388
Valuation surplus	26,212
Valuation amount as at 30 April 2012	158,600

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted combined net tangible assets of our Group which have been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out below to illustrate the effect of the Share Offer on our Group's net tangible assets as at 31 December 2011 as if they had taken place on that date.

The unaudited pro forma adjusted combined net tangible assets have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of our Group's net tangible assets had the Share Offer been completed as at 31 December 2011 or at any future date.

The unaudited pro forma adjusted combined net tangible assets is based on the net assets of our Group as at 31 December 2011, as derived from our combined financial information set forth in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	Audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2011	**Estimated net proceeds from the Share Offer**	**Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company**	**Unaudited pro forma adjusted net tangible assets per Share**	
	RMB'000[(1)]	*RMB'000*[(2)]	*RMB'000*	*RMB*[(3)]	*HK$*
Based on an Offer Price of HK$0.93 per Share	430,298	131,828	562,126	0.70	0.86
Based on an Offer Price of HK$1.32 per Share	430,298	193,581	623,879	0.78	0.96

Note:

(1) The audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2011 is compiled based on the combined financial information included in the Accountants' Report set out in Appendix I to this prospectus, which is based on the combined net assets attributable to equity shareholders of the Company of RMB520,056,000 less goodwill of RMB46,832,000 and intangible assets of RMB44,383,000 and adjusting for the share of intangible assets attributable to non-controlling interests of RMB1,457,000.

(2) The estimated net proceeds from the Share Offer are based on an Offer Price of HK$0.93 and HK$1.32 per Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.

(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 800,000,000 Shares in issue immediately after the Share Offer without taking into account any Share which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

DIVIDEND AND DIVIDEND POLICY

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

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

Our Group has not paid or declared any dividend during the Track Record Period and up to the Latest Practicable Date.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 30 September 2011. Our Company did not have any reserve available for distribution to our Shareholders as at 31 December 2011.

DISCLOSURE UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there had been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 31 December 2011, the date to which the latest audited financial statements of our Group were made up, up to the date of the Prospectus.