



**nexteer**  
AUTOMOTIVE

**Nexteer Automotive Group Limited**  
**耐世特汽車系統集團有限公司**

*(Incorporated under the laws of the Cayman Islands with limited liability)*

(Stock Code : 01316)

Joint Global Coordinators, Joint Bookrunners,  
Joint Sponsors and Joint Lead Managers



**BOC INTERNATIONAL J.P.Morgan**

Financial Advisor



**BOC INTERNATIONAL**

***Global Offering***



# Nexteer Automotive Group Limited

## 耐世特汽車系統集團有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

### GLOBAL OFFERING

|   |   |  |
|---|---|--|
| Number of Offer Shares in the Global Offering | : | 720,000,000 Shares (subject to the Over-allotment Option)  |
| Number of Hong Kong Offer Shares              | : | 72,000,000 Shares (subject to adjustment)  |
| Number of International Offer Shares          | : | 648,000,000 Shares (subject to adjustment and the Over-allotment Option)   |
| Maximum Offer Price                           | : | HK\$3.50 per Hong Kong Offer Share, plus brokerage of 1%, SFC transaction levy of 0.003%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund) |
| Nominal value                                 | : | HK\$0.10 per Share   |
| Stock code                                    | : | 01316  |

*Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers*



BOC INTERNATIONAL

J.P.Morgan

*Financial Advisor*



BOC INTERNATIONAL

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

A copy of this Prospectus, having attached thereto the documents specified in "Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any other document referred to above.

Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum offer price of HK\$3.50 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%.

**The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or any state securities laws of the United States and may not be offered and sold within the United States or to, or for the account or benefit of U.S. persons, except that Offer Shares may be offered or sold to qualified institutional buyers in reliance on an exemption from registration under the Securities Act provided by, and in accordance with the restrictions of, Rule 144A or outside the United States in accordance with Regulation S.**

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, June 26, 2013 and, in any event, not later than Thursday, June 27, 2013. The Offer Price will be no more than HK\$3.50 per Offer Share and is currently expected to be no less than HK\$2.54 per Offer Share unless otherwise announced. If, for any reason, the Offer Price is not agreed by Thursday, June 27, 2013 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

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

**The Joint Global Coordinators may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.nexteer.com](http://www.nexteer.com) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Details of the arrangement will then be announced by us as soon as practicable. For further information, see "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares."**

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting." It is important that you refer to this section for further details.

June 20, 2013

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**EXPECTED TIMETABLE<sup>(1)</sup>**

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|   |  |
|---|--|
| Latest time to complete electronic applications under <b>White Form eIPO</b> service through the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(2)</sup> ..... | 11:30 a.m. on Tuesday, June 25, 2013         |
| Application lists of the Hong Kong Public Offering open <sup>(3)</sup> .....  | 11:45 a.m. on Tuesday, June 25, 2013         |
| Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms .....   | 12:00 noon on Tuesday, June 25, 2013         |
| Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....  | 12:00 noon on Tuesday, June 25, 2013         |
| Latest time to complete payment of <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....   | 12:00 noon on Tuesday, June 25, 2013         |
| Application lists of the Hong Kong Public Offering close .....  | 12:00 noon on Tuesday, June 25, 2013         |
| Expected Price Determination Date <sup>(5)</sup> .....  | Wednesday, June 26, 2013<br>(Hong Kong time) |

(1) Announcement of:

- an indication of the level of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation of the Hong Kong Offer Shares

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.nexteer.com](http://www.nexteer.com) on or before<sup>(6)</sup> .....

Tuesday, July 2, 2013

(2) Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the websites of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.nexteer.com](http://www.nexteer.com) (see the section headed "How to Apply for Hong Kong Offer Shares — Results of Allocations" in this Prospectus) from .....

Tuesday, July 2, 2013

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## EXPECTED TIMETABLE<sup>(1)</sup>

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|   |                         |
|---|-------------------------|
| (3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Hong Kong Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> <sup>(7)</sup> and the Company’s website at <a href="http://www.nexteer.com">www.nexteer.com</a> <sup>(8)</sup> from ..... | Tuesday, July 2, 2013   |
| Results of allocations for the Hong Kong Public Offering will be available at <a href="http://www.iporeresults.com.hk">www.iporeresults.com.hk</a> with a “search by ID” function .....   | Tuesday, July 2, 2013   |
| Dispatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before <sup>(6)</sup> .....  | Tuesday, July 2, 2013   |
| Dispatch of White Form e-Refund payment instructions/refund checks on or before <sup>(9)</sup> .....  | Tuesday, July 2, 2013   |
| Dealings in Shares on the Hong Kong Stock Exchange to commence on .....   | Wednesday, July 3, 2013 |

Notes:

- (1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 25, 2013, the application lists will not open on that day. See “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists.”
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — When to Apply for the Hong Kong Offer Shares — How to apply by giving electronic application instructions to HKSCC” in this Prospectus.
- (5) The Price Determination Date is expected to be on or around Wednesday, June 26, 2013 (Hong Kong time) and, in any event, not later than Thursday, June 27, 2013. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and our Company by Thursday, June 27, 2013, the Global Offering will not proceed and will lapse.
- (6) **Share certificates are expected to be issued on Tuesday, July 2, 2013 but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Wednesday, July 3, 2013. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely of their own risk.**
- (7) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the Hong Kong Stock Exchange’s website [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.nexteer.com](http://www.nexteer.com).
- (8) None of the website or any of the information contained on the website forms part of this Prospectus.
- (9) **e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.**

You should read carefully the sections headed “Underwriting,” “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund checks and Share certificates.

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### IMPORTANT NOTICE TO INVESTORS

*This Prospectus is issued by the Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an applicable exemption therefrom.*

*You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and the Underwriters, any of our or their respective directors, employees or advisors, or any other person or party involved in the Global Offering. Information contained in our website, located at [www.nexteer.com](http://www.nexteer.com), does not form part of this Prospectus.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this Prospectus. You should read the whole document including the appendices hereto, which constitute an integral part of this Prospectus, before you decide to invest in our Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in our Offer Shares are set out in the section headed “Risk Factors” in this Prospectus. You should read that section carefully before you decide to invest in our Offer Shares.*

### OVERVIEW

We are among the world’s leading steering and driveline suppliers. In 2012, in terms of revenue, we were the fifth-largest steering supplier globally with approximately 6% of total global market share, the largest steering supplier in the United States with approximately 31% of total U.S. market share and the third-largest halfshafts supplier globally with approximately 5% of total global market share, according to the IPSOS Report. Our deep understanding of system integration and technical expertise enables us to offer our customers a comprehensive product portfolio and integrated customer solutions in both steering and driveline systems. Our principal products are: (i) steering systems and components that include EPS, HPS and steering columns; and (ii) driveline systems and components that include halfshafts, intermediate drive shafts and propeller shaft joints. Our products are utilized on a broad range of vehicles from small passenger cars to full-size trucks.

The following table sets forth our revenue by product lines for the periods/years indicated:

|                                 | Our Predecessor  |       | Our Group   |       | Combined <sup>(1)</sup> |       | Our Group                            |       |                                      |       |
|---------------------------------|--|-------|---|-------|-------------------------|-------|--------------------------------------|-------|--------------------------------------|-------|
|                                 | For the period from January 1, 2010 to November 30, 2010 |       | For the period from November 4, 2010 to December 31, 2010 |       | Total 2010              |       | For the year ended December 31, 2011 |       | For the year ended December 31, 2012 |       |
|                                 | (US\$ thousands)   | %     | (US\$ thousands)  | %     | (US\$ thousands)        | %     | (US\$ thousands)                     | %     | (US\$ thousands)                     | %     |
| <b>Steering</b>                 |  |       |   |       |                         |       |                                      |       |                                      |       |
| EPS . . . . .                   | 553,811  | 29.2  | 46,782  | 29.9  | 600,593                 | 29.3  | 762,967                              | 33.9  | 764,937                              | 35.3  |
| HPS . . . . .                   | 485,992  | 25.7  | 40,585  | 25.9  | 526,577                 | 25.7  | 540,396                              | 24.0  | 447,314                              | 20.6  |
| Steering Column (CIS) . . . . . | 487,822  | 25.7  | 38,240  | 24.4  | 526,062                 | 25.6  | 500,193                              | 22.3  | 481,827                              | 22.2  |
| <b>Driveline</b> . . . . .      | 367,570  | 19.4  | 31,081  | 19.8  | 398,651                 | 19.4  | 444,196                              | 19.8  | 473,724                              | 21.9  |
| <b>Total</b> . . . . .          | <u>1,895,195</u>   | 100.0 | <u>156,688</u>  | 100.0 | <u>2,051,883</u>        | 100.0 | <u>2,247,752</u>                     | 100.0 | <u>2,167,802</u>                     | 100.0 |

Note:

(1) Revenue for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “Financial Information — Basis of Presentation.”

We have an established global footprint. As of the Latest Practicable Date, we had 20 manufacturing plants, ten customer service centers and five regional application engineering centers located in North and South America, Europe and Asia in close proximity to many of the world’s largest automotive vehicle markets.

## SUMMARY

The following table sets forth our revenue by geographic segment for the periods/years indicated:

| Geographic segment:                    | Our Predecessor  |              | Our Group   |              | Combined <sup>(1)</sup> |              | Our Group                            |              |                                      |              |
|--|--|--------------|---|--------------|-------------------------|--------------|--------------------------------------|--------------|--------------------------------------|--------------|
|  | For the period from January 1, 2010 to November 30, 2010 |              | For the period from November 4, 2010 to December 31, 2010 |              | Total 2010              |              | For the year ended December 31, 2011 |              | For the year ended December 31, 2012 |              |
|  | (US\$ thousands)   | (%)          | (US\$ thousands)  | (%)          | (US\$ thousands)        | (%)          | (US\$ thousands)                     | (%)          | (US\$ thousands)                     | (%)          |
| North America . . . . .                | 1,200,748  | 63.4         | 96,858  | 61.8         | 1,297,606               | 63.2         | 1,470,392                            | 65.4         | 1,536,351                            | 70.9         |
| Europe . . . . .                       | 430,868  | 22.7         | 31,715  | 20.2         | 462,583                 | 22.5         | 456,359                              | 20.3         | 328,444                              | 15.2         |
| China . . . . .                        | 129,240  | 6.8          | 18,125  | 11.6         | 147,365                 | 7.2          | 168,477                              | 7.5          | 182,326                              | 8.4          |
| Rest of World <sup>(2)</sup> . . . . . | 134,339  | 7.1          | 9,990   | 6.4          | 144,329                 | 7.1          | 152,524                              | 6.8          | 120,681                              | 5.5          |
| <b>Total . . . . .</b>                 | <b>1,895,195</b>   | <b>100.0</b> | <b>156,688</b>  | <b>100.0</b> | <b>2,051,883</b>        | <b>100.0</b> | <b>2,247,752</b>                     | <b>100.0</b> | <b>2,167,802</b>                     | <b>100.0</b> |

Notes:

- (1) Revenue for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “Financial Information — Basis of Presentation.”
- (2) Includes Brazil, India, Korea and Australia.

One of our key strategies for growth is to increase our market share in China and other emerging markets by expanding our product portfolio to offer products specifically tailored to these emerging markets. In addition, we plan to continue building upon our established relationships with global and local OEMs in these markets and may pursue selected strategic acquisitions and alliances. We also plan to further expand our manufacturing capability in these markets, consistent with the growth of our business.

The following table sets forth our production volume, production capacity and utilization rate for the specified products for the years indicated:

| Products             | For the year ended December 31, 2010 <sup>(1)</sup> |                                 |                                     | For the year ended December 31, 2011 |                                 |                                     | For the year ended December 31, 2012 |                                 |                                     |
|----------------------|---|---------------------------------|-------------------------------------|--------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|---------------------------------|-------------------------------------|
|                      | Volume (units) <sup>(2)</sup>                       | Capacity (units) <sup>(3)</sup> | Utilization Rate (%) <sup>(4)</sup> | Volume (units) <sup>(2)</sup>        | Capacity (units) <sup>(3)</sup> | Utilization Rate (%) <sup>(4)</sup> | Volume (units) <sup>(2)</sup>        | Capacity (units) <sup>(3)</sup> | Utilization Rate (%) <sup>(4)</sup> |
| EPS . . . . .        | 2,278,000   | 3,286,000                       | 69%                                 | 2,682,000                            | 3,428,000                       | 78%                                 | 2,680,000                            | 3,639,000                       | 74%                                 |
| HPS                  |   |                                 |                                     |                                      |                                 |                                     |                                      |                                 |                                     |
| Gears . . . . .      | 3,198,000   | 4,591,000                       | 70%                                 | 2,826,000                            | 4,763,110                       | 59%                                 | 1,835,000                            | 3,888,005                       | 47%                                 |
| Pumps . . . . .      | 3,577,000   | 6,119,000                       | 58%                                 | 3,741,000                            | 5,392,000                       | 69%                                 | 3,565,000                            | 5,002,000                       | 71%                                 |
| Steering             |   |                                 |                                     |                                      |                                 |                                     |                                      |                                 |                                     |
| Columns . . . . .    | 4,098,000   | 9,371,000                       | 44%                                 | 3,727,000                            | 8,957,000                       | 42%                                 | 3,463,000                            | 5,643,000                       | 61%                                 |
| Halfshafts . . . . . | 7,944,000   | 10,306,000                      | 77%                                 | 8,018,000                            | 10,000,000                      | 80%                                 | 8,694,000                            | 10,219,000                      | 85%                                 |

Notes:

- (1) Production volume and capacity for our Predecessor and our Group have been combined for the year ended December 31, 2010.
- (2) We aggregate the production volume of all categories of a product to arrive at the production volume for the product.
- (3) We calculate capacity using reusable capacity, which excludes legacy equipment related to older generation products that are not usable for new customers or projects. Legacy equipment is considered not usable if the cost of upgrading the equipment for reuse would require investment of over 50% of the cost of purchasing new equipment. Capacity represents weighted average of reusable capacity available by product line. To calculate reusable capacity, we assume five working days a week, three shifts for machining and two shifts for assembly.
- (4) We calculate utilization rate based on the units of products produced compared to the capacity of our total existing facilities.

### Our History and Relationship with GM

Our history can be traced back to 1906, when we were founded as Jackson, Church & Wilcox Co. in the U.S. In 1909, this company was purchased by Buick, which was owned by GM. In 1917, we became the first automotive parts manufacturing division of GM engaged in steering systems research, design and manufacture. We then operated as a business division



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## SUMMARY

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under GM and were primarily involved in steering operations. In 1998, our steering operations became a major business division under Delphi Corporation, an automotive components business under GM that was subsequently spun-off and became an independent publicly-held corporation in 1999. In 2009, GM acquired, among other things, the steering operations (which effectively comprise the operating subsidiaries of our Group) from Delphi Corporation and renamed it Nexteer Automotive. In November 2010, we were acquired by PCM China (the “Acquisition”) and in March 2011, AVIC Auto acquired a 51% interest in PCM China. Upon the Capitalization Issue and completion of the Global Offering and assuming the Over-allotment Option is not exercised, our Company will be owned as to 70% by PCM China indirectly and the remaining 30% by public shareholders. PCM China is in turn owned as to (i) 51% by AVIC Auto, which is wholly owned by AVIC; (ii) 25% by PCM Systems; and (iii) 24% by Beijing E-Town. See “Our History and Reorganization — Our History.”

We have a strong, long-established relationship with GM, and we plan to continue to strengthen this relationship. We, PCM China and GM entered into a number of agreements in connection with the Acquisition including the Master Purchase Agreement, Supply Agreement, Access and Security Agreement and IP Agreements. These agreements provided, among other things, the framework for certain aspects of our ongoing relationship with GM, including some transitional arrangements. Our contracts with GM that are governed by the Supply Agreement and had not expired as of the Latest Practicable Date were entered into between 2005 and 2010 and are expected to expire between 2013 and 2020, assuming the applicable vehicle programs are not extended. We are not the sole supplier of steering or driveline products to GM, but we believe that we are an important supplier to GM. Since steering and halfshafts suppliers typically rely on a few key OEM customers and OEM customers typically rely on a few key steering and halfshafts suppliers, we do not believe our reliance on GM affects our bargaining power with GM when compared to GM’s other existing suppliers. We also believe we compete for GM business on the same competitive basis as its other existing suppliers. See “Business — Customers — Relationship with GM.”

### **Basis of Preparation of Accountant’s Reports**

This Prospectus includes two Accountant’s Reports set forth as Appendices IA and IB, respectively. Appendix IA sets forth the Accountant’s Report of our Group under our current corporate structure for the period from November 4, 2010 to December 31, 2010 and for the years ended December 31, 2011 and 2012. Appendix IB sets forth the Accountant’s Report of our Predecessor for the period from January 1, 2010 to November 30, 2010.

Prior to November 30, 2010, our Predecessor was an indirect, wholly-owned subsidiary of GM. On November 30, 2010, PCM China acquired our Predecessor, following which our Predecessor came under the control of our Group. See “Our History and Reorganization — Our History.” Our Predecessor’s operating results are not directly comparable to the results of our Group in the following aspects:

- In connection with the Acquisition, the assets acquired and liabilities assumed by our Group from our Predecessor were generally recorded at fair value in accordance with IFRS acquisition accounting standards. There is no indication of material value being attributable to any intangible asset acquired in the business combination. See “Financial Information — Basis of Presentation” for details.
- The costs charged by GM to our Predecessor for certain services and functions, may not be indicative of the costs that our Predecessor would have incurred had our

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## SUMMARY

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Predecessor been a stand-alone entity. In addition, GM did not charge our Predecessor for all the direct costs it incurred on our Predecessor's behalf, nor did GM allocate any charges to our Predecessor for shared or common expenses.

- In accordance with the criteria for capitalization under IAS 38, engineering and product development costs incurred by our Predecessor did not qualify for capitalization due to uncertainty at the time regarding the probable future economic benefit of product development spending, whereas certain engineering and product development costs incurred by our Group qualified for capitalization under IAS 38 due to the significant change in the probable future economic benefit of product development spending after the Acquisition. As such, engineering and product development costs for our Group are not comparable to those of our Predecessor. There was no change in accounting policy and the criteria under IAS 38 were consistently applied in evaluating the capitalization of engineering and product development costs for our Predecessor prior to December 1, 2010 and for our Group subsequent to the Acquisition. The nature of the engineering and product development costs incurred by our Predecessor and our Group did not change before or after the Acquisition. See "Financial Information — Basis of Presentation" for details.
- Our Predecessor only recognized obligations for defined benefit plans for which it was the legal plan sponsor.
- Our Predecessor's reported income tax amounts are presented on a separate return basis as if it were a stand-alone entity. Since certain of our Predecessor's legal entities filed a consolidated tax return with GM's legal entities, current taxes were assumed to be settled with GM in the year the related income taxes are recorded through transfers to GM.

Accordingly, the historical results of our Predecessor may not be indicative of those of our Group, and investors should use caution when evaluating the historical results of our Predecessor. See "Risk Factors — Risks Related to Our Business and Industry — The financial data of our Predecessor is not directly comparable to our Group's financial data except for revenue, and the results of our Predecessor may not be indicative of the results of our Group." With the exception of revenue, we have not combined our Predecessor's financial information for the period from January 1, 2010 to November 30, 2010 with our Group's financial information for the period from November 4, 2010 to December 31, 2010 in this Prospectus. See "Financial Information — Basis of Presentation." As the operating results of our Predecessor, with the exception of revenue, are not directly comparable to the operating results of our Group, we believe that the profit test requirement under Rule 8.05(1) and the cash flow test requirement under Rule 8.05(2) of the Listing Rules are not applicable in these circumstances. Therefore, we have applied for the Listing pursuant to the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules.

### **Business Model**

Our business model comprises the following stages:

- ***Develop Business Strategy.*** Our business development process begins with an examination of our corporate vision and values, market practices, regulatory environment, customer relationships and expectations and available resources.
- ***Pursue Business Opportunities.*** We identify target opportunities and develop customer proposals.

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## SUMMARY

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- ***Product and Process Development.*** We seek to create achievable and validated product and process designs and to procure the necessary materials for these designs.
- ***Ordering by OEM Customers.*** We typically supply products through purchase orders, which are typically governed by general terms and conditions established by each OEM customer. Although the purchase orders with our customers vary from customer to customer, they typically contemplate a relationship under which our customers place orders for their requirements of specific components or systems supplied for particular vehicles but are not required to purchase any minimum amount of products from us.
- ***Manufacture Product and Provide Services.*** We seek to manufacture products and deliver services that meet or exceed our customers' needs and expectations.

### Customers

We have established strong relationships with many of the world's leading OEMs as a result of our ability to offer high-quality products and customer service at competitive prices. We currently supply our products to more than 50 customers, including substantially all of the world's top ten major OEMs in terms of production volume in 2012. Through the years, we have diversified our customer base and, as of the Latest Practicable Date, our global customers included GM, Ford, Fiat, Chrysler and PSA Peugeot Citroën, as well as local OEMs in regional markets such as China and India. For the years ended December 31, 2010 (combining revenues of our Predecessor and our Group), 2011 and 2012, sales to our five largest customers accounted for approximately 79.2%, 82.4% and 82.7% of our revenue, respectively. We have supplied our products to our largest customer, GM, for over 100 years, and we have supplied our products to our next four largest customers for more than 20 years. We plan to continue to strengthen our strong, long-established relationship with GM.

Since becoming an independent component supplier after the Acquisition, we have also focused on working closely with and increasing sales to OEMs other than GM to support our business growth. We plan to continue to solidify our relationships with existing customers and attract new customers as we continue to improve our technological expertise and lower our costs so that we can offer our customers high quality and cost-efficient products. We target potential customers and track various opportunities through an opportunity plan, which tracks and assesses potential customer program bookings that we intend to secure. We have also focused on expanding our business in China and other emerging markets, where we pursue business opportunities with global OEMs, as well as local OEMs. In addition, we continue to monitor industry trends and may also consider adjusting the geographical mix or the number of our production facilities, customer service centers and regional engineering centers to support our future business development and to enable us to quickly respond to the needs of our OEM customers in different jurisdictions.

### Procurement of Raw Materials, Parts and Components

We purchase raw materials, parts and components from various suppliers on a global and local basis for use in our manufacturing processes. These raw materials, parts and components are generally available from multiple sources in quantities sufficient for our needs. Although there are multiple suppliers for these raw materials, parts and components, we generally use

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## SUMMARY

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single source suppliers consistent with industry practice because it is more cost-efficient. In rare cases, because of the technology or process involved or because the raw material, part or component is patented, there may be only a sole source that can provide the required raw materials, parts or components to manufacture our products. For the year ended December 31, 2012, approximately 1.5% of our total purchases of raw materials, parts and components were from sole source suppliers. We seek to mitigate the adverse impact of using such sole source suppliers through regularly monitoring and reviewing suppliers' financial information and providing financial assistance where necessary. During the Track Record Period, we did not experience any significant shortages of raw materials, parts or components and normally do not carry inventories of those items in excess of those reasonably required to meet our production and shipping schedule. See "Business — Manufacturing, Manufactured Components and Raw Materials — Procurement of Raw Materials, Parts and Components."

We seek to manage fluctuations in prices of raw materials by passing our cost increases to our customers, to the extent possible. See "Business — Manufacturing, Manufactured Components and Raw Materials — Procurement of Raw Materials, Parts and Components — Price Fluctuations."

Our five largest suppliers for the year ended December 31, 2012 have maintained business relationships with us for an estimated range of 11 to over 40 years. For the years ended December 31, 2010 (combining purchases of our Predecessor and our Group), 2011 and 2012, our five largest suppliers accounted for approximately 18.4%, 20.7% and 19.5% of our total purchases, respectively. See "Business — Manufacturing, Manufactured Components and Raw Materials — Procurement of Raw Materials, Parts and Components" and "Financial Information — Description of Selected Income Statement Line Items — Cost of Sales and Gross Profit."

### **Production Facilities**

As of the Latest Practicable Date, we had 20 manufacturing plants located in the United States, Mexico, China, Poland, India, Brazil and Australia. See "Business — Production Facilities and Production Capacity — Production Facilities."

### **Research and Development**

We have accumulated extensive technical knowledge and developed a high degree of technical expertise through our 100-year history as a steering products and driveline products supplier with a consistent focus on research and development. We prioritize our research and development efforts on technologies that offer attractive long-term growth opportunities by improving our product performance, reducing our costs or expanding our product portfolio. See "Business — Our Strengths — Highly advanced technology through a long history of research and development."

### **Quality Control**

Our quality system is designed to monitor the quality of our products from development to production. Some of our quality control employees have more than 20 years of experience in the industry, and many of them hold engineering degrees. To promote quality control in our plants, all of our locations worldwide are TS-16949 certified. See "Business — Quality Control and Certifications."

## SUMMARY

### SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary consolidated/combined financial information of our Predecessor and of our Group. We have derived the summary consolidated/combined financial information from the consolidated financial statements of our Predecessor and the combined financial statements of our Group set forth in the Accountant's Reports in Appendices IB and IA, respectively, to this Prospectus. You should read the summary consolidated/combined financial information together with the consolidated/combined financial statements in this Prospectus, including the related notes.

Our consolidated/combined financial information was prepared in accordance with IFRS.

### Selected Consolidated/Combined Income Statement Data

#### Our Predecessor

|   | For the<br>period from<br>January 1, 2010 to<br>November 30, 2010 |
|---|---|
|   | (US\$ thousands)  |
| <b>Revenue</b> .....                            | 1,895,195   |
| <b>Gross profit</b> .....                       | 284,753   |
| Engineering and product development costs ..... | (118,008)   |
| <b>Operating profit</b> .....                   | 85,051  |
| <b>Profit before income tax</b> .....           | 81,094  |
| <b>Profit for the period</b> .....              | 70,103  |
| <b>Attributable to:</b>                         |   |
| Equity holders .....                            | 67,955  |
| Non-controlling interests .....                 | 2,148   |
|   | 70,103  |

#### Our Group

|  | For the period from<br>November 4,<br>2010 to<br>December 31, 2010 | For the year ended<br>December 31, 2011 | For the year ended<br>December 31, 2012 |
|--|--|---|---|
|  |  | (US\$ thousands)                        |   |
| <b>Revenue</b> .....                           | 156,688  | 2,247,752                               | 2,167,802                               |
| <b>Gross (loss)/profit</b> .....               | (25,345)   | 277,275                                 | 266,813                                 |
| Engineering and product development costs ...  | (8,470)  | (108,376)                               | (81,623)                                |
| <b>Operating (loss)/profit</b> .....           | (57,288)   | 89,201                                  | 83,923                                  |
| <b>(Loss)/profit before income tax</b> .....   | (58,960)   | 73,437                                  | 62,194                                  |
| <b>(Loss)/profit for the period/year</b> ..... | (58,667)   | 68,033                                  | 58,627                                  |
| <b>Attributable to:</b>                        |  |   |   |
| Equity holders .....                           | (58,539)   | 66,686                                  | 57,096                                  |
| Non-controlling interests .....                | (128)  | 1,347                                   | 1,531                                   |
|  | (58,667)   | 68,033                                  | 58,627                                  |

## SUMMARY

### Selected Consolidated/Combined Balance Sheet Data

#### Our Predecessor

|  | As of<br>November 30, 2010 |
|--|----------------------------|
|  | (US\$ thousands)           |
| Non-current assets .....                           | 166,600                    |
| Current assets .....                               | 629,446                    |
| <b>Total assets</b> .....                          | <u>796,046</u>             |
| <br><b>Total equity</b> .....                      | <br><u>285,839</u>         |
| Non-current liabilities .....                      | 128,217                    |
| Current liabilities .....                          | 381,990                    |
| <b>Total liabilities</b> .....                     | <u>510,207</u>             |
| <b>Total equity and liabilities</b> .....          | <u>796,046</u>             |
| <b>Net current assets</b> .....                    | <u>247,456</u>             |
| <b>Total assets less current liabilities</b> ..... | <u>414,056</u>             |

#### Our Group

|  | As of<br>December 31, 2010 | As of<br>December 31, 2011 | As of<br>December 31, 2012 |
|--|----------------------------|----------------------------|----------------------------|
|  |                            | (US\$ thousands)           |                            |
| Non-current assets .....                           | 288,281                    | 377,972                    | 631,000                    |
| Current assets .....                               | 623,632                    | 595,518                    | 627,871                    |
| <b>Total assets</b> .....                          | <u>911,913</u>             | <u>973,490</u>             | <u>1,258,871</u>           |
| <br><b>Total equity</b> .....                      | <br><u>74,954</u>          | <br><u>123,018</u>         | <br><u>191,809</u>         |
| Non-current liabilities .....                      | 78,636                     | 83,627                     | 559,765                    |
| Current liabilities .....                          | 758,323                    | 766,845                    | 507,297                    |
| <b>Total liabilities</b> .....                     | <u>836,959</u>             | <u>850,472</u>             | <u>1,067,062</u>           |
| <b>Total equity and liabilities</b> .....          | <u>911,913</u>             | <u>973,490</u>             | <u>1,258,871</u>           |
| <b>Net current (liabilities)/assets</b> .....      | <u>(134,691)</u>           | <u>(171,327)</u>           | <u>120,574</u>             |
| <b>Total assets less current liabilities</b> ..... | <u>153,590</u>             | <u>206,645</u>             | <u>751,574</u>             |

### Selected Consolidated/Combined Statement of Cash Flows Data

#### Our Predecessor

|  | For the period from<br>January 1, 2010 to<br>November 30, 2010 |
|--|--|
|  | (US\$ thousands)   |
| Net cash generated from operating activities ..... | 25,373   |
| Net cash used in investing activities .....        | (47,872)   |
| Net cash used in financing activities .....        | (38,103)   |
| Net decrease in cash and cash equivalents .....    | (60,602)   |

## SUMMARY

### Our Group

|   | For the<br>period from<br>November 4,<br>2010 to<br>December 31,<br>2010 | For the<br>year ended<br>December 31,<br>2011 | For the<br>year ended<br>December 31,<br>2012 |
|---|--|---|---|
|   |  | (US\$ thousands)                              |   |
| Net cash generated from operating activities . . . . .            | 48,939   | 96,878  | 156,265                                       |
| Net cash used in investing activities . . . . .                   | (331,303)  | (132,264)                                     | (271,651)                                     |
| Net cash generated from<br>financing activities . . . . .         | 395,040  | 65  | 99,150  |
| Net increase/(decrease) in cash and<br>cash equivalents . . . . . | 112,676  | (35,321)                                      | (16,236)                                      |

### Key Financial Ratios

The following table sets forth certain key financial ratios of our Predecessor as of the date indicated:

|  | As of<br>November 30,<br>2010 |
|--|-------------------------------|
| Current ratio <sup>(1)</sup> . . . . . | 164.8%                        |
| Gearing ratio <sup>(2)</sup> . . . . . | 18.5%                         |

Notes:

<sup>(1)</sup> Current assets divided by current liabilities as of the period end date.

<sup>(2)</sup> Total borrowings plus non-recurring related party payables then divided by total equity as of the period end date.

The following table sets forth certain key financial ratios of our Group as of the dates and for the period/years indicated:

|  | As of or for the<br>period from<br>November 4,<br>2010 to<br>December 31,<br>2010 | As of or for the<br>year ended<br>December 31,<br>2011 | As of or for the<br>year ended<br>December 31,<br>2012 |
|--|---|--|--|
| Current ratio <sup>(1)</sup> . . . . . | 82.2%   | 77.7%  | 123.8%   |
| Gearing ratio <sup>(2)</sup> . . . . . | 549.5%  | 342.1%   | 289.3%   |
| Gross profit margin . . . . .          | —   | 12.3%  | 12.3%  |
| Net profit margin . . . . .            | —   | 3.0%   | 2.7%   |

Notes:

<sup>(1)</sup> Current assets divided by current liabilities as of the period/year end date.

<sup>(2)</sup> Total borrowings plus non-recurring related party payables then divided by total equity as of the period/year end date.

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## SUMMARY

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### RECENT DEVELOPMENTS

The following is a summary of our selected unaudited financial data for the three months ended March 31, 2012 and 2013 that have been prepared in accordance with the accounting policies set forth in our audited combined financial information that are included in Appendix IA to this Prospectus. Our financial results for the three months ended March 31, 2013 may not be indicative of our financial results for the full year ending December 31, 2013 or for future interim periods.

|  | For the three months ended      |                 |
|--|---------------------------------|-----------------|
|  | March 31, 2012                  | March 31, 2013  |
|  | (US\$ thousands)<br>(unaudited) |                 |
| Revenue .....                                  | 587,895                         | 576,465         |
| Cost of sales .....                            | (506,002)                       | (497,289)       |
| Engineering and product development costs..... | <u>(20,430)</u>                 | <u>(19,888)</u> |

For the three months ended March 31, 2013, our revenue decreased by approximately 2% to US\$576.5 million from US\$587.9 million for the three months ended March 31, 2012, primarily due to a decrease in sales volume caused by the end of certain customer programs, which has not yet been offset by an expected increase in revenue from booked customer programs that are expected to begin production later in 2013. For the three months ended March 31, 2013, our cost of sales decreased by approximately 2% to US\$497.3 million from US\$506.0 million for the three months ended March 31, 2012, primarily due to the decrease in sales volume mentioned above. Our engineering and product development costs decreased by approximately 3% to US\$19.9 million for the three months ended March 31, 2013 from US\$20.4 million for the three months ended March 31, 2012.

According to our unaudited management accounts, our Group's gross profit and gross profit margins for the second half of 2012 decreased by approximately US\$38.9 million and 2.3%, respectively, compared to the first half of 2012, mainly due to pricing pressure from customers and seasonality. In addition, our Group also incurred listing expenses of approximately US\$6.6 million and employee restructuring costs of approximately US\$7.4 million in the second half of 2012. As of the Latest Practicable Date, our Group does not expect to incur similar non-recurring expenses in the second half of 2013, except for costs associated with public company reporting and related requirements. Moreover, our Group will launch three new EPS programs in the second half of 2013. As EPS products usually have a higher price than other products, we expect our EPS programs to mitigate the adverse impact of overall pricing pressure from customers.

Our Directors have confirmed that, since December 31, 2012 and up to the date of this Prospectus, there had been no material adverse change in our financial or trading position or prospects and no event had occurred that would materially and adversely affect the information shown in our Group's combined financial statements Accountant's Report in Appendix IA to this Prospectus.



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## SUMMARY

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### PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2013

On the bases and assumptions set out in “Appendix III — Profit Forecast” and, in the absence of unforeseen circumstances, certain profit forecast data of our Group for the six months ending June 30, 2013 is set out below:

Forecast consolidated profit attributable  
to the equity holders of the Company<sup>(1)</sup> . . . . . Not less than US\$52.5 million  
(approximately HK\$407.4 million)

Notes:

- (1) The forecast consolidated profit attributable to equity holders of the Company for the six months ending June 30, 2013 is extracted from the section headed “Financial information — Profit Forecast for the Six Months Ending June 30, 2013” in this Prospectus. The bases and assumptions on which the above profit forecast for the six months ending June 30, 2013 have been prepared are summarized in “Appendix III — Profit Forecast” in this Prospectus.
- (2) For the purpose of this forecast consolidated profit attributable to equity holders, the balance stated in United States Dollars is converted into Hong Kong dollars at the rate of US\$1 to HK\$7.76. No representation is made that the United States Dollars amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (3) The financial results for the six months ending June 30, 2013 will be audited pursuant to Rule 11.18 of the Listing Rules.

### OFFER STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

|  | <b>Based on minimum<br/>indicative Offer Price of<br/>HK\$2.54</b> | <b>Based on maximum<br/>indicative Offer Price of<br/>HK\$3.50</b> |
|--|--|--|
| Market capitalization of our Shares <sup>(1)</sup> . . . . .                                 | HK\$6,096 million  | HK\$8,400 million  |
| Unaudited pro forma adjusted net tangible assets value<br>per Share <sup>(2)</sup> . . . . . | HK\$0.70   | HK\$1.01   |

Notes:

- (1) The calculation of market capitalization is based on the 2,400,000,000 Shares expected to be in issue immediately upon completion of the Global Offering and the Capitalization Issue.
- (2) The unaudited pro forma adjusted net tangible assets value per Share has been arrived at after adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information — Unaudited pro forma adjusted net tangible assets” in this Prospectus and on the basis of 2,400,000,000 Shares in issue at the indicative offer prices of HK\$2.54 and HK\$3.50 per Share immediately following completion of the Global Offering and the Capitalization Issue.

### DIVIDEND POLICY

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Subject to applicable laws and regulations, we currently intend to pay dividends of not less than 20% of our net profits available for distribution for the year ending December 31, 2013. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders’ interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders. Any future declarations of dividends after the year ending December 31, 2013 may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

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## SUMMARY

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### USE OF PROCEEDS

The net proceeds from the Global Offering (after deducting underwriting fees and estimated total expenses paid and payable by us in connection thereto) are estimated to be approximately HK\$2,025.37 million (equivalent to approximately US\$261.00 million) before any exercise of the Over-allotment Option, assuming an Offer Price of HK\$3.02 per Share, being the mid-point of the proposed Offer Price range of HK\$2.54 to HK\$3.50 per Share. We intend to use such net proceeds as follows:

| <u>Amount</u>   | <u>Percentage of Net Proceeds</u> | <u>Purposes</u>  |
|---|-----------------------------------|--|
| ● Approximately HK\$1,458.26 million (equivalent of approximately US\$187.92 million) ..... | Approximately 72%                 | Capital expenditure on: (1) machinery and equipment to increase production capacity for new product programs secured or expected to be secured from OEM customers (68%) and (2) expansion and construction of manufacturing plants (4%). |
| ● Approximately HK\$425.33 million (equivalent of approximately US\$54.81 million) .....    | Approximately 21%                 | Strengthen our research and development capabilities, develop new technologies and products, and enhance key component manufacturing capabilities.   |
| ● Approximately HK\$141.78 million (equivalent of approximately US\$18.27 million) .....    | Approximately 7%                  | Supplement our working capital.  |

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised, will increase to approximately HK\$2,362.33 million or decrease to approximately HK\$1,688.41 million, respectively. In such event, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro-rata basis.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions. See “Future Plans and Use of Proceeds.”

**Investors should read this entire Prospectus carefully and should not consider any particular statements in this Prospectus or in published media reports without carefully considering the risks and other information contained in this Prospectus.**

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## DEFINITIONS

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*In this Prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings.*

|   |  |
|---|--|
| “Acquisition”                           | the acquisition of our Group by PCM China in November 2010   |
| “Acquisition Debt”                      | US\$316 million debt incurred in connection with the Acquisition   |
| “affiliate(s)”                          | any person(s) or entity(ies) that directly or indirectly controls, is controlled by, or is under direct or indirect common control with, another person(s) or entity(ies)  |
| “AMM 4100 Series Index”                 | an American Metal Market index that shows the long-term trend in the total cost of steel   |
| “Application Form(s)”                   | <b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> application form(s) or where the context so requires, any of them, which is used in relation to the Hong Kong Public Offering |
| “Articles of Association” or “Articles” | the articles of association of the Company that were conditionally adopted on June 15, 2013, which will take effect upon the listing of the Shares on the Hong Kong Stock Exchange, as amended from time to time   |
| “associate(s)”                          | has the meaning ascribed thereto under the Listing Rules   |
| “Audit and Compliance Committee”        | the audit and compliance committee of the Board  |
| “Australia”                             | the Commonwealth of Australia  |
| “AVIC”                                  | 中國航空工業集團公司 (Aviation Industry Corporation of China*), a state-owned limited liability company established in the PRC on November 6, 2008, one of our Controlling Shareholders                                      |
| “AVIC Auto”                             | 中國航空汽車工業控股有限公司 (AVIC Automobile Industry Holding Co., Ltd.*), a limited liability company established in the PRC on November 7, 1985, which is wholly-owned by AVIC, one of our Controlling Shareholders           |

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## DEFINITIONS

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|--|---|
| <i>“Beijing E-Town”</i>                | 北京亦莊國際投資發展有限公司 (Beijing E-Town International Investment & Development Co. Ltd.), a limited company established in the PRC on February 6, 2009 and controlled by the Municipal Government of Beijing, which owns 24% of PCM China, one of our Controlling Shareholders |
| <i>“Beijing Municipal Government”</i>  | 北京市人民政府 (the People’s Government of Beijing Municipality in the PRC)  |
| <i>“Board of Directors” or “Board”</i> | the Board of Directors of the Company   |
| <i>“Brazil”</i>                        | the Federative Republic of Brazil   |
| <i>“Business Day”</i>                  | a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are open generally for normal banking business to the public   |
| <i>“CAGR”</i>                          | compound annual growth rate   |
| <i>“Capitalization Issue”</i>          | the issue of 1,679,999,999 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the section headed “Share Capital” in this Prospectus   |
| <i>“Cayman Companies Law”</i>          | the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands  |
| <i>“Cayman Islands”</i>                | the Cayman Islands, a British Overseas Territory  |
| <i>“CCASS”</i>                         | the Central Clearing and Settlement System established and operated by HKSCC  |
| <i>“CCASS Clearing Participant”</i>    | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant  |
| <i>“CCASS Custodian Participant”</i>   | a person admitted to participate in CCASS as a custodian participant  |
| <i>“CCASS Investor Participant”</i>    | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation   |
| <i>“CCASS Participant”</i>             | a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant   |

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## DEFINITIONS

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|------------------------------|--|
| “China” or “PRC”             | 中華人民共和國 (People’s Republic of China) and, for the purpose of this Prospectus and for geographical reference only and except where the context requires, references in this Prospectus to “China” and the “PRC” do not apply to Taiwan, the Macau Special Administrative Region and Hong Kong |
| “Chrysler”                   | Chrysler Group LLC and its affiliates, an Independent Third Party  |
| “Companies Ordinance”        | the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |
| “Company”                    | Nexteer Automotive Group Limited, a company incorporated on August 21, 2012 as an exempted company with limited liability under the laws of the Cayman Islands   |
| “connected person(s)”        | has the meaning ascribed thereto in the Listing Rules  |
| “connected transaction(s)”   | has the meaning ascribed thereto in the Listing Rules  |
| “Controlling Shareholder(s)” | has the meaning ascribed thereto in the Listing Rules and, unless the context requires otherwise, refers to AVIC, AVIC Auto, PCM China and Nexteer Hong Kong   |
| “CSRC”                       | 中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC  |
| “Director(s)”                | director(s) of our Company or any of them  |
| “EIT Law”                    | 中華人民共和國企業所得稅法 (the PRC Enterprise Income Tax Law) passed by the National People’s Congress of the PRC (中華人民共和國全國人民代表大會) on March 16, 2007 and effective on January 1, 2008, as amended, supplemented and otherwise modified from time to time  |
| “EU”                         | the European Union   |
| “Fiat”                       | Fiat Group and its affiliates, an Independent Third Party  |
| “Ford”                       | Ford Motor Company and its affiliates, an Independent Third Party  |
| “France”                     | the French Republic  |

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## DEFINITIONS

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|  |   |
|--|---|
| <i>“Germany”</i>                                       | the Federal Republic of Germany   |
| <i>“GFA”</i>   | gross floor area  |
| <i>“Global Offering”</i>                               | the Hong Kong Public Offering and the International Offering  |
| <i>“GM”</i>  | General Motors Company and its affiliates, an Independent Third Party   |
| <i>“Group,” “our Group,” “we” or “us”</i>              | our Company and, except where the context otherwise requires, all of its subsidiaries or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were engaged in and which were subsequently assumed by it |
| <i>“High-tech Certificate”</i>                         | High and New Technology Enterprise Certificate issued by SAT or its local counterpart   |
| <i>“HK\$” or “Hong Kong dollar(s)” or “HK dollars”</i> | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong  |
| <i>“HKSCC”</i>   | Hong Kong Securities Clearing Company Limited   |
| <i>“HKSCC Nominees”</i>                                | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC  |
| <i>“Honda”</i>   | Honda Motor Co., Inc. and its affiliates, an Independent Third Party  |
| <i>“Hong Kong” or “HK”</i>                             | the Hong Kong Special Administrative Region of the PRC  |
| <i>“Hong Kong Offer Shares”</i>                        | the 72,000,000 Shares being offered by us for subscription pursuant to the Hong Kong Public Offering, subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus  |
| <i>“Hong Kong Public Offering”</i>                     | the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong   |
| <i>“Hong Kong Share Registrar”</i>                     | Computershare Hong Kong Investor Services Limited   |
| <i>“Hong Kong Stock Exchange”</i>                      | The Stock Exchange of Hong Kong Limited   |

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## DEFINITIONS

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| <i>“Hong Kong Underwriters”</i>           | the underwriters listed in the section headed “Underwriting — Hong Kong Underwriters” in this Prospectus, being the underwriters of the Hong Kong Public Offering  |
| <i>“Hong Kong Underwriting Agreement”</i> | the underwriting agreement dated June 19, 2013 relating to the Hong Kong Public Offering entered into by the Company, AVIC Auto, PCM China, Nexteer Hong Kong, BOCI Asia Limited, J.P. Morgan Securities (Far East) Limited, J.P. Morgan Securities (Asia Pacific) Limited and the Hong Kong Underwriters, as further described under the section headed “Underwriting” of this Prospectus |
| <i>“Hyundai”</i>                          | Hyundai Motor Company and its affiliates, an Independent Third Party   |
| <i>“IAS”</i>                              | the International Accounting Standards   |
| <i>“IASB”</i>                             | the International Accounting Standards Board   |
| <i>“IATF”</i>                             | the International Automotive Task Force  |
| <i>“IFRS”</i>                             | the International Financial Reporting Standards, which include standards and interpretations promulgated by IASB and IAS and interpretations issued by the International Accounting Standards Committee  |
| <i>“Independent Third Party(ies)”</i>     | party(ies) not connected with (within the meaning of the Listing Rules) any of the Directors, chief executive or substantial shareholders of our Company, its subsidiaries or any of their respective associates   |
| <i>“India”</i>                            | the Republic of India  |
| <i>“International Offer Shares”</i>       | the 648,000,000 new Shares initially being offered by us for subscription and purchase at the Offer Price under the International Offering, subject to adjustment and the Over-allotment Option, as further described in the section headed “Structure of the Global Offering” in this Prospectus  |
| <i>“International Offering”</i>           | the conditional offering by the International Underwriters of the International Offer Shares with institutional and professional investors and other investors, as described in the section headed “Structure of the Global Offering” in this Prospectus   |
| <i>“International Underwriters”</i>       | the underwriters of the International Offering who are expected to enter into the International Underwriting Agreement to underwrite the International Offering  |

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## DEFINITIONS

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| <i>“International Underwriting Agreement”</i> | the underwriting agreement expected to be entered into on or around June 26, 2013 by the Company, AVIC Auto, PCM China, Nexteer Hong Kong, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners and the International Underwriters in respect of the International Offering, as further described in the section headed “Underwriting” in this Prospectus   |
| <i>“IPSOS”</i>                                | Ipsos Business Consultancy, a global independent market research company  |
| <i>“Italy”</i>                                | the Italian Republic  |
| <i>“Joint Bookrunners”</i>                    | in respect of the Hong Kong Public Offering, BOCI Asia Limited and J.P. Morgan Securities (Asia Pacific) Limited, and in respect of the International Offering, BOCI Asia Limited and J.P. Morgan Securities plc  |
| <i>“Joint Global Coordinators”</i>            | BOCI Asia Limited and J.P. Morgan Securities (Asia Pacific) Limited   |
| <i>“Joint Lead Managers”</i>                  | in respect of the Hong Kong Public Offering, BOCI Asia Limited and J.P. Morgan Securities (Asia Pacific) Limited, and in respect of the International Offering, BOCI Asia Limited and J.P. Morgan Securities plc  |
| <i>“Joint Sponsors”</i>                       | BOCI Asia Limited and J.P. Morgan Securities (Far East) Limited   |
| <i>“km”</i>                                   | kilometers  |
| <i>“KRW”</i>                                  | South Korean won, the lawful currency of South Korea  |
| <i>“Latest Practicable Date”</i>              | June 13, 2013 being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining information contained in this Prospectus   |
| <i>“Lingyun Industrial”</i>                   | 凌雲工業股份有限公司 (Lingyun Industrial Corporation Limited*), a limited liability company established in the PRC on April 10, 1995, which owns a 40% interest in each of Nexteer Zhuozhou and Nexteer Wuhu. Save for being a shareholder of Nexteer Zhuozhou and Nexteer Wuhu, it is an Independent Third Party. The principal shareholder of Lingyun Industrial is Northern Lingyun Industrial Group Co., Ltd. (北方凌雲工業集團有限公司, formerly known as Hebei Lingyun Industrial Group Co., Ltd. 河北凌雲工業集團有限公司) |



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## DEFINITIONS

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| <i>“Listing”</i>                                   | the listing of the Shares on the Main Board of the Hong Kong Stock Exchange  |
| <i>“Listing Committee”</i>                         | the Listing Committee of the Hong Kong Stock Exchange  |
| <i>“Listing Date”</i>                              | the date, expected to be on Wednesday, July 3, 2013 on which dealings in our Shares are expected to first commence on the Hong Kong Stock Exchange   |
| <i>“Listing Rules”</i>                             | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time   |
| <i>“Main Board”</i>                                | the Main Board of the Hong Kong Stock Exchange   |
| <i>“Memorandum of Association” or “Memorandum”</i> | the memorandum of association of our Company   |
| <i>“Mexico”</i>                                    | the United Mexican States  |
| <i>“MIIT”</i>                                      | 中華人民共和國工業和信息化部 (Ministry of Industry and Information Technology of the PRC) or its competent local branches  |
| <i>“MOFCOM”</i>                                    | 中華人民共和國商務部 (Ministry of Commerce of the PRC) or its competent local branches   |
| <i>“NDRC”</i>                                      | 中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC) or its competent local branches  |
| <i>“Nexteer Automotive”</i>                        | Nexteer Automotive Corporation, a company incorporated in Delaware, the U.S. on January 2, 2008, which is an indirect wholly-owned subsidiary of our Company   |
| <i>“Nexteer Beijing”</i>                           | 耐世特(北京)技術有限公司 (Nexteer (Beijing) Technology Co., Ltd.*), a limited company established in the PRC on November 24, 2010, which is a wholly-owned subsidiary of PCM China (one of our Controlling Shareholders)  |
| <i>“Nexteer Hong Kong”</i>                         | Nexteer Automotive (Hong Kong) Holdings Limited (耐世特汽車系統(香港)控股有限公司), a company incorporated in Hong Kong on August 10, 2012, which is wholly-owned by PCM China. It will directly hold 70% of the issued share capital of our Company immediately upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised), and is one of our Controlling Shareholders |

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## DEFINITIONS

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| <i>“Nexteer Suzhou”</i>              | 耐世特汽車系統(蘇州)有限公司 (Nexteer Automotive (Suzhou) Co., Ltd.*), a limited company established in the PRC on January 24, 2007, which is an indirect wholly-owned subsidiary of our Company  |
| <i>“Nexteer Wuhu”</i>                | 耐世特凌雲驅動系統(蕪湖)有限公司 (Nexteer Lingyun Driveline (Wuhu) Co., Ltd.*), a limited company established in the PRC on December 22, 2006, which is an indirect non-wholly-owned subsidiary of our Company  |
| <i>“Nexteer Zhuozhou”</i>            | 耐世特凌雲驅動系統(涿州)有限公司 (Nexteer Lingyun Driveline (Zhuozhou) Co., Ltd.*), a limited company established in the PRC on October 6, 1995, which is an indirect non-wholly-owned subsidiary of our Company  |
| <i>“Nissan”</i>                      | Nissan Motor Co., Ltd. and its affiliates, an Independent Third Party  |
| <i>“Non-Competition Undertaking”</i> | a non-competition undertaking dated June 15, 2013 given by AVIC, AVIC Auto, PCM China and Nexteer Hong Kong in favor of our Company, details of which are disclosed in the section headed “Relationship with our Controlling Shareholders” in this Prospectus  |
| <i>“NSC”</i>                         | Nexteer Strategy Council, the top strategy and policy making body in our Group, comprising our Group’s core management team. It is also a consultative leadership group, with members representing their key functional responsibilities and departments   |
| <i>“OFAC”</i>                        | The Office of Foreign Assets Control of the U.S. Department of the Treasury  |
| <i>“Offer Price”</i>                 | the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) at which the Offer Shares are to be subscribed for and issued, or purchased and sold pursuant to the section headed “Structure of the Global Offering” in this Prospectus |
| <i>“Offer Shares”</i>                | the Hong Kong Offer Shares and the International Offer Shares including, where relevant, any additional Shares issued pursuant to the exercise of the Over-allotment Option  |

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## DEFINITIONS

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| <i>“Over-allotment Option”</i>         | the option expected to be granted by the Company to the International Underwriters exercisable by the Joint Global Coordinators under the International Underwriting Agreement pursuant to which the Company may be required by the International Underwriters to issue up to 108,000,000 additional Shares, representing 15% of the Offer Shares initially offered under the Global Offering, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any |
| <i>“PBOC”</i>                          | 中國人民銀行 (the People’s Bank of China), the central bank of China  |
| <i>“PCM China”</i>                     | 太平洋世紀(北京)汽車零部件有限公司 (Pacific Century Motors, Inc.*), a limited liability company established in the PRC on September 10, 2010, which is owned as to 24% by Beijing E-Town, 51% by AVIC Auto and 25% by PCM Systems, and is one of our Controlling Shareholders   |
| <i>“PCM (Singapore) Steering”</i>      | PCM (Singapore) Steering Holding Pte. Limited, a company incorporated in Singapore on November 4, 2010, which is a direct wholly-owned subsidiary of our Company  |
| <i>“PCM Systems”</i>                   | 太平洋世紀汽車系統有限公司 (PCM Systems Co., Ltd.*), a limited liability company established in the PRC on January 8, 2003, which owns 25% of PCM China (one of our Controlling Shareholders). PCM Systems is directly wholly-owned by 安徽盛威貿易有限公司 (Anhui Shengwei Trading Company Limited*), an Independent Third Party  |
| <i>“PCM (US) Steering”</i>             | PCM (US) Steering Holding Inc., a company incorporated in Delaware, United States on November 8, 2010, which is a direct wholly-owned subsidiary of our Company   |
| <i>“People’s Congress”</i>             | 人民代表大會, the PRC’s legislative apparatus, including the National People’s Congress of the PRC and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them   |
| <i>“Poland”</i>                        | the Republic of Poland  |
| <i>“PRC government” or the “State”</i> | the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)  |
| <i>“PRC Legal Advisor”</i>             | Jia Yuan Law Offices, PRC legal advisor to the Company  |

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## DEFINITIONS

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| <i>“Predecessor” or “our Predecessor”</i>         | GM Global Steering Holdings, LLC  |
| <i>“Price Determination Agreement”</i>            | the agreement to be entered into among our Company and the Joint Global Coordinators (for itself and on behalf of the Underwriters) at or about the Price Determination Date to fix the Offer Price |
| <i>“Price Determination Date”</i>                 | the date, expected to be on or about Wednesday, June 26, 2013 (Hong Kong time), when the Offer Price is determined and, in any event, no later than Thursday, June 27, 2013                         |
| <i>“Prospectus”</i>                               | this prospectus dated June 20, 2013 being issued in connection with the Hong Kong Public Offering   |
| <i>“PSA Peugeot Citroën”</i>                      | PSA Peugeot Citroën and its affiliates, an Independent Third Party  |
| <i>“Qualified Institutional Buyers” or “QIBs”</i> | qualified institutional buyers within the meaning of Rule 144A  |
| <i>“Regulation S”</i>                             | Regulation S under the Securities Act   |
| <i>“Remuneration and Nomination Committee”</i>    | the remuneration and nomination committee of the Board  |
| <i>“Renault”</i>                                  | Renault S.A. and its affiliates, an Independent Third Party   |
| <i>“Renminbi” or “RMB”</i>                        | renminbi yuan, the lawful currency of the PRC   |
| <i>“Reorganization”</i>                           | the reorganization arrangements undergone by our Group in preparation for the Listing as described in the section headed “Our History and Reorganization — Reorganization” in this Prospectus       |
| <i>“Rule 144A”</i>                                | Rule 144A under the Securities Act  |
| <i>“SAFE”</i>                                     | 中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC)  |
| <i>“SASAC”</i>                                    | 中華人民共和國國務院國有資產監督管理委員會 (the State-owned Assets Supervision and Administrative Commission of the State Council of the PRC)  |

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## DEFINITIONS

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| “SAT”  | 中華人民共和國國家稅務總局 (the State Administration of Taxation of the PRC)  |
| “Securities Act”                             | the U.S. Securities Act of 1933, as amended and the rules and regulations promulgated thereunder   |
| “Securities and Futures Commission” or “SFC” | the Securities and Futures Commission of Hong Kong   |
| “SFO”  | the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time   |
| “Shanghai GM”                                | 上海通用汽車有限公司 (Shanghai General Motors Co., Ltd.) and its affiliates, an Independent Third Party  |
| “Share(s)”                                   | ordinary share(s) with nominal value of HK\$0.10 each in the share capital of our Company  |
| “Shareholder(s)”                             | holder(s) of our Shares  |
| “South Korea”                                | the Republic of South Korea  |
| “sq. ft.”                                    | square feet  |
| “sq.m.”                                      | square meters  |
| “Stabilizing Manager”                        | BOCI Asia Limited  |
| “Stock Borrowing Agreement”                  | the agreement which is expected to be entered into on or about the Price Determination Date between the Stabilizing Manager and Nexteer Hong Kong, as further described in the section headed “Structure of the Global Offering — Stock Borrowing Agreement” |
| “substantial shareholder”                    | has the meaning ascribed thereto in the Listing Rules  |
| “Takeovers Code”                             | the Hong Kong Code on Takeovers and Mergers and Share Repurchases  |
| “Toyota”                                     | Toyota Motor Corporation and its affiliates, an Independent Third Party  |

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## DEFINITIONS

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| “Track Record Period”              | (i) in respect of the year ended 2010, the eleven months ended November 30, 2010 and the period from November 4, 2010 to December 31, 2010; (ii) the year ended December 31, 2011 and (iii) the year ended December 31, 2012. See “Financial Information” for further information |
| “Turkey”                           | the Republic of Turkey  |
| “UAW”                              | the United Automobile, Aerospace and Agricultural Implement Workers of America  |
| “Underwriters”                     | the Hong Kong Underwriters and the International Underwriters   |
| “Underwriting Agreements”          | the Hong Kong Underwriting Agreement and the International Underwriting Agreement   |
| “U.S.” or “United States”          | the United States of America  |
| “US\$” or “U.S. dollars”           | United States dollars, the lawful currency of the United States   |
| “Volkswagen”                       | the Volkswagen Group and its affiliates, an Independent Third Party   |
| “White Form eIPO”                  | the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>White Form eIPO</b> Service at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>                                    |
| “White Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited   |
| “%”                                | percent   |

*Certain amounts and percentage figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “\*” and the Chinese translation of company names in English which are marked with “\*” is for identification purposes only. Unless otherwise specified, all relevant information in this Prospectus assumes no exercise of the Over-allotment Option.*

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## GLOSSARY OF TECHNICAL TERMS

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| <i>“active energy-absorbing steering column(s)”</i>         | a steering column which uses a pyrotechnic actuator to optimize the energy absorbed during a collision to help improve driver protection   |
| <i>“Advanced Development Process”</i>                       | process by which we develop a new project design as a part of our research and design efforts  |
| <i>“aftermarket”</i>  | the secondary market of the automotive industry concerned with the manufacturing, remanufacturing, distribution, retailing and installation of all vehicle parts, chemicals, tools, equipment and accessories for light and heavy vehicles, after the sale of the vehicle by the OEM to the consumer |
| <i>“API”</i>  | Annual Physical Inventory testing, which is conducted at least once per year in each plant and measures overall discipline in inventory management and accuracy in reporting inventory levels  |
| <i>“assist mechanism(s)”</i>                                | provides assistive power through either the steering column or the steering gear   |
| <i>“assistive power”</i>                                    | when power is added to an apparatus through the use of a motor or hydraulic system   |
| <i>“axle shaft(s)” or “front axle(s)” or “rear axle(s)”</i> | a central shaft for a rotating wheel or gear which transmits power to the wheels   |
| <i>“bearing(s)”</i>   | a machine element that constrains relative motion between moving parts to only the desired motion  |
| <i>“brushless EPS”</i>                                      | an EPS system with brushless motor technology, which utilizes permanent magnets and rotational position sensors to precisely control motor torque and rotation   |
| <i>“bundled hose(s)”</i>                                    | type of steering hose where the hoses are tied together  |
| <i>“carbon dioxide equivalent(s)”</i>                       | metric measure used to compare the emissions from various greenhouse gases based upon their global warming potential   |
| <i>“casting(s)”</i>   | a manufacturing process by which a liquid material is poured into a mold, which contains a hollow cavity of the desired shape, and then allowed to solidify  |
| <i>“CIS”</i>  | steering column and intermediate shafts  |

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## GLOSSARY OF TECHNICAL TERMS

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|--|---|
| <i>“Column Assist EPS” or “CEPS”</i>       | an EPS system which integrates the system electronics (motor, controller and sensor) and the assist mechanism with the steering column  |
| <i>“compact modular power pack(s)”</i>     | a modular power pack is an integrated unit consisting of the motor, controller and gear reduction units required to provide steering assist                                     |
| <i>“computer module(s)”</i>                | a selection of independent electronic circuits packaged onto a circuit board to provide a basic function within a computer  |
| <i>“containment and sorting system(s)”</i> | a system in which we identify and segregate non-conforming parts during the manufacturing process   |
| <i>“controller(s)”</i>                     | electronic hardware that regulates a chip or expansion card that interfaces with a peripheral device, the performance of the motor and EPS system                               |
| <i>“cooler(s)”</i>                         | small thermal radiating devices used to cool power steering fluid   |
| <i>“coupling(s)”</i>                       | device used to connect two shafts together at their ends for the purpose of transmitting power  |
| <i>“Cross-Glide”</i>                       | an inboard joint providing premium NVH performance for rear wheel drive applications that require only moderate operating angles  |
| <i>“Customer Ship Performance”</i>         | a metric which measures how often our customer shipments are on-time  |
| <i>“cutting”</i>                           | the separation of a physical object or portion thereof into two or more portions through the application of an acutely directed force   |
| <i>“data coordinator(s)”</i>               | supports the Production Control and Logistics Team of our Group and is responsible for the coordination of inventory activities and the accuracy of a plant’s inventory balance |
| <i>“DIO”</i>                               | Days Inventory Outstanding  |
| <i>“drilling”</i>                          | a cutting process that uses a drill bit, or rotary cutting tool, to cut or enlarge a hole of circular cross-section in solid materials  |



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## GLOSSARY OF TECHNICAL TERMS

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| <i>“driveline disturbance issue(s)”</i>  | any objectionable noise or vibration that may be detected by vehicle occupants  |
| <i>“driveline system(s)”</i>             | the components that transfer power from the transmission and deliver it to the drive wheels, which include front wheel drive halfshafts, intermediate drive shafts, rear wheel drive halfshafts and propeller shaft joints                            |
| <i>“electric motor(s)” or “motor(s)”</i> | an electromechanical device that converts electrical energy into mechanical energy  |
| <i>“electro-mechanical engineering”</i>  | the analysis, design, manufacture and maintenance of equipment and products based on the combination of electrical circuits and mechanical systems  |
| <i>“EPS”</i>                             | electric power steering, which uses an electric motor to assist driver steering   |
| <i>“error-proofing system(s)”</i>        | a system in which we detect and remove defective parts before they are produced   |
| <i>“failure mode and risk analysis”</i>  | a process by which potential problems are identified early in the development cycle when they are easier to resolve   |
| <i>“front-axle load(s)”</i>              | the total weight felt by the roadway for all wheels connected to the front axle   |
| <i>“front wheel drive halfshaft(s)”</i>  | transmits torque at constant velocity from the transmission to the front wheel of the vehicle   |
| <i>“front wheel drive vehicle(s)”</i>    | a form of engine and transmission layout where the engine drives the front wheels only  |
| <i>“full-size truck(s)”</i>              | a large pickup truck suitable for hauling heavy loads and performing other functions  |
| <i>“green technologies”</i>              | the application of one or more of environmental science, green chemistry, environmental monitoring and electronic devices to monitor, model and conserve the natural environment and resources and to curb the negative impacts of human involvement  |
| <i>“heat treatment”</i>                  | a group of industrial and metalworking processes used to alter the physical, and sometimes chemical, properties of a material that involve the use of heating or chilling to extreme temperatures to achieve the hardening or softening of a material |

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## GLOSSARY OF TECHNICAL TERMS

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| <i>“hemianechoic chamber(s)”</i>                         | an echo-free chamber designed to completely absorb reflections of either sound or electromagnetic waves to provide a quiet open space of infinite dimension which is useful when exterior influence would otherwise give false results |
| <i>“high output, rack-based 12-volt steering system”</i> | a high power steering system capable of delivering rack output force in excess of 15 kilonewtons   |
| <i>“HPS”</i>   | hydraulic power steering, which uses high pressure fluids to assist driver steering  |
| <i>“in-process coating”</i>                              | the application of a thin film of functional material to a substrate to improve the surface properties of the substrate  |
| <i>“intermediate drive shaft(s)”</i>                     | works in conjunction with the halfshafts to improve vehicle handling and eliminate driveline disturbance issues on front wheel drive vehicle, with unequal length axles, higher torque and running angles                              |
| <i>“intermediate shaft(s)” or “I-Shaft(s)”</i>           | connects the end of the steering column to the Rack and Pinion Gear  |
| <i>“large van(s)”</i>                                    | full-size vans   |
| <i>“Lean Design Methodology”</i>                         | methodology seeking to create value with the least amount of waste   |
| <i>“luxury vehicle(s)”</i>                               | a vehicle with high quality equipment, superior performance, precise construction and advanced design or features that convey status or prestige   |
| <i>“machined part(s)”</i>                                | a part produced through a machining process  |
| <i>“machining” or “machining process(es)”</i>            | a process in which a piece of raw material is cut into a desired final shape and size by a controlled material-removal process   |
| <i>“make to print” model</i>                             | the in-house design of products and the partnership with third-party suppliers to manufacture such products  |
| <i>“manufacturing footprint”</i>                         | the geographic areas in which a company’s manufacturing plants are located   |
| <i>“Nexteer Production System”</i>                       | an integrated system that organizes manufacturing and logistics, including interaction with suppliers and customers, with a focus on Lean Design Methodology   |

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## GLOSSARY OF TECHNICAL TERMS

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| <i>“non-adjustable steering column(s)”</i>    | a steering column that remains in a fixed position and cannot be changed by the driver   |
| <i>“NVH”</i>                                  | noise, vibration and harshness, the study and modification of the noise and vibration characteristics of vehicles, particularly cars and trucks  |
| <i>“OEM(s)”</i>                               | original equipment manufacturer(s), generally referring to large automotive manufacturers that use OEM components in the production of cars, which is in line with standard industry practice                      |
| <i>“Pareto Analysis”</i>                      | a statistical technique in decision making that is used for selection of a limited number of tasks that produce significant overall effect   |
| <i>“PC&amp;L Team”</i>                        | our Production Control and Logistics Team, which oversees inventory control and is responsible for inventory management  |
| <i>“Pinion Assist EPS” or “SPEPS”</i>         | an EPS system that integrates the controller motor unit of the system electronics and the assist mechanism with the steering gear pinion shaft   |
| <i>“polishing”</i>                            | a finishing process for smoothing a part’s surface using an abrasive and a work wheel  |
| <i>“power adjustable steering column(s)”</i>  | a steering column with electrical power control of tilt and telescopic adjustments, which provides ease of driver entry, exit and comfort and provides drivers with more wheel-position options                    |
| <i>“power electronics”</i>                    | the application of solid-state electronics for the control and conversion of electric power  |
| <i>“power one-touch adjustable column(s)”</i> | a steering column which replaces a manual lever with one-touch button located within easy reach on the steering wheel that the driver can press and hold while adjusting the column to meet individual preferences |
| <i>“powertrain”</i>                           | a group of components that generate power and deliver it to the road surface   |
| <i>“pressure hose(s)”</i>                     | long-lasting hose designed to handle constant high pressure  |

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## GLOSSARY OF TECHNICAL TERMS

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| <i>“propeller shaft joint(s)”</i>                     | the part of the complete propeller shaft assembly that transmits torque from the transmission or transfer case to the front and rear axles    |
| <i>“rack and pinion gear(s)” or “R&amp;P gear(s)”</i> | a pair of gears that convert rotational motion into linear motion   |
| <i>“Rack Assist EPS” or “REPS”</i>                    | an EPS system which integrates the system electronics (motor, controller and sensor) with the steering rack                                   |
| <i>“rare earth material(s)”</i>                       | a set of 17 chemical elements in the periodic table, specifically the 15 lanthanides plus scandium and yttrium                                |
| <i>“rear differential”</i>                            | a device with a differential which allows the wheels of vehicle to rotate at different speeds   |
| <i>“rear wheel drive halfshaft(s)”</i>                | transmits torque from the rear differential to the wheels   |
| <i>“remote reservoir hose(s)”</i>                     | hose linked to the remote reservoir, an external reservoir that increases fluid capacity  |
| <i>“return hose(s)”</i>                               | a hose assembled with end fittings or user applied clamps for use in automotive power steering applications as flexible connections           |
| <i>“sensor(s)”</i>                                    | a converter that measures a physical quantity and converts it into a signal which can be read by an observer or by an electronic instrument   |
| <i>“Six Sigma” or “Six Sigma Analysis”</i>            | an advanced problem solving tool used to identify and remove the root causes of product defects and variability in manufacturing processes    |
| <i>“small car(s)”</i>                                 | a classification of cars that are larger than a subcompact car but smaller than a mid-size car  |
| <i>“sport utility vehicle(s) ”</i>                    | vehicle similar to a station wagon or estate car, usually equipped with four-wheel drive for on- or off-road ability                          |
| <i>“steel tubing”</i>                                 | steel tube used in power steering applications  |
| <i>“steering column(s)” or “column(s)”</i>            | connects the steering wheel to the steering mechanism and controls steering by transferring the driver’s input torque from the steering wheel |

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## GLOSSARY OF TECHNICAL TERMS

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| <i>“steering gear(s)”</i>  | provide directional control of a vehicle by converting hydraulic pressure to a rotation force that moves the steering linkage left or right   |
| <i>“steering gear pinion shaft(s)”</i>                             | a shaft that attaches the steering gear to the pinion shaft, so the steering gear spins when the steering wheel is turned, moving the rack  |
| <i>“steering hose(s)” or “hose(s)”</i>                             | a wide range of products for bundled hoses, pressure hoses, return hoses, coolers and remote reservoir hoses  |
| <i>“steering linkage”</i>  | the part of an automotive steering system that connects to the front wheels   |
| <i>“steering pump(s)” or “power steering pump(s)” or “pump(s)”</i> | provide the hydraulic power for HPS   |
| <i>“steering system(s)”</i>  | the components that control the direction of vehicular motion   |
| <i>“system electronics”</i>  | consist of the power electronics required to deliver precisely controlled current/force to assist the driver by reducing required steering effort   |
| <i>“Tier 1 suppliers”</i>  | direct suppliers to OEMs  |
| <i>“ton”</i>   | a unit of weight equal to 2,000 pounds avoirdupois (907.19 kg)  |
| <i>“tooling”</i>   | manufacturing aids of a specialized nature used for specific production line or the performance of a specific job   |
| <i>“torque”</i>  | the tendency of a force to rotate an object about an axis, fulcrum or pivot, defined mathematically as the cross product of the lever-arm distance and force, which tends to produce rotation   |
| <i>“transfer case”</i>   | a part of a four-wheel-drive system which is connected to the transmission as well as to the front and rear axles by means of the drive shaft that receives power from the transmission and sends it to both the front and rear axles |
| <i>“transmission”</i>  | an assembly of parts including the speed-changing gears and the propeller shaft by which the power is transmitted from an engine to an axle   |

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## GLOSSARY OF TECHNICAL TERMS

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| <i>“Tri-Glide”</i>                              | premium inboard joint that incorporates an added degree of freedom to deliver superior NVH performance  |
| <i>“TS-16949”</i>                               | an International Organization for Standardization technical specification prepared by the International Automotive Task Force that aims to develop a quality management system that provides for continual improvement, emphasizing defect prevention and the reduction of variation and waste in the supply chain of the automotive industry |
| <i>“tumbling”</i>                               | a technique for smoothing and polishing a rough surface on relatively small parts in which a horizontal barrel is filled with the parts and tumbling media  |
| <i>“vehicle model(s)” or<br/>“model(s)”</i>     | a particular brand of vehicle sold under a marque by a manufacturer, usually with a range of models which are of different sizes or capabilities  |
| <i>“vehicle platform(s)”</i>                    | a shared set of common design, engineering, and production efforts, as well as major components over a number of outwardly distinct models and even types of vehicles   |
| <i>“zero defect manufacturing<br/>measures”</i> | a manufacturing process that aims to produce a specific product with no defects in either quality or performance  |
| <i>“zoning”</i>                                 | the precision matching of mating parts through measurement, classification and assembly   |

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## FORWARD-LOOKING STATEMENTS

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### FORWARD-LOOKING STATEMENTS CONTAINED IN THIS PROSPECTUS ARE SUBJECT TO RISKS AND UNCERTAINTIES

This Prospectus contains certain statements that are, or may be deemed to be, “forward-looking statements,” and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Prospectus, the words “aim,” “anticipate,” “believe,” “consider,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “may,” “ought to,” “plan,” “predict,” “project,” “seek,” “should,” “will,” “would” and the negatives thereof or similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Company’s management with respect to future events, our business, results of operations, financial condition, profitability, future prospects, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this Prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our strategies, plans, objectives and goals;
- the performance of global financial markets, including changes in our ability to access the capital markets and changes in the level of interest rates;
- changes in the general operating environment of the automotive industries around the world, such as changes in automotive manufacturers’ production rates and discretionary purchases of vehicles by consumers;
- the loss, consolidation of or a drop in the market share of any of our largest customers;
- labor disruptions experienced by us, our customers or suppliers;
- increases in fuel prices and the costs of raw materials;
- the impact of consolidation among automotive suppliers and customers on our ability to compete;
- new technologies that increase our costs or reduce the demand for our products or otherwise render them obsolete;
- changes in the governmental policies, laws or regulations of the relevant jurisdictions our Group or its customers operate in, in particular those affecting the automotive industry;
- the business opportunities that we may pursue;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- global general economic, market and business conditions;

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## FORWARD-LOOKING STATEMENTS

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- changes in our strategy, plans, objectives and goals;
- the actions and developments of our customers and competitors;
- certain statements in the section headed “Financial Information” in this Prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- the other risk factors discussed in this Prospectus as well as other factors beyond our control.

Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Prospectus are qualified by reference to this cautionary statement.



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## RISK FACTORS

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*Investing in the Shares involves certain risks. You should read this Prospectus in its entirety and carefully consider each of the risks described below and all of the other information contained in this Prospectus before deciding to purchase the Shares.*

*If any of the following risks materialize, our business, results of operations, financial condition, profitability and future prospects could be materially and adversely affected. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.*

*In addition, we are also subject to other risks and uncertainties that are not currently known to us or which we currently deem to be immaterial. Such risks and uncertainties could also have a material adverse effect on our business, results of operations, financial condition, profitability and future prospects.*

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) Risks Related to Our Business and Industry; and (ii) Risks Related to the Global Offering. For a discussion of the information pertaining to the periods from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 and the comparability of the financial information of our Predecessor and our Group, see “Financial Information — Basis of Presentation.”

### **RISKS RELATED TO OUR BUSINESS AND INDUSTRY**

**General economic conditions and other factors causing a material contraction in automotive sales and production could have a material adverse effect on our business, results of operations and financial condition.**

Our business is directly related to automotive sales and production, which are highly cyclical and depend on, among other things, general economic conditions and consumer spending. With the increased connectivity of global economies, a financial crisis, geopolitical turmoil or other significant event in one region can have an immediate and significant impact on markets around the world. While production levels in the automotive industry have generally increased since the economic downturn in 2008 and 2009, the global economy remains fragile. Further, consumer spending on vehicles can be affected by a number of factors, including employment levels, changes in discretionary income due to the pace of wage growth and changes in income tax rates, fuel costs, the availability and cost of consumer financing, vehicle replacement cycles and concerns about the global economy. As the volume of vehicle production fluctuates, the demand for our products also fluctuates. Automotive production levels in North America and Europe most notably affect us given our concentration of sales in those regions. Sales in North America accounted for 63.4% and sales in Europe accounted for 22.7% of our Predecessor’s total revenue for the period from January 1, 2010 to November 30, 2010. Sales in North America accounted for 61.8%, 65.4% and 70.9% and sales in Europe accounted for 20.2%, 20.3% and 15.2% of our total revenue for the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, respectively.

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## RISK FACTORS

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In addition, as was evident in the economic downturn in 2008 and 2009, disruptions in the financial markets can result in reduced liquidity and increased borrowing costs, which could adversely affect us, our customers and our suppliers. The ongoing sovereign debt crisis in certain European countries could further negatively affect access to, and the cost of, capital in Europe. Such factors affecting the consumer market could reduce consumer spending for automotive vehicles by reducing consumer confidence and making it more difficult for consumers to obtain financing for vehicle purchases, which would negatively affect automotive production volumes and the demand for our products. As we, our customers and our suppliers respond to rapidly changing consumer demand and preferences for vehicles and attempt to increase production volumes as the industry recovery progresses, we and they may require access to additional capital. If required capital is not available or its cost is prohibitively high, any production volume increases could be constrained and our, our customers' and our suppliers' businesses could be negatively affected. Any such negative effect on our customers or suppliers, in turn, could materially and adversely affect our business, results of operations and financial condition, either through lower sales to any of our customers that are affected or through an inability to meet our commitments (or inability to meet them without excess expense) because of our suppliers' inability to meet their obligations.

A material contraction in automotive sales and production would likewise adversely affect our customers, many of which were forced to implement unprecedented restructuring actions, including in some cases reorganization under bankruptcy laws, in response to the economic downturn in 2008 and 2009. For example, due to deteriorating economic conditions in 2009, the United States government granted GM and Chrysler government loans to assist them in obtaining the necessary capital to continue to operate. Despite these government programs, Chrysler filed for Chapter 11 bankruptcy on April 30, 2009 and GM filed for Chapter 11 bankruptcy on June 1, 2009. Chrysler and GM emerged from bankruptcy on June 10, 2009 and July 10, 2009, respectively. Further adverse conditions could materially strain our customers' ability to operate profitably, and possibly result in more significant restructuring actions or liquidation. Since certain of our suppliers also supply products directly or indirectly to our customers, they may also encounter liquidity issues if our customers are forced to take further restructuring actions or to liquidate. If a supplier's viability is challenged, it could materially and adversely affect the supplier's ability to perform as we expect and, consequently, our ability to meet our commitments.

The European financial downturn in 2012 materially impacted the automotive market in Europe. Our Group's revenue in Europe for the year ended December 31, 2012 was adversely affected and our margins in Europe declined in 2012 as compared to 2011. OEMs have continued to experience difficulties from a weakened economy and tightening credit markets, which resulted in decreased vehicle production rates and volumes in Europe from 2011 to 2012. As a result, we have experienced and may continue to experience reductions in orders from OEM customers. A continued and prolonged downturn in the European automotive industry, continued uncertainty relating to the economic conditions in Europe or a significant change in product mix due to consumer demand may continue to have an adverse effect on our business.

As a result of the above factors, further material contraction in automotive sales and production due to macroeconomic factors or otherwise could have a material adverse effect on our business, results of operations and financial condition.

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## RISK FACTORS

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**The financial data of our Predecessor is not directly comparable to our Group's financial data, except for revenue, and the results of our Predecessor may not be indicative of the results of our Group.**

Our Predecessor came under the control of our Group on November 30, 2010 following the completion of the Acquisition. Our Predecessor's operating results are not directly comparable to the results of our Group in the following aspects:

- The assets acquired and liabilities assumed by our Group from our Predecessor were generally recorded at fair value.
- The costs charged by GM to our Predecessor for certain services and functions, may not be indicative of the costs that our Predecessor would have incurred had our Predecessor been a stand-alone entity. In addition, GM did not charge our Predecessor for all the direct costs it incurred on our Predecessor's behalf, nor did GM allocate any charges to our Predecessor for shared or common expenses.
- Engineering and product development costs for our Group are not comparable to those of our Predecessor.
- Our Predecessor only recognized obligations for defined benefit plans for which it was the legal plan sponsor.
- Our Predecessor's reported income tax amounts are presented on a separate return basis as if it were a stand-alone entity. Since certain of our Predecessor's legal entities filed a consolidated tax return with GM's legal entities, current taxes were assumed to be settled with GM in the year the related income taxes are recorded through transfers to GM.

Accordingly, the historical results of our Predecessor may not be indicative of those of our Group, and investors should use caution when evaluating the historical results of our Predecessor. See "Financial Information — Basis of Presentation."

**Our sales are concentrated among our largest customers and the loss or consolidation of any one of these customers could reduce our revenues and have a material adverse effect on our business, results of operations and financial condition.**

For the years ended December 31, 2010 (combining revenues of our Predecessor and our Group), 2011 and 2012, sales to our five largest customers accounted for approximately 79.2%, 82.4% and 82.7% of our revenues, respectively. For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, our largest customer, GM, accounted for approximately 50.4%, 50.6% and 52.3% of our revenues, respectively. The automotive industry, including our customers, experienced significant disruption during the economic downturn in 2008 and 2009. For example, GM and Chrysler received United States government assistance during the economic downturn and Chrysler ultimately filed for Chapter 11 bankruptcy on April 30, 2009 and GM ultimately filed for Chapter 11 bankruptcy on June 1, 2009. The bankruptcy, loss or consolidation of any one of our customers, or a significant decrease in business from one or more of these customers, could materially and adversely affect our business, results of operations and financial condition.

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## RISK FACTORS

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**Our purchase orders with our OEM customers are generally requirements contracts, and a decline in the production requirements of any of our customers, in particular our largest customers, could materially and adversely affect our business, results of operations and financial condition.**

We supply substantially all of our products to our customers pursuant to purchase orders for specific products supplied for particular vehicles, which are governed by terms and conditions established by each OEM customer. In most instances our OEM customers agree to purchase their requirements for specific products but are not required to purchase any minimum quantity of products from us. Some OEM customers may also contract with an alternative supplier for the same vehicle platform. Our purchase orders with the majority of our customers have terms ranging from one year to the life of the model, which is generally four to seven years, although our customers often reserve the right at their discretion to terminate the contracts. Because our customers typically have no obligation to purchase a specific quantity of products, the discontinuation of, or a decrease in demand for, certain key models or group of related models sold by any of our major customers or the ability of a manufacturer to re-source and discontinue purchasing from us, for a particular model or group of models, could have a material adverse effect on us. To the extent that we do not maintain our existing level of business with our largest customers because of a decline in their production requirements or because these purchase orders expire, are terminated or are not renewed, we will need to attract new customers or secure new business with existing customers. If we are not able to do so, our business, results of operations and financial condition could be materially and adversely affected.

**A drop in the market share or changes in product mix offered by our customers can affect our revenues.**

We primarily sell our products to OEMs and are dependent on the continued growth, viability and financial stability of our customers. The automotive industry is subject to rapid technological change, intense competition, short product life cycles and cyclical consumer demand patterns. When our customers are adversely affected by any of these factors, we may be adversely affected as well to the extent that our customers reduce the volume of orders for our products.

As the purchase orders with our customers are typically based on specific models, the mix of vehicle offerings by our OEM customers also affects our sales. A decrease in consumer demand for specific types of vehicles where we have traditionally provided significant content could have a material adverse effect on our business, results of operations and financial condition.

**Continued pricing pressures, OEM cost reduction initiatives and the ability of OEMs to re-source or cancel vehicle programs may result in lower than anticipated margins or losses.**

Pricing pressure in the automotive supply industry has been substantial and is likely to continue. Cost-cutting initiatives adopted by our customers can produce downward pressure on the pricing of our products. Our customers' purchase orders generally require step-downs in component pricing over the period of production, typically one to three percent per year. In addition, our customers often reserve the right in their discretion to unilaterally terminate their

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## RISK FACTORS

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supply contracts, which enhances their ability to obtain price reductions. OEMs also have significant leverage over their suppliers, including us, because the automotive steering and driveline industries:

- are highly competitive;
- serve a limited number of customers; and
- have a high fixed cost base.

In addition, we have had excess capacity in some product lines. Based on these factors, and because our customers' product programs typically last for a number of years and are anticipated to encompass large volumes, our customers enjoy significant leverage in price negotiations and are able to negotiate favorable pricing terms. Accordingly, as a Tier 1 supplier, we are subject to substantial continuing pressure from OEMs to reduce the price of our products. It is possible that pricing pressures beyond our expectations will intensify as OEMs continue to pursue cost-cutting initiatives. For example, in February 2012, GM and PSA Peugeot Citroën formed a strategic alliance to share vehicle platforms, which strengthened their bargaining power against their suppliers, including us. If we are unable to generate sufficient production cost savings in the future to offset price reductions, our margins and profitability may be materially and adversely affected.

**Product recalls by OEMs could negatively affect their production levels and therefore have a material adverse effect on our business, results of operations and financial condition.**

In the past, there have been significant product recalls by some of the world's largest OEMs, including our existing customers. Recalls may result in decreased production levels due to: (i) an OEM focusing its efforts on addressing the problems underlying the recall, as opposed to generating new sales volume; and (ii) consumers electing not to purchase vehicles manufactured by the OEM initiating the recall, or by OEMs in general, while such recalls persist. Any reductions in OEM production volumes, especially those OEMs which are our existing customers, could have a material adverse effect on our business, results of operations and financial condition.

Additionally, if any of our products are or are alleged to be defective, we may be required to participate in a recall involving such products. Any negative publicity arising from a recall could adversely affect our reputation and brand. In addition, each OEM has its own practices regarding product recalls relating to its suppliers. However, as suppliers become more integrally involved in the vehicle design process and assume more of the vehicle assembly functions, OEMs may look to their suppliers for contribution when faced with recalls. We generally do not maintain insurance for product recalls. Accordingly, any recall claim brought against our customers or us could have a material adverse effect on our business, results of operations and financial condition.

**We have invested substantial resources in markets and product lines where we expect growth; should such expectations not be realized, we may be unable to alter our strategies.**

Our future growth is dependent on our making the right investments at the appropriate time to support our product development initiatives and manufacturing capacity in markets and product lines where we can support our customer base. We have identified the Asia-Pacific and

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## RISK FACTORS

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South American regions, and China in particular, as key markets likely to experience substantial growth. We have also identified EPS as a product line likely to experience growth. Accordingly, we have made and expect to continue to make substantial investments in manufacturing operations, engineering centers and other infrastructure to support anticipated growth in these markets and product lines. If these markets or product lines do not grow at the pace that we expect or at all, or if we are unable to deepen existing and develop additional customer relationships in these markets and product lines, we may fail to realize expected rates of return on our existing investments, incur losses on such investments and be unable to redeploy effectively the invested capital to take advantage of other markets and opportunities, potentially resulting in lost market share to our competitors. Our business, results of operations and financial condition may be materially and adversely affected if these markets and product lines do not grow as quickly as we anticipate or at all.

**We may incur material losses and costs as a result of warranty claims and product liability actions that may be brought against us.**

We face an inherent business risk of exposure to warranty claims and product liability actions in the event that our products fail to perform as expected and, in the case of product liability actions, such product failure results in bodily injury and/or property damage. The fabrication of the products that we manufacture is a complex and precise process. Our customers specify quality, performance and reliability standards. If flaws in either the design or manufacture of our products were to occur, we could experience a rate of failure in our products that could result in significant delays in shipment and product re-work or replacement costs. Although we engage in extensive product quality programs and processes, these may not be sufficient to avoid product failures, which could cause us to experience:

- lost net revenue;
- increased costs such as warranty expense, costs associated with customer support and legal expenses to defend against warranty and product liability claims;
- delays, cancellations or rescheduling of orders for our products;
- increased product returns or discounts; and
- damage to our reputation.

The occurrence of any of the foregoing could negatively affect our business, results of operations and financial condition.

Furthermore, depending on each OEM's practices regarding product liability actions relating to its suppliers, an OEM might look to its suppliers for indemnification or contribution when faced with product liability claims. We currently maintain insurance to cover product liability claims, but we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against potential claims. A product liability claim brought against us in excess of our available insurance coverage could have a material adverse effect on our business.

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## RISK FACTORS

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OEMs also require their suppliers, including us, to guarantee or warrant their products and bear the costs of repair and replacement of such products under new vehicle warranties. Depending on the terms under which we supply products to an OEM, an OEM may attempt to hold us responsible for some or all of the repair or replacement costs of defective products under new vehicle warranties when the OEM asserts that the product supplied did not perform as warranted. We cannot assure you that the future costs of warranty claims by our customers will not be material. We maintain warranty reserves based on our estimates of amounts necessary to settle future and existing claims. We regularly evaluate the level of these reserves and adjust them when appropriate. Although we believe that our reserves are adequate to cover potential claims, we cannot assure you that we will not experience any material warranty claim losses in the future or that we will not incur significant costs to defend such claims.

**We could be adversely affected by a shortage of supplies causing a production disruption.**

Either we, our customers, or our suppliers may experience supply shortages of, or delays in the supply of, raw materials, parts, components or other supplies. This could be caused by a number of factors, including insufficient production line capacity or manpower or working capital constraints, weather emergencies and natural or man-made disasters affecting the accessibility of raw materials, parts or components, labor or political unrest, commercial disputes, public health concerns, acts of terrorism or other hostilities or other factors. For example, the 2008 strike at American Axle & Manufacturing Inc. resulted in 30 GM facilities in North America being idle for several months.

We use “single source suppliers” for most of the raw materials, parts and components required for our production, which means that we source all of our requirements for a particular part or component from a single source even though there are other suppliers for that part or component available in the market. Because we generally do not arrange for alternative supply sources for these raw materials, parts and components, should suppliers become unable to meet our demand or become unwilling to do so on terms that are acceptable to us, we may take time and/or incur costs to find alternative suppliers, as in some cases, there is a limited number of suppliers in the market. In addition, the raw materials, parts and components for our products are qualified for production through a rigorous evaluation process prior to their approval for use. If we were required to utilize another supplier for key raw materials, parts or components, we would need to spend significant time qualifying the raw materials, parts or components from alternative suppliers, which would take time and require substantial expense. If we are unable to find an alternative supplier willing and able to meet our needs on terms acceptable to us on a timely basis or at all, we may be required to discontinue production of the affected product. In addition, we use “sole source suppliers” for certain raw materials, parts and components, which means that the sole source supplier is the only supplier that can provide these parts or components because of the technology or process involved or because the material, part or component is patented. If any of these sole source suppliers ceases or interrupts operations, we may be faced with significant additional costs and production delays. The loss of a sole source supplier may even require us to discontinue production of the affected product.

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## RISK FACTORS

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We have been streamlining our supply base in order to better manage and reduce the cost of purchased goods and services. Other suppliers have taken similar measures. Due to the turbulence in the automotive industry during the economic downturn in 2008 and 2009, several suppliers have ceased operations. As a result, we have a greater dependence on fewer sources of supply for certain raw materials, parts and components. For the years ended December 31, 2010 (combining purchases of our Predecessor and our Group), 2011 and 2012, our five largest suppliers accounted for approximately 18.4%, 20.7% and 19.5% of our total material purchases, respectively. Furthermore, many suppliers downsized significantly during the economic downturn in 2008 and 2009 and may face capacity constraints as the industry continues to recover. These factors could increase the possibility of a supply shortage of any particular raw material, part or component, which could materially and adversely affect our business, results of operations and financial condition.

If any of our customers experiences a material supply shortage, either directly or as a result of a supply shortage caused by us or indirectly by a supplier, that customer may halt or limit its production and may halt or limit its purchase of our products. Similarly, if we or one of our own suppliers experiences a supply shortage, we may become unable to produce the affected products if we cannot procure the raw materials, parts or components from another source. When we fail to make timely deliveries in accordance with our contractual obligations, we generally have to absorb our own costs for identifying and solving the problem as well as expeditiously producing replacement components or products. Such production interruptions could have a material adverse effect on our business, results of operations and financial condition.

Additionally, if we are the cause of a customer halting production, the customer may seek to recoup all of its losses and expenses from us, which could be significant and may include consequential losses such as lost profits and damages. Any supply chain disruption, however small, could potentially cause the complete shutdown of an assembly line of one of our customers, and any such shutdown that is due to causes that are within our control could expose us to material claims of compensation. Where a customer halts production indirectly due to our supplier's failure to deliver on time, it is unlikely that we will be fully compensated by our suppliers, if at all.

Each of these factors could have a material adverse effect on our business, results of operations and financial condition.

**Certain of our suppliers are experiencing or may experience economic distress, which may require us to provide substantial financial support or take other measures to ensure supplies of raw materials, parts or components and could increase our costs, affect our liquidity or cause production constraints or disruptions.**

The automotive industry supply base experienced increased economic distress due to the sudden and substantial decrease in industry sales volumes beginning in 2008. As a result, some of our suppliers experiencing financial difficulties have requested direct or indirect price increases, as well as adjusted payment terms. From time to time, we have provided financial assistance to key suppliers that are financially troubled to ensure an uninterrupted supply of raw materials, parts or components, and we may be required to provide financial assistance or take other measures to ensure an uninterrupted supply in the future, which could increase our costs, affect our liquidity or cause production constraints or disruptions.



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## RISK FACTORS

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Contech Casting, LLC (“Contech”), one of our largest suppliers and our single source supplier for certain castings parts, is currently experiencing financial difficulties and its indirect controlling parent, Revstone Industries LLC (“Revstone”), has filed for bankruptcy protection. Revstone’s restructuring agent has retained an investment banking firm to seek a third-party buyer(s) for Contech and facilitate the sale process. On June 11, 2013, Contech entered into a purchase agreement with a third-party buyer pursuant to which Contech agreed to sell its manufacturing facilities subject to several conditions. We entered into an agreement, dated as of April 29, 2013, among Contech, and Contech’s key customers including us (the “Key Customers”) pursuant to which we and the other Key Customers agreed to provide financial assistance until June 15, 2013 to Contech to enable Contech to continue its operations uninterrupted. We expect to amend the agreement to (i) extend the length of the Key Customers’ obligations to provide financial assistance to August 2, 2013 and (ii) to extend Contech’s deadline to sell its manufacturing facilities to June 28, 2013 (subject to further extension to August 2, 2013 under certain circumstances). In exchange for this financial assistance, Contech’s Key Customers received certain access rights to Contech’s manufacturing facilities upon certain events of default. While the financial assistance that Contech will require is uncertain at this time, our Directors currently estimate that our Group’s forecasted exposure related to the provision of financial assistance to Contech would be approximately US\$3.4 million. If Contech cannot be sold in the near future or if we encounter delays in completing our production at Contech’s Clarkesville, Tennessee manufacturing facility as described in “Business — Manufacturing, Manufactured Components and Raw Materials — Procurement of Raw Materials, Parts and Components — Contech,” our Directors estimate that our Group’s exposure would increase. This exposure primarily consists of cash assistance to Contech to fund its operations, including potential expenses relating to any bankruptcy of Contech, until a sale of Contech can occur or production can be obtained from another supplier. We cannot assure you that this financial assistance will be successful in enabling Contech to maintain uninterrupted operations. If Contech’s operations are interrupted or cease or Contech otherwise fails to meet its supply obligations to us and we are unable to exercise our access rights to Contech’s manufacturing facilities or obtain alternative suppliers in a timely manner, our ability to supply our customers with certain products may be disrupted. If, as a result, we cause a customer to halt production, such customer may seek to recoup all of its losses and expenses from us, which may be substantial. See “Business — Manufacturing, Manufactured Components and Raw Materials — Procurement of Raw Materials, Parts and Components — Contech.”

**We may be unable to obtain, retain or renew required permits, licenses, registrations or certificates for our business operations.**

We are required to maintain certain permits, licenses, registrations and certificates issued by relevant government agencies in jurisdictions in which we operate. For example, for our manufacturing operations in the United States, Mexico, Brazil, Poland, China and India, we are required to maintain certain business and operating licenses and permits, and are subject to applicable regulations and laws of those jurisdictions. See “— We may be adversely affected by environmental and occupational health and safety regulations, litigation or other liabilities.” In addition, for the sale, or export of our products to, or the use of our products in, certain countries, we may be subject to certain import, product quality and vehicle emissions regulations. See “Regulations.”

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We are in the process of obtaining, renewing or rectifying certain registrations, permits, licenses, certificates, authorizations and consents for certain of our operations, which either have not been obtained, have expired or are expiring. Our inability to secure such license, or any other licenses, registrations and permits in other jurisdictions in a timely manner or at all, could result in operational delays or suspensions and/or administrative fines and penalties, which could have a material adverse effect on the manufacturing operations of our relevant facilities in those jurisdictions, as well as our overall business, results of operations and financial condition. See “Business — Regulatory Compliance and Legal Proceedings.”

In addition, we cannot assure you that we will be able to renew any other existing approvals, permits, licenses, registrations or certificates when they expire or that we will be able successfully to obtain, retain or renew future permits, licenses, registrations or certificates in a timely manner, or at all. Furthermore, we cannot assure you that such permits, licenses, registrations or certificates will not be revoked for whatever reason by the relevant authorities in the future. Failure to obtain or renew such permits, licenses, registrations and certificates as planned may result in delays in the sales and manufacturing of our products, which could materially and adversely affect our business, results of operations and financial condition.

### **We and our suppliers face manufacturing challenges.**

The volume and timing of sales to our customers may vary due to a number of factors, including variation in demand for our customers’ products, our customers’ attempts to manage their inventory, design changes, changes in our customers’ manufacturing strategy and acquisitions of or consolidations among customers. Accordingly, many of our customers do not commit to long-term production schedules. Our inability to forecast the level of customer orders with certainty makes it difficult for us accurately to schedule production, maximize the utilization of our manufacturing capacity and forecast our production capacity.

In addition, we rely on third-party suppliers for most of the parts and components used in our products. Our business, results of operations and financial condition could be adversely affected if our third-party suppliers do not have sufficient quality control, if there are significant changes in their operations or financial condition or if they are unable to provide sufficient products as promised. See “— We could be adversely affected by a shortage of supplies causing a production disruption.”

From time to time, we have underutilized our manufacturing lines because of a decrease in business from one or more of our customers, resulting in excess capacity and increased fixed costs per unit, which could have a material adverse effect on our margins and results of operations, particularly during economic downturns. Because many of the costs of operating these manufacturing lines are fixed, we are not able to reduce or avoid these costs.

Our failure to manage these manufacturing challenges could materially and adversely affect our business, results of operations and financial condition.

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**Our business, results of operations and financial condition could be materially and adversely affected if we fail to comply with the terms and conditions of our agreements with GM.**

In connection with the Acquisition, we entered into a number of agreements, including a Supply Agreement and an Access and Security Agreement with GM, each dated as of November 30, 2010. The Supply Agreement governs the terms and conditions pursuant to which we have agreed to manufacture and deliver certain products to GM. Our contracts with GM that are governed by the Supply Agreement and had not expired as of the Latest Practicable Date were entered into between 2005 and 2010 and are expected to expire between 2013 and 2020, assuming the applicable vehicle programs are not extended. Upon the occurrence of specified events, including our written acknowledgement that we are unable to satisfy our obligations under the Supply Agreement or certain actions by us or our creditors that result in an imminent and material interruption of production at GM's assembly operations, the Access and Security Agreement provides GM with the right to use the operating assets and occupy the real estate at our U.S. and Mexican manufacturing plants to manufacture GM products for a period of up to 24 months (the "Occupancy Period"). In addition, the Access and Security Agreement grants GM a license to use or sublicense our intellectual property that is necessary to manufacture such GM products on a royalty-free basis during the Occupancy Period. GM's invocation of its right to access under the Access and Security Agreement could have a material adverse impact on our business, results of operations and financial condition. See "Business — Customers — Relationship with GM."

**Increases in costs of the raw materials, parts, components and other supplies that we use in our products may have a negative effect on our business.**

Significant changes in the markets in which we purchase raw materials, parts, components and other supplies for the production of our products may adversely affect our profitability, particularly in the event of significant increases in demand where there is not a corresponding increase in supply, inflation or other pricing increases. In the past two years, there have been significant fluctuations in the global prices of steel, rare earth materials and plastics/resins, the principal raw materials used in our manufacturing process, which have had and may continue to have an unfavorable effect on our business, results of operations and financial condition. Market prices for steel have been generally increasing since 2004, with the exception of a temporary but significant decline in prices due to the global financial crisis and economic downturn in 2008 and 2009. The average annual base price of steel as reported by the AMM 4100 Series Index was US\$912 per ton, US\$1,117 per ton and US\$1,101 per ton in 2010, 2011 and 2012, respectively. Continuing volatility in the prices of raw materials used in the manufacture of our products may have an adverse effect on our business, results of operations and financial condition. We also face pricing pressure from our suppliers, which may from time to time threaten to stop shipments to us unless we agree to price increases. We will continue our efforts to pass certain raw materials, parts and components and supply cost increases on to our customers. However, to date, competition and market pressures have limited our ability to do so, and may prevent us from doing so in the future, because our customers have significant bargaining power in pricing negotiations and are generally not obligated to accept such price increases. See "— Continued pricing pressures, OEM cost reduction initiatives and the ability of OEMs to re-source or cancel vehicle programs may result in lower than anticipated margins or losses." Even when we are able to pass price increases on to our customers, in some cases there is a delay before we are able to do so effectively. Our inability to pass on or a delay in

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passing on price increases to our customers could adversely affect our operating margins and cash flow, resulting in lower operating income and profitability. We cannot assure you that fluctuations in our supply prices will not have a material adverse effect on our business, results of operations and financial condition, or cause significant fluctuations in our results of operations from period to period.

### **We operate in the highly competitive automotive steering and driveline industries.**

The global automotive steering and driveline industries are highly competitive. Competition is based primarily on price, technology, quality, delivery, global presence and overall customer service. We cannot assure you that our products will be able to compete successfully with those of our competitors. Furthermore, the rapidly evolving nature of the markets in which we compete may attract new entrants, particularly in low-cost countries such as China, Brazil and India. Additionally, consolidation in the automotive industry may lead to decreased product purchases from us. As a result, our sales and gross profit margins could be adversely affected by pricing pressures from OEMs and pricing actions of competitors. Some of our competitors are affiliated with OEMs or are themselves OEMs that manufacture their own steering and driveline products, and, as a result, may be able to forecast market demand more precisely than we can. In addition, some of our competitors are companies, or divisions or operating units of companies, that have greater financial and other resources than we do. Our business may also be adversely affected by competitors benefiting from affiliate relationships with OEMs or other resources that we do not possess.

Furthermore, any of our competitors may more accurately foresee the course of market developments, develop products that are superior to our products, have the ability to produce similar products at a lower cost, or adapt more quickly to new technologies or evolving customer requirements. As a result, our products may not be able to compete successfully with their products, which may materially and adversely affect the sales and profitability of our products, as well as our business, results of operations and financial condition.

### **We may be adversely affected if our competitors consolidate or enter into strategic alliances.**

Our industry is capital intensive and requires substantial investments in manufacturing, machinery, research and development, product design, engineering, technology and marketing in order to meet both consumer preferences and regulatory requirements. Large competitors are able to benefit from economies of scale by leveraging their investments and activities on a global basis across brands. If our competitors consolidate or enter into strategic alliances, they may be able to take better advantage of these economies of scale. In addition, our competitors could use consolidation or alliances as a means of enhancing their competitiveness or liquidity position. Any such consolidation or strategic alliance by our competitors could materially and adversely affect our business and prospects.

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**We may not be able to respond quickly enough to changes in regulations, technology and technological risks, or to develop our intellectual property into commercially viable products.**

Changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products less attractive or obsolete. Our ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely basis is crucial to our ability to remain competitive and to maintain or increase our revenues. We cannot assure you that certain of our products will not become obsolete or that we will be able to achieve the technological advances that may be necessary for us to remain competitive and maintain or increase our revenues in the future. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development or production and failure of products to operate properly. The pace of our development and introduction of new and improved products depend on our ability to successfully implement technological innovations in design, engineering and manufacturing, which requires extensive capital investment. Any capital expenditure reductions in these areas that we may implement in the future could reduce our ability to develop and implement technological innovations to enhance our current product line, which may materially reduce demand for our products.

To compete effectively in the automotive steering and driveline industries, we must be able to launch new products to meet changing consumer preferences and our customers' demands in a timely and cost-effective manner. We may not be able to respond adequately to competitive pressures or react quickly to other changes in the market, which could have a material adverse effect on our business, results of operations and financial condition.

We cannot assure you that we will be able to install and certify the equipment needed to produce products for new product programs in time for the start of production, or that the transitioning of our manufacturing plants and resources to full production under new product programs will not affect the production rate for the program or other operational efficiency measures at our facilities. Development and manufacturing schedules are difficult to predict, and we cannot assure you that our customers will launch their new product programs on schedule or at all. Our failure to successfully launch new products on schedule or at all, or a failure by our customers to successfully launch new programs on schedule or at all, could adversely affect our business, results of operations and financial condition.

**Labor unrest experienced by us or our customers or suppliers could have a material adverse effect on our business, results of operations and financial condition.**

As of December 31, 2012, approximately 55% of our employees were represented by unions and work councils, and it is possible that our workforce will become more unionized in the future. Our collective bargaining agreements expire from time to time. For example, our collective bargaining agreement with the UAW, which represented 49% of our United States employees (21% of our total number of employees) as of December 31, 2012, will expire on September 14, 2015. See "Business — Employees." As of the Latest Practicable Date, we did not expect any material impediments to renewing our collective bargaining agreements in light of our ongoing discussions with our unions and work councils. However, we cannot assure you that we will be successful in renewing our agreements with unions and work councils upon expiry, or that our new agreements will be on terms as favorable to us as past agreements.

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Failure to renew these agreements when they expire or to establish new collective bargaining agreements on terms acceptable to us and the unions and work councils could result in work stoppages or other labor disruptions, which may have a material adverse effect on our business, results of operations and financial condition.

In the future we may be subject to labor unrest. In addition, many of our direct and indirect customers and suppliers have unionized workforces and are subject to collective bargaining agreements. For example, many of our customers' employees are represented by the UAW under separate collective bargaining agreements. If any of our customers experiences a material work stoppage, either directly or as a result of a work stoppage at another supplier, that customer may halt or limit the purchase of our products. Similarly, a work stoppage at our facilities or at our suppliers could limit, delay or stop our production of the affected products. Such interruptions may materially and adversely affect our business, results of operations and financial condition. Organizations responsible for delivering our products may also be affected by strikes or labor unrest. Any interruption in the delivery of our products could reduce demand for our products and could have a material adverse effect on us.

**We may lose or fail to attract and retain management personnel, engineers and other employees with the required expertise and skills.**

Our continued success depends on our ability to attract and retain a competent management team, engineers and other employees with required expertise and skills. Our ability to do so is influenced by a variety of factors, including the structure of the compensation package that we award and the competitive market position of our overall compensation package. Our former Chief Executive Officer and President, Mr. Robert Remenar, resigned in June 2012, and our former Chief Finance Officer, Mr. William Whalen, left our Group upon the expiry of his service agreement with our Group in November 2012. Two other members of our senior management also retired in September 2012, and another member left our Group in February 2013 as part of our general restructuring plan in Australia. Our management team and skilled employees may leave us or we may terminate their employment at any time. We cannot assure you that we will be able to retain our management team and skilled employees or find suitable or comparable replacements on a timely basis or at all. Moreover, if any of our management team or skilled employees leaves us or joins a competitor, we may lose customers, suppliers and know-how. The loss of services of any of our management team and skilled employees could have a material adverse effect on our business, results of operations and financial condition.

**We were recently acquired by our Controlling Shareholder, which may give rise to complex operational and personnel-related challenges, including overcoming cultural differences and controlling unanticipated expenses related to our operations.**

We were acquired by our Controlling Shareholder, PCM China, in November 2010, which may give rise to complex operational and personnel-related challenges, including overcoming cultural differences and controlling expenses related to our operations. For instance, it may take our management more time to reach a consensus on major issues that may arise. We may not be successful in overcoming these challenges. A prolonged diversion of management's time and resources and any delays or difficulties that we encounter in connection with the Acquisition could have a material adverse effect on our business, results of operations and financial condition.

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**Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned with the interests of our other Shareholders.**

Immediately after the Global Offering, our Controlling Shareholders will beneficially own 70% of our Shares, or approximately 67% if the Over-allotment Option is exercised in full. As a result, by virtue of their controlling ownership of our share capital, our Controlling Shareholders will be able to exert significant influence over our business and otherwise on matters of significance to us and our other Shareholders by voting at the general meetings of Shareholders, such as election of Directors, amount and timing of dividend payments and other distributions, the acquisition of or merger with another entity, overall strategic and investment decisions, issuance of securities and adjustment to our capital structure, and amendments to our Articles of Association. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders, and they are free to exercise their votes according to its own interests. Our Controlling Shareholders will have the power to prevent or cause a change in control of us. Without the consent of our Controlling Shareholders, we may be prevented from entering into transactions that could be beneficial to us and our other Shareholders.

**We may be unable to consummate or successfully integrate acquisitions and strategic alliances.**

We may from time to time pursue acquisitions and strategic alliances that we believe will complement our current business by expanding into new geographic areas, diversifying our customer base and enabling us to specialize, expand or enhance technological capabilities. We cannot assure you that we will be able to find suitable acquisition targets or partners with whom to form strategic alliances, and the failure to do so in a timely manner or at all may affect our ability to realize our growth objectives. In addition, there are risks and uncertainties related to these activities, including difficulty of integrating acquired operations, technology and products, diversion of our management's attention from other business concerns, potential unknown liabilities associated with an acquired company, undisclosed risks affecting an acquired company and potential adverse effects on existing business relationships with current customers and suppliers. In addition, any acquisitions could involve the incurrence of substantial additional indebtedness or dilution of the equity interests of our Shareholders. We cannot assure you that we will be able to successfully integrate any acquisitions that we undertake or that such acquisitions will perform as planned or prove to be beneficial to our operations and cash flow. Each of these factors could have a material adverse effect on our business, results of operations and financial condition.

**We may incur material costs related to plant closings, which could have a material adverse effect on our business, results of operations and financial condition.**

We continually attempt to align our production capacity with demand. As a result, between 2000 and 2011, we closed eight manufacturing plants, and we may close additional manufacturing plants in the future. If we close additional plants, the employee severance, asset retirement and other costs may be significant. In certain locations that are subject to leases, we may be required to continue to pay the rent payable under the initial lease terms. Historically, we have incurred significant costs related to the closure of our plants. We cannot assure you that costs related to the closure of our plants will not be material in the future. If we incur material costs related to plant closings in the future, our business, results of operations and financial condition may be materially and adversely affected.

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## RISK FACTORS

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### **Our significant level of indebtedness and our net current liabilities position expose us to liquidity risks.**

We have relied on cash generated from our operations and bank loans to fund our capital requirements and to finance the acquisition of the Company. We have relied on both long-term and short-term borrowings to fund a substantial portion of our capital requirements, and expect to continue to do so in the foreseeable future. Our high level of indebtedness and leverage could materially and adversely affect our liquidity. For example, it could:

- require us to allocate a higher portion of our cash flow from operations to fund repayments of principal and interest on our borrowings, thus reducing the availability of our cash flow from operations to fund working capital, capital expenditures and other general corporate purposes;
- increase our vulnerability to adverse economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or in the industry in which we operate;
- potentially restrict us from pursuing strategic business opportunities;
- limit our ability to incur additional debt; and
- increase our exposure to interest rate fluctuations.

During the Track Record Period and as of the Latest Practicable Date, we had not experienced a reduction or withdrawal of credit or banking facilities by our lenders or an inability to settle our trade payables in the ordinary course of business. However, we cannot assure you that we will always be able to continue to refinance our bank loans when they become due, repay our bank loans upon maturity and/or raise the necessary funding to finance our current liabilities and our capital commitments.

In addition, we cannot assure you that we will be able to comply with all the requirements under our loan agreements, or that we will be able to obtain waivers if we fail to comply with them. Failure to service our debt or comply with the terms, conditions and covenants of our loan agreements could result in penalties, including increases in our interest rates, accelerated repayment of loans and interest, termination of facilities and legal action against us by our creditors, any of which could have a material and adverse effect on our business, financial condition and results of operations. Furthermore, our liquidity depends on the amount of cash we generate from operations and our access to further financial resources to fulfill our short-term payment obligations, which may be affected by our future operating performance, prevailing economic conditions and other factors, many of which are beyond our control.

We recorded net current liabilities as of December 31, 2010 and 2011, which consisted of debt incurred to finance the Acquisition. Such debt was classified as short-term borrowings as of December 31, 2010 and 2011 because the loan was callable by the lender at any time. In November 2012, our Group obtained a term loan, the proceeds of which were used to repay the Acquisition Debt. After giving effect to such repayment, the Company no longer had net current liabilities as of the Latest Practicable Date. However, if we record net current liabilities in the future, we would be exposed to liquidity risks, which could impair our ability to make necessary capital expenditures or develop business opportunities, which could in turn materially and adversely affect our business.



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### **We face risks associated with our global operations.**

Our manufacturing, customer service and engineering facilities are located in North and South America, Europe and Asia. We also sell our products to customers and purchase raw materials, parts, components and other supplies from suppliers located in many different countries around the world. Our international operations are subject to certain inherent risks, including:

- exposure to local economic, political and labor conditions;
- changes in laws, regulations, trade or monetary or fiscal policy;
- exposure to fluctuations in interest rates, foreign currency exchange rates (including, for example, the possibility that one or more countries may leave the EU and revert to using local currencies) and changes in the rate of inflation;
- social plans that prohibit or increase the cost of certain restructuring actions;
- tariffs, quotas, customs and other import or export restrictions and other trade barriers;
- expropriation and nationalization;
- difficulty of enforcing agreements, collecting receivables and protecting assets;
- reduced intellectual property protection;
- limitations on repatriation of earnings, including withholding and other taxes on remittances and other payments by subsidiaries;
- investment restrictions or requirements;
- export and import restrictions;
- violence and civil unrest; and
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations.

Due to the global nature of our business, we may be required to allocate appropriate staffing to monitor our ongoing compliance matters.

Additionally, our global operations may be adversely affected by political events, domestic or international terrorist events and hostilities or complications due to natural or nuclear disasters, public health or other issues. These uncertainties could have a material adverse effect on the continuity of our business, results of operations and financial condition.

Increasing our manufacturing footprint in China and other emerging markets, and our business relationships with Asian and South American automotive manufacturers are important elements of our strategy. As a result, our exposure to the risks described above may be greater in the future.

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**We are subject to governmental economic sanctions laws that could subject us to liability or impair our ability to compete internationally.**

We are subject to United States economic sanctions laws that restrict our ability to conduct transactions with certain persons, or in or with the territory of certain countries. If a transaction involves countries, individuals or entities that are the target of United States economic sanctions, the transaction may be prohibited, or licenses or other approvals from the U.S. Government may be required and may not be granted. The compliance measures that we have adopted may prove to be inadequate to ensure compliance with United States economic sanctions laws. For instance, in 2010, when our Predecessor was owned by GM, GM voluntarily self-reported to OFAC that Nexteer Automotive may have engaged in a “possible” facilitation in violation of the Iranian Transactions and Sanctions Regulations, which could result in monetary penalties being imposed against us by OFAC. See “Business — Regulatory Compliance and Legal Proceedings — Legal Proceedings — OFAC.” In addition, any change in economic sanctions regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could negatively affect our ability to export our products to existing or potential customers. Failure to obtain required export approval for our products or failure to comply with these regulations could result in penalties and restrictions on export privileges and could impair our ability to compete in international markets. In addition, we have undertaken to the Hong Kong Stock Exchange that, after the Listing, we will not engage in business activities with countries subject to sanctions administered by OFAC, which activities are determined by a competent authority to be violations under applicable laws and regulations. We are aware that the breach of such undertaking may lead to delisting of our Company.

**Certain of our operations are conducted through joint ventures that have unique risks.**

We currently have two joint ventures in China: Nexteer Zhuozhou and Nexteer Wuhu. We hold a 60% equity interest in each of Nexteer Zhuozhou, a joint limited liability company located in Zhuozhou City, Hebei Province, China and Nexteer Wuhu, a joint limited liability company located in Wuhu City, Anhui Province, China. Both our Nexteer Zhuozhou and Nexteer Wuhu joint ventures primarily supply our OEM customers in China.

With respect to our existing joint ventures or joint ventures that we may establish in the future, we may share ownership and management responsibilities with one or more partners that may not share our goals and objectives. Operating a joint venture requires us to operate the business pursuant to the terms of the agreement into which we entered with our partners, including additional organizational formalities, as well as to share information and decision making. Additional risks associated with joint ventures include one or more partners failing to satisfy contractual obligations, conflicts arising between us and any of our partners and a dispute not being timely resolved in a manner satisfactory to us, a change in the ownership of any of our partners, or the financial insolvency or bankruptcy of any of our partners. Additionally, our ability to dispose of our interest in a joint venture may be subject to contractual and other limitations. The occurrence of any of these events could have a material adverse effect on our business, results of operations and financial condition.

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### **A potential impairment charge in the future could cause volatility in our reported operating results and our share price.**

Our Group's balance sheets reflect the impact of deferring qualifying engineering and product development costs. We record these costs as intangible assets in the period incurred, since they represent product development costs that can be clearly assigned to a newly developed product or process and meet the IFRS criteria for capitalization. Our balance sheet as of December 31, 2012 reflects a carrying amount of capitalized engineering and product development costs of US\$179.1 million. We expect to continue to incur a substantial amount of engineering and product development costs in the future, and expect that the carrying value of our intangible assets will continue to increase as a result. We evaluate the intangible assets for recoverability annually, or more frequently as circumstances warrant. Our evaluations in the future may result in material impairment charges that would have a significant impact on our results of operations and potentially our share price.

### **We depend on information technology to conduct our business. Any significant disruption could affect our business.**

Our ability to keep our business operating effectively depends on the functional and efficient operation of information technology and telecommunications systems. We rely on these systems to make a variety of day-to-day business decisions as well as to track transactions, billings, payments and inventory. Our systems, as well as those of our customers, suppliers, partners, and service providers, are susceptible to interruptions (including those caused by systems failures, malicious computer software (viruses and other malware), and other natural or man-made incidents or disasters), which may be prolonged. We are also susceptible to security breaches that may go undetected. A significant or large-scale interruption of our information technology could materially and adversely affect our ability to manage and keep our operations running smoothly. An incident that results in a wider or sustained disruption to our business could have a material adverse effect on our business, results of operations and financial condition.

### **We may be adversely affected by environmental and occupational health and safety regulations, litigation or other liabilities.**

We are subject to various environmental, occupational health and safety laws and regulations governing, among other things:

- the generation, storage, handling, use, transportation, presence of, or exposure to hazardous materials;
- the emission and discharge of hazardous materials into the ground, air or water;
- the incorporation of certain chemical substances into our products, including electronic equipment; and
- the health and safety of our employees.

We are also required to obtain permits from governmental authorities for certain operations. We cannot assure you that we have been or will be at all times in complete compliance with such laws, regulations and permits. We have failed to obtain, or be in compliance with, certain environmental licenses or permits. If we violate or fail to comply with

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these laws, regulations, licenses or permits, we could be fined or otherwise sanctioned by the relevant regulatory authorities. We could also be held liable for any and all consequences arising out of human exposure to hazardous substances or other environmental damage.

Certain environmental laws impose liability, sometimes regardless of fault, for investigating or cleaning up contamination on or emanating from our currently or formerly owned, leased or operated property, as well as for damages to property or natural resources and for personal injury arising out of such contamination. These environmental laws also assess liability on persons who arrange for hazardous substances to be sent to third-party disposal or treatment facilities when such facilities are found to be contaminated. Our costs or liabilities relating to these matters may be more than the amount we have reserved and the difference may be material.

In addition, environmental laws are complex, change frequently and have tended to become more stringent over time. While we have budgeted for future capital and operating expenditures to maintain compliance with environmental laws, we cannot assure you that environmental laws will not change or become more stringent in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and health and safety laws, and our liabilities arising from past or future releases of, or exposure to, hazardous substances will not adversely affect our business, results of operations and financial condition. See “Regulations” and “Business — Environmental Compliance.”

**We are involved from time to time in legal proceedings and commercial or contractual disputes, which could have a material adverse effect on our business, results of operations and financial condition.**

We are involved in legal proceedings and commercial or contractual disputes that may, from time to time, be significant. These are typically claims that arise in the ordinary course of business, including, without limitation, commercial or contractual disputes, including warranty claims and other disputes with customers and suppliers; intellectual property matters; personal injury claims; environmental issues; tax matters; and employment matters. We cannot assure you that such proceedings and claims will not have a material adverse effect on our business, results of operations and financial condition.

**Our intellectual property portfolio exposes us to certain risks, which could have a material adverse effect on our business, results of operations and financial condition.**

We own intellectual property, including patents, trademarks, copyrights and trade secrets. In some cases, we enter into licensing agreements with respect to intellectual property. In addition, we rely on unpatented proprietary technology. Our intellectual property and unpatented proprietary technology play an important role in maintaining our competitive position in a number of the markets which we serve. Our competitors may develop technologies that are similar or superior to our proprietary technologies or design around the patents that we own or license. Further, as we expand our operations in jurisdictions where the protection of intellectual property rights is less robust, such as China, the risk of others duplicating our proprietary technologies increases, despite efforts that we undertake to protect them. In addition, on occasion, third parties may assert claims against us and our customers, alleging that our products or technology infringe upon third-party intellectual property rights. Similarly, we may assert claims against third parties who are taking actions that we believe are infringing on

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our intellectual property rights. We may also assert claims against our suppliers if third parties make claims against us alleging that the raw materials, parts or components supplied by such suppliers infringe upon third-party intellectual property rights. These claims, regardless of their merit or resolution, are typically costly to prosecute, defend or settle and divert the efforts and attention of our management and employees. In addition, such claims could harm our relationships with our customers or suppliers and might deter future customers or suppliers from doing business with us. If any such claim were to result in an adverse outcome, we could be required to take actions that may include:

- ceasing the manufacture, use or sale of the infringing products;
- paying substantial damages to third parties, including to customers to compensate them for their discontinued use or replacing infringing technology with non-infringing technology; or
- expending significant resources to develop or license non-infringing products.

In addition, as part of the Acquisition, we entered into intellectual property agreements with GM pursuant to which we share joint rights in certain intellectual property. These agreements may limit our ability to benefit commercially from some of the intellectual property that we have developed or may develop in the future and lead to costly or time-consuming disputes over rights to innovations. See “Business — Customers — Relationship with GM — IP Agreements.”

Any of the foregoing results could have a material adverse effect on our business, results of operations and financial condition.

**We may be adversely affected if our trademark applications are not allowed for registration or our registered trademarks are not maintained or enforced.**

We distribute our products under the “Nexteer” brand. While we have registered the trademarks of the “Nexteer” brand and applied for registration of such trademarks in certain jurisdictions, we cannot assure you that our applications will be granted. Third parties have opposed and may from time to time in the future oppose, our trademark applications, seek to cancel our registered trademarks, or otherwise challenge our use of the trademarks.

In the event that our trademark applications and/or registrations are successfully challenged, we could be forced to rebrand our products and services, which could result in loss of brand recognition, require us to devote resources to advertising and marketing a new brand, harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

**We are exposed to foreign currency fluctuations as a result of our substantial global operations, which may adversely affect our business, results of operations and financial condition.**

We have currency exposures related to buying, selling and financing in currencies other than the local currencies of the countries in which we operate. Our revenue is primarily denominated in U.S. dollars, the Euro and RMB. Our operating expenses are also predominantly denominated in U.S. dollars, with portions in Euros, Mexican pesos, Polish Zloty and RMB in relation to our foreign operations. Price increases caused by currency exchange rate

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## RISK FACTORS

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fluctuations may make our products less competitive or have a material adverse effect on our margins. Currency exchange rate fluctuations may also disrupt the business of our suppliers by making their purchases of raw materials more expensive and more difficult to finance.

**The seasonality that we experience in our business may adversely affect our results of operations, cash flows and liquidity.**

Our business is seasonal. Our North American customers typically shut down vehicle production for approximately two weeks during July and for one week during December. Our customers in Europe typically shut down vehicle production during periods in July and August and for one week in December. In addition, vehicle production in certain regions is traditionally reduced in the months of July, August and December as a result of product changeover and holidays. This results in a reduction in our working capital needs, consistent with the reduced level of our revenue. Such seasonality may adversely affect our results of operations, cash flows and liquidity during the third and fourth quarters of our fiscal year.

**Business disruptions could materially and adversely affect us.**

Our business may be disrupted by a variety of events or conditions, including, but not limited to, threats to physical security, acts of terrorism, raw material shortages, natural and man-made disasters, information technology failures and public health crises. Any of these disruptions could affect our internal operations or services provided to customers, and could affect our sales, increase our expenses or otherwise materially and adversely affect our business, results of operations and financial condition.

**We may be unable to pay dividends on our Shares.**

We are a holding company with no significant operations or material assets other than the equity interests that we hold in our subsidiaries. We conduct all of our business operations through our subsidiaries. As a result, our ability to pay dividends is dependent on the generation of cash flow by our subsidiaries, and their ability to make such cash available, by dividend or otherwise.

**It may be difficult to effect service of process upon, or to enforce judgements against, our Directors or members of our senior management who reside in the PRC in connection with judgments obtained in non-PRC courts.**

Six of our Directors reside within the PRC, and the assets of our Directors and senior management may also be located within the PRC. As a result, it may not be possible to effect service of process outside the PRC upon those Directors and senior management members, including for matters arising under applicable securities law. A judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognized before in that jurisdiction, subject to the satisfaction of other requirements. However, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States and many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments from various jurisdictions are uncertain.

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## RISK FACTORS

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**Under the EIT Law and other PRC tax laws, we may be classified as a “resident enterprise,” which could result in unfavorable tax consequences to us and our non-PRC shareholders.**

Under the EIT Law, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise,” meaning that it can be treated as a Chinese enterprise for PRC enterprise income tax purposes. The implementation rules of the EIT Law define “de facto management bodies” as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. Pursuant to the Notice on Determination of Tax Resident Enterprises of Chinese-controlled Offshore Incorporated Enterprises in Accordance with Their De Facto Management Bodies, which was issued by the SAT on April 22, 2009 and became effective on January 1, 2008, an enterprise controlled by Chinese enterprises or enterprises groups and registered outside China will be regarded as a PRC resident enterprise with “de facto management bodies” located in China (hereinafter referred to as an offshore-registered resident enterprise), provided that all of the following criteria are satisfied: (i) the senior management personnel responsible for the execution of the daily management and operation of production and business of the enterprise and the relevant senior personnel departments performing such duties are mainly located within China; (ii) the decisions of the enterprise in terms of finance (e.g., borrowing, lending, financing, financial risk controls, etc.) and personnel (e.g., appointment, dismissal and remuneration, etc.) matters are made by or subject to approval of organization(s) or individual(s) located in China; (iii) the main properties, accounting ledger, corporate seal, minutes of the board meetings and shareholders’ meetings, etc., of the enterprise are situated or kept in China; and (iv) 50% or more of directors with voting rights or senior management personnel of the enterprise ordinarily reside in China. Moreover, whether or not a Chinese-controlled offshore enterprise is an offshore-registered resident enterprise is subject to preliminary review by the local tax bureau where the “de facto management body” of the Chinese-controlled offshore enterprise or its controller is based and is subject to final confirmation by the SAT.

Pursuant to the above-mentioned laws and regulations, we are of the view that we are not an offshore-registered resident enterprise because our “de facto management bodies” are outside the PRC, but it is possible that the PRC tax authorities will determine that our Company is a “resident enterprise” for PRC enterprise income tax purposes. If we are determined to be a “resident enterprise,” we would be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. By comparison, there is no taxation on such income in the Cayman Islands. In addition, if we are treated as a PRC “resident enterprise” under PRC law, our foreign corporate Shareholders may be subject to PRC income tax on the capital gains realized from the sale of our Shares, and dividends paid to non-PRC residents with respect to our Shares may be subject to PRC withholding tax as such income may be regarded as income from “sources within the PRC.” In each case, our foreign corporate Shareholders may be subject to a 10% income tax rate under the EIT Law, unless any such foreign corporate shareholder is qualified for a preferential tax rate under an applicable tax treaty.

**The preferential tax treatment that our PRC subsidiaries currently enjoy may be changed or discontinued, which may adversely affect our business, results of operations and financial condition.**

Since 2008, our PRC subsidiaries Nexteer Wuhu and Nexteer Suzhou have been entitled to a two-year tax exemption, followed by a three-year tax reduction of 50%. However, this preferential tax treatment will terminate after 2013.

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## RISK FACTORS

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Pursuant to the EIT Law, with respect to a high and new technology enterprise, the tax levied on its income will be at a rate of 15% after obtaining the High-tech Certificate and completing the filing with the competent tax authorities. On May 28, 2010, Nexteer Wuhu obtained the High-tech Certificate, which expired on May 27, 2013. On March 20, 2013, Nexteer Wuhu filed an application to the administrative authority for determination of high and new technology enterprises of Anhui Province to renew the High-tech Certificate. Nexteer Wuhu will have a preferential tax rate of 15% after completing the filing with the competent tax authorities. However, we cannot assure you that Nexteer Wuhu will be able to complete the tax reduction and exemption filing with the competent tax authorities. On August 6, 2012, Nexteer Suzhou obtained the High-tech Certificate, which will expire on August 5, 2015. Pursuant to the relevant PRC tax laws, Nexteer Suzhou is currently entitled to a preferential tax rate of 15% for the period from 2013 to 2015.

On November 10, 2010, Nexteer Zhuozhou also obtained the High-tech Certificate, which will expire on November 9, 2013. In order to maintain this status as a high technology enterprise, the three subsidiaries mentioned above need to file an application with the competent authorities for their review and determination of the subsidiaries as high and new technology enterprises within three months prior to the expiration of the applicable High-tech Certificate. After passing the review, the three subsidiaries are still required to complete the tax reduction and exemption filing with the competent tax authorities to continue to have a preferential tax rate of 15%. We cannot assure you that the three subsidiaries mentioned above will be able to pass this review and to complete the tax reduction and exemption filing with the competent tax authorities in order to maintain the preferential tax rate.

### **RISKS RELATED TO THE GLOBAL OFFERING**

**There is no existing market for our Shares, which may trade at a discount from the initial offering price.**

Prior to the Global Offering, there has not been a public market for our Shares and we cannot predict the extent of investor interest in us. The Offer Price of our Shares will be determined by negotiations between us and the Joint Global Coordinators (on behalf of the Underwriters) and may not be indicative of prices that will prevail in the open market following the Global Offering. Consequently, you may not be able to sell our Shares at prices equal to or higher than the Offer Price.

**An active and liquid trading market for our Shares may not develop.**

Prior to the Global Offering, our Shares were not traded on any market. An active and liquid trading market for our Shares may not develop or be maintained after the Global Offering. Liquid and active trading markets usually result in less price volatility and more efficiency in carrying out investors' purchase and sale orders. The market price of our Shares could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the market price of our Shares, you could lose a substantial part or all of your investment in our Shares.



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## RISK FACTORS

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**The market price and trading volume of our Shares may be volatile, which could result in rapid and substantial losses for our shareholders.**

The market price of our Shares may be highly volatile and could be subject to significant fluctuations. In addition, the trading volume of our Shares may fluctuate, which may cause significant price variations. Some of the factors that could negatively affect the price of our Shares, or result in fluctuations in the price or trading volume of our Shares include:

- variations in our operating results;
- failure to meet the market's earnings expectations;
- departures of key personnel;
- adverse market reaction to any indebtedness that we may incur or securities that we may issue in the future;
- changes in market valuations of similar companies;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws and regulations, or announcements relating to these matters;
- litigation and governmental investigations; and
- general market and economic conditions.

**You will incur immediate and substantial dilution and may experience further dilution in the future.**

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible book value of HK\$2.17 per Share (assuming an Offer Price of HK\$3.02, being the mid-point of the Offer Price range of HK\$2.54 to HK\$3.50 per Share). If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

**Sale, or perceived sale, of substantial amounts of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.**

We cannot assure you that our Controlling Shareholders will not dispose of any Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

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## RISK FACTORS

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**The availability of Shares for sale in the future could reduce the market price of our Shares.**

In the future, we may issue additional securities to raise capital. We may also acquire interests in other companies by using a combination of cash and our Shares or just our Shares. We may also issue securities convertible into our Shares. Any of these events may dilute your ownership interest in our Company and have an adverse effect on the price of our Shares. In addition, sales of a substantial amount of our Shares in the public market, or the perception that these sales may occur, could reduce the market price of our shares. This could also impair our ability to raise additional capital through the sale of our securities.

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

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

**Investors should read this entire Prospectus carefully, and we cannot assure you that any information contained in press articles or other media regarding us and the Global Offering is appropriate, accurate, complete or reliable. You should not consider any particular statements in this Prospectus or in published media reports without carefully considering the risks and other information contained in this Prospectus.**

Prior to the date of this Prospectus, there has been press information and media coverage regarding us and the Global Offering that was not disclosed in this Prospectus. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information disseminated in the media, and we do not accept any responsibility for the accuracy or completeness of any financial information or forward-looking statements contained therein. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this Prospectus, we disclaim it.

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

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

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

### **UNDERWRITING**

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

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Thursday, June 27, 2013, the Global Offering (including the Hong Kong Public Offering) will not proceed. For information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this Prospectus.

### **INFORMATION ON THE GLOBAL OFFERING**

This Prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this Prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Offer Shares are offered solely on the basis of the information contained and representations made in this Prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this Prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering. Neither the delivery of this Prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Prospectus or that the information in this Prospectus is correct as of any subsequent time.

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

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

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

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No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### **APPLICATION FOR LISTING OF THE SHARES ON THE HONG KONG STOCK EXCHANGE**

We have applied to the listing committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or currently proposed to be sought in the near future.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

### **REGISTER OF MEMBERS AND STAMP DUTY**

Our principal register of members will be maintained by our principal registrar, Maples Fund Services (Cayman) Limited in Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited in Hong Kong.

Dealings in our Shares registered on our Hong Kong Share Register will be subject to Hong Kong stamp duty. See “Appendix V — Statutory and General Information — E. Other Information — 1. Tax and Other Indemnities — Hong Kong” in this Prospectus.

### **PROCEDURE FOR APPLICATION FOR THE HONG KONG OFFER SHARES**

The procedures for applying for the Hong Kong Offer Shares are set forth under the section headed “How to Apply for Hong Kong Offer Shares” in this Prospectus and on the relevant Application Forms.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this Prospectus.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

### COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, July 3, 2013, it is expected that dealings in our Shares on the Hong Kong Stock Exchange will commence on Wednesday, July 3, 2013. The Shares will be traded in board lots of 1,000 Shares each, the stock code of the Shares will be 01316.

### CONSEQUENCES OF HOLDING AN INTEREST IN SHARES

Holder and beneficial owners of our Shares should be aware that they may be subject to certain legal requirements under Hong Kong law and the Listing Rules, including, for example, reporting obligations upon reaching certain specified ownership thresholds. You should consult your own legal advisor as to the Hong Kong legal consequences of investing in the Shares.

### EXCHANGE RATE CONVERSION

For exchange rate conversions throughout this Prospectus, unless otherwise specified, or in respect of transactions that have occurred at historical exchange rates, all conversions from HK dollars into U.S. dollars were made at the rate of US\$1.00 to HK\$7.76. We make no representation and none should be construed as being made, that any of the HK dollar, U.S. dollar and RMB amounts contained in this Prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

### LANGUAGE

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this Prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

### MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Hong Kong Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The manufacturing, customer service and engineering facilities of our Group are located in North and South America, Europe and Asia. The business of our Group is primarily managed by senior management members who are based in the United States. At present, the executive Directors are not ordinarily resident in Hong Kong or based in Hong Kong. Our Company considers that it would be impracticable and commercially infeasible to appoint two Hong Kong residents as executive Directors or to relocate the existing executive Directors to Hong Kong considering that the operations of our Group are based outside of Hong Kong. Accordingly, we have applied to the Hong Kong Stock Exchange for, and have received, a waiver from strict compliance with the requirement of Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Hong Kong Stock Exchange, we will adopt the following measures:

- (a) Our Company will appoint two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Hong Kong Stock Exchange and will ensure that we comply with the Listing Rules at all times. The two authorized representatives to be appointed are FAN, Yi and MOK Ming Wai, respectively. Ms. MOK is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Hong Kong Stock Exchange within a reasonable time frame upon the request of the Hong Kong Stock Exchange and will be readily contactable by telephone, e-mail and fax. Each of the two authorized representatives has been duly authorized to communicate on our Company's behalf with the Hong Kong Stock Exchange.
- (b) Both authorized representatives have means to contact all Directors (including the independent non-executive Directors) promptly at all times and when the Hong Kong Stock Exchange wishes to contact our Directors for any matters. Our Company will implement a policy whereby (i) the executive Directors will provide valid phone numbers or other means of communication to the authorized representatives when they are traveling; and (ii) each Director will provide his mobile phone number, office phone number, e-mail address and, where available, fax number to the Hong Kong Stock Exchange.
- (c) Our Company has appointed Somerley Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules, who will act as our additional communication channel with the Hong Kong Stock Exchange and will be available to respond to enquires from the Hong Kong Stock Exchange.
- (d) All our executive Directors, non-executive Directors and independent non-executive Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange within a reasonable period of time if required.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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### JOINT COMPANY SECRETARIES

Pursuant to Rule 3.28 of the Listing Rules, a new applicant for primary listing on the Hong Kong Stock Exchange must have a company secretary who is an individual and who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

The Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a Member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)).

In assessing “relevant experience,” the Hong Kong Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the SFO, Companies Ordinance, and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Under Rule 8.17 of the Listing Rules, an issuer must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules.

We have appointed FAN, Yi and MOK Ming Wai as joint company secretaries.

We have appointed FAN, Yi as joint company secretary. Mr. FAN joined our Group in April 2011 and serves as a director and secretary to the board of directors in a number of our subsidiaries, including PCM (Singapore) Steering, PCM (US) Steering, Project Rhodes Holding Corporation, Rhodes Holding I S.A.R.L., Steering Solutions Corporation and Nexteer Automotive. While Mr. FAN does not possess the qualifications set out in Rule 3.28 of the Listing Rules, we believe it is in the best interests of our Company to appoint Mr. FAN as one of the joint company secretaries in light of his past management experience within our Group and his thorough understanding of the internal administration and business operations of our Group. We have also appointed MOK Ming Wai as joint company secretary. Ms. MOK is qualified to act as the company secretary of our Company as required under Rule 3.28 of the Listing Rules. Ms. MOK has over 15 years of professional and in-house experience in company secretarial field. She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom. She currently acts as the joint company secretary of a number of Hong Kong listed companies. Please refer to the section headed “Directors and Senior Management” for further information of our joint company secretaries.

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## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES**

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As Mr. FAN does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Hong Kong Stock Exchange for, and have received, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. FAN may be appointed as joint company secretary. The waiver was granted for a period of three years during which period Ms. MOK, as joint company secretary, will work closely with, and provide guidance and assistance to, Mr. FAN in the discharge of his duties as a company secretary. Should Ms. MOK cease to provide assistance to Mr. FAN in the discharge of his duties as a company secretary, the Hong Kong Stock Exchange shall revoke the waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules with immediate effect. At the end of the three-year period, we will liaise with the Hong Kong Stock Exchange to enable it to assess whether Mr. FAN, having benefited from the guidance and assistance of Ms. MOK for the preceding three years, has acquired the skills necessary to carry out the duties of company secretary and the relevant experience (within the meaning of Rule 3.28 of the Listing Rules) so that a further waiver is not necessary.

### **CONTINUING CONNECTED TRANSACTIONS**

We have entered into certain transactions which would constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules following the completion of the Global Offering. We have applied to the Hong Kong Stock Exchange for, and have received, a waiver in respect of certain non-exempt continuing connected transactions. Please refer to the section headed “Connected Transactions” for further details of such non-exempt continuing connected transactions and the waiver.



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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

| <b>Name</b>                                | <b>Address</b>   | <b>Nationality</b> |
|--|--|--------------------|
| <b>Executive Directors</b>                 |  |                    |
| ZHAO, Guibin (趙桂斌)                         | 1003, Unit 1, Building 3<br>No. 1 Qinglin Road<br>Chaoyang District<br>Beijing<br>PRC                              | Chinese            |
| RICHARDSON,<br>Michael Paul                | 6369 Golf Pointe<br>Bay City, MI 48706-8317<br>USA   | American           |
| FAN, Yi (樊毅)                               | No. 67, Jiaodaokou South Avenue<br>Dongcheng District<br>Beijing<br>PRC  | Chinese            |
| ZHU, Jian (朱建)                             | No. 214, Qinggong Building<br>Taoyang South Road<br>Zhushan District<br>Jingdezhen City<br>Jiangxi Province<br>PRC | Chinese            |
| <b>Non-Executive Director</b>              |  |                    |
| LUO, Qunhui (羅群輝)                          | No. 131, 3-5/Floor<br>Tower 14<br>Shuimulan Pavilion<br>Shunyi District<br>Beijing<br>PRC                          | Chinese            |
| <b>Independent Non-Executive Directors</b> |  |                    |
| TSANG, Hing Lun (曾慶麟)                      | Flat B, 16/F<br>Block 3<br>The Grand Panorama<br>10 Robinson Road<br>Hong Kong                                     | Hong Kong          |
| LIU, Jianjun (劉健君)                         | Room 4, 15/F<br>Airport South Road Dongli<br>Chaoyang District<br>Beijing<br>PRC                                   | Chinese            |
| WEI, Kevin Cheng (蔚成)                      | Apartment 701<br>Embassy House<br>18 Dongzhimenwai Xiaojie<br>Beijing<br>PRC                                       | American           |

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Joint Sponsors

BOCI Asia Limited  
26/F Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

J.P. Morgan Securities (Far East) Limited  
28/F Chater House  
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#### Joint Global Coordinators

BOCI Asia Limited  
26/F Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited  
28/F Chater House  
8 Connaught Road  
Central  
Hong Kong

#### Joint Bookrunners

*Hong Kong Public Offering*  
BOCI Asia Limited  
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Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited  
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*International Offering*  
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1 Garden Road  
Central  
Hong Kong

J.P. Morgan Securities plc  
25 Bank Street  
Canary Wharf  
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United Kingdom

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### **Joint Lead Managers**

#### *Hong Kong Public Offering*

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#### *International Offering*

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1 Garden Road  
Central  
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### **Financial Advisor to Our Company**

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### **Legal Advisors to Our Company**

#### *As to Hong Kong and United States Laws:*

Davis Polk & Wardwell  
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#### *As to PRC Law:*

Jia Yuan Law Offices  
F408, Ocean Plaza  
No. 158 Fuxing Men Nei Avenue  
Xicheng District  
Beijing 100031  
PRC

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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|   | <i>As to Cayman Islands Law:</i><br>Maples and Calder<br>53/F, The Center<br>99 Queen's Road Central<br>Hong Kong                                  |
| <b>Legal Advisors to the Joint Sponsors,<br/>Joint Global Coordinators,<br/>Joint Bookrunners and<br/>Joint Lead Managers</b> | <i>As to Hong Kong and United States Laws:</i><br>Baker & McKenzie<br>23/F One Pacific Place<br>88 Queensway<br>Hong Kong                          |
|   | <i>As to PRC Law:</i><br>Commerce & Finance Law Offices<br>6/F NCI Tower<br>A12 Jianguomenwai Avenue<br>Chaoyang District<br>Beijing 100022<br>PRC |
| <b>Reporting Accountant</b>   | PricewaterhouseCoopers<br><i>Certified Public Accountants</i><br>22/F, Prince's Building<br>Central<br>Hong Kong                                   |
| <b>Property Valuer</b>  | Jones Lang LaSalle Corporate Appraisal and Advisory<br>Limited<br>6/F Three Pacific Place<br>1 Queen's Road East, Admiralty<br>Hong Kong           |
| <b>Receiving Bank</b>   | Bank of China (Hong Kong) Limited<br>1 Garden Road<br>Hong Kong  |

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## CORPORATE INFORMATION

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| <b>Headquarters</b>   | Nexteer Automotive<br>3900 E. Holland Road<br>Saginaw, MI 48601-9494<br>United States  |
| <b>Registered office</b>  | P.O. Box 309, Ugland House<br>Grand Cayman, KY1-1104<br>Cayman Islands   |
| <b>Principal place of business in Hong Kong</b>                     | 8/F, Gloucester Tower<br>The Landmark<br>15 Queen's Road Central<br>Hong Kong  |
| <b>Company's website</b>  | <u><a href="http://www.nexteer.com">www.nexteer.com</a></u><br><i>(The contents on this website do not form part of this Prospectus)</i>   |
| <b>Joint company secretaries</b>                                    | FAN, Yi<br>MOK Ming Wai ( <i>HKICS, ICSA</i> )   |
| <b>Authorized representatives</b>                                   | FAN, Yi<br>No. 67, Jiaodaokou South Avenue<br>Dongcheng District<br>Beijing<br>PRC<br><br>MOK, Ming Wai<br>8/F, Gloucester Tower<br>The Landmark<br>15 Queen's Road Central<br>Hong Kong |
| <b>Audit and Compliance Committee</b>                               | WEI, Kevin Cheng (Chairman)<br>TSANG, Hing Lun<br>LUO, Qunhui  |
| <b>Remuneration and Nomination Committee</b>                        | TSANG, Hing Lun (Chairman)<br>LIU, Jianjun<br>LUO, Qunhui  |
| <b>Cayman Islands principal share registrar and transfer office</b> | Maples Fund Services (Cayman) Limited<br>P.O. Box 1093, Boundary Hall<br>Cricket Square<br>Grand Cayman, KY1-1102<br>Cayman Islands  |

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## CORPORATE INFORMATION

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|----------------------------------|--|
| <b>Hong Kong Share Registrar</b> | Computershare Hong Kong Investor Services Limited<br>Shops 1712–1716<br>17th Floor<br>Hopewell Center<br>183 Queen’s Road Central East<br>Wanchai<br>Hong Kong   |
| <b>Compliance advisor</b>        | Somerley Limited<br>20th Floor<br>Aon China Building<br>29 Queen’s Road Central<br>Hong Kong   |
| <b>Principal bankers</b>         | Wells Fargo Capital Finance<br>150 South. Wacker Drive Suite 2200<br>Chicago, IL 60606<br>United States<br><br>Bank of China Suzhou Industrial Park Sub-Branch<br>No.8 Suhua Road<br>Suzhou<br>PRC<br><br>Shanghai Pudong Development Bank, Suzhou Branch<br>No.1478, Renmin Road<br>Suzhou<br>PRC<br><br>CITIC New & Hi-tech Industrial Development Zone<br>Sub-branch<br>No.75 Shishan Road<br>New & Hi-tech Industrial Development Zone<br>Suzhou<br>PRC<br><br>The Export-Import Bank of China<br>No. 30, FuXingMenNei Street<br>XiCheng District<br>Beijing<br>PRC<br><br>MAC N2814–220PKO Bank Polski<br>40–022 Katowice<br>ul. Damrota 23<br>Poland<br><br>Bank Pekao SA<br>31–548 Kraków<br>Al. Pokoju 1<br>Poland |

## INDUSTRY OVERVIEW

*Certain information and statistics set forth in this section and elsewhere in this Prospectus have been derived from various official government sources, market data providers and other independent third-party sources. In addition, this section contains information, including estimates, extracted from a report commissioned by us and prepared by IPSOS, or the IPSOS Report, for the purposes of this Prospectus. We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in any material respect. However, the information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy or completeness. As such, investors are cautioned not to place any undue reliance on the information and statistics set forth in this section and elsewhere in this Prospectus.*

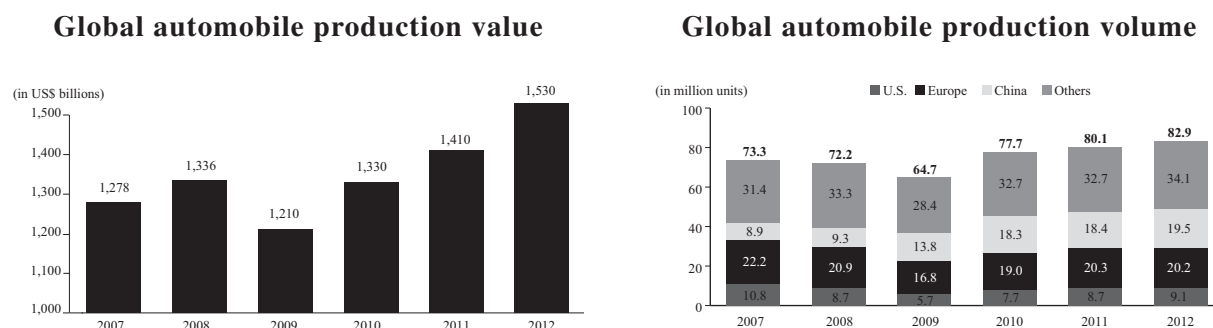
### GLOBAL AUTOMOTIVE INDUSTRY OVERVIEW

#### Overview of the Global Automotive Industry

Total global automobile production value grew from approximately US\$1,278 billion in 2007 to approximately US\$1,530 billion in 2012, representing a CAGR of approximately 3.7%, from 2007 to 2012. Due to the stabilizing world economy, the global automotive market is expected to continue to grow modestly in the near term. Global automobile production value is estimated to reach approximately US\$2,033 billion in 2017, representing a CAGR of approximately 5.9%, from 2012 to 2017.

Total global automobile production volume grew from approximately 73.3 million units in 2007 to approximately 82.9 million units in 2012, representing a CAGR of approximately 2.5%. Global automobile production volume is expected to reach approximately 105.7 million units in 2017, representing a CAGR of approximately 5.0%, from 2012 to 2017. Automobile production volumes in the United States, Europe and China are estimated to grow at CAGRs of 2.7%, 2.7% and 9.1%, respectively, from 2012 to 2017.

The following charts set forth total global automobile production value and volume from 2007 to 2012, respectively:



Source: IPSOS

## INDUSTRY OVERVIEW

Automotive manufacturers continued to shift their production facilities from high-cost regions, such as North America and Europe, to lower-cost regions, such as China, South America and Southeast Asia. China contributed 27% of global vehicle production value in 2012, rising from 12% in 2007.

The following table sets forth the geographical breakdown of global automobile production value in 2007, 2009 and 2012 by selected regions:

| Region                 | 2007                   |             | 2009                   |             | 2012                   |             |
|------------------------|------------------------|-------------|------------------------|-------------|------------------------|-------------|
|                        | Amount (US\$ billions) | % of total  | Amount (US\$ billions) | % of total  | Amount (US\$ billions) | % of total  |
| U.S. ....              | 196                    | 15%         | 128                    | 11%         | 205                    | 13%         |
| Europe ....            | 338                    | 26%         | 287                    | 24%         | 369                    | 24%         |
| China ....             | 160                    | 12%         | 251                    | 21%         | 415                    | 27%         |
| Rest of the World..... | 584                    | 47%         | 544                    | 44%         | 541                    | 36%         |
| <b>Total</b> .....     | <b>1,278</b>           | <b>100%</b> | <b>1,210</b>           | <b>100%</b> | <b>1,530</b>           | <b>100%</b> |

Source: IPSOS

### *Major Automotive Manufacturers of the Global Automotive Industry*

GM was the leader in the global automotive market in 2012, accounting for approximately 11% of global market share in terms of production volume, followed by Volkswagen, which accounted for approximately 10%. Toyota accounted for approximately 10% of global market share in 2012 by production volume, while Hyundai accounted for approximately 8%.

The following table sets forth the top 10 global automotive manufacturers in 2007 and 2012 in terms of production volume:

|                           | 2007                      |             | 2012                      |             |
|---------------------------|---------------------------|-------------|---------------------------|-------------|
|                           | Amount (million of units) | % of total  | Amount (million of units) | % of total  |
| General Motors .....      | 9.3                       | 13%         | 9.4                       | 11%         |
| Volkswagen.....           | 6.3                       | 9%          | 8.5                       | 10%         |
| Toyota .....              | 8.5                       | 12%         | 8.4                       | 10%         |
| Hyundai.....              | 2.6                       | 4%          | 6.8                       | 8%          |
| Ford .....                | 6.2                       | 8%          | 5.1                       | 6%          |
| Nissan .....              | 3.4                       | 5%          | 4.8                       | 6%          |
| PSA Peugeot Citroën ..... | 3.5                       | 5%          | 3.7                       | 5%          |
| Honda .....               | 3.9                       | 5%          | 3.0                       | 4%          |
| Renault .....             | 2.7                       | 4%          | 2.9                       | 3%          |
| Suzuki .....              | 2.6                       | 3%          | 2.8                       | 3%          |
| Others .....              | 24.3                      | 32%         | 27.5                      | 34%         |
| <b>Total</b> .....        | <b>73.3</b>               | <b>100%</b> | <b>82.9</b>               | <b>100%</b> |

Source: IPSOS



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## INDUSTRY OVERVIEW

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In 2007, the major Asian automotive manufacturers (including Toyota, Hyundai, Nissan, Honda and Suzuki) accounted for approximately 29% of total global production volume. In 2012, these major Asian automotive manufacturers accounted for approximately 31% of total global production volume.

### ***Growth Drivers of Global Automotive Industry***

#### *Increasing Auto Demand in Developing Countries*

Although developed countries, such as the United States, have shown signs of recovery in their automotive markets, global sales growth is expected to be primarily driven by demand in developing countries, mainly Brazil, Russia, India, and China (the “BRIC countries”), as well as the rest of Asia, Latin America, the Middle East, Africa and other countries with economies in transitional stages of development. BRIC countries offer the automotive market substantial potential for growth given their large populations, ongoing urbanization and rising purchasing power.

#### *Increasing Globalization and Localization*

Automotive manufacturers are taking advantage of globalization and localization by entering new and growing established geographic automotive markets. By localizing automotive components, automotive manufacturers can reduce their manufacturing costs and production lead times. Globalization helps automotive manufacturers to reduce various operational and process costs to remain competitive, but also offers new opportunities for growth.

### ***Growth Drivers of the Automotive Industry in the United States***

Automotive manufacturers are required to redesign models to conform to new emission laws due to the global tightening of emission standards. This can trigger the demand for newer and more economical engines, thus increasing research and development spending. Also, the United States government has launched favorable policies over the past few years to stimulate new automotive sales through attractive incentives, such as increased access to credit and favorable tax benefits. For example, the Cash for Clunkers (Car Allowance Rebate System) policy in 2009 in the United States offered vouchers to car buyers to replace their old vehicles with newer, smaller models. Other initiatives designed to stimulate new automotive sales included reductions in the sales tax that customers pay when they buy new automobiles.

### ***Growth Drivers of the Automotive Industry in Europe***

Disposable income and car ownership are expected to continue increasing in most European countries, supporting the potential growth of the European automotive market. Furthermore, since passenger vehicles in the new EU member states are often older models, there is a market for the replacement of older automobiles. Also, EU emission standards, which are compulsory in all member states, have forced auto manufacturers to develop green technologies. These standards cover emission of carbon monoxide, nitrogen oxide and other hydrocarbon particulates for both diesel and gas engines. Sulfur emissions were not covered by these emission standards but were addressed through the introduction of low sulfur fuels, which became mandatory in 2005. Under the Euro 5 emission standard implemented in 2009, the carbon monoxide emission standard for passenger vehicles less than 2,500 kilograms is 0.5 gallon per kilometer for diesel and 1.0 gallon per kilometer for gasoline.

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## INDUSTRY OVERVIEW

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### *Growth Drivers of the Automotive Industry in China*

#### *High Population and Low Penetration Rate for Passenger Vehicles*

Despite the rapid development of the automotive industry in China, the domestic market is still relatively underpenetrated when compared to developed countries. According to the World Bank, passenger vehicle penetration (defined as the number of vehicles per 1,000 people in the population) was approximately 55 in China in 2011, which was significantly lower than that of other developed markets such as Japan and the United States, where penetration reached approximately 453 and 700, respectively, in the same year. Passenger vehicle penetration was approximately 480 in Europe, 202 in Brazil and 14 in India in the same year. In light of the continued growth in disposable income per household, consumer demand for passenger vehicles is expected to increase in China.

#### *Improved Road Infrastructure*

The substantial efforts by the PRC government on the construction of transportation infrastructure to stimulate the PRC economy have contributed to a modernized and extensive road system in most areas of China, which has resulted in increased domestic demand for automobiles. The total length of expressways has grown at a CAGR of approximately 12% from 2007 to 2012, from approximately 53,900 km in 2007 to approximately 94,400 km in 2012. The increase in the length of expressways has further facilitated inter-city travel and cargo transportation, which in turn has led to increased automotive sales in the PRC.

#### *Rapid Economic Growth and Rising Urban Middle Class Population*

Factors such as urbanization, increased disposable income and increased household savings have also created tremendous opportunities for the automotive market in China as urban residents have sought greater mobility. Domestic urbanization rates in China reached approximately 52.6% in 2012, and are unlikely to decrease before 2017, in part due to processing and service industries (also called secondary and tertiary industries) moving from rural to urban areas in China, which has the effect of leading to further labor migration. Per capita disposable income of urban residents in China increased from approximately US\$1,815 in 2007 to approximately US\$3,907 in 2012, representing a CAGR of approximately 16.6%, from 2007 to 2012. The estimated savings deposits of PRC residents increased from approximately US\$2,271 billion in 2007 to approximately US\$6,335 billion in 2012, representing a CAGR of approximately 22.8%, from 2007 to 2012.

#### *PRC Government Policies Encouraging the Production and Sale of Automobiles*

The automotive market in China is highly regulated by the PRC government. On May 21, 2004, the NDRC promulgated the *Automotive Industry Development Policy* for automotive manufacturers, which sought to strengthen the automotive industry in China and enhance the international competitiveness of domestic automotive manufacturers. The PRC government also launched the *Automotive Industry Adjustment and Revival Plan* in 2009 to facilitate the restructuring of the automotive industry by encouraging large-scale domestic automotive companies to implement merger and restructuring initiatives either on a national or provincial/regional basis.

## INDUSTRY OVERVIEW

### GLOBAL STEERING SYSTEM INDUSTRY OVERVIEW

The steering system provides driver control over the direction of vehicle travel, providing maneuverability and dynamic road feedback. There are four key types of steering systems: Manual Steering (Manual), Hydraulic Power Steering (HPS), Electric Power Steering (EPS) and Electro-Hydraulic Power Steering (EHPS).

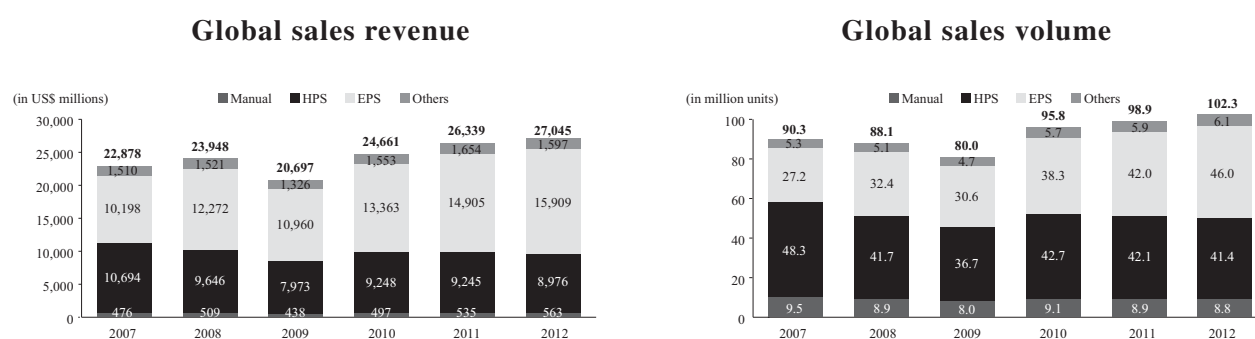
#### Overview of Global Steering System Industry

The growing global automotive market has fueled continuous demand in steering systems, with global sales revenue and volume increasing from approximately US\$22,878 million and 90.3 million units in 2007 to approximately US\$27,045 million and 102.3 million units in 2012, representing CAGRs of approximately 3.4% and 2.5%, respectively. Sales revenue and volume of global steering system market are estimated to grow at CAGRs of approximately 5.3% and 4.7%, respectively, from 2012 to 2017.

Due to its unique advantages, which include greater control over driving dynamics, energy efficiency, reduced noise levels and reduced assembly time, EPS grew the fastest among all product types at a CAGR of approximately 9.3% and 11.1% in terms of sales revenue and volume from 2007 to 2012, respectively. Sales of EPS have grown from 44.6% of total global steering sales revenue in 2007 to 58.8% in 2012. Sales revenue of EPS is expected to grow at a CAGR of approximately 10.2%, from 2012 to 2017.

Sales revenue of manual steering systems grew at a CAGR of approximately 3.4% from 2007 to 2012, whereas sales revenue of HPS declined at a CAGR of approximately -3.4% during the same period. Sales revenue of manual steering systems and HPS is expected to decline at CAGRs of approximately -13.5% and -5.1%, respectively, from 2012 to 2017.

The following charts set forth the sales revenue and volume of global steering systems by products from 2007 to 2012, respectively:



Source: IPSOS

## INDUSTRY OVERVIEW

From 2007 to 2012, the steering system industry, in particular EPS, grew at a faster rate in developing countries such as China than in developed countries in North America and Europe. The revenue of steering systems and EPS in China accounted for approximately 6% and 2% of global sales in 2007, respectively, and increased to 16% and 9% in 2012, respectively.

The following table sets forth the sales revenue breakdown of global steering systems and EPS in 2007 and 2012 by selected regions, respectively:

| Region                  | Total steering               |               |                              |               | EPS                          |               |                              |               |
|-------------------------|------------------------------|---------------|------------------------------|---------------|------------------------------|---------------|------------------------------|---------------|
|                         | 2007                         |               | 2012                         |               | 2007                         |               | 2012                         |               |
|                         | Amount<br>(US\$<br>millions) | % of<br>total | Amount<br>(US\$<br>millions) | % of<br>total | Amount<br>(US\$<br>millions) | % of<br>total | Amount<br>(US\$<br>millions) | % of<br>total |
| Europe . . . . .        | 6,908                        | 30%           | 6,922                        | 26%           | 3,533                        | 35%           | 5,107                        | 32%           |
| U.S. . . . .            | 4,207                        | 18%           | 3,898                        | 14%           | 1,698                        | 17%           | 2,642                        | 17%           |
| China . . . . .         | 1,278                        | 6%            | 4,353                        | 16%           | 211                          | 2%            | 1,503                        | 9%            |
| Rest of the World . . . | 10,485                       | 46%           | 11,872                       | 44%           | 4,756                        | 46%           | 6,657                        | 42%           |
| <b>Total . . . . .</b>  | <b>22,878</b>                | <b>100%</b>   | <b>27,045</b>                | <b>100%</b>   | <b>10,198</b>                | <b>100%</b>   | <b>15,909</b>                | <b>100%</b>   |

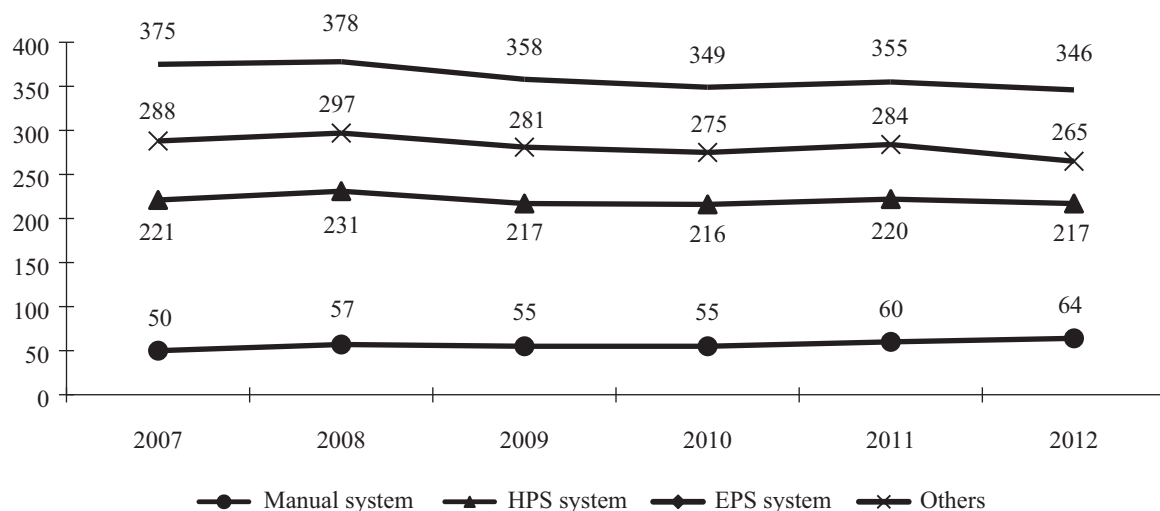
Source: IPSOS

### *Price Trends of the Global Steering System Industry*

The average price of steering systems has been decreasing globally. Manual steering systems were the only product that showed growth in average price from 2007 to 2012, at a CAGR of approximately 5.1%. The average prices of HPS, EPS and other steering systems decreased at CAGRs of approximately -0.4%, -1.6% and -1.7%, respectively, from 2007 to 2012. The average price of steering systems decreased most significantly in 2009, primarily as a result of the global financial crisis, which caused a decrease in raw material prices such as steel and increased demands for higher annual price reductions by OEMs, which is a common practice in the global automotive industry. Manufacturers of steering systems have experienced continued pressure from their OEM customers to further reduce prices. Such price reductions are usually offset by continued technology improvements, production cost reductions and other productivity initiatives.

## INDUSTRY OVERVIEW

The following chart sets forth the average prices of global steering system products from 2007 to 2012:



Source: IPSOS

### ***Future Market Trends of the Global Steering System Industry***

#### *Expansion of Global Footprint of Steering System Manufacturers*

Along with the effect of globalization, steering system manufacturers are expanding their geographical footprints to serve individual local markets. This helps them to avoid exposure to international currencies and rising logistics costs. It is also costly to ship heavy steering systems long-distance.

#### *EPS System Improvements*

The use of EPS systems will continue to expand as system developers continue to increase the maximum output of EPS systems allowing them to be applied to larger vehicles from D segment sedans and SUVs to full-size trucks.

Steering system manufacturers will add more functionality to EPS systems through software algorithms that could be used to offset the effects of wind and other natural obstacles on a vehicle, mitigate hand-wheel vibrations due to chassis disturbances and enable higher compatibility of marketable features such as parking assist.

#### *Switching from HPS to EPS by OEMs*

Many local governments, including those in the United States, Europe and China, have enacted regulations and tax incentives to reduce carbon emissions and promote fuel economy, which provide strong incentives for OEMs to use EPS systems for new vehicles.

In addition to fuel consumption reduction, other benefits of EPS systems include the use of fewer components, easier assembly in vehicle integration and shorter development and tuning time. Reduction in weight and increased energy efficiency are also driving the use of EPS systems by OEMs.

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## INDUSTRY OVERVIEW

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### *Use of Software and Mechanical Elements to Mimic Hydraulic Steering*

EPS systems are evolving rapidly. The pace of innovation has increased as these systems enable automotive manufacturers to simultaneously improve vehicle efficiency, handling, comfort, and safety, all enhancing the driving experience for their full range of vehicle offerings.

The complexities of EPS systems over traditional HPS systems pose new challenges to automotive manufacturers in steering characterization, as they attempt to recreate the traditional “feel” that drivers expect, while adding new functionality and expanded interactions of the steering systems with other vehicle systems. Hence, EPS manufacturers must use software and precision mechanical elements to simulate and enhance the “feel” of HPS systems.

Only the largest global steering suppliers have the ability to provide a full range of technical and customer support to global customers.

### **Competitive Landscape of the Steering Industry**

#### ***Key Manufacturers in the Global Steering System Industry***

Automotive parts manufacturers, including steering system suppliers, face significant competition in certain areas, including product types, scale of production, operation and sales channels, and established brand products.

Automotive manufacturers have high requirements for steering systems and rigorously evaluate steering system manufacturers on the basis of product quality, price, reliability and timeliness of delivery, product design capability, technical expertise and development capability, new product innovation, operational flexibility and excellence, customer service and overall management.

Steering system manufacturers with established supply relationships with automotive manufacturers enjoy competitive advantages in the industry as the switching barrier is high for automotive manufacturers. New business opportunities typically arise only when new models are being developed or existing models undergo a design enhancement.

Steering system manufacturers generally have a global presence, with production bases in key markets such as North America and Europe, but also established production plants in low-cost regions, such as China, India and South America. Such production plants are often located near automotive manufacturers. This strategy minimizes production costs, reduces delivery costs and mitigates exposure to currency exchange risks. Each major steering system manufacturer typically relies on a few key OEM customers.

The global steering system market is dominated by the top seven manufacturers, which collectively held approximately 73% of the global steering system market in terms of sales revenue in 2012.

## INDUSTRY OVERVIEW

The following table sets forth the rankings of the major steering system manufacturers across various regions in terms of sales revenue from steering systems in 2012, with the market share of each steering system manufacturer shown in parentheses:

| Ranking | Global                     | U.S.                   | Europe                 | China                           |
|---------|----------------------------|------------------------|------------------------|---------------------------------|
| 1       | JTEKT (21.7%)              | <b>Nexteer (31.1%)</b> | ZF Lenksysteme (42.3%) | ZF Lenksysteme (24.1%)          |
| 2       | ZF Lenksysteme (18.9%)     | JTEKT (20.2%)          | TRW Automotive (16.1%) | JTEKT (9.4%)                    |
| 3       | TRW Automotive (9.7%)      | ZF Lenksysteme (19.7%) | JTEKT (9.9%)           | China Automotive Systems (7.8%) |
| 4       | NSK (7.0%)                 | TRW Automotive (19.4%) | <b>Nexteer (4.5%)</b>  | Mando China (7.4%)              |
| 5       | <b>Nexteer (6.3%)</b>      | NSK (6.8%)             | NSK (3.8%)             | TRW Automotive (4.6%)           |
| 6       | ThyssenKrupp Presta (5.0%) | Others (2.8%)          | Others (23.4%)         | NSK (4.0%)                      |
| 7       | Mando Corp. (4.5%)         | —                      | —                      | <b>Nexteer (3.0%)</b>           |
| 8       | Others (26.9%)             | —                      | —                      | Yubei Steering System (2.9%)    |
| 9       | —                          | —                      | —                      | Others (36.8%)                  |
|         | <b>Total (100.0%)</b>      | <b>Total (100.0%)</b>  | <b>Total (100.0%)</b>  | <b>Total (100.0%)</b>           |

Source: IPSOS

The following table sets forth the market share of global EPS manufacturers in terms of sales revenue from EPS systems in 2012:

| Ranking  | Company                   | % of total    |
|----------|---------------------------|---------------|
| 1        | JTEKT .....               | 29.5%         |
| 2        | ZF Lenksysteme .....      | 22.5%         |
| 3        | NSK Ltd. ....             | 11.8%         |
| 4        | TRW Automotive .....      | 11.5%         |
| <b>5</b> | <b>Nexteer .....</b>      | <b>4.8%</b>   |
| 6        | Showa Corporation .....   | 3.4%          |
| 7        | ThyssenKrupp Presta ..... | 2.0%          |
|          | Others .....              | 14.5%         |
|          | <b>Total .....</b>        | <b>100.0%</b> |

Source: IPSOS

### ***Opportunities and Risks of the Global Steering System Industry***

Increased adoption of EPS systems and the development of the domestic automotive industry in developing countries, such as China, India, and Brazil, provide major market growth opportunities for the global steering system industry. The increased awareness of and demand for energy-saving measures, hybrid and electric vehicles and promotion of fuel economy is expected to drive the expansion of the green energy and fuel conserving vehicle market in the future. This trend is expected to promote the growth of EPS systems globally, as these systems are regarded for their energy saving measures.

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## INDUSTRY OVERVIEW

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Geographically, steering system demand in developing countries, such as China, India and Brazil, grew at a faster rate than in developed countries, such as the United States and Europe, from 2007 to 2012. Sales revenue of steering systems in China, India and Brazil accounted for approximately 5.6%, 3.9% and 3.1%, respectively, of global sales revenue in 2007, which increased to approximately 16.1%, 6.2% and 3.0%, respectively, of global sales value in 2012. Sales revenue of steering systems in the United States and Europe decreased from approximately 18.4% and 30.2%, respectively, of global sales revenue in 2007, to approximately 14.4% and 25.6%, respectively, of global sales revenue in 2012. Future demand for the steering systems is expected to remain strong in developing countries, such as China, India and Brazil, as manufacturers are expected to continue shifting to EPS from HPS and manual systems.

Major risks to the global steering system industry include rising raw material and labor costs, uncertainty in the global economy, as well as increasing competition among steering system manufacturers.

The ongoing sovereign debt crisis in Europe has continued to affect the global economy. Declining global export demand has generally slowed development of the PRC economy and could affect consumer spending on and retail sales of automotives, which could have an adverse effect on automotive production and the market for automotive components, such as steering systems. In addition, increasing competition among suppliers and rising operating costs present significant risks to steering system manufacturers. These general factors could also have an adverse effect on the continued development of the global steering industry.

### ***Barriers to Entry***

#### *Intense Competition*

The global steering system market is dominated by the top seven manufacturers which shared approximately 73% of the total market revenue in 2012. These manufacturers have secured strong relationships with automotive manufacturers. Steering system manufacturers are competing to remain cost competitive under increasing pressure from OEMs to reduce prices. In recent years, substantially all automotive manufacturers have sought annual price reductions from their global steering suppliers, as well as additional value-added services, which include requiring steering suppliers to pay a “three warranties” service charge for compensation, exchange and withdrawal in an amount generally equal to 1% of the total amount of parts supplied.

In response to these conditions, steering system manufacturers have implemented measures to increase their cost competitiveness, which include building good relationships with suppliers to minimize the costs of materials and efforts to achieve greater integration along the production line from product design to production, while maintaining product quality, ensuring reliability and timeliness of delivery, enhancing the rate of new product development, increasing their global manufacturing presence and improving their customer service.

#### *High Switching Barrier*

Because the switching barrier for new steering system manufacturers is high, suppliers with established business partnerships with automotive manufacturers enjoy a competitive advantage as they generally have installed capacities suitable for replacement business.



## INDUSTRY OVERVIEW

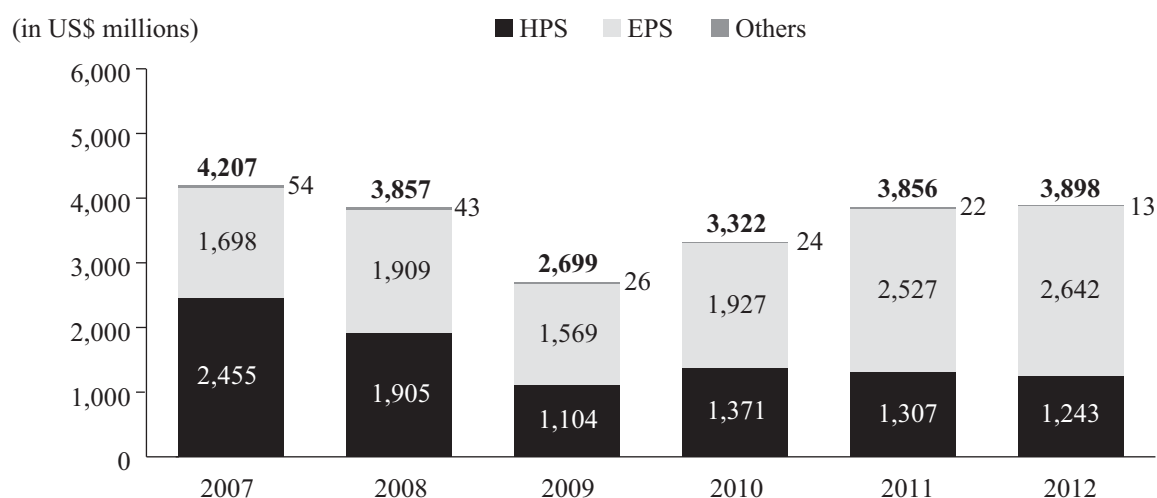
### *Strong Capital and Technical Capability*

The global steering market is capital intensive; high investment is required for continuous testing of new products and development. New entrants with lesser capital structures have limited resources for sustainable development in this industry. Steering system manufacturers must have strong technical and engineering capabilities in vehicle integration and software development. New entrants lacking sufficient capital and technical capability will face difficulties meeting the stringent requirements of world-class automotive manufacturers.

### **Overview of the Steering System Industry in the United States**

Total revenue of the U.S. steering system industry declined from approximately US\$4,207 million in 2007 to approximately US\$3,898 million in 2012, primarily due to a decrease in automotive production in 2009 as a result of the global financial crisis. EPS sales revenue grew at a CAGR of approximately 9.2%, from approximately US\$1,698 million in 2007 to approximately US\$2,642 million in 2012, while HPS and others segments declined. The revenue of the U.S. steering system industry is expected to grow at a CAGR of approximately 2.0% from 2012 to 2017, driven by the increase of automotive production and increased use of EPS. In particular, EPS sales revenue is expected to grow at a CAGR of approximately 7.9% from 2012 to 2017.

The following chart sets forth the sales revenue of steering systems by products in the United States from 2007 to 2012:



Source: IPSOS

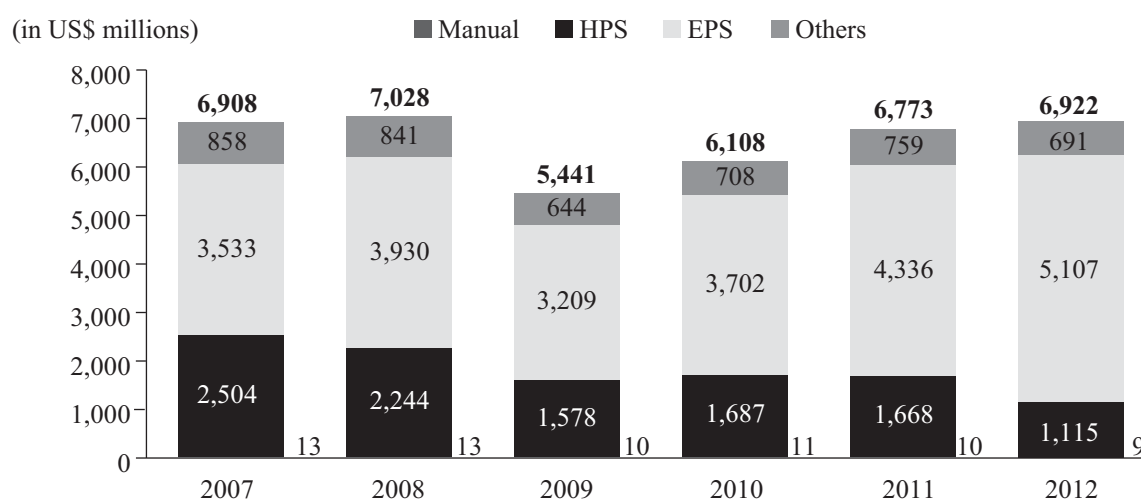
Fuel economy is expected to drive increased adoption of EPS in the United States. Automotive manufacturers in the United States will be required to continue adopting EPS to meet new United States government fuel economy regulations for the 2016 model year when new vehicle fleet averages will be required to reach 35.5 miles per gallon. By replacing HPS with EPS, average fuel economy is generally improved by up to 6%.

## INDUSTRY OVERVIEW

### Overview of the Steering System Industry in Europe

The total sales revenue of the European steering system industry increased slightly from approximately US\$6,908 million in 2007 to approximately US\$6,922 million in 2012. The slow growth during the period was primarily due to a reduction in production volume of automobiles. However, EPS sales revenue grew at a CAGR of approximately 7.6%, from approximately US\$3,533 million in 2007 to approximately US\$5,107 million in 2012, while manual, HPS and others sectors declined from 2007 to 2012. The sales revenue of the European steering system industry is expected to grow at a CAGR of approximately 1.9%, from 2012 to 2017. In particular, EPS sales revenue is expected to grow at a CAGR of approximately 5.1%, from 2012 to 2017.

The following chart sets forth the sales revenue of steering systems by products in Europe from 2007 to 2012:



Source: IPSOS

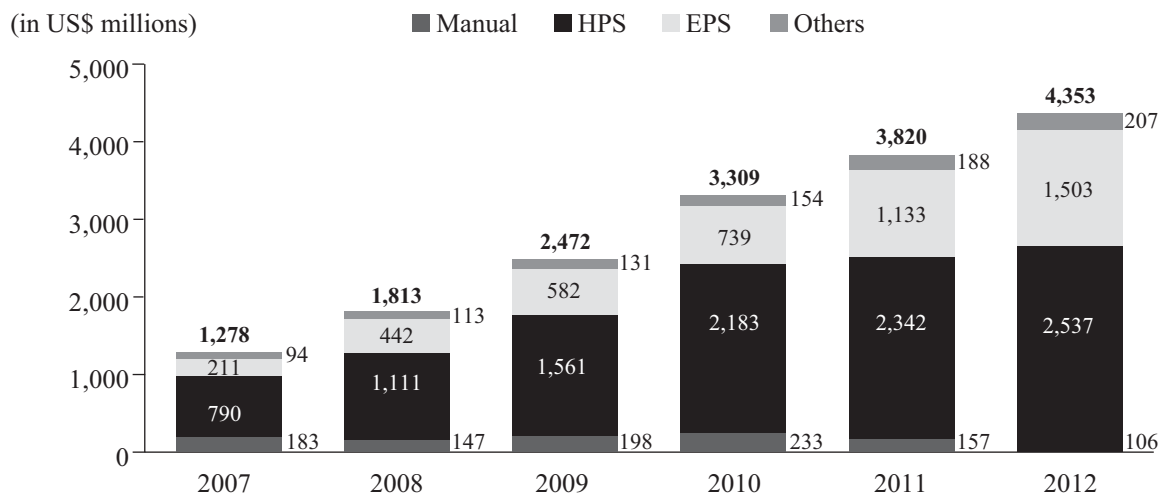
EPS is expected to drive growth in the steering system market in Europe in the next several years, as it affords better reliability, improved vehicle handling, more compact and powerful electric motors, and enhanced battery performance. In addition, higher fuel efficiency standards and environmental regulations should also accelerate the adoption of EPS.

### Overview of the Steering System Industry in China

The total sales revenue of steering systems in China increased from approximately US\$1,278 million in 2007 to approximately US\$4,353 million in 2012, representing a CAGR of approximately 27.8%, primarily due to the strong growth of the automotive industry. In particular, EPS sales revenue increased at a CAGR of approximately 48.1%, from 2007 to 2012. The sales revenue of the China steering system industry is expected to grow at a CAGR of approximately 12.4%, from 2012 to 2017, primarily due to continued expansion of its domestic automotive industry. In particular, EPS sales revenue is expected to grow at a CAGR of approximately 25.6%, from 2012 to 2017.

## INDUSTRY OVERVIEW

The following chart sets forth the sales revenue of steering systems by products in China from 2007 to 2012:



Source: IPSOS

China had the highest total vehicle production in terms of passenger and commercial vehicles in 2012, producing approximately 19.5 million units. China's total vehicle production is expected to continue growing at a CAGR of approximately 9.1%, from 2012 to 2017. The size of the PRC automotive market and positive growth trends are expected to provide opportunities for automotive parts manufacturers, including steering system suppliers, and drive the growth of the PRC steering system industry. Low production costs and rapid market response have attracted PRC and foreign joint venture manufacturers to produce automotive parts locally in China. As the technological capabilities of the domestic steering system manufacturers continue to improve, domestically produced steering systems may become substitutes for foreign-manufactured or imported steering systems and are also expected to drive export sales growth in the future. From 2011 to 2012, export sales of domestic steering systems grew approximately 21.0%, which was a growth rate higher than the overall automotive parts industry, which grew approximately 6.0%. PRC-manufactured steering systems were mainly exported to Japan, the United States, Korea, Mexico and India. The continued increase in exports of PRC-manufactured steering systems is expected to drive growth in the PRC steering systems market.

## INDUSTRY OVERVIEW

### GLOBAL DRIVELINE SYSTEM INDUSTRY OVERVIEW

The driveline system transmits power from the transmission output to the driving wheels of a motor vehicle. Primary components include halfshafts, propeller shafts and related products.

#### Overview of the Global Driveline System Industry

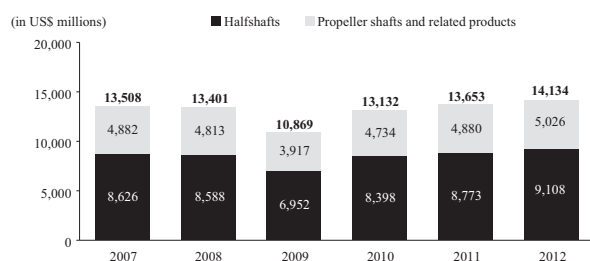
The global driveline system market slightly declined as a result of the global financial crisis in 2008 and 2009. The global sales revenue of the total driveline system market increased at a CAGR of approximately 0.9% from approximately US\$13,508 million in 2007 to approximately US\$14,134 million in 2012, while sales volume increased at a CAGR of approximately 2.5% from 642 million units in 2007 to 726 million units in 2012. Global driveline system market sales revenue and volume are estimated to grow at CAGRs of approximately 5.0% and 5.4%, respectively, from 2012 to 2017.

In particular, sales revenues and sales volume of the halfshafts segment increased at CAGRs of approximately 1.1% and 2.9%, respectively, from 2007 to 2012. According to the IPSOS Report, sales of halfshafts accounted for approximately 64% of the total revenue of the global driveline system industry from 2007 to 2012. Sales revenue of the halfshafts segment is expected to grow from approximately US\$9,108 million in 2012 to approximately US\$11,815 million in 2017, a CAGR of approximately 5.3%.

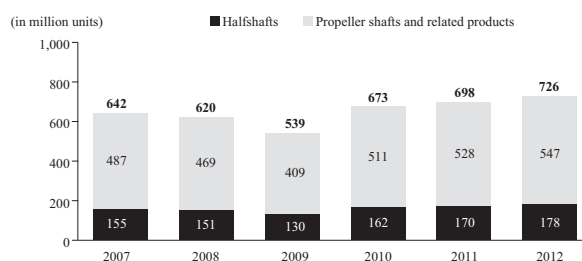
According to the IPSOS Report, sales revenue of propeller shafts and related product segments grew at a CAGR of approximately 0.6%, from 2007 to 2012, and is expected to grow from approximately US\$5,026 million in 2012 to approximately US\$6,249 million in 2017, a CAGR of approximately 4.5%. The sales revenue of propeller shafts and related products grew slowly from 2007 to 2012 primarily due to the effects of the global financial crisis, which resulted in decreased production volumes in 2008 and 2009. Sales revenue of propeller shafts is expected to increase from 2013 to 2017, primarily due to a recovery of consumer confidence as well as stable growth in global vehicle production volumes.

The following charts set forth the sales revenue and volume of global driveline systems by products from 2007 to 2012, respectively:

**Global sales revenue**



**Global sales volume**



Source: IPSOS

## INDUSTRY OVERVIEW

From 2007 to 2012, the driveline system industry in China grew faster than in developed regions, such as the United States and Europe. Sales revenue of global driveline systems in the PRC accounted for approximately 11% of global sales in 2007, and grew to approximately 22% of global sales in 2012.

The following table sets forth the sales revenue breakdown of global driveline systems in 2007 and 2012 by regions:

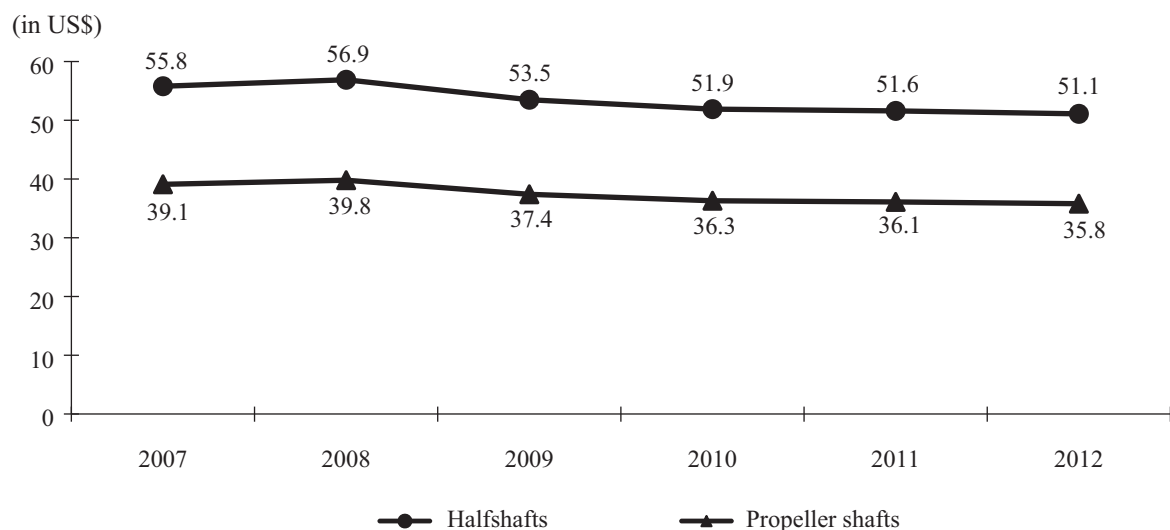
| Region                      | 2007                      |             | 2012                      |             |
|-----------------------------|---------------------------|-------------|---------------------------|-------------|
|                             | Amount<br>(US\$ millions) | % of total  | Amount<br>(US\$ millions) | % of total  |
| Europe . . . . .            | 4,283                     | 32%         | 3,653                     | 26%         |
| China . . . . .             | 1,487                     | 11%         | 3,116                     | 22%         |
| U.S. . . . .                | 2,345                     | 17%         | 1,774                     | 13%         |
| Rest of the World . . . . . | 5,393                     | 40%         | 5,591                     | 39%         |
| <b>Total . . . . .</b>      | <b>13,508</b>             | <b>100%</b> | <b>14,134</b>             | <b>100%</b> |

Source: IPSOS

### Price Trends of the Global Driveline System Industry

The average price of driveline components in the global driveline system industry has generally been decreasing, with halfshafts and propeller shafts both decreasing at CAGRs of approximately -1.7% from 2007 to 2012. The average price of driveline components decreased most significantly in 2009, as a result of the global financial crisis, which resulted in a decrease in raw material prices such as steel. In line with the global steering system market, manufacturers of driveline systems have also been under continuing pressure from automotive manufacturers to reduce their prices.

The following chart sets forth the average prices of global driveline system products from 2007 to 2012:



Source: IPSOS

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## INDUSTRY OVERVIEW

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### *Future Market Trend of the Global Driveline System Industry*

#### *Increased Presence in Rapidly Growing Markets*

The automotive market in developing countries, particularly China and India, has been growing rapidly in the past decade. China is now the largest automotive market in the world. To keep pace with customer demand, foreign driveline system manufacturers have been increasing their presence by establishing production bases in these regions to expand their capacity. This trend is expected to sustain in the near term as these regions continue to drive growth in the global automotive industry.

#### *Diverse Product Portfolio with Focus on Sustainability and Environment*

In line with government policies for fuel economy, automotive manufacturers and brand owners are continuing to search for fuel savings and reductions in carbon emissions through hybrid and electric drive vehicles.

#### *Adoption of Efficient Transmission Technology*

Continuously variable transmission is a transmission that can change through an infinite number of effective gear ratios between maximum and minimum values, as opposed to other mechanical transmissions that only offer a fixed number of gear ratios. The flexibility of a continuously variable transmission allows the input shaft to maintain a constant angular velocity over a range of output velocities. Furthermore, it can also provide better fuel economy than other transmissions by enabling the engine to run at its most efficient revolutions per minute for a range of vehicle speeds. It can also be used to build a kinetic energy recovery system.

#### *Conversion to Hybrid and Electric Transmission Technologies*

With the increased adoption of hybrid and electric vehicles, the ongoing conversion from internal combustion transmission technologies to hybrid and electric transmission technologies is expected to continue. Hybrid vehicle transmission efficiency is an important factor contributing to a reduction in fuel consumption and emissions, while electric vehicle transmission efficiency contributes to improved performance, range and battery life.

#### *Increasing Demand from SUVs and Premium Cars*

The halfshafts market is generally expected to grow faster than the overall vehicle market as many SUVs are switching to independent rear suspensions while premium cars are moving to all-wheel drive and large, full-size trucks are starting to use constant velocity joints on their propeller shafts which replace traditional universal joints.

## INDUSTRY OVERVIEW

### Competitive Landscape of the Driveline Industry

#### *Key Manufacturers in the Global Halfshafts Industry*

The driveline industry and, in particular the halfshafts industry, are highly specialized and capital-intensive industries that require specific technical knowledge and production equipment to ensure correct balancing, straightening and modification of products.

Automotive manufacturers have high quality standards for driveline systems and rigorously evaluate driveline system manufacturers on the basis of product quality, price, reliability and timeliness of delivery, product design capability, technical expertise and development capability, new product innovation, operational flexibility and excellence, customer service and overall management.

Halfshafts manufacturers have established production bases in key markets, such as North America and Europe, as well as additional production plants in low-cost regions, such as China, India and South America. Such production bases are also located near automotive manufacturers, which minimizes production costs, reduces delivery costs and mitigates exposure to currency exchange risks. Each major halfshafts manufacturer typically relies on a few key OEM customers.

The top five driveline system manufacturers in the global market accounted for approximately 63% of the total market value for halfshafts in 2012.

The following table sets forth the rankings of the major halfshafts manufacturers across various regions in terms of sales revenue from halfshafts in 2012, with the market share of each halfshafts manufacturer shown in parentheses:

| Ranking | Global                   | U.S.                                    | Europe                            | China  |
|---------|--------------------------|---|-----------------------------------|--|
| 1       | GKN (37.7%)              | GKN (33.0%)                             | GKN (49.2%)                       | GKN (23.5%)                                  |
| 2       | NTN (16.0%)              | <b>Nexteer (26.0%)</b>                  | NTN (12.9%)                       | Wanxiang Qianchao<br>(11.7%)                 |
| 3       | <b>Nexteer (4.8%)</b>    | NTN (19.0%)                             | Neapco Europe (Tedrive)<br>(4.7%) | NTN (6.5%)                                   |
| 4       | Wanxiang Qianchao (2.6%) | Neapco (5.2%)                           | IFA Group (2.5%)                  | Hunan Dingyuan<br>Automotive Parts<br>(4.3%) |
| 5       | Neapco (1.4%)            | American Axle &<br>Manufacturing (3.7%) | Korea Flange (KOFKO)<br>(1.5%)    | <b>Nexteer (2.5%)</b>                        |
|         | Others (37.5%)           | Others (13.1%)                          | Others (29.2%)                    | Others (51.5%)                               |
|         | <b>Total (100.0%)</b>    | <b>Total (100.0%)</b>                   | <b>Total (100.0%)</b>             | <b>Total (100.0%)</b>                        |

Source: IPSOS

Notes:

<sup>(1)</sup> Only includes sales revenue from halfshafts.

<sup>(2)</sup> Figures in parentheses above denote market share of halfshafts manufacturers in their respective regions.

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## INDUSTRY OVERVIEW

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### *Opportunities and Risks of the Global Driveline System Industry*

Hybrid and electric vehicles present major opportunities for the global driveline industry. With the promotion of fuel economy by various policy-makers, there are opportunities for the driveline system industry in the development of compatible applications for hybrid and electric vehicles.

Geographically, demand for driveline systems in developing countries, such as China, India and Brazil, grew at a faster rate than in developed regions, such as the United States and Europe, from 2007 to 2012. Sales revenue of driveline systems in China, India and Brazil accounted for approximately 11.0%, 2.9% and 3.7%, respectively, of global sales revenue in 2007, and increased to approximately 22.0%, 4.9% and 4.0%, respectively, of global sales revenue in 2012. Sales revenue of driveline systems in the United States and Europe decreased from approximately 17.4% and 31.7%, respectively, of global sales revenue in 2007 to approximately 12.6% and 25.8%, respectively, in 2012. As driveline system manufacturers increase their presence in these developing countries, future growth opportunities for the driveline system industry are expected in developing countries as domestic production of automotive vehicles is expected to increase significantly.

Major risks of the global driveline system industry include rising raw material and labor costs and uncertainty in the global economy.

### *Barriers to Entry*

#### *Long-term Relationship with Automotive Manufacturers*

The global driveline system market is dominated by a few key manufacturers including GKN plc and NTN Corporation. These manufacturers have typically established long-term relationships with automotive manufacturers.

Driveline system manufacturers that have established business partnerships with automotive manufacturers enjoy a competitive advantage in the industry as the switching barrier is high for automotive manufacturers. New business opportunities generally arise when new models are being developed or existing models undergo a design enhancement. OEM relationships, global presence, and the ability to produce quality parts at high volume for safety and performance also drive major OEMs to choose strategic partners for production of the driveline systems.

#### *Limited Access to Technology and High Investment*

There is limited access to technology in the driveline market. The capital investment is also high to build capacity. Furthermore, new driveline manufacturers generally have limited ability to quickly adapt to change in product categories, which allows established manufacturers like GKN plc, NTN Corporation, and Nexteer Automotive Group Limited to sufficiently defend themselves against new entrants.



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## INDUSTRY OVERVIEW

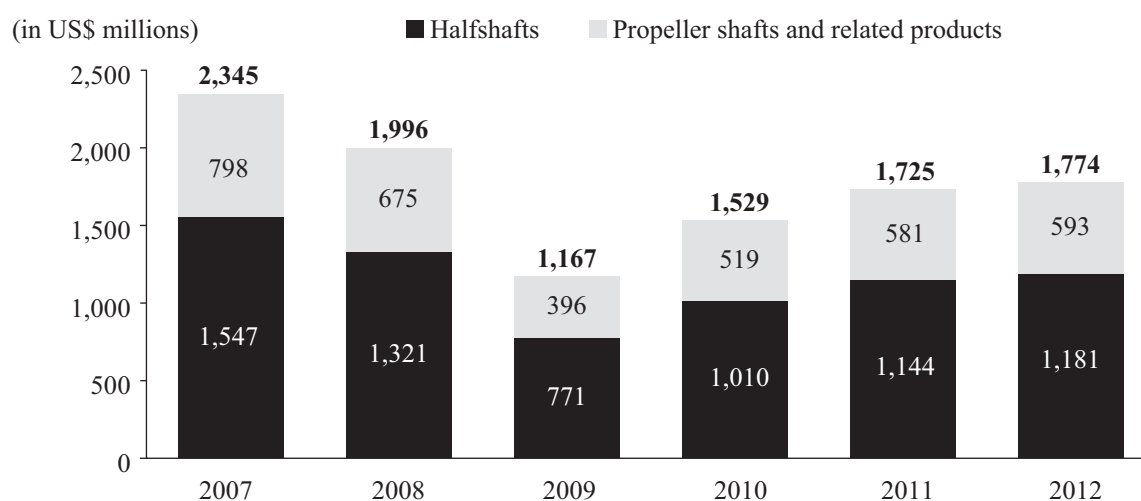
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### Overview of the Driveline System Industry in the United States

The sales revenue of the driveline system market in the United States declined from approximately US\$2,345 million in 2007 to approximately US\$1,774 million in 2012, while sales volume decreased from approximately 98.2 million units in 2007 to approximately 79.8 million units in 2012.

The decrease in the sales revenue was mainly attributed to the impact of the global financial crisis in 2008 and the earthquake, tsunami and nuclear disaster in Japan, which disrupted the supply of components. The driveline system industry in the United States is expected to increase and grow at a CAGR of approximately 2.8% in terms of sales revenue from 2012 to 2017.

The following chart sets forth the sales revenue breakdown of driveline systems by products in the United States from 2007 to 2012:



Source: IPSOS

Key driveline system manufacturers in the United States are introducing new driveline system technologies to take advantage of all-wheel-drive safety and handling features while minimizing the impact on fuel economy. In looking to save costs, automotive manufacturers have moved towards a modular form of production, where various models share basic components and the supply chain is simplified. In addition, there was increased interest by automotive manufacturers to convert their existing front-wheel-drive platform to an all-wheel-drive hybrid program. With the potential to increase fuel economy by up to 35%, hybrid products (new combinations for front- and all-wheel-drive systems) are expected to drive the development of driveline systems in the United States market in the future.

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## INDUSTRY OVERVIEW

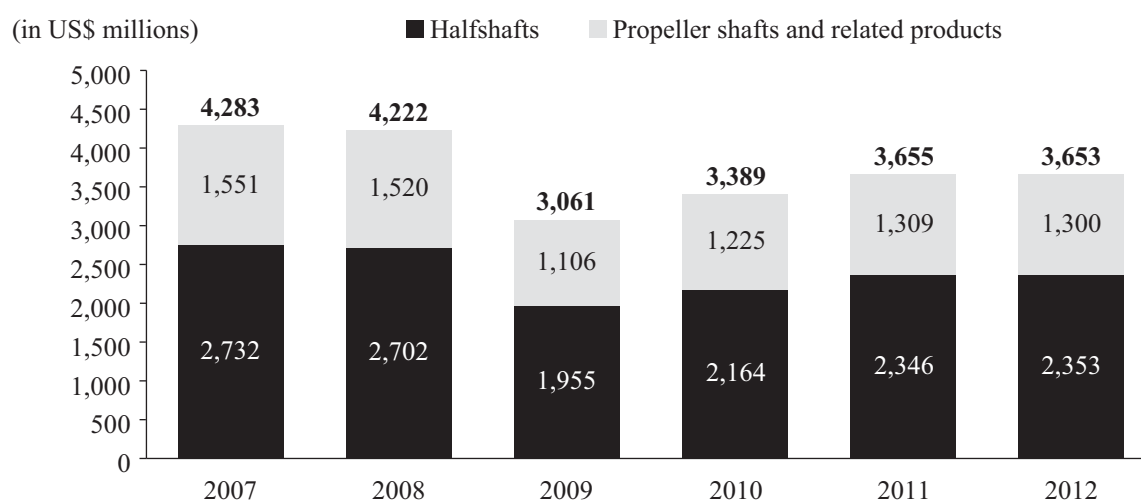
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### Overview of the Driveline System Industry in Europe

The sales revenue of driveline system market in Europe decreased from US\$4,283 million in 2007 to US\$3,653 million in 2012, while sales volume decreased from 199.1 million units in 2007 to 182.6 million units in 2012.

The decrease in sales revenue was mainly attributed to the impact of the global financial crisis in 2008. The driveline system market in Europe is expected to grow at a CAGR of approximately 3.3% in terms of sales revenue from 2012 to 2017, with growth driven by hybrid vehicle products and demand for larger (premium) vehicles and light commercial vehicles.

The following chart sets forth the sales revenue of driveline systems by products in Europe from 2007 to 2012:



Source: IPSOS

The driveline market in Europe was adversely affected by the global financial crisis in 2009, but demand for hybrid products is expected to continue, which is also expected to support the future development of the driveline system market in Europe. The 130 gram per km and 95 gram per km CO<sub>2</sub> legislations effective in 2015 and 2020, respectively, are expected to drive hybrid product growth in the Europe market.

### Overview of the Driveline System Industry in China

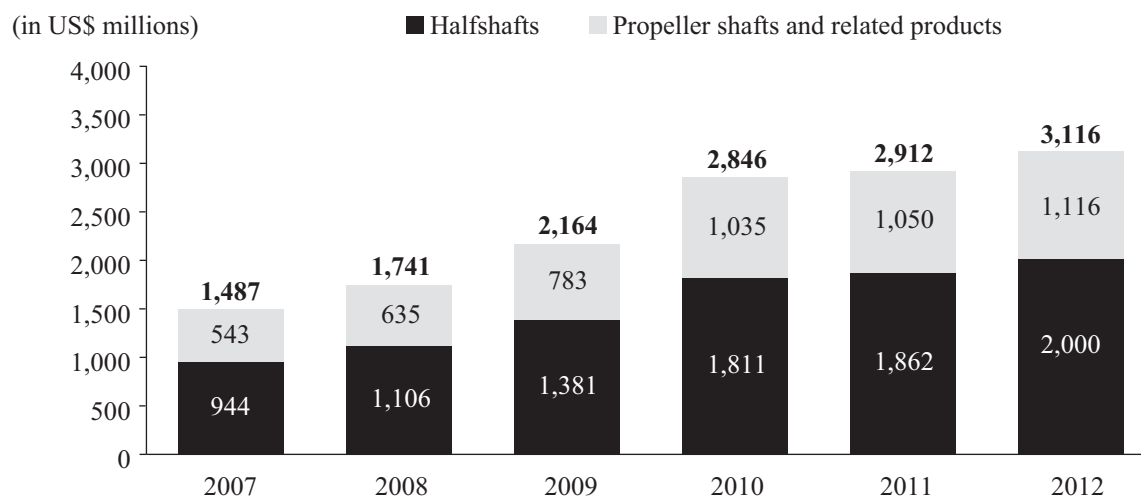
The sales revenue of the driveline system market in China grew rapidly at a CAGR of approximately 15.9% from US\$1,487 million in 2007 to US\$3,116 million in 2012.

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## INDUSTRY OVERVIEW

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The following chart sets forth the sales revenue of driveline systems by products in China from 2007 to 2012:



Source: IPSOS

The expanding domestic market for and increasing production of automotive vehicles in China are key drivers for the growth of the driveline market in China. According to the IPSOS Report, the total number of vehicles produced in China is expected to grow at a CAGR of approximately 9.1% from 2012 to 2017. In addition, the PRC government promulgated the “Eleventh Five-year Plan” for the PRC automotive industry, which included policies to enhance the domestic automotive parts industry through generous government subsidies, performance requirements for foreign investors, technology transfers, discrimination against imported goods, restrictions on raw material exports, and priority support for exports of vehicles and parts. With the rapid growth of the domestic automotive industry, China’s automotive parts industry has also expanded steadily in recent years. With increasingly globalized operations, foreign automotive manufacturers have increased global sourcing for automotive parts, which is also expected to provide growth opportunities for Chinese manufacturers.

### Global Steel Price Trends

Steel is the major raw material for steering and driveline products, the price of which is highly correlated with macroeconomic conditions. Economic growth across the globe in 2007 and early 2008 spurred a rise in construction activity which caused steel prices to peak in 2008. As the global financial crisis worsened in late 2008 and early 2009, global demand for steel fell while new steel production capacity was coming into the market. Prices reached their bottom in May 2009, falling to a six-year low. Steel prices began to increase in 2010. While most of the global steel industry continued to be adversely affected by recessionary conditions in 2009, steel demand and associated production in Brazil, Russia, India, China and Korea continued to be key drivers of growth in 2010. Growth was largely sustained in 2011 but steel prices began to fall in the second half of 2011 and continued to drift downwards as the global economy slowed down and many parts of Europe entered or reentered recession in 2011 and 2012. Steel capacity continues to be reduced in many parts of the world. Prices of raw materials for steel production including iron ore, coking coal and scrap, among other raw materials, fell sharply in 2012 as a slowdown in China’s growth reduced demand.

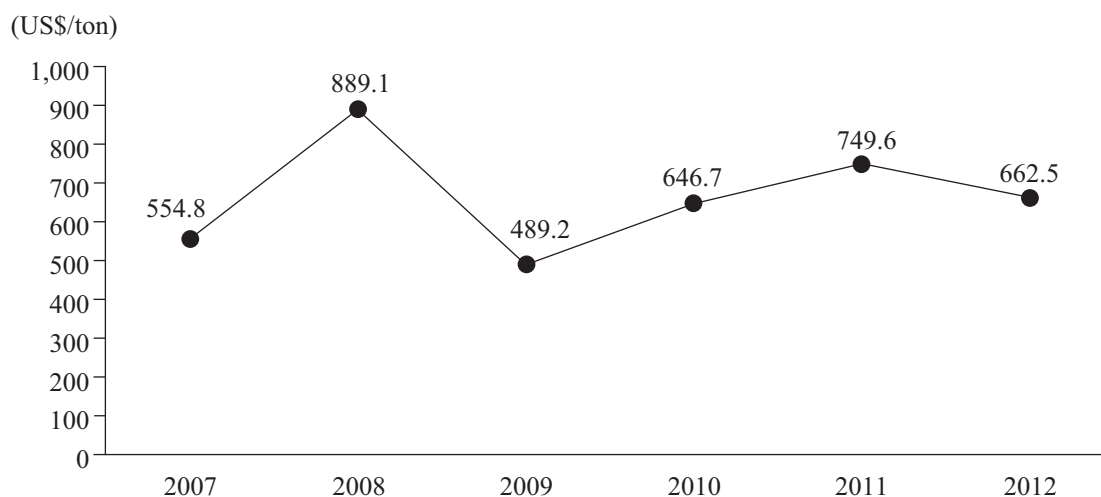
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## INDUSTRY OVERVIEW

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Raw material costs accounted for approximately 75% to 80% of total production cost of steering and driveline components. Despite fluctuations in the price of steel, average prices of steering and driveline components generally remained relatively stable, primarily due to different product unit prices for various specifications and models of steering systems. As such, changes in the model and specification of each steering system resulted in changes to the average product unit prices. In addition, steering system and driveline manufacturers and automotive manufacturers determine the prices of steering and driveline systems annually. When the launch of a new product has passed its price protection period, automotive manufacturers will generally require steering and driveline systems manufacturers to lower prices. As such, mature products generally experience different degrees of price reductions. The combination of rising steel prices in the early product stages with price pressures on later stage products has resulted in downward pressure on the profit margins of steering and driveline system manufacturers in recent years.

The following chart sets forth average global steel prices from 2007 to 2012:



Source: EIU January 2013

## INDUSTRY CONSULTANTS AND INFORMATION SOURCES

### Overview

We commissioned IPSOS, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the global steering and driveline system industry. Currently, IPSOS has offices in 84 countries with over 16,000 staff globally. IPSOS has been assisting clients with their growth strategies since 1994 and has a strong track record with more than 2,800 consulting engagements covering markets globally.

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## INDUSTRY OVERVIEW

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IPSOS's independent market research was undertaken through both primary and secondary research obtained from various sources. Primary research involved in-depth interviews with key stakeholders and industry experts, including competitors (steering and driveline system automotive parts manufacturers), automobile manufacturers and assemblers, industry associations and experts, as well as material suppliers and others. Secondary research involved desk research of government departments and statistics, trade and business media, company annual reports and publicity materials, industry reports and analyst reports, industry associations, industry journals, other online sources and data from the research database of IPSOS. Such methodology has guaranteed a multilevel information sourcing process, where information gathered will be able to be cross-referenced to ensure accuracy. Intelligence gathered has been analyzed, assessed and validated using the in-house analysis models and techniques of IPSOS.

### Key Assumptions and Parameters

The following assumptions are used in the IPSOS Report:

Firstly, IPSOS has assumed there will not be events such as natural disasters or a wide outbreak of disease which would adversely affect the demand and supply of steering and driveline systems in Europe, the United States, China, Brazil and India.

Secondly, it is assumed a new vehicle requires one steering system, one propeller shaft, two halfshafts and three universal joints.

The following parameters are considered in the market sizing and forecast model of the IPSOS Report:

- Global, Europe, United States, China, Brazil and India GDP growth rates from 2007 to 2012
- Global, Europe, United States, China, Brazil and India population growth rates from 2007 to 2012
- Global, Europe, United States, China, Brazil and India urbanization rates from 2007 to 2012
- Europe, United States, China, Brazil and India inflation rates from 2007 to 2012
- Price of passenger and commercial vehicle — According to historical data from CPCA (全國乘用車市場信息聯席會), imported passenger vehicle prices in China decreased about 1% annually while the price for a local passenger vehicle increased about 1% annually from 2007 to 2011. Because of technological improvement, the average price of a commercial vehicle is expected to increase by 6% annually from 2012 to 2017
- Europe, United States, China, Brazil and India retail sales of passenger and commercial vehicles from 2007 to 2012
- Global, Europe, United States, China, Brazil and India production volume of passenger and commercial vehicles from 2007 to 2012
- Global, Europe, United States, China, Brazil and India total car parc from 2007 to 2012
- Price of steering system and driveline components including propeller shaft, halfshafts and universal joints

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## INDUSTRY OVERVIEW

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- International trading value of steering wheels, steering columns and steering boxes; parts thereof for the motor vehicles from 2007 to 2012
- International trading value of transmission shafts (including cam shafts and crank shafts) and cranks from 2007 to 2012
- Relevant government policies — According to the 《汽車轉向行業「十二五」發展規劃》, steering system production in China will reach about 28 million, an output value of about RMB30 billion and an export value of about US\$1 billion by 2016

We have extracted certain information from the research report of IPSOS, dated June 11, 2013, in this section as well as in the sections headed “Risk Factors,” “Business,” “Financial Information” and elsewhere in this Prospectus to provide our potential investors with a more comprehensive presentation of the industry in which we operate. We paid a fee of HK\$768,000 to IPSOS for this research report.

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## REGULATIONS

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### OVERVIEW

This section summarizes selected key current laws and regulations in the United States, Poland, PRC and Mexico that are relevant to our business and operations.

### LAWS AND REGULATIONS OF THE UNITED STATES

Automobile and automotive parts manufacturing companies are subject to or otherwise affected by a wide range of U.S. federal, state and local laws and regulations. These include requirements relating to air emissions, water discharge, hazardous materials, waste management and environmental remediation, some of which are discussed below. These laws and regulations may also require the acquisition and maintenance of permits or other governmental authorizations.

#### **Automobile Safety**

The U.S. National Traffic and Motor Vehicle Safety Act of 1966 (the “Safety Act”) regulates automobiles and automobile equipment in two primary ways. First, the Safety Act prohibits the sale in the U.S. of any new automobile or equipment that does not conform to applicable automobile safety standards established by the National Highway Traffic Safety Administration. Meeting or exceeding many safety standards is costly, in part because the standards tend to conflict with the need to reduce automobile weight in order to meet emissions and corporate average fuel economy standards. Second, the Safety Act requires that defects related to automobile safety be remedied through safety recall campaigns. A manufacturer is obligated to recall automobiles if it determines the automobiles or their components do not comply with a safety standard. Finally, a manufacturer is also required to notify owners and provide a remedy if an automobile defect creates an unreasonable safety risk.

#### **Automobile Emissions Standards**

The U.S. Clean Air Act imposes stringent limits on the amount of regulated pollutants that may be emitted by new automobiles and engines produced for sale in the U.S. The current (“Tier 2”) emissions regulations promulgated by the U.S. Environmental Protection Agency (“EPA”) set fuel emissions standards for cars and light trucks. The EPA also has stringent emissions standards and requirements for heavy duty automobiles and engines.

The California Air Resources Board’s low-emission automobile emissions standards require light-duty trucks and passenger cars to meet stringent new emissions requirements, the most recent of which (known as LEV III) were adopted in 2012 and include updated smog rules that apply to automobiles starting in model year 2014. California law also requires that a certain percentage of cars and certain light duty trucks sold in the state must be zero emission vehicles such as electric automobiles or hydrogen fuel cell automobiles. The California Air Resources Board has proposed requirements for increasing volumes of zero emission vehicles over the next several years in order to achieve greenhouse gas (“GHG”) and pollution emission reductions.

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Automobile manufacturers must obtain certification that their automobiles will meet emissions requirements from the EPA and from the California Air Resources Board before they can sell automobiles in the U.S. or in California (and other states that have adopted the California emissions requirements) respectively. Suppliers of automobile parts to such manufacturers may be indirectly subject to such requirements.

### **Contamination and Permitting**

Under the U.S. Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), the U.S. Resource Conservation and Recovery Act, the U.S. Clean Water Act, the U.S. Safe Drinking Water Act and similar state laws, among others, strict, joint, several and retroactive liability may be imposed for the costs of removing or remediating releases of hazardous substances including at currently or formerly owned or operated property or facilities, facilities to which hazardous substances have been sent for disposal, or into or upon waters of the U.S. Under certain of these laws, liability for remediation costs may be imposed regardless of whether the release or disposal of hazardous substances was in compliance with law at the time it occurred, and regardless of whether the facility was owned or operated by the current owner or operator at the time of the release. Liability may also be imposed for damages to natural resources.

The U.S. Resource Conservation and Recovery Act and similar state programs impose requirements on the management, treatment, storage and disposal of both hazardous and nonhazardous solid wastes. The U.S. Clean Air Act and similar state laws require certain sources of air pollutants to obtain permits prior to commencing construction or major modification of facilities. Major sources of air pollutants are subject to more stringent, federally imposed requirements including operating permits and the installation of additional controls. The U.S. Clean Water Act and similar state laws require permits for certain discharges of water and effluents, such as the discharge of wastewater and storm water from facilities.

In December 2012, the EPA finalized amendments to its National Emissions Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial and Institutional Boilers and Process Heaters. The rule, known as the Boiler MACT rule, governs emissions of air toxins from boilers and process heaters at industrial facilities. Boilers subject to the new rule may be required to have emissions limited and/or to have additional pollution controls installed.

### **GHG Regulations**

In June 2010 the EPA published its so-called GHG tailoring rule phasing in federal prevention of significant deterioration and Title V operating permit requirements for new sources and modifications to existing facilities with the potential to emit specific quantities of GHGs. Obligations relating to Title V permits include recordkeeping and monitoring requirements. With respect to prevention of significant deterioration permits, projects that cause a significant increase in GHG emissions (currently defined to be 75,000 tons or more per year of carbon dioxide equivalents or 100,000 tons or more per year, depending on various factors), are required to implement best available control technology. The EPA has issued guidance on what best available control technology entails for the control of GHGs and individual states are now required to determine what controls are required for facilities within their jurisdiction on a case-by-case basis. In October 2009, the EPA also published a rule



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establishing GHG reporting, monitoring and recordkeeping requirements associated with certain GHG emissions sources that emit 25,000 metric tons or more per year of carbon dioxide equivalents.

### **Employee Health and Safety**

U.S. companies are subject to various health and safety laws and regulations, including the U.S. Occupational Safety and Health Act, and similar state statutes, which laws and regulations govern employee health and safety matters. In addition, the U.S. Occupational Safety and Health Act hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA and similar state statutes require that information be maintained concerning hazardous materials used or produced and that this information be provided to employees and certain government authorities, among others. Environmental, health and safety regulations, including ones promulgated pursuant to the U.S. Occupational Safety and Health Act, are also designed to prevent or minimize the consequences of catastrophic releases of toxic, reactive, flammable or explosive chemicals.

### **Export Control**

Certain of our operations and transactions are subject to U.S. export control laws and regulations, including those administered by the U.S. Departments of Commerce and Treasury.

## **LAWS AND REGULATIONS OF POLAND**

The Company has one indirect subsidiary in Poland, Nexteer Automotive Poland sp. z o.o. (“Nexteer Automotive Poland”), headquartered in Tychy and with a branch in Gliwice. Nexteer Automotive Poland is mainly engaged in the manufacture of automotive steering and driveline products. With respect to its current business operations, Nexteer Automotive Poland is mainly subject to the following laws, regulations and rules:

### **Overview of the Polish Legal System**

The Polish legal system is based on the Constitution of Poland of April 2, 1997 and is in general made up of acts, ratified international agreements and ordinances. Acts are passed by a bicameral parliament consisting of a 460-member lower house and a 100-member senate. Acts must be signed by the president and promulgated in an official gazette. Ordinances are passed by, *inter alia*, the government and ministers, and are based on specific authorization contained in an act and aimed at the proper implementation of such act.

Although court rulings do not constitute binding precedents, the judicial system plays an important role in the Polish legal system. Its major institutions include the Supreme Court of Poland, the Supreme Administrative Court of Poland and the Constitutional Tribunal of Poland.

### **Foreign Investments**

Running business operations in Poland is in general regulated by the Act of July 2, 2004 on the Freedom of Business Activity (“Act on the Freedom of Business Activity”). Business activity in Poland may be undertaken in one of the following forms: (i) joint-stock company, (ii)

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limited liability company, (iii) registered partnership, (iv) limited partnership, (v) professional partnership, (vi) partnership limited by shares, (vii) general partnership, (viii) branch, (ix) representative office, and (x) sole entrepreneurship.

Foreign persons from EU Member States, Member States of the European Free Trade Agreement, parties to the Agreement on the European Economic Area, and foreign persons from countries which are not contracting parties to the Agreement in the European Economic Area, but who may enjoy freedom of establishment under agreements concluded by these countries with the European Community and its Member States, may undertake and carry out economic activities on the same terms as Polish citizens.

Moreover, the following persons, who are citizens of states other than those mentioned above, may undertake and pursue economic activities on the territory of Poland on the same terms as Polish citizens:

- Persons residing in Poland who: (a) hold a permit to settle; (b) hold a long-term resident of the European Communities stay permit; (c) hold a permit to reside for a specified period of time granted as a result of a circumstance referred to in the relevant provisions of the Act of June 13, 2003 on Foreigners (“Act on Foreigners”); (d) hold a permit to reside for a specified period of time - granted to a family member of the persons referred to in letters a), b), e) and f), and the family member arriving in the territory of Poland or staying in the territory in order to reunite with his/her family; (e) hold refugee status; (f) enjoy supplementary protection; (g) hold consent for a tolerated stay; (h) hold a permit to reside for a specified period of time and are married to a Polish citizen residing in the territory of Poland;
- persons who enjoy temporary protection on the territory of Poland;
- persons who hold a valid Polish ID document; and
- persons who are family members joining the citizens of the states referred to in the first paragraph above or staying with them.

Moreover, citizens of states other than those mentioned above, who are staying in the territory of Poland on the basis of the Act on Foreigners, and who, directly before filling in the application for: (i) the granting of a permit to reside for a specified period of time, or (ii) a permit to settle, or (iii) the status of a long-term resident of the European Communities and are entitled to undertake and pursue economic activities on the basis of a permit to reside for a specified period of time granted under the Act on Foreigners, may undertake and pursue economic activities on the territory of Poland on the same terms as Polish citizens.

Foreigners other than those listed above may operate businesses in Poland only in the form of joint-stock companies, limited liability companies, limited partnerships, or partnerships limited by shares, and may only invest in such companies and partnerships, unless otherwise provided for in international agreements. Restrictions on foreign ownership have generally been lifted except for certain types of telecommunications and broadcasting activities.

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In principle, any person is allowed, on equal terms, to freely undertake and conduct business activity subject to the fulfillment of the conditions defined by the provisions of law. The undertaking of economic activities by legal entities is not subject to any regulatory notification, though the entities themselves must be registered in the relevant registers. Registration is required in order for a natural person to undertake business activity as a sole entrepreneur.

Undertaking and conducting economic activity may additionally involve the duty to obtain a license or to be entered in a register of regulated activity. The conducting of certain activities may require a permit. The Act on the Freedom of Business Activity distinguishes between licenses, regulated activities and permits. Activities for which a license is required must be listed in the Act on the Freedom of Business Activity, whereas regulated activities may be listed in any act. The introduction of a new license requirement may be implemented only by a change to the Act on the Freedom of Business Activity and is only possible for fields with special importance for national security or other important matters of public interest. Any refusal to grant a license is subject to appeal.

Under the Act on the Freedom of Business Activity, a license is required for the following seven fields of business activity: (i) certain activities within the mining sector; (ii) production of and trading in explosives, arms and ammunition, and products and technologies for military or police use; (iii) production, processing, storage, delivery, distribution of and trading in fuel and energy; (iv) services for the protection of individuals and their property; (v) air transport; (vi) broadcasting of radio and television programs; and (vii) running of a casino. Licenses are issued for a specified period of time of between five and 50 years, unless the entrepreneur applies for a shorter period. The licensing authority may refuse to grant a license in any of the following cases: (i) the business entity does not meet the conditions specified in the law or the specific requirements imposed by the competent authority prior to the commencement of the licensing procedure; (ii) the national safety or security of the state or its citizens is endangered; (iii) the license has been granted to other entrepreneurs in a public tender; or (iv) special provisions laid down in the law prevent it from doing so.

The rules and procedures concerning permits are laid down in the specific provisions of the acts that regulate them. The Act on the Freedom of Business Activity specifies approximately 30 types of business activity that require permits.

Nexteer Automotive Poland does not require a license or a permit under the Act on the Freedom of Business Activity to conduct its business.

If a provision of law specifies that a certain type of business activity is a regulated activity, then an entrepreneur may conduct that business activity if he satisfies the special conditions specified in the provisions and upon being entered into the register of regulated activity. Regulated activities include the production of tobacco products, organization of professional sports competitions and detective services.

### **Industry**

As of the Latest Practicable Date, there were no applicable Polish laws and regulations directly regulating the industry in which Nexteer Automotive Poland operates.

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### **Product Quality**

According to Polish laws and regulations currently in force, no compulsory sector-specific laws with respect to product quality apply to the products manufactured by Nexteer Automotive Poland.

### **Production Permits**

The activities of Nexteer Automotive Poland are undertaken based on the principle of “freedom of business activity,” and therefore there is no requirement to obtain production or similar permits.

However, Nexteer Automotive Poland is located in one of the special economic zones; namely, in the Katowice Special Economic Zone (“KSEZ”). Pursuant to the Act of October 20, 1994 on Special Economic Zones, a permit must be obtained in order to operate in the special economic zone. Nexteer Automotive Poland has obtained all the required permits in order to operate in the KSEZ, namely:

- permit dated July 8, 1997 (valid until July 2016), amended on February 29, 2008, with respect to the scope of business activities that may be operated within the KSEZ; and
- permit dated December 13, 2006 (valid until July 2016) granting consent to conduct a steering business within the KSEZ, subject to the following conditions: (i) employing at least 200 employees from December 31, 2009 until December 31, 2014; and (ii) a minimum investment of Polish Zloty 168,484,000 (approximately EUR42,121,000) until December 31, 2009.

As of the Latest Practicable Date, the aforementioned conditions had been met.

### **Environmental Protection**

The regulation of environmental matters in Poland is split into a number of acts and ordinances. Acts which are crucial to the environmental aspects of the activities carried out by Nexteer Automotive Poland include: (i) the Environmental Protection Act of April 27, 2001 (“Environmental Protection Act”); (ii) the Act of December 14, 2012 on Waste (“Act on Waste”); and (iii) the Water Act of July 18, 2001 (“Water Act”).

In the event an installation may affect the environment (by emission of air, water, soil pollutants or waste production), usually an environmental permit is required to be issued prior to the first use of such an installation. Depending on the type of installation used, the permits may be issued as integrated permits (under the EU Integrated Pollution Prevention and Control Directive Scheme), sector-related permits (relating to the emission of gas and dust into the air, the discharge of sewage into water or soil, waste production) and specific permits (relating to introducing highly polluting substances). Types of installations subject to particular environmental requirements are described in extensive secondary environmental legislation. Certain installations may be excluded from permit obligations but still subject to notification prior to first use.

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Environmental permits are issued by local *voivodeship* (province) marshals, the directors of local water management authorities, local environmental protection directors and mayors. Permit applications are subject to fees. Issuance of a permit should take up to six months (for integrated permits) or one to two months (for other permits). However, the deadlines may be extended by the *voivodeship* (province) marshals for technical reasons. Permits are issued for a specified period of time and for a maximum period of 10 years. The Environmental Protection Act provides for circumstances under which permits may be limited or revoked.

Business entities operating in Poland, as well as certain other entities, are obligated to pay environmental fees. The fees relate in particular to emitting gas and dust into the air, collection of water from surface sources and groundwater sources, discharging sewage into water or soil, and storing waste. Other, sector-related fees also exist. In addition, certain entities may be obligated to join recycling schemes.

In addition to the Environmental Protection Act, which is the primary regulation setting up the framework of environmental protection in Poland (including pollution prevention, protection of air, water, soil, minerals, animals and plants, as well as protection against noise and electromagnetic fields), a series of primary and secondary legislation has been introduced.

Water protection is governed mainly by the Water Act and extensive secondary legislation. The Water Act distinguishes the general disposal of surface and underground water for personal use, which is free, from other types of disposal (e.g. disposal of rainwater or wastewater) which are subject to a water permit. For pollution to be discharged into water or land, a water permit is also required. The water permit is granted by a municipal or regional authority. The Water Act is based on the “polluter pays” principle.

Production of waste is mainly governed by the Act on Waste, together with extensive secondary legislation. The Act on Waste respects the notions and definitions contained in the respective EU Directives. The Act on Waste regulates all aspects of waste management, i.e. production, collection, transport, storage, transfer and disposal. Pursuant to the Act on Waste, a waste permit must be obtained to produce more than 1 Mg of hazardous waste or more than 5,000 Mg of non-hazardous waste per year.

Emission of gases and dust into the atmosphere is subject to a permit to emit such gases and dust. Failure to obtain a permit may result in the relevant installation being reported to the environmental protection authorities. Additionally, the entity creating emissions is obliged to pay charges for polluting the environment.

As of the Latest Practicable Date, Nexteer Automotive Poland had all the required environmental permits, namely:

- Decision of the President of City Tychy dated February 4, 2010 regarding the change of the decision of the President of City Tychy no. 99/2006 on the permit to produce waste in the process of exploitation of the installation.
- Decision of the President of City Tychy dated December 10, 2012 on introduction of gas and dust to the air from the installation.
- Decision of the President of City Gliwice (ŚR 187/2010) dated March 31, 2010 on introduction of gas and dust to the air from the installation.

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- Decision of the President of City Gliwice (ŚR 687/2012) dated September 25, 2012 on introduction of gas and dust to the air from the installation.
- Decision of the President of City Tychy (no. 66/2010) dated December 10, 2010 on the change of the permit for production of the waste.
- Decision of the President of City Tychy (no. 99/2006) dated December 14, 2006 on the permit to produce waste in the process of exploitation of the installation.
- Decision of the President of City Gliwice (no. ŚR 536/2012) dated August 10, 2012 on the permit to produce waste in the process of exploitation of the installation.
- Decision of the President of City Gliwice (no. ŚR/95/10) dated February 23, 2010 on the permit to produce waste in the process of exploitation of the installation.
- Decision of the President of City Gliwice (no. ŚR/710/10) dated October 22, 2010 on the permit to produce waste in the process of exploitation of the installation.
- Decision of the President of City Tychy dated July 18, 2012 on the water-legal permit.

### **Intellectual Property**

Polish intellectual property law is governed by several legal acts, the most important being the Industrial Property Law of June 30, 2000 (the “IPL”) and the Act of February 4, 1994 on Copyright and Neighboring Rights. Additionally, there are various civil, penal and administrative provisions, particularly customs procedures, which are relevant for the protection of intellectual property rights in Poland.

Protection under the IPL relates primarily to trademarks (including renowned and well-known trademarks), patents, utility models, industrial designs, topographic circuits and geographical indications. The IPL also regulates protection against civil and penal infringement by third parties of all the aforesaid rights. Other commercial designations of origin, such as unregistered trade marks, company names, as well as unfair competition acts, data exclusivity etc. are governed by separate regulations.

Some of the aforementioned rights, i.e. trademarks and designs, may also be protected as community trademarks and community designs on the territory of the whole EU, including Poland, by virtue of registrations with the Office for Harmonization in the Internal Market in Alicante.

### **Taxation**

#### ***Corporate Income Tax***

Corporate income tax is currently levied at the rate of 19% on net profit. As a rule, net profit is calculated as the difference between revenues and tax-deductible costs. Polish tax residents (e.g. companies, including limited liability companies and joint stock companies in organization) are subject to corporate income tax on their worldwide income. Non-tax residents are subject to taxation in Poland on the revenues earned on the territory of Poland (tax is either

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settled by such non-residents in the case of permanent establishments in Poland, or withheld at source by a Polish withholding agent (for example, in the case of dividends, interest or royalties)).

Companies with legal personalities and their respective shareholders are treated separately for taxation purposes. Dividends are subject to a withholding tax at the rate of 19% or are tax exempt (where the conditions described below are met). The amount of withholding tax is often reduced to a rate of 5% under bilateral agreements for the avoidance of double taxation. Poland has implemented the regulations of the Council Directive on a common system of taxation, which is applicable in cases where the parent companies and subsidiaries are of different Member States. Income from dividends is exempt from withholding tax if the following conditions are fulfilled:

- the entity paying the dividend is a company that pays income tax with its seat or management in Poland;
- the entire income of the company receiving the dividend, regardless of where it is earned, is subject to taxation in one of the EU states or European Economic Area member countries;
- the company receiving dividends directly owns at least 10% of the Polish company's shares during an uninterrupted period of at least 2 years; and
- the company receiving dividends does not benefit from exemption from taxation of all its income, regardless of where it is earned.

### ***Organization for Economic Co-operation and Development (“OECD”)***

Polish tax law provides for transfer pricing regulations in accordance with the general OECD provisions. It is possible to conclude an advanced pricing agreement with the tax administration in order to secure the correctness of the transfer pricing method being applied. There are also thin capitalization restrictions applying to intra-group financing. Polish tax residents can form tax capital groups.

Some tax incentives are provided by Poland tax law. For example, exemption of income earned due to business activity being carried out in special economic zones, or partial double deduction of expenses borne for the acquisition of new technologies. As Nexteer Automotive Poland is operating in the KSEZ, which is a special economic zone, it is exempted from corporate income tax on income earned due to business activity carried out in the KSEZ. The exemption is valid until 2020 and is available up to the amount of maximum public aid level available for Nexteer Automotive Poland (which will primarily depend on the value of investments made until the end of 2018).

### ***Value-Added Tax***

Currently, the following activities are subject to Value-Added Tax (“VAT”): (i) supply of goods; (ii) supply of services; (iii) intra-community supply of goods; (iv) intra-community acquisition of goods; (v) export of goods; and (vi) import of goods.

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The VAT rate is currently 23%, with reduced rates of 0%, 5% or 8% for certain types of goods and services. As a rule, Polish VAT law is based on the EU Directive on the common system of value-added tax 2006/112 and other EU regulations. Until 2018, the VAT rates may vary between 22% with reduced rate of 7% for certain types of goods and services and 25% with reduced rate of 10% for certain types of goods and services, depending on the condition of certain macroeconomic factors set out in applicable laws.

### ***Other Taxes***

Tax on civil law transactions is levied in the case of several kinds of civil law actions, e.g. raising share capital of a company (0.5%), sale of goods and property rights (1% or 2%), loans (2%) etc. As a rule, tax is not levied where VAT applies. Several exemptions are applicable to loans. There is also real estate tax and some other minor local taxes.

### **Foreign Exchange**

Under the Act of July 27, 2002 on the Foreign Exchange Law (“Foreign Exchange Law”), foreign entities from countries which are members of the EU, the European Economic Area, or the OECD, are allowed to enter into most foreign exchange transactions without any restrictions. The same applies to foreign entities from countries with which Poland has concluded agreements for investment protection, as well as from certain countries with which European Communities and EU member states have concluded cooperation agreements, partnership agreements, association agreements and other agreements with provisions ensuring the freedom of capital flows in respect to direct investments. On the other hand, entities from countries not mentioned above are obliged to obtain an individual foreign exchange permit from the president of the National Bank of Poland for most foreign exchange transactions.

There are no restrictions on the opening of bank accounts by foreign entities. The Polish Zloty is externally convertible into foreign currency and all transactions may be concluded and settled in Polish Zloty. Any transfer of funds abroad may be performed through “eligible banks,” which means Polish banks, Polish branches of credit institutions or Polish branches of foreign banks licensed to conduct foreign exchange transactions. With regard to payments exceeding the Polish Zloty equivalent of EUR15,000, bank accounts must be used.

The government of Poland may introduce foreign exchange restrictions for the purposes of: (i) executing decisions of international organizations of which Poland is a member; (ii) protecting public order and safety; (iii) protecting Poland’s balance of payments in the case of actual or threatened general instability or sudden disruption; and (iv) protecting the Polish Zloty’s stability in the event of actual or threatened sudden fluctuation. In the two latter events, the government may introduce extraordinary restrictions for a period of up to six months, by way of an ordinance issued upon consultations with the council of monetary policy, which is independent from the government. No such extraordinary restrictions were in effect as of the Latest Practicable Date.

### **Labor Protection**

The Polish laws and regulations provide for certain labor protection mechanisms in cases of, among others, mass lay-offs. Mass lay-offs are regulated by the Act of March 13, 2003 on



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Mass Redundancies (“Mass Redundancy Act”). The Mass Redundancy Act, however, does not apply to employment establishments which employ fewer than 20 employees.

Mass redundancies are deemed to have taken place when an employer who employs at least 20 persons within a period of not longer than 30 days terminates the employment relationships by notice with: (i) at least 10 employees, if the employer employs fewer than 100 persons; or (ii) 10% of employees, if the employer employs at least 100 but fewer than 300 persons; or (iii) 30 employees, if the employer employs 300 or more persons. Terminations by mutual agreement of the parties are included in the above threshold if there are at least five employees terminated this way.

If mass redundancies are taking place the employer must introduce and observe certain detailed procedures prescribed in the Mass Redundancy Act.

### LAWS AND REGULATIONS OF THE PRC

We have three subsidiaries in the PRC, namely, Nexteer Suzhou, Nexteer Zhuozhou and Nexteer Wuhu, which are mainly engaged in the manufacture of automotive steering and driveline products. These three companies are subject to all industry policies, relevant laws, regulations, rules and extensive government regulatory policies in the PRC which are presently valid and effective. With respect to their current business operations, these three companies are mainly subject to the following laws, regulations and rules.

#### Overview of the PRC Legal System

The PRC legal system is based on the *PRC Constitution* (中國憲法) and is made up of laws, rules and regulations. Decided court cases do not constitute binding precedents.

At the national level, the legislative branch consists principally of the National People’s Congress (the “NPC”) and the Standing Committee of the NPC, which are empowered by the *PRC Constitution* to exercise the legislative powers. The NPC has the power to amend the *PRC Constitution*, supervise the implementation of the *PRC Constitution*, and promulgate specific laws governing government institutions, civil matters and criminal matters. The Standing Committee of the NPC is empowered to interpret laws promulgated by the NPC and to promulgate laws other than those specifically required to be promulgated by the NPC.

The State Council is the highest institution in the administrative branch and has the power to promulgate administrative rules.

Ministries and commissions under the direct control of the State Council have the delegated powers to promulgate regulations for matters within their respective jurisdictions. Any regulations promulgated by such ministries and commissions, however, must not conflict with the *PRC Constitution*, national laws, or any administrative rules promulgated by the State Council. In the event of a conflict, the Standing Committee of the NPC and the State Council have the power to nullify the relevant regulations.

At the provincial and municipal level, each province and municipality consists principally of a People’s Congress and its standing committee (which constitute the legislative division) and a local government and its agencies (which constitute the administrative division). The People’s Congress and its standing committee have the power to promulgate local rules,

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while the local government has the power to promulgate administrative rules applicable to its administrative area. These local rules and regulations must not conflict with the *PRC Constitution*, national laws, or any administrative rules promulgated by the State Council.

### Foreign Investment Access

According to the *Interim Provisions on the Promotion of Industrial Restructuring* (促進產業結構調整暫行規定) promulgated by the State Council and effective on December 2, 2005, the PRC government directs the investment orientation of all types of enterprises in different industries within the territory of the PRC, manages investment programs, and formulates and implements financial, taxation, credit, land, import, export and other policies by means of formulating the *Catalog for Guiding Industrial Restructuring* (產業結構調整指導目錄) (the “IR Catalog”) and the *Catalog of Industries for Guiding Foreign Investment*, (外商投資產業指導目錄) (the “FI Catalog”).

The *IR Catalog (Version 2011)* was promulgated by the NDRC together with the relevant authorities of the State Council on March 27, 2011, and effective on June 1, 2011. The *IR Catalog* classifies industries into three categories: encouraged, restricted and prohibited. Any industries not falling under any of the three aforementioned categories and conforming to relevant laws, regulations and policies as stipulated by the PRC government will be classified as belonging to the permitted category. Principally, a foreign investor must comply with the regulations of the *FI Catalog*. The *FI Catalog* was promulgated on June 28, 1995, and has been amended several times since then. The *Catalog of Industries for Guiding Foreign Investment (2011 Amendment)* (外商投資產業指導目錄(2011年修訂)) was promulgated by the NDRC together with the MOFCOM on December 24, 2011. The *FI Catalog* divides industries into three categories: encouraged, restricted and prohibited. Unless otherwise stipulated by laws or regulations, a foreign investor may invest in industries that are not classified as prohibited. In the case of restricted industries, a foreign investor must apply to establish a Sino-foreign equity joint venture, Sino-foreign contractual joint venture or other agreement in which the Chinese party should be the controlling shareholder. No foreign investor is allowed to invest in a prohibited industry under the *FI Catalog*. Any content excluded from the encouraged, restricted and prohibited categories under the *FI Catalog*, and conforming to relevant laws, regulations and policies stipulated by the PRC government, will be regarded as falling within the permitted category. The industries under the permitted category are not listed within the *FI Catalog*.

According to the regulations mentioned above, the automobile drive shaft, the drive system and the automobile electronic power steering system industries are all classified as industries in which foreign investment is permitted. Among the above, energy absorption type steering systems are classified as encouraged while the other steering systems are classified as permitted.

### Incorporation of Foreign-invested Enterprises

Foreign-invested enterprises within the PRC are divided into wholly foreign-owned enterprises, Sino-foreign equity joint ventures and Sino-foreign contractual joint ventures, and are regulated by

- the *Wholly Foreign-Owned Enterprise Law of the People’s Republic of China* (中華人民共和國外資企業法), promulgated on April 12, 1986 and amended on October 31, 2000;

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- the *Detailed Implementing Rules for the Wholly Foreign-Owned Enterprise Law of the People's Republic China* (中華人民共和國外資企業法實施細則), promulgated on December 12, 1990 and amended on April 12, 2001;
- the *Sino-Foreign Equity Joint Venture Enterprise Law of the People's Republic of China* (中華人民共和國中外合資經營企業法), promulgated on July 1, 1979 and amended on March 15, 2001;
- the *Implementing Regulations for the Sino-Foreign Equity Joint Venture Enterprise Law of the People's Republic of China* (中華人民共和國中外合資經營企業法實施條例), promulgated on September 20, 1983 and amended on July 22, 2001;
- the *Sino-Foreign Contractual Joint Venture Enterprise Law of the People's Republic of China* (中華人民共和國中外合作經營企業法), promulgated on April 13, 1988 and amended on October 31, 2000; and
- the *Detailed Rules of Implementation of the Law of the People's Republic of China on Sino-Foreign Contractual Joint Ventures* (中華人民共和國中外合作經營企業法實施細則), promulgated on September 4, 1995 and amended on October 31, 2000.

Pursuant to the regulations mentioned above, the MOFCOM or its relevant local counterparts will examine and approve a foreign-invested enterprise's joint venture contract, articles of association and any significant changes such as changes in registered capital and transfers of equity. All wholly foreign-owned enterprises, Sino-foreign equity joint ventures and Sino-foreign contractual joint ventures must obtain a business license from the industrial and commercial administrative department of MOFCOM before commencing business operations.

According to the *Certain Provisions on Change of the Equity Interests of the Investors of A Foreign-Invested Enterprise* ([1997]外經貿法發第267號) (the "Provisions"), promulgated by the Ministry of Foreign Trade and Economic Cooperation and the State Administration for Industry and Commerce and effective on May 28, 1997, a "change of the equity interests held by the investors in a foreign-invested enterprise" refers to a change in the investors of a Sino-foreign equity joint venture, Sino-foreign cooperative joint venture, or wholly foreign-owned enterprise established in the PRC under the laws of the PRC ("Enterprise") or a change in the share of the investors' capital contribution (including the cooperation conditions provided by them) in the Enterprise ("Equity Interests"). A change of the Equity Interests held by the investors in an Enterprise must conform to the relevant laws and regulations of the PRC, and will be subject to approval by the relevant examination and approval authority as well as registration of changes with the relevant registration authority pursuant to the Provisions. Any change of Equity Interests without the approval of the examination and approval authority will be considered invalid.

We have been advised by our PRC Legal Advisors that, except for approval from AVIC, the Listing does not require any pre-approval from the SASAC, the CSRC or other PRC government authorities.

Pursuant to 《中央企業境外國有產權管理暫行辦法》 (Interim Administration Measures for Overseas State-owned Property Rights of State-owned Enterprises), AVIC, a state-owned company as referred to therein, has issued its approval for the Listing. Following such approval,

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AVIC is required to report to the SASAC on the approval for Listing. Our PRC Legal Advisors are of the opinion that such reporting on the approval for Listing can be made after the Listing.

Pursuant to 《關於進一步加強在境外發行股票和上市管理通知》《國發[1997]21號》，(Notice of the State Council on Further Strengthening Administration of Share Issuing Stock and Listing Overseas) (the “Listing Notice”), any PRC company in our Group which is owned by a foreign investor for less than three years will be required to obtain approval from the CSRC or the Securities Commission of the State Council prior to the Listing. Our indirectly owned PRC subsidiaries, namely Nexteer Zhuozhou, Nexteer Wuhu and Nexteer Suzhou, have become foreign-invested entities since each of their incorporation before the Acquisition of our Group by PCM China from GM in November 2010. Therefore, these entities have been owned by foreign investors for more than three years. Accordingly, our PRC Legal Advisors are of the opinion that our PRC subsidiaries do not constitute “domestic assets owned by foreign investors for less than three years” under the Listing Notice and therefore this approval is not necessary.

### Approval and Recording of Production Projects

The *Decision of the State Council on Investment System Reform* ((國務院關於投資體制改革的決定) (國發[2004]20號)) promulgated by the State Council and effective on July 16, 2004, requires that the PRC government would: (i) reform project examination and approval systems, (ii) transform PRC government’s administrative functions and (iii) confirm an enterprise’s status as an investor. The examination and approval system does not apply to projects that are not invested in by the PRC government; instead, they are subject to either the ratification system or the recording system, as the case may be.

According to the *Catalog of Investment Projects Ratified by Governments (Version 2004)* (政府核准的投資項目目錄(2004年本)) ratified by the State Council, projects listed in the catalog refer to significant fixed-assets projects in restricted industries that have not been invested in by the PRC government. Except where prohibited to invest according to laws, regulations or other specific provisions promulgated by the State Council, projects not listed in the catalog and not invested in by the PRC government are subject to the recording system.

Pursuant to the provisions of the *Interim Administrative Measures for the Verification and Approval of Foreign Investment Projects*, promulgated by the NDRC and effective on October 9, 2004, ((外商投資項目核准暫行管理辦法) (國家發改委令第22號)) and in accordance with the categorizations of the *Industry Catalog for Guiding Foreign Investment* (外商投資產業指導目錄), the project application reports for projects in the encouraged or permitted categories with a total investment (including the investment increase) of no less than US\$100 million and for projects in the restricted category with a total investment of no less than US\$50 million must be verified and approved by the NDRC. The project application reports for projects in the encouraged or permitted categories with a total investment of no less than US\$500 million and for projects in the restricted category with a total investment of no less than US\$100 million must, after being examined and verified by the NDRC, be submitted to the State Council for verification and approval. Projects in the encouraged or permitted categories with total investment of no more than US\$100 million and projects in the restricted category with total investment of no more than US\$50 million must be verified and approved by the local development and reform departments. Restricted projects must be verified and approved by provincial development and reform departments. The verification and approval authority for

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such types of projects must not be delegated to a lower level. If a local government has otherwise formulated, in accordance with the relevant regulations, any provisions on the verification and approval of projects referred to in the preceding paragraph, such provisions will apply.

The *Interim Administrative Measures of Hebei Province for the Verification and Approval of Foreign Investment Projects* ((河北省外商投資項目核准暫行管理辦法) (冀發改外資[2004]1508號)), promulgated by the Hebei Province Development and Reform Department on November 19, 2004 and effective on November 22, 2004, requires that projects classified as encouraged or permitted with total investment of no more than US\$50 million must be verified and approved by city-level development and reform departments and provincial-level or provincial-level development zone investment authorities.

The *Interim Administrative Measures of Anhui Province for the Verification and Approval of Foreign Investment Projects* ((安徽省外商投資項目核准暫行管理辦法) (皖發改外資[2005]1274號)), promulgated by the Anhui Province Development and Reform Department and effective on January 1, 2005, requires that projects classified as encouraged or permitted with total investment of no more than US\$30 million must be verified and approved by city-level development and reform departments. The national-level development zones in Anhui Province have equal authority to city-level development and reform departments. The projects must be recorded by the city-level development and reform departments after examination and approval.

According to the *Interim Administrative Measures of Wuhu City for the Verification and Approval of Foreign Investment Projects* ((蕪湖市外商投資項目核准管理辦法) (蕪政[2006]65號)), promulgated by the People's Government of Wuhu City on July 27, 2006 and effective on July 1, 2006, projects classified as encouraged or permitted with total investment of no more than US\$30 million must be verified and approved by city-level development and reform departments. Foreign investment projects within the Wuhu Economic and Technological Development Zone must be verified and approved by the authorities of the zone, and then be recorded by the Wuhu development and reform department.

According to the *Several Opinions of Jiangsu Province Development and Reform Department on Management for the Industrial Fixed Assets Projects of Foreign Investment in the Transition Period* ((江蘇省發改委關於過渡時期外商投資工業固定資產投資項目管理的若干意見) (蘇發改工業發[2005]188號)), promulgated by the Jiangsu Province Development and Reform Department and effective on March 14, 2005, projects classified as encouraged or permitted with total investment between US\$30 million and US\$50 million must be verified and approved by city-level investment authorities.

According to the *Several Opinions of Jiangsu Province Development and Reform Department on Further Improving Management for the Verification and Approval of Foreign Investment Projects* ((江蘇省發展改革委關於進一步做好外商投資項目核准管理工作的若干意見) (蘇發改規發[2010]1號)), promulgated by the Jiangsu Province Development and Reform Department and effective on May 26, 2010, projects classified as encouraged or permitted with total investment of no more than US\$100 million must be verified and approved by city-level or district-level development and reform departments.

The automobile drive shaft, drive system and automobile electronic power steering system production projects of the three PRC subsidiaries of our Group have obtained the necessary verification and approvals of the relevant competent authorities.

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### **PRC Laws and Regulations Relating to the Industry**

The competent department of industry for the production of automobile components and parts is the MIIT.

In 1994, the State Council issued the *Industrial Policies for the Automobile Industry* (汽車工業產業政策) (the “1994 Automobile Policy”) as an overall policy guideline for the automotive industry (including the automotive components and parts industry) in the PRC. Although the *1994 Automobile Policy* does not have the force of law, it is the cornerstone of the overall regulatory regime of the PRC automotive industry. In 2004, the NDRC issued the *Automotive Industry Development Policy* (汽車產業發展政策) amended in 2009 according to the Circular 10 promulgated by the NDRC and the MIIT to replace the *1994 Automobile Policy*.

In addition to the *Automotive Industry Development Policy*, the General Office of the State Council issued the *Restructuring and Rejuvenation Program of the Automobile Industry* (汽車產業調整和振興規劃) in March 2009 (the “Program”), as a guiding policy for the automotive industry from 2009 to 2011. The Program affects the development of the automobile and automotive components and parts industries by:

- promoting the restructuring of the automotive industry by encouraging the primary manufacturers of automotive components and parts to expand their scale through mergers, acquisitions and reorganization, and to increase their market share in the domestic and overseas markets;
- encouraging the achievement of technological independence in the production of key automotive components and parts such as the engine, transmission, steering system, braking system, drivetrain system, suspension system and automobile bus control system; to encourage the development of key automotives components and parts that can improve the performance of the whole automobile; and
- implementing automotive product export strategies; and
- accelerating the construction of national export bases for automobiles and automotive components and parts.

There are no other related industrial policies issued by the State Council, the General Office of the State Council, NDRC or the MIIT currently in force.

### **Production Permits, Work Safety and Product Quality**

Current PRC laws and regulations do not have compulsory standards or orders with respect to production permits and product quality apply to automotive components and parts such as automobile drive shafts and steering systems. However, certain production laws may affect the manufacture of such automotive components.

According to the *Regulations of the People’s Republic of China on the Administration of Industrial Product Production Licenses* (工業產品生產許可證管理條例), promulgated by the State Council on July 9, 2005 and effective on September 1, 2005, and the *Implementing Measures for the Regulations of the People’s Republic of China on the Administration of Industrial Product Production Licenses* (工業產品生產許可證管理條例實施辦法) amended by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (the

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“GAQSIQ”) (國家品質監督檢驗檢疫總局) promulgated on April 21, 2010 and effective on June 1, 2010, the PRC government has adopted a production licensing administration system for important industrial products. According to the *Announcement of GAQSIQ on Releasing the Catalog of Products Subject to the Administration of the Production Permit System (Order of GAQSIQ [2012] No.181)*, ((關於公佈實行生產許可證制度管理的產品目錄的公告)(總局2012年181號公告)) automobile components and parts such as automobile drive shafts and steering systems do not belong to the category of products listed in the catalog that requires a production license.

According to the *Provisions on the Administration of Compulsory Product Certification (Decree No.117 of GAQSIQ)* ((強制性產品認證管理規定)(國家質檢總局令第117號)) promulgated by GAQSIQ on July 3, 2009 and effective on September 1, 2009, the PRC government implements a policy whereby the relevant products must pass a certification process (“Compulsory Product Certification”) and be affixed with a mark of certification before they can be delivered from factories, marketed, imported or used in any commercial activities. According to Compulsory Product Certification, automobile components and parts such as automobile drive shafts and steering systems do not belong to the category of products listed in the catalog that requires Compulsory Product Certification.

Current PRC laws and regulations do not have compulsory standards or orders with respect to work safety apply to automotive components and parts such as automobile drive shafts and steering systems.

The *Law of the People’s Republic of China on Work Safety* (the “Work Safety Law”) (安全生產法), effective on November 1, 2002, is the principal law governing the supervision of work safety, and requires manufacturing entities to abide by certain laws and regulations concerning work safety. The Work Safety Law establishes a responsibility system for work safety and improving conditions to promote work safety. No special orders with respect to work safety apply to the production of automotive components and parts such as automobile drive shafts and steering systems.

The *Regulations on Work Safety Permits* (安全生產許可證條例), promulgated by the State Council and effective on January 13, 2004 adopts a licensing system for work safety in mining enterprises, construction enterprises and enterprises manufacturing hazardous chemicals, fireworks, firecrackers or demolition apparatus for civil use. Enterprises without a work safety permit must not conduct manufacturing activities. No work safety permit is necessary for the production of automotive components and parts such as automobile drive shafts and steering systems.

### **Environmental Protection**

According to the *Environmental Protection Law of the People’s Republic of China* (環境保護法) (the “EPL”), promulgated by the Standing Committee of the NPC and effective on December 26, 1989, the competent department of environmental protection administration under the State Council will conduct the unified supervision and management of environmental protection matters in the PRC. The relevant local departments of environmental protection administration at or above the county level must conduct the unified supervision and management of environmental protection work within areas under their jurisdiction.

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According to the EPL, enterprises that cause environmental pollution must adopt effective measures to prevent and control the pollution as well as any damage to the environment. Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of a project. No permission will be given for a construction project to be commissioned or used until its installations for the prevention and control of pollution are examined and considered to be in accordance with standards by the competent department of environmental protection administration that examined and approved the project's environmental impact statement.

Installations for the prevention and control of pollution must not be dismantled or left idle without authorization. If it is necessary to dismantle such installations or leave them idle, prior approval must be obtained from the competent local department of environmental protection administration.

Enterprises and institutions discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council.

Enterprises and institutions discharging pollutants in excess of the prescribed national or local discharge standards must pay a fee for excessive discharge in accordance with state provisions and must assume responsibility for eliminating and controlling the pollution. The provisions of the *Law on Prevention and Control of Water Pollution* (水污染防治法) must be complied with to the extent applicable.

For the technological transformation of newly-constructed industrial enterprises and existing industrial enterprises, facilities and processes that result in a high rate of resource utilization and a low rate of pollutant discharge must be used, along with economical and rational technology for the comprehensive utilization of waste and the treatment of pollutants.

The *Law of the People's Republic of China on Evaluation of Environmental Effects* (環境影響評價法), promulgated on October 28, 2002 and effective on September 1, 2003, requires entities to prepare a written report setting forth the environmental impact of the proposed project and the proposed protective and mitigating measures, as well as obtain the approval of the environmental authorities to construct the relevant project. Operations are prohibited until the installations are inspected and confirmed to have satisfied environmental standards by the relevant environment protection authorities.

According to the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* (固體廢物污染環境防治法), promulgated and amended by the Standing Committee of the NPC on December 29, 2004 and effective on April 1, 2005, units generating industrial solid waste must establish and enhance a responsibility system for the prevention and control of environmental pollution as well as adopt measures for the prevention and control of environmental pollution by industrial solid waste. The PRC government institutes a system of reporting and registration of industrial solid waste. Units generating industrial solid waste must, in accordance with the regulations of the department of environmental protection administration under the State Council, provide information about the types, quantity, flow, storage and treatment (among other things) of industrial solid waste to the local departments of environmental protection administration at or above the county level in the areas where they are located.



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According to the *Law of the People's Republic of China on the Prevention and Control of Water Pollution* (水污染防治法) amended by the Standing Committee of the NPC on February 28, 2008 and effective on June 1, 2008, new construction projects, reconstruction or expansion projects and all other installations that directly or indirectly discharge pollutants into waters will be subject to an environmental impact assessment in accordance with the law. Facilities for the prevention and control of water pollution must be designed, constructed and put into operation or use simultaneously with the main part of a construction project. Such facilities will be inspected by the department of environmental protection administration. If they do not pass the inspection, the project must not be put into operation or use. The PRC government implements the pollutant discharge permit rules. Any enterprise or institution that directly or indirectly discharges industrial sewage, medical sewage or any other types of sewage, the discharge of which is subject to a pollutant discharge permit, must obtain the relevant pollutant discharge permit. Any entity that operates facilities for the centralized treatment of urban sewage is required to obtain a pollutant discharge permit. The specific measures and procedures for implementation of pollutant discharge permit will be stipulated by the State Council. No enterprise or institution is allowed to discharge the aforementioned sewage into waters without the requisite pollutant discharge permit or in violation of the provisions set forth on the pollutant discharge permit.

According to the aforementioned provisions and other relevant laws and regulations on environmental protection, environmental protection authorities may levy charges on enterprises that discharge waste. If a manufacturer fails to obtain the necessary approvals through the relevant procedures, or discharges waste illegally, a fine and a penalty will be imposed by the PRC environmental authorities, including but not limited to the suspension of its operations.

### **Intellectual Property Laws**

#### ***Copyright Law***

According to the *Copyright Law of the People's Republic of China* (著作權法), promulgated on June 1, 1991 and amended on February 26, 2010, and the *Copyright Law Implementing Regulations of the People's Republic of China* (著作權法實施條例) promulgated on August 2, 2002 (collectively, the “PRC Copyright Law and Regulations”), PRC citizens, legal persons, or other organizations will enjoy copyright in their works, whether published or not. Where a foreigner or stateless person enjoys copyright in his or her work under an agreement concluded between the PRC and the author's country of origin or country of habitual residence, or an international treaty to which both that country and the PRC have acceded, such copyright will be protected. In addition, a foreigner or stateless person will enjoy copyright in his or her work where the work is first published in the PRC. Furthermore, where an author is a person whose country has not concluded an agreement with the PRC or is not a party to an international treaty to which the PRC has acceded, or a is stateless person, his or her work will be protected under the PRC Copyright Law and Regulations if the work is first published in a member country to an international treaty to which the PRC has acceded, or is simultaneously in a member and non-member country.

According to the PRC Copyright Law and Regulations, “Work(s)” include work(s) of literature, art, natural science, social science, engineering technology, etc., existing in any of the following forms: (1) written works; (2) oral works; (3) musical, dramatic, quyi, choreographic, and acrobatic works; (4) fine art and architectural works; (5) photographic

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works; (6) cinematographic works and works created by means similar to cinematography; (7) graphic works including engineering design drawings, product design drawings, maps, schematic drawings, etc., as well as model works; (8) computer software; and (9) other works specified in laws and administrative regulations.

The PRC joined the *Berne Convention for the Protection of Literary and Artistic Works* on October 5, 1992. The *Berne Convention for the Protection of Literary and Artistic Works* is relevant to authors of cinematographic works whose headquarters or habitual residences are in one of the countries of the EU. These authors will, in respect of works for which they are protected under this Convention, in countries of the EU other than the country of origin, enjoy the rights granted to nationals by the current and future laws of the respective country, as well as the rights specially granted by this Convention.

According to the *Agreement of the World Trade Organization on Trade-Related Aspects of Intellectual Property Rights*, which the PRC signed on January 1, 1994, computer programs, whether in source or object code, will be protected as literary works under the *Berne Convention (1971)*. Compilations of data or other material, whether in machine readable form or other form, as long as the selection or arrangement of their contents constitute intellectual creations, it will be protected. Such protection, which will not extend to the data or material itself, is without prejudice to any copyright subsisting in the data or material itself.

### ***Patent Law***

According to the *Patent Law of the People's Republic of China* (專利法), promulgated on March 12, 1984 and amended on December 27, 2008 (the "Patent Law"), and the *Rules for the Implementation of the Patent Law of the People's Republic of China* (專利法實施細則), promulgated on June 15, 2001 and amended on January 9, 2010, patents are divided into three categories: invention patents, utility model patents and design patents.

The duration of an invention patent right is 20 years from the date of application and the duration of a utility model patent right and a design patent right is 10 years from the date of application. After an invention, utility model or design patent right is granted, unless otherwise specified in the Patent Law, no organization or individual may exploit the patent without licensing from the patentee. Entities may not, for the purposes of production and business operation, produce, use, offer to sell, sell, or import the patented products, nor use the patented method or use, offer to sell, sell or import products that are acquired directly through the patented method.

### ***Trademark Law***

According to the *Trademark Law of the People's Republic of China* (商標法), amended on October 27, 2001, the Trademark Office of the State Council's administrative department for industry and commerce will oversee trademark registration and administration in the PRC. Any of the following acts will be deemed infringement of the exclusive right to use a registered trademark:

- use of a trademark that is the same as or similar to a registered trademark for identical or similar goods without the permission of the trademark registrant;
- sale of any goods that have infringed the exclusive right to use any registered trademark;

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- counterfeit or unauthorized production of the label of another's registered trademark, or sale of any such label that is counterfeited or produced without authorization;
- change of any trademark of a registrant without the registrant's consent, and selling goods bearing such replaced trademark on the market; or
- other acts that have caused any other damage to another's exclusive right to use a registered trademark.

### Taxation

#### *Enterprise Income Tax*

According to the EIT Law, effective on January 1, 2008, enterprises are classified as either resident enterprises or non-resident enterprises for tax purpose. Resident enterprises are enterprises which have been formed in the PRC in accordance with domestic law, or which have been formed in accordance with the law of a foreign country but which are actually under the control of institutions in the PRC. A resident enterprise must pay enterprise tax on its worldwide income a rate of 25%.

A non-resident enterprise with institutions or establishments in the PRC must pay enterprise tax at a rate of 25% on income of its institutions or establishments within the PRC as well as its income generated from outside the PRC that is derived by its PRC institutions or establishments.

With respect to a high and new technology enterprise, the tax levied on its income will be at a rate of 15% after obtaining the High-tech Certificate and the filing with the competent tax authorities. According to the *Administrative Measures for the Determination of High and New Technology Enterprises* ((*高新技術企業認定管理辦法*) (國科發火[2008]172號)), promulgated by the Ministry of Science and Technology, Ministry of Finance and SAT and effective on January 1, 2008, high and new technology enterprise qualification is determined by the relevant governmental authorities with the *Catalog of the High and New Technology Sector under the Key Support of the State* ("國家重點支援的高新技術領域"目錄) and other relevant standards of judgment. The new key automotive components and parts with independent intellectual property rights, such as the drivetrain system, the steering system, new models of hybrid drivetrain system, new models of pure electric drivetrain system and the hub motor, are included in the catalog mentioned above.

The *Circular of the State Council on the Implementation of Transitional Preferential Policies with Regard to the Enterprise Income Tax* ((*國務院關於實施企業所得稅過渡優惠政策的通知*) (國發 [2007] 39號)), promulgated by the State Council and effective on December 26, 2007, states that effective from January 1, 2008, such preferential tax policies and the enterprise entitled to that will undergo the following transition:

- (1) those enterprises formerly entitled to preferential policies of lower taxation will undergo a gradual transition to statutory tax rates within five years of the EIT entering into effect. For enterprises formerly entitled to an enterprise income tax rate of 15%, new tax rates will be 18%, 20%, 22%, 24% and 25% in 2008, 2009,

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2010, 2011 and 2012, respectively; for enterprises formerly entitled to a tax rate of 24%, the new tax rate will be 25% as of 2008.

- (2) enterprises formerly entitled to preferential income tax reductions such as “two-years exempt and three-years halved” and “five-years exempt and five-years halved” will continue to enjoy such preferential policies as stipulated in the former taxation laws, administrative regulations and relevant documents until expiry of such the preferential treatment thereunder. For those enterprises not making any profit and was therefore not entitled to said tax preferences, the period of the preferential treatment will commence in 2008.

Enterprises entitled to the aforementioned transitional preferential policies are those duly established via registration with the relevant registration administration authorities such as bureaus of industry and commerce prior to March 16, 2007. The implementation of transitional preferential policies will be applied to the items and to the scope laid out in the *Table of the Implementation of Transitional Preferential Policies with Regard to the Enterprise Income Tax* (實施企業所得稅過渡優惠政策表).

Pursuant to the PRC tax related laws and regulations and the approval from the competent tax authority, Nexteer Suzhou is entitled to the preferential income tax reduction “two-years exempt and three-years halved” from 2008. However, the preferential income tax reduction was terminated in the end of 2012. On August 6, 2012, Nexteer Suzhou obtained the High-tech Certificate with the validity period of three years, which will expire on August 5, 2015. Pursuant to the relevant PRC tax laws, Nexteer Suzhou is currently entitled to a preferential tax rate of 15% for the period from 2013 to 2015.

On May 28, 2010, Nexteer Wuhu obtained the High-tech Certificate with the validity period of three years, which expired on May 27, 2013. On March 20, 2013, Nexteer Wuhu filed an application to the administrative authority for determination of high and new technology enterprises of Anhui Province to renew the High-tech Certificate, in order to maintain the high technology enterprise status. However, we cannot assure you whether and when Nexteer Wuhu will be able to successfully renew the High-tech Certificate.

On November 10, 2010, Nexteer Zhuozhou obtained the High-tech Certificate with the validity period of three years, which will expire on November 9, 2013. Pursuant to the relevant PRC tax laws, Nexteer Zhuozhou is currently entitled to a preferential tax rate of 15% for the period from 2010 to 2012. Moreover, Nexteer Zhuozhou plans to file an application to the administrative authority for determination of high and new technology enterprises of Hebei Province for review within three months prior to the expiration of the High-tech Certificate, in order to maintain the high technology enterprise status. However, we cannot assure you that Nexteer Zhuozhou will be able to pass the review and continue to have a preferential tax rate of 15% after 2012.

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### ***Business Tax***

According to the *Interim Regulations of the People's Republic of China on Business Tax* (營業稅暫行條例), promulgated by the State Council on November 10, 2008 and effective on January 1, 2009, and the *Detailed Rules for the Implementation of the Interim Regulations of the People's Republic of China on Business Tax* (營業稅暫行條例實施細則) promulgated by the MOF, effective on January 1, 2009 and amended on October 28, 2011, entities and individuals engaged in the provision of services as prescribed in these Regulations, or the transfer of intangible assets or the sale of real estate within the territory of the PRC, will be subject to the business tax, and must pay the business tax in accordance with the Regulations. The items and rates of the business tax will be subject to the *Schedule of Items and Rates of the Business Tax* (營業稅稅目稅率表) to the Regulations. Any adjustment to the tax items and tax rates will be subject to the decision of the State Council.

### ***Value-added Tax***

According to the *Tentative Regulations on the Value-added Tax of the PRC* (增值稅暫行條例) (“Value-added Tax Regulations”), promulgated by the State Council on November 10, 2008 and effective on January 1, 2009, and the *Detailed Implementation Rules of the Tentative Regulations on the Value-added Tax of the PRC* (增值稅暫行條例實施細則), promulgated by the MOF, effective on January 1, 2009 and amended on October 28, 2011, organizations or individuals who sell commodities, provide processing, repairing or replacement services, or import commodities within the territory of the PRC are subject to the Value-added Tax, and must pay the Value-added Tax pursuant to the Value-added Tax Regulations. The rate of the Value-added Tax is either 17% or 13%, depending on the goods being sold. For taxpayers exporting goods, the tax rate is zero percent.

At present, Nexteer Zhuozhou, Nexteer Suzhou and Nexteer Wuhu are subject to Value-added Tax rates of 17%, 17% and 17%, respectively.

### ***Tentative Regulations on the Urban Maintenance and Construction Tax and the Surcharge for Education***

According to the *Tentative Regulations on the Urban Maintenance and Construction Tax of the PRC* (城市維護建設稅暫行條例) (the “Urban Maintenance and Construction Tax Regulations”), promulgated by the State Council on February 8, 1985 and effective on January 1, 1985, all organizations and individuals who pay the consumption tax, Value-added Tax and business tax (“taxpayers”) are subject to the urban maintenance and construction tax and must pay the urban maintenance and construction tax pursuant to the provisions the Urban Maintenance and Construction Tax Regulations. The tax rates of the urban maintenance and construction tax vary with the regions where taxpayers are located. Taxpayers in cities are levied at a rate of 7%; in counties or towns at a rate of 5%; and outside cities, counties or towns at a rate of 1%.

At present, Nexteer Zhuozhou, Nexteer Suzhou and Nexteer Wuhu are subject to urban maintenance and construction tax rates of 5%, 7% and 7%, respectively.

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According to the *Decision of the State Council on Amending the Interim Provisions on Collecting the Surcharge for Education* (國務院關於修改“徵收教育費附加的暫行規定”的決定), promulgated by the State Council on August 20, 2005 and effective on October 1, 2005, all organizations and individuals who pay the product tax, Value-added Tax and business tax are subject to the education surcharge, apart from organizations that pay the rural education surcharge pursuant to the *Circular of the State Council Concerning Financing Rural School Operation* (*Guo Fa [1984] No.174*) ((國務院關於籌措農村學校辦學經費的通知)(國發(1984)174號文)). The amount of tax payment of the Value-added Tax, business tax and consumption tax will form the base of the education surcharge levy on organizations and individuals. The tax rate of the education surcharge is 3%, and must be paid at the same time as the payment of the Value-added Tax, business tax and consumption tax.

At present, Nexteer Zhuozhou, Nexteer Suzhou and Nexteer Wuhu are subject to surcharge for education tax rate of 3%, 3% and 3%, respectively.

According to the *Notice of the Ministry of Finance on Issues Concerning the Uniformity of Local Education Surcharge Policies* ((關於統一地方教育附加政策有關問題的通知)(財綜[2010] No.98)) issued by the MOF on November 7, 2010, the rates for local education surcharges must be standardized and set at 2% of the actual payment of the Value-Added tax, business tax and consumption tax by an enterprise or an individual (including foreign-invested enterprises, foreign enterprises and foreign individuals). The provinces in which the rate is lower than 2% (having previously received approval from the MOF) must raise the rate to 2%, and the scheme for raising the rate must be submitted by the People's governments at the provincial level to the MOF before December 31, 2010 for approval.

At present, Nexteer Zhuozhou, Nexteer Suzhou and Nexteer Wuhu are subject to local education surcharge rate of 2%, 2% and 2% respectively.

### ***Tax on Dividends from Foreign-invested PRC Enterprises***

According to the *Notice of the Ministry of Finance and the State Taxation Administration on Several Preferential Policies Relevant to the Enterprise Income Tax* ((財政部、國家稅務總局關於企業所得稅若干優惠政策的通知)(財稅[2008]1號)), the undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 and subsequently distributed to foreign investors will be exempt from the PRC income tax, whereas the profits earned and distributed after January 1, 2008, will be subject to the PRC income tax.

According to the *EIT Law and its Implementation Measures*, where a non-resident enterprise does not have any institutions or establishments in the PRC, or the income it earns is not derived by such institutions or establishments, it must pay enterprise income tax on the portion of its income derived in the PRC at the tax rate of 10%.

According to the *Arrangement between the Government of the People's Republic of China and the Government of the Republic of Singapore for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income* signed by the PRC and Singapore on July 11, 2007, no more than a 5% income tax rate applies to dividends, provided that the beneficial owner is a company that holds at least 25% of the capital of the PRC company.

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According to the *Notice of the State Administration of Taxation Concerning the Meaning and Determination of the Identity of “Beneficial Owner” in Tax Treaties* (國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知) (國稅函[2009]601號), issued by the SAT on October 27, 2009 (the “Tax Treaties Notice”), a “beneficial owner” refers to a person having the ownership and right of control over the income or the right or property derived from the income. In general, a “beneficial owner” is engaged in actual operating activities and may be an individual, a company or any other group. An agent or a conduit company does not belong to a “beneficial owner.” A “conduit company” refers to a company normally established for the purpose of the evasion, reduction or transfer of tax or the accumulation of profit. This type of company only registers in the country where it is located, so as to exist in an organizational form required by the law, and is not engaged in actual operating activities, such as manufacturing, distribution or management.

According to the *Administrative Measures for the Application of Tax Treaties to Non-residents (for Trial Implementation)* (非居民享受稅收協定待遇管理辦法(試行)), promulgated by the SAT on August 24, 2009 and effective on October 1, 2009 (the “Measures”), non-residents who are entitled to preferential tax rates under applicable tax treaties must undertake the examination and approval process or record-filing formalities in accordance with the Measures. Those failing to do so will not enjoy the treatments of relevant tax treaties. A non-resident who seeks the treatments of dividend clauses of the applicable tax treaties must apply to the competent tax authority, or obtain approval of the tax authority with the right to examine and approve its application for enjoying the treatments of Tax Treaties.

At present, Steering Holding Pte. Limited neither operates substantial activities nor has filed an application to the competent tax authority. The rate of the withholding income tax applicable to Steering Holding Pte. Limited is 10%.

### Foreign Exchange

Foreign exchange administration is principally governed by two pieces of legislation, namely, the *PRC Foreign Exchange Control Regulations* (外匯管理條例), promulgated by the State Council on January 29, 1996 and amended on August 1, 2008, and the *Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment* (結匯、售匯及付匯管理規定), promulgated by the PBOC on June 20, 1996. Under these regulations, upon payment of the applicable taxes, foreign-invested enterprises may convert the dividends they receive in Renminbi into foreign currencies and remit such amounts outside the PRC through their foreign exchange bank accounts.

In general, the PRC government does not set a limit on the regular exchange international payment and transfer accounts. Foreign-invested enterprises are allowed to convert Renminbi into foreign currencies and remit abroad without the prior approval of the SAFE or its local branches: (i) when settling current account items in foreign currencies (in such case, payments must be made from their foreign exchange accounts and valid receipts and other related documents must be provided); and (ii) when distributing dividends to foreign investors (in such case, payments must be made from their foreign exchange accounts and the written resolutions of the board of directors on divided distribution and other related documents must be provided).

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In other cases, including the settlement of foreign exchange under capital accounts (such as direct investment and increases in registered capital), foreign-invested enterprises may not convert Renminbi into foreign currencies or convert foreign currencies into Renminbi without the prior approval of SAFE or its local branches.

### **Labor and Social Insurance**

Enterprises within the PRC are subject to the following PRC labor laws and regulations: the *PRC Labor Law* (勞動法), the *PRC Labor Contract Law* (勞動合同法), the *Regulations on Work-Related Injury Insurance* (工傷保險條例), the *Regulations on Unemployment Insurance* (失業保險條例), the *Provisional Measures on Employee Maternity Insurance* (企業職工生育保險試行辦法), the *PRC Social Insurance Law* (社會保險法) and related regulations, rules and provisions on enterprises promulgated from time to time by related governmental departments.

The *PRC Labor Law* and the *PRC Labor Contract Law* stipulates that labor contracts in written form must be executed in order to establish a labor relationship between employers and employees. Salaries must not be lower than the minimum wage in the place where the enterprises are located. The enterprises must establish a system for labor safety and sanitation, strictly abide by state standards, and provide relevant education to their employees. Employees are also required to work in safe and sanitary conditions meeting PRC rules and standards.

The *PRC Social Insurance Law*, *Regulations on Work-Related Injury Insurance*, the *Provisional Measures on Employee Maternity Insurance* and the *Interim Regulation on the Collection and Payment of Social Insurance Premiums*, require that enterprises pay the related social insurance for PRC employees, which include elderly pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance. A fine or other penalty will be imposed if an enterprise fails to pay the related social insurance premiums for its workers in accordance with law.

According to the *Regulations on Management of Housing Provident Fund* (住房公積金管理條例), amended on March 24, 2002, enterprises must register with the housing provident fund management center as well as pay and deposit an amount equal to a certain proportion of their employees' wages to the housing provident fund.

### **LAWS AND REGULATIONS OF MEXICO**

The Company has one subsidiary in Mexico, Steeringmex, S. de R.L. de C.V. ("Steeringmex"), which is mainly engaged in the manufacture of automotive steering products. Steeringmex is subject to all relevant laws, regulations, and Mexican official standards ("NOMS") applicable in Mexico which are presently valid and effective. With respect to its current business operations, Steeringmex is mainly subject to the following laws, regulations and rules:

#### **Foreign Investment**

The general legal framework applicable in Mexico to foreign investment is contained in the Foreign Investment Law of 1993 and the Regulations to the Foreign Investment Law and the National Registry of Foreign Investments of 1998. Pursuant to such legislation, with relatively few exceptions, the participation of foreign private investment in most areas of Mexican economic activity is permitted. The Foreign Investment Law prohibits private investment in



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areas reserved exclusively for the Mexican state, but those areas are limited and of generally decreasing significance as a proportion of the overall economy. However, some foreign investment restrictions remain, including specific investment categories that are reserved for Mexican nationals, and others where quantitative or qualitative limits or administrative requirements apply. There are no restrictions or limitations on the participation of foreign private investment in the activities carried out by SteeringMex.

The Foreign Investment Law defines “foreign investment” as: (i) participation of foreign investors, in any proportion, in the capital stock of Mexican companies; (ii) participation by Mexican companies with a majority of foreign capital; and (iii) participation of foreign investors in activities and acts specified in the Foreign Investment Law. The Foreign Investment Law specifies that, except as otherwise provided, foreign investors may participate in any proportion in the capital stock of Mexican companies, acquire fixed assets, participate in new economic activities or the manufacture of new product lines, open and operate facilities, and expand or relocate those facilities that are already existing.

On transactions that exceed the assets threshold provided by the Foreign Investments Law (currently 3,493,603,960.10 Mexican pesos, or approximately US\$280 million, an amount which is adjusted annually), irrespective of the economic activity, the prior authorization of the National Commission of Foreign Investments must be obtained if the foreign investor plans to participate, directly or indirectly, in more than 49% of the capital stock of a Mexican company.

### **Industry**

The Decree for the Support of the Competitiveness of the Terminal Automotive Industry and the Promotion of the Development of the Internal Automobile Market of 2003 issued by the Mexican Federal Government provides certain benefits for supporting the competitiveness of the terminal automotive industry. However, this decree does not provide benefits for the activities related to the manufacture of automotive parts and components.

Two of the states of Mexico in which SteeringMex has facilities (the states of Nuevo León and Chihuahua) have issued the Decree No. 028 for the promotion of employment for the tax year 2013 in the state of Nuevo León, granting tax benefits for employment promotion. Pursuant to this decree, new legal entities that generate new direct employments during the tax year 2013 are entitled to a reduction of 100% of payment of payroll tax (but only with respect to the new employments) during a four year period. The deductions corresponding to new employees who are disabled or senior citizens over 60 years of age (the monthly income of whom may not exceed the equivalent of 187 times the minimum wage) are also subject to a reduction of 100% of payment of payroll tax, during the tax year 2013.

In addition, the Decree No. 57/2010 that establishes the basic rules governing the granting of tax benefits in the State of Chihuahua enables taxpayers that carry out activities that are considered strategic for the economic development of the state of Chihuahua, that invest in high value-added or high technological level processes that develop local suppliers and that generate new employments, among others, may receive a remittance of up to 100% of the payroll tax paid by them, and of certain duties paid to the Public Registry of Property and Notaries. The effective term and other terms and conditions of these benefits are determined on a case-by-case basis by the relevant authorities.

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Taxpayers whose employees obtain certain basic education certification in programs developed by the State Institute for Adult Education may obtain a discount in payroll tax equivalent to the amount of one month of the minimum wage of each certified employee, provided that the certification is issued by the education centers sponsored by the taxpayer, or by the education centers that are part of the institutional support of the State Institute for Adult Education.

Taxpayers that hire individuals suffering from certain levels of disability are entitled to a remittance of up to 100% the amount of the payroll tax as long as the employment relationship continues. Likewise, taxpayers subject to payroll tax that hire individuals who are older than 40 years of age and/or retired (and whose monthly payment does not exceed five times the monthly general minimum wage), are entitled to a remittance of up to 100% of payroll tax for a maximum of two years, provided that they evidence an increase in their workforce.

### **Production and Licenses**

#### ***Public Registry of Commerce***

Pursuant to the Mexican Code of Commerce of 1889, all business entities are required to register their incorporation, among other acts, before the Public Registry of Commerce.

In addition, the General Law on Business Organizations of 1934 provides that in order for a company to be considered as “regular,” it must be registered before the Public Registry of Commerce.

#### ***Importation of Goods into Mexico***

Pursuant to the Customs Law of 1995 and the related regulations, individuals or entities that intend to import goods into Mexico need to be registered with the Importers Registry administered by the Tax Administration Service. For such purposes, it is necessary to be registered with the Federal Taxpayers Registry and to be currently paying taxes.

In accordance with the Customs Law and the related regulations, depending on the classification of the goods that will be imported pursuant to the Harmonized System, it may also be necessary to obtain an additional registration with the Importers Registry of Specific Sectors. In general terms, such secondary registrations apply to the importation of sensitive products, such as chemical products, radioactive and nuclear goods, chemical precursors and basic chemicals, as well as firearms and explosives.

On January 14, 2011, the Mexican Federal Government issued the Decree that Establishes the Mexican Digital Office of Foreign Trade. The purpose of the Mexican Digital Office of Foreign Trade (the “Digital Office”) is to simplify foreign trade procedures, allowing foreign trade agents to carry out all the filings related with the import, export and transit of merchandise through a single electronic point, to review information on the import, export and transit of merchandise, and to carry out electronic payment of taxes and contributions corresponding to foreign trade transactions, among other things. As of June 1, 2012, the use of the Digital Office to carry out foreign trade transactions is mandatory.

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### *Foreign Trade Instruments*

The Mexican Federal Government has issued several decrees establishing policies for the promotion and operation of the manufacturing industry through the granting of certain incentives. We understand that SteeringMex is a beneficiary under the Decree for the Promotion of the Manufacturing, Maquila and Export Service Industry of 2006 (“IMMEX”).

The IMMEX program allows its authorized beneficiaries to temporarily import assets without paying general import tax or value-added tax and, if applicable, countervailing duties, provided that the assets will be used (i) in industrial or services processes destined to the manufacture, transformation or repair of foreign merchandise processes, and that will be subsequently exported, or (ii) in the rendering of export services. In order to be entitled to receive the aforementioned benefits, the terms provided in the IMMEX decree must be met by the applicant. IMMEX programs are granted subject to the commitment of carrying out yearly foreign sales of an amount greater than US\$500,000, or of invoicing exports at least in the amount of 10% of the total invoicing of the applicant.

An IMMEX program will be in effect as long as its authorized beneficiary continues complying the requirements established for in the authorization of the program, as well as the obligations set forth in the decree.

The assets covered by the IMMEX decree are the following:

- Raw materials, parts and components destined entirely to integrate export merchandise; fuels, lubricants and other materials to be consumed during the production process of the export merchandise; containers and packaging; labels and brochures.
- Shipping containers and boxes.
- Machinery, equipment, tools, instruments, molds and spare parts destined to the production process; equipment and devices for the control of contamination; equipment and devices used for research or training, industrial security, telecommunications and computing, laboratory work, measurement, product testing and quality control; equipment and devices used in the handling of materials directly related with the export assets and other related with the production process; and equipment for administrative development.

Authorized beneficiaries of IMMEX programs must submit a yearly report on the total sales and exports corresponding to the previous tax year, as well as on certain information for statistical purposes.

SteeringMex is also a beneficiary under the Decree Establishing Different Sector Promotion Programs of 2002 (“PROSEC”). The PROSEC program allows entities that manufacture certain merchandise (including those in the automotive parts industry) to import several assets that will be used in the manufacture of specific products with a preferential import tax, regardless of whether such manufactured products are destined for export or to the domestic market.

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In order to be entitled to receive these benefits, the terms provided in the PROSEC decree and in the official writ authorizing the program must be met. Beneficiaries of PROSEC programs must submit a yearly report on the foreign trade transactions of the previous tax year, covered by the PROSEC program.

Finally, importers may request their registration with the Registry of Certified Companies, in order to be entitled to certain administrative facilities, including facilities related to customs clearance (e.g., celerity and election of customs office) and reduction of fines, provided that they comply with certain requirements set forth under the applicable laws.

### ***Consumer Protection***

The purpose of the Federal Consumer Protection Law of 1992 is to promote and protect the rights of consumers and to promote fairness, certainty and legal security in the relationships among suppliers and consumers. Pursuant to the Federal Consumer Protection Law, “consumers” are those individuals or entities that either: (i) acquire or enjoy goods, products or services as the final user, or (ii) acquire, store, use or consume goods or services for their integration in the production, transformation, commercialization or services processes, provided that the amount of the relevant transaction does not exceed the amount of 428,811.21 Mexican pesos (which amount is updated on a yearly basis).

Pursuant to the Federal Consumer Protection Law, when products are offered with a guarantee, such guarantee will be subject to the agreement thereon among the supplier and consumer, and to the provisions of the Federal Consumer Protection Law, including the provision that guarantees cannot be for less than 60 days counted as from the date of delivery of the goods.

Compliance with the terms and conditions of guarantees is enforceable against the producer, the importer or the distributor of the corresponding goods, unless one of them or a third party assumes the obligation in writing. Consumers may elect among the restitution of the goods or services, the rescission of the agreement, or a reduction of the price when the goods have defects that make them improper for the uses to which they are normally destined, that diminish the possibility of their use, or when the products or services do not offer the security that, due to their nature and with a reasonable use, is normally expected from them. In any of the foregoing events, the consumer will be entitled to a compensation of not less than 20% of the price paid, in addition to an indemnification for damages and losses, if applicable.

### ***Federal Firearms and Explosives Law of 1972***

Pursuant to the Federal Firearms and Explosives Law, the industrial and commercial activities related to explosive materials require a permit issued by the Ministry of National Defense. The foregoing is relevant to SteeringMex as it uses explosive materials in its production processes, and imports such explosive materials from the United States.

In general terms, in order to carry out such industrial and commercial activities on an ongoing basis, it is necessary to obtain a general permit, which remains in force during the year in which it is issued. In addition, an ordinary permit is necessary in order for holders of a

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general permit to carry out commercial transactions among them, or with foreign merchants. Ordinary permits are issued on a case-by-case basis, and remain in force for the time specified in each individual case. Both kinds of permits must specify the use to which the goods covered by them will be destined.

The Federal Firearms and Explosives Law provides that the industrial plants that carry out the aforementioned activities must comply with the safety, technical functioning, location and production conditions provided in the related regulations. Holders of a general permit must provide to the Ministry of National Defense, within the first five days of each month, a detailed report on its activities, specifying the movements occurred in the prior month.

The acquisition, transportation, transformation or storage of explosive materials without having the corresponding permits are sanctioned with the imprisonment of the company's officers for a period of two months to three years and a fine of between two to 200 penalty days (e.g. the daily net perception of the person committing the crime, at the moment of its consummation, considering all its income). The administration of industrial plants in which the aforementioned activities are carried out without complying with the corresponding safety conditions will be sanctioned with imprisonment of the company's officers for a period of one month to two years and a fine of between two to 100 penalty days.

### ***Sanitary Authorizations***

Pursuant to the General Health Law of 1984 (the "General Health Law"), which is a federal law, the Ministry of Health determines which establishments dedicated to certain activities (apart from those related to medicines, vaccines, fertilizers and other activities that require sanitary authorizations) are required to provide a notice on the commencement of their operations.

On July 29, 1997, the Ministry of Health issued the Agreement No. 141 that Determines the Establishments that are Subject to a Notice on the Commencement of Operations, pursuant to which the establishments that carry out foundry of iron and steel, foundry and molding of metallic pieces, or that manufacture steel products, among others, have to give a notice on the commencement of activities.

The General Health Law also provides that any change in the ownership of an establishment or its corporate name, or any assignment of rights over products, must be notified to the corresponding health authority.

In addition, pursuant to the General Health Law, the states of Mexico have jurisdiction over prevention and control of harmful effects of environmental factors, occupational health, and accident prevention, among other things. In this regard, the Chihuahua State Health Law of 2012 provides that industrial establishments require a sanitary license.

### ***Municipal Functioning License (El Marqués, Querétaro)***

The Public Finance Law of the Municipalities of Querétaro of 2008 provides that a Municipal Functioning License is required for the functioning of all kinds of mercantile, industrial or services establishments, and establishments of any other nature that must be

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established and operated in the different municipalities of the State of Querétaro. Pursuant to the aforementioned law, these functioning licenses are in effect during the calendar year in which they are issued.

In order to obtain a Municipal Functioning License, it is also necessary to have (i) an Ecology Authorization, and (ii) a Civil Protection Authorization.

### ***Activity Feasibility Authorization (El Marqués, Querétaro)***

Pursuant to the Construction Regulations for the Municipality of El Marqués, Querétaro of 2009, the Activity Feasibility Authorization is the administrative document authorizing or revalidating on a yearly basis, the specific activity to which a building is destined, to guarantee the optimal conditions of a services or exploitation establishment. These regulations also provide that this authorization is mandatory for purposes of obtaining the functioning license.

### ***Billboard Authorization (El Marqués, Querétaro)***

The Billboard Regulations for the Municipality of El Marqués, Querétaro of 2009 provide that the placement of billboards in the Municipality of El Marqués, Querétaro, and their revalidation, require a license or authorization issued by such Municipality.

### ***Municipal Functioning License (Ciudad Juárez, Chihuahua)***

The Sustainable Urban Development Law of the State of Chihuahua of 2011 provides that any entity that intends to carry out urban development works, actions, services or investments must obtain the corresponding licenses and authorizations in advance of carrying out such activities, which include the Municipal Functioning License.

### ***Safety and Risks Contingency Plan (Ciudad Juárez, Chihuahua)***

The Civil Protection Law of the State of Chihuahua of 1996 provides that real estate or establishments that receive a massive influx of people, due to their nature or to the use to which they are destined, need to have an internal civil protection program, that must be authorized and supervised by the corresponding civil protection authorities.

### ***Civil Protection and Contingencies Plan (Sabinas Hidalgo, Nuevo León)***

The Civil Protection Regulations of the Municipality of Sabinas Hidalgo, Nuevo León of 2000 provide that the factories, industries and establishments in which there exist the danger or contingency of the occurrence of a disaster are obliged to have, on a permanent basis, a specific civil protection program and a contingencies plan, the latter of which must be authorized and supervised by the Municipal Direction of Civil Protection.

## **Environmental Protection**

In Mexico, the preservation and restoration of ecological balance, as well as environmental protection, is regulated by certain federal, state and municipal laws and regulations, including NOMS (collectively, the “Environmental Regulations”), depending on the specific matter.

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Environmental Regulations applicable to the establishment and operation of automotive parts industrial facilities (the “Relevant Activities”) in the jurisdictions in which SteeringMex has facilities (the states of Nuevo León, Chihuahua and Querétaro) require SteeringMex to obtain and maintain the following environmental permits:

| <u>Permit</u>                      | <u>Description and Jurisdiction</u>  |
|------------------------------------|--|
| Environmental Impact Authorization | <p>Pursuant to the General Law on Ecological Balance and Environmental Protection of 1988 (the “General Environmental Law”) and its regulations, this permit is required for activities that may have an impact in the environment, or that may exceed the maximum contamination levels provided by the applicable NOMS.</p> <p>In all the jurisdictions in which SteeringMex has facilities, in order to carry out the Relevant Activities, it is required to have the corresponding environmental impact authorization from the state environmental agency.</p>  |
| Risky Activities                   | <p>If risky activities as provided in the General Environmental Law and in the Lists of Risky Activities of 1990 and 1992 are to be carried out in the facilities, the federal environmental agency has to be informed by the company through the filing of a preventive report. Likewise, approval of accident prevention programs for the relevant risky activities must be obtained from the federal environmental agency.</p>  |
| Water Supply                       | <p>In general terms, water supply sources are either federal or local (municipal).</p> <p>If the supply source is a national water body (e.g. river or stream), a federal water concession title must be obtained from the federal water agency in order to be able to exploit, use or obtain the benefit of national waters, pursuant to the National Waters Law of 1992 (the “Water Law”).</p> <p>If the supply source is the municipal network, then a supply agreement must be entered into with the municipal authorized water supplier.</p> <p>Regardless of whether the water supply source is of federal or municipal jurisdiction, its use must be annually reported using the official form approved by the relevant environmental agency.</p> |
| Wastewater Discharge               | <p>Wastewater discharge may be of federal or local jurisdiction.</p>   |

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| Permit  | Description and Jurisdiction  |
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|   | <p>If wastewaters are discharged into a national water body, a federal wastewater discharge concession title must be obtained from the federal water agency, pursuant to the Water Law.</p> <p>If wastewaters are discharged into the municipal sewerage network, a municipal wastewater discharge permit is required.</p> <p>Regardless of whether the authorization is of federal or municipal jurisdiction, wastewater must not be discharged unless the applicable quality standards are met, and annual reports are filed using the official form approved by the relevant environmental agency.</p>   |
| Air Pollutant Emissions   | <p>Air pollutant emissions may be of federal or local jurisdiction.</p> <p>Pursuant to the General Environmental Law, a federal air pollutant emission permit is required for facilities that emit smells, gases or solid or liquid particles to the atmosphere.</p> <p>A state air pollutant emission permit is required for emissions different to those aforementioned.</p> <p>Regardless of whether the permit is of federal or state jurisdiction, emissions must not exceed the allowed maximum contamination levels under the applicable standards and annually reported using the official form (annual report of emissions).</p>   |
| Hazardous Wastes Management (including collection, transportation, recycling, storage and final disposal) | <p>Pursuant to the General Law for the Prevention and Integral Management of Wastes of 2003, the management of hazardous wastes in the corresponding facilities entail the following obligations:</p> <ul style="list-style-type: none"><li>● To obtain and maintain a hazardous wastes registry as a generator of hazardous wastes;</li><li>● Depending on the kind and amount of hazardous wastes, the approval of a management plan must be obtained from the federal environmental agency;</li><li>● To keep record of hazardous wastes movements with a log book;</li><li>● Not to store hazardous wastes longer than six months, unless a special permit is obtained from the federal environmental agency;</li></ul> |



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| Permit                                      | Description and Jurisdiction  |
|---|---|
|   | <ul style="list-style-type: none"><li>● If any of the management activities is carried out through a third party, the third party must hold the corresponding federal permit to perform such activity;</li><li>● All stages of wastes management must be documented in the official form approved by the federal environmental agency; and</li><li>● Hazardous wastes generated must be annually reported using the official form approved by the federal competent environmental agency.</li></ul>   |
| Special and Non-hazardous Wastes Management | <p>The applicable laws for the management of special or non-hazardous wastes are of local jurisdiction.</p> <p>Pursuant to such local laws, facilities that manage these kinds of wastes must carry out such management in compliance with obligations similar to those applicable to the management of hazardous wastes mentioned above.</p>   |
| Soil Contamination                          | <p>Pursuant to the General Environmental Law, soil contamination by hazardous wastes is an environmental liability and must be remediated with the prior approval of the federal environmental agency.</p> <p>Title transfer of a contaminated site must be pre-approved by the federal environmental agency, which will rule on the responsible party for the future remediation thereof. However, the parties to the title transfer transaction may freely agree on which of them will be responsible thereof.</p>                        |
| Sanctions                                   | <p>In general terms, any violation of the Environmental Regulations may be sanctioned with any of the following penalties:</p> <ul style="list-style-type: none"><li>● Warning;</li><li>● Fine in an amount of eight to 50,000 times the general minimum wage in Mexico City (also applicable in Ciudad Juárez, Chihuahua);</li><li>● Temporary or permanent closure of the facilities;</li><li>● Administrative arrest for up to 36 hours;</li><li>● Suspension or revocation of permits; and</li><li>● Community service order.</li></ul> |

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### **Intellectual Property**

The Industrial Property Law of 1991 protects the trademarks, service marks, collective marks, advertising slogans, trade names and trade secrets in Mexico. Trademarks and service marks are visible signs that distinguish products or services from others of the same type or category on the market. A word, slogan, design, three-dimensional shape, the name of a person, or any combination thereof may be registered as a mark.

Mexican law recognizes four types of marks: (i) nominative (a word or series of words); (ii) non-nominative (designs, logos or other distinctive visual elements); (iii) three-dimensional forms (containers, packaging, or product configurations); and (iv) composite (combinations of any of the above, such as a word together with a design).

A trademark registration is valid for 10 years as from the filing date of the trademark application, and is renewable indefinitely for successive periods of 10 years.

Pursuant to the Industrial Property Law of 1991, there are four types of protection for inventions: patents, utility model registrations, registrations for industrial designs and models, and registrations of layout designs for integrated circuits.

Inventions that are novel, the result of an inventive process and susceptible of industrial application are patentable. Mexican law defines an “invention” as “any human creation that allows matter or energy existing in nature to be transformed for utilization by man in the satisfaction of his specific needs.” A patent is valid for 20 years from the application filing date and is not renewable.

Inventions which are not patentable may nonetheless be protected as utility models (for 10 years as from the application filing date, non-renewable), industrial designs and models (referred to collectively as “industrial designs,” for 15 years as from the application filing date, non-renewable), or integrated circuit layouts (for 10 years as from the application filing date, non-renewable).

Trade secrets in Mexico are regulated by the mentioned Industrial Property Law of 1991, which establishes that a trade secret is any information kept by a natural or legal person that: (i) is confidential in character, (ii) relates to the nature, characteristics or purposes of products, to production methods or processes, or to ways or means of distributing or marketing products or rendering services, (iii) is associated with securing or maintaining a competitive advantage, (iv) is subject to sufficient systems or means for preserving confidentiality, and (v) is maintained in documents, electronic or magnetic media, optical discs, microfilm, film or other similar material. Trade secrets are protected for as long as the legal requirements for protection are met.

Copyright is the legal protection given to the creators of literary and artistic works and their creations, pursuant to the Federal Copyright Law of 1997. The statute extends “author’s rights” to original intellectual creations. In addition, the law extends “neighboring rights” to performers, book publishers, producers, and manufacturers of audio and video recordings. The right has two separate elements: (i) Moral rights — perpetual, inalienable, irrevocable rights that are personal to the author and, following the author’s death, his or her heirs; and (ii) Economic rights — the authority to use, authorize others to use and to exploit the work without prejudice to the author’s moral rights.

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Generally, the term of protection of a copyright is the life of the author plus 100 years. For works with multiple creators, protection extends to 100 years after the death of the last surviving author. Non-original works such as databases, where the protection does not extend to the data or material contained therein, are protected for five years. Neighboring rights are protected for a term of 50 years from the date of first publication or fixation, except for broadcasts, which are protected for a term of 25 years.

### **Taxation**

#### ***Federal Taxpayer's Registry***

The Federal Fiscal Code of 1981 provides that the legal entities that are required to file monthly tax returns, or to issue tax receipts for the acts or activities carried out by them, are required to, among other things, apply for registration with the Federal Taxpayer's Registry.

The Federal Fiscal Code of 1981 also provides that the shareholders or partners of such legal entities which reside abroad are also required to, among other things, apply for registration with the Federal Taxpayer's Registry, unless the aforementioned legal entities file, within the first quarter of each year, a notice including the name, tax identification number and country of residence of their foreign shareholders or partners.

#### ***Income Tax***

Pursuant to the Income Tax Law of 2002, Mexican residents are obliged to pay income tax on their worldwide income, regardless of its source, at a rate of 30%.

As mentioned above, SteeringMex has an IMMEX program that allows it to obtain certain preferential tax treatment. Further, the main business of SteeringMex is to provide assembly and manufacturing services to a foreign related party, mainly using machinery, equipment, materials, spare parts, supplies and components owned by such related party.

The Income Tax Law of 2002 provides that companies with an IMMEX program that are doing business with a foreign resident have to comply with a minimum taxable income in order to avoid creating a permanent establishment in Mexico for such foreign resident. IMMEX companies may elect any of the following options to calculate their taxable income:

- Option 1: Arm's length consideration plus fixed yield on assets. The IMMEX company must keep transfer pricing records evidencing that the value of its income and deductions arising from transactions with related parties are the result of: (i) transfer prices determined according to the Income Tax Law of 2002 and the principles contained in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations of the Organization for Economic Co-operation and Development (excluding the assets not owned by the company), plus (ii) an amount equal to 1% of the net book value of the machinery and equipment owned by the foreign resident that allows the use thereof to a Mexican resident, under conditions other than market leasing.
- Option 2: Safe harbor. The IMMEX company obtains a tax allowance representing at least the higher between: (i) 6.9% return on assets (total value of assets used in the IMMEX activities, including assets owned by (a) the company residing in

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Mexico, (b) foreign residents or (c) by any of their related parties, even if such assets are covered under the IMMEX program) and; (ii) 6.5% return on operating costs (total costs and expenses) incurred by the IMMEX company pursuant to generally accepted accounting principles, including those incurred by foreign residents, and subject to certain exclusions.

- Option 3: Transactional net margin method with certain adjustments. The IMMEX company must keep transfer pricing records evidencing that the value of the income and deductions arising from transactions with related parties is determined by applying the transactional net margin method, considering the profitability of the machinery and equipment owned by the foreign resident and used in the IMMEX company's operation, but excluding profitability related to financing risks in connection with the machinery and equipment owned by the foreign resident.

### *Flat Tax*

Pursuant to the Flat Tax Law of 2007, Mexican entities are subject to a flat tax on income obtained from the sale of goods, the rendering of independent services and the granting of the temporary use or enjoyment of goods. Flat tax is an alternative minimum tax that is payable only if its amount is greater than the income tax payable by the same taxpayer.

Flat tax is accounted on a cash basis and is calculated by applying a 17.5% rate to the tax basis, which is determined by subtracting from taxable revenues effectively collected, the authorized deductions effectively paid. If allowable deductions exceed revenues, the result is a loss for flat tax purposes that may be credited against the flat tax corresponding to subsequent years.

With respect to items of income and deduction for flat tax purposes, the following issues have to be considered:

- Certain royalties between related parties are excluded from the flat tax base and therefore, they are not taxable for the recipient or deductible to the payer.
- Interests from loan financing are not deductible for taxpayers that are legal entities.
- Payroll expenses are subject to certain rules limiting their deduction.

Flat tax is paid in monthly advanced payments, based on the total accumulated gross income as from the beginning of the taxable year and until the month for which the payment is being calculated, subtracting the authorized deductions.

In the same manner as income tax, flat tax is calculated on a yearly calendar basis; and companies are required to file their annual flat tax return by March 31 of the following year.

### *Value-Added Tax*

The Value-Added Tax Law of 1978 levies the transfer of goods, the rendering of services, the granting of temporary rights to use goods and the import of both goods and services at rates of 0% (for the sale of patent medicine, exportations and food, subject to certain exceptions), 11% (for activities conducted in the border region) and 16% (for all other taxable activities, this

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being the general rate). In principle, value-added tax (“VAT”) is paid by the final consumer of goods or services, having only a temporary financial effect on businesses. VAT is accounted on a cash basis.

### ***Tax on Cash Deposits***

The Tax on Cash Deposits Law of 2007 sets forth a tax that is applicable to bank deposits made in cash, exceeding the amount of 15,000 Mexican pesos per month at a 3% tax rate.

### ***Employee Profit Sharing***

Profit sharing is mandatory for most employers, who have to set aside 10% of the business entity’s taxable profit and distribute it among their employees.

### ***Payroll Tax***

The payroll tax is a state tax applicable to individuals or legal entities that, within the jurisdiction of a state, pays salaries either in cash or in kind. In the states of Querétaro, Nuevo León and Chihuahua, where SteeringMex has facilities, the tax is imposed on the sum of all items of remuneration paid to an employee with respect to an employment, excluding certain fringe benefits, social security contributions, travel expenses and other items.

Payroll tax is determined by applying the corresponding tax rate to the taxable payroll. The tax rates are as follows: 1.6% for Querétaro; 3% for Nuevo León; and between 1% and 2.6% for Chihuahua.

### ***Real Property Tax***

Municipalities impose a yearly tax which is levied on the ownership of real property located within their jurisdiction. The base of this tax is the cadastral value of the real property. SteeringMex owns real property in Ciudad Juárez, Chihuahua, where the tax rate depends on different value ranges of the real property, and goes from 0.2% to 0.6%, and in Sabinas Hidalgo, Nuevo León, where the real property tax rate is 0.2%.

### **Labor and Social Security**

Employment relationships in Mexico are mainly subject to the following legislation: the Federal Labor Law of 1970 (the “Federal Labor Law”), the Social Security Law of 1995 (the “Social Security Law”), the Law of the National Housing Fund Institute of 1972, and their corresponding regulations. Likewise, employers must observe the provisions of the NOMS, as well as the Federal Regulations on Safety, Hygiene and Work Environment issued by the Ministry of Labor and Social Welfare.

Pursuant to the Federal Labor Law, employment relationships have to be documented through written employment agreements that must establish, among other things, the work terms and conditions, and general information of both the employer and employee. There are currently two different general minimum wages in Mexico that are applicable depending on the geographic area of the country in which the services are being performed. The general minimum

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wage applicable in the locations where Steeringmex has operations are of 64.76 Mexican pesos (approximately US\$5.18) for Ciudad Juárez, Chihuahua, and of 61.38 Mexican pesos (approximately US\$4.91) for El Marqués, Querétaro and for Sabinas Hidalgo, Nuevo León. In addition, for certain crafts or occupations, there are also different professional minimum wages.

In the event that an employer intends to terminate the employment relationship with an employee, it must provide to the employee, whether directly or through the relevant Conciliation and Arbitration Board, a written termination notice stating the reasons and circumstances for the termination of the employee with cause. Causes for a justified termination are established in the Federal Labor Law, and include dishonesty, acts of violence, threats, insults or mistreatments by the employee during working hours against the employer, its relatives, the executive or administrative personnel of the company or establishment, or against clients and suppliers of the employer (unless acting due to instigation or in self-defense), as well as intentional material damages to buildings, constructions, machinery, instruments, raw materials and other work-related objects which are caused by the employee during the performance of the work, or as a result thereof.

Under the Federal Labor Law, an employee who is terminated without a justified cause, is entitled to the following: (i) three months' integrated salary; (ii) a seniority premium, equal to 12 days' salary for each year of work, including periods of less than one year (for purposes of calculation, the salary is capped to twice the general minimum wage in force in the geographic area where the employee rendered services); and (iii) accrued benefits (e.g., vacations, vacation premium and Christmas bonus). Additionally, even though it is not mandatory, the payment of 20 days' integrated salary for each full year worked has also become customary whenever an employer assumes a conservative position and wishes to avoid any conflicts that may arise from the termination.

Employers are obliged to establish the necessary safety and hygiene measures in accordance with the Federal Regulations on Safety, Hygiene and Work Environment, as well as to implement programs to prevent accidents, perform medical examinations of employees, both upon hiring and at periodic intervals, and conduct special examinations of those workers who are exposed to physical, chemical, biological, and psychosocial risks that may affect their health.

In accordance with the Social Security Law, employers must register their employees with the Mexican Social Security Institute and pay social security dues and contributions. Federal Labor Law imposes liability on employers for any work-related illness or accident incurred by employees; however, employers are released from such liability by registering their employees with the Mexican Social Security Institute and paying the corresponding contributions. Such contributions are divided in order to constitute an old-age pension and a housing fund for employees.

### ***Registration before the National Workers' Housing Fund Institute***

The Federal Labor Law provides that any agricultural, industrial or mining company or any company of any other kind of work, is obliged to provide to their workers with hygienic and comfortable housing. The Federal Labor Law further provides that this obligation is complied with through contributions to the National Workers' Housing Fund Institute.

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The National Workers' Housing Fund Institute Law of 1972, which created the National Workers' Housing Fund Institute, provides that, among other things, its purpose is to establish and operate a financing system that allows workers to obtain affordable and sufficient credit to (i) acquire title to hygienic and comfortable housing, (ii) construct, repair, expand or improve their housing, and (iii) pay credits obtained in connection with the foregoing.

### ***Registration before the National Workers' Consumption Fund Institute***

Pursuant to the aforementioned Federal Labor Law, employers are required to ensure that the workplace is affiliated with the National Workers' Consumption Fund Institute, in order for the employees to be beneficiaries of the credits granted by such institution.

The National Workers' Consumption Fund Institute Law of 2006, which created the National Workers' Consumption Fund Institute, provides that its purpose is to promote savings among workers, to grant them financing and to guarantee their access to credits for the acquisition of goods and the payment of services.

### ***Recipients Subject to Pressure***

Pursuant to the Work Safety, Hygiene and Environment Federal Regulations of 1997 and the Mexican Official Standard NOM-020-STPS-2011, the operation in the workplace of certain recipients subject to pressure requires that the employers:

- (i) provide written notice to the Ministry of Labor and Social Welfare, prior to the commencement of operations of the corresponding recipient subject to pressure, together with a report issued by an authorized verification unit, on the compliance of security conditions and regulatory requirements by such recipient; or
- (ii) apply to the Ministry of Labor and Social Welfare for an authorization for the operation of the corresponding recipient subject to pressure, prior to which inspection is carried out by the Ministry of Labor and Social Welfare to determine if the recipient complies with the applicable regulatory requirements.

### ***Illumination***

Pursuant to the Mexican Official Standard NOM-025-STPS-2008 (the "NOM-25"), work centers are required to have the needed illumination for each activity in order to ensure a safe and healthy work environment.

The NOM-25 imposes on employers the obligation to carry out assessments, control tests and maintenance tasks related to the level of illumination at each particular area of the work center, as well as the obligation of complying at all times with certain minimum amounts of lux units established therein, depending on specific work areas and the visual tasks carried out in such areas.

## **Real Estate**

### ***Land Use License (El Marqués, Querétaro)***

The Urban Code of the State of Querétaro of 2012 provides that a Land Use License is required for any construction, reconstruction, adaptation and amendment of buildings to be carried out in the State of Querétaro.

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## REGULATIONS

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Pursuant to such Code, the Land Use License is the document that establishes the terms and conditions set forth by the urban development programs with respect to a plot of land, among other things, on roads or in parking, open areas, maneuver areas and areas of high population density.

### ***Land Use License (Sabinas Hidalgo, Nuevo León)***

The Urban Development Law of the State of Nuevo León of 2009 provides that the parties interested in using plots of land for any activity, including the development of construction works and the change in the use of buildings, must request, among other things, a Land Use License.

The purpose of Land Use Licenses is to (i) set forth the use of a plot of land, pursuant to such established in the municipal urban development plans or programs, and (ii) establish the urban order restrictions or the planning, natural preservation and environment protection rules.

### ***Land Use License (Ciudad Juárez, Chihuahua)***

The Sustainable Urban Development Law of the State of Chihuahua of 2011 provides that any entity that intends to carry out urban development works, actions, services or investments must obtain the corresponding licenses and authorizations prior to the execution thereof, which include the Land Use License.

Pursuant to such law, the Land Use License indicates the specific rules for urban use and exploitation of an activity or project in relation to certain real estate, pursuant to its zoning, and to the provisions of the applicable territorial order and sustainable urban development plans and programs.

### ***Construction License (El Marqués, Querétaro)***

The Urban Code of the State of Querétaro of 2012 provides that the construction license is the document that authorizes owners to build, expand, amend, repair or demolish a building or the premises located in their plots of land.

### ***Construction Works Termination Notice (El Marqués, Querétaro)***

The Construction Regulations of the Municipality of El Marqués, Querétaro of 2009 provide that the owners or possessors of a plot of land are required to inform the competent municipal authority of the termination of the works carried out in such plot of land, in order for such authority to carry out an inspection visit and thereafter, if applicable, grant the occupation authorization of the construction works.

### ***Construction License (Sabinas Hidalgo, Nuevo León)***

The Urban Development Law of the State of Nuevo León of 2009 provides that the parties interested in using plots of land for any activity, including the development of construction works and the change in the use of buildings, must request, among other things, a construction license.



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## REGULATIONS

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The purpose of this license is to authorize: (i) the alignment in public roads and the official number, (ii) the execution of a new construction, as well as the extension, amendment or repair of those existing, (iii) demolitions and excavations, and (iv) any other construction work different than the aforementioned.

### ***Building Use License (Sabinas Hidalgo, Nuevo León)***

The Urban Development Law of the State of Nuevo León of 2009 provides that the parties interested in using plots of land for any activity, including the development of construction works and the change in the use of buildings, must request, among other things, a building use license.

The purpose of this license is to (i) set forth the land use of the plot of land on which the building is located, pursuant to the provisions of the urban development plans and programs, (ii) determine the maximum construction occupancy, (iii) establish the planning rules or the urban order restrictions, as well as the rules for natural preservation and environment protection, (iv) set forth the specific function or particular use of the building, and (v) set forth the distribution of the corresponding areas.

### ***Construction License (Ciudad Juárez, Chihuahua)***

The Sustainable Urban Development Law of the State of Chihuahua of 2011 provides that any entity that intends to carry out urban development works, actions, services or investments must obtain the corresponding licenses and authorizations prior to the execution thereof, which include the Construction License.

Pursuant to the Construction Regulations of the Municipality of Juárez of 2004, all construction works to build, extend, modify or demolishing constructions (except for sidewalks, painting, upholstery, impermeabilization works) require a construction permit or license.

### ***Occupation Certificate (Ciudad Juárez, Chihuahua)***

The aforementioned Construction Regulations of the Municipality of Juárez of 2004 provide that, upon termination of construction, a notice in this regard must be filed with the Municipal Direction of Public Works, which may authorize the occupation and use of the constructed works after having inspected the corresponding construction. No building or structure may be occupied before an occupation certificate is obtained (except for certain family housing).

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## OUR HISTORY AND REORGANIZATION

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### OUR HISTORY

Our history can be traced back to 1906, when we were founded as Jackson, Church & Wilcox Co. in the U.S. In 1909, this company was purchased by Buick, which was owned by GM. In 1917, we became the first automotive parts manufacturing division of GM engaged in steering systems research, design and manufacture. We then operated as a business division under GM and were primarily involved in steering operations.

In 1998, GM created Delphi Corporation, primarily as an automotive components business under GM, and our steering operations became a major business division under Delphi Corporation. In 1999, Delphi Corporation was spun-off by GM to become an independent, publicly-held corporation. In 2005, Delphi Corporation filed for Chapter 11 bankruptcy protection to reorganize its U.S. operations.

In 2009, GM acquired, among other things, the steering operations (which effectively comprise the operating subsidiaries of our Group) from Delphi Corporation, an Independent Third Party, and renamed it Nexteer Automotive. Nexteer Automotive then continued to operate as a business division of GM.

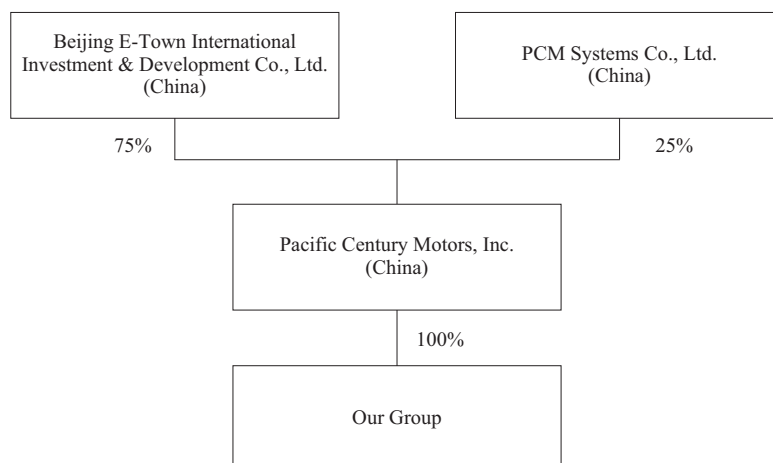
In November 2010, PCM China, a company owned as to 75% by Beijing E-Town, the financing and investment arm of the Beijing Municipal Government and 25% by PCM Systems, a company incorporated in the PRC and primarily engaged in manufacture and sale of automotive parts and components and ultimately owned as to 50% each by two individuals, acquired our Group from GM through its wholly-owned acquisition vehicles, PCM U.S. Acquisition Company and New Pacific Century Investment Pte. Limited. The total consideration was US\$465 million (subject to adjustment) which was determined based on a valuation report prepared by a financial advisor on July 4, 2010. Immediately after the acquisition, PCM U.S. Acquisition Company and New Pacific Century Investment Pte. Limited transferred the equity interests acquired to PCM (US) Steering and PCM (Singapore) Steering, respectively (the "Post-acquisition Restructuring"). The Acquisition and the Post-acquisition Restructuring were properly and legally completed on November 30, 2010.

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## OUR HISTORY AND REORGANIZATION

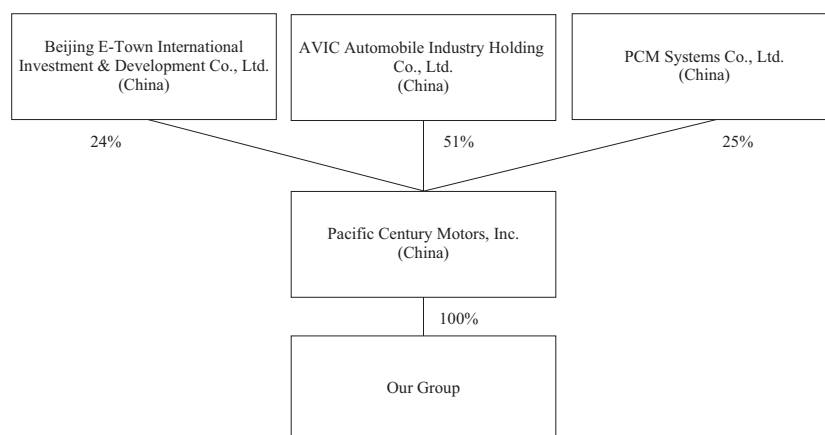
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The diagram below sets forth our corporate structure immediately after the completion of the Acquisition and the Post-acquisition Restructuring:



In March 2011, AVIC Auto, a subsidiary of AVIC, acquired a 51% equity interest in PCM China from Beijing E-Town through public auction at the consideration of RMB408 million which was the price of the 51% interest of PCM China in the open-bid auction. The acquisition was properly and legally completed on March 17, 2011. As one of the largest Chinese state-owned entities, AVIC’s business spans across several segments including defense, transport-aircraft, engine, helicopter, avionics and systems, general aviation, assets management, finance services and automobiles. As of December 31, 2012, AVIC group had over 200 member companies and over 400,000 employees. AVIC is ranked 250 on the 2012 Fortune 500.

The diagram below sets forth our corporate structure immediately after the completion of the acquisition of a 51% equity interest by AVIC Auto in PCM China from Beijing E-Town:



In anticipation of the Listing, the Company was incorporated in the Cayman Islands on August 21, 2012, as an exempted company with limited liability. As a result of the Reorganization, the Company became the holding company of our various subsidiaries across the world. We have obtained the necessary approvals from the relevant authorities for the Reorganization, and the Reorganization complies with the relevant laws and regulations. For further details of our corporate structure and the Reorganization, see “— Reorganization.”

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## OUR HISTORY AND REORGANIZATION

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### KEY MILESTONES

The following table summarizes key milestones in the development of our business:

| Year  | Milestone  |
|-------|--|
| 1906  | <ul style="list-style-type: none"> <li>● Founded as Jackson, Church &amp; Wilcox Co. in the U.S.</li> </ul>  |
| 1909  | <ul style="list-style-type: none"> <li>● Acquired by Buick, which was owned by GM</li> </ul>   |
| 1917  | <ul style="list-style-type: none"> <li>● Separated from Buick and became Jackson, Church, Wilcox Division, the first automotive parts manufacturing division of GM</li> </ul>  |
| 1950s | <ul style="list-style-type: none"> <li>● Saginaw Safety Power Steering was made available to the market</li> </ul>   |
| 1952  | <ul style="list-style-type: none"> <li>● Plant #3 in the U.S. was constructed to produce power steering pumps and manual steering gears</li> </ul>   |
| 1959  | <ul style="list-style-type: none"> <li>● Plant #4 in the U.S. was constructed to produce propeller shafts</li> </ul>   |
| 1959  | <ul style="list-style-type: none"> <li>● Introduced Rotary valve power steering to the market which was a significant technological advancement in the steering industry and has become the industry standard</li> </ul>   |
| 1964  | <ul style="list-style-type: none"> <li>● Plant #5 in the U.S. was constructed to produce air pumps</li> </ul>  |
| 1967  | <ul style="list-style-type: none"> <li>● Plant #6 in the U.S. was constructed to produce steering columns</li> </ul> <p>Introduced three new products: front-wheel-drive axles, air pumps, and variable ratio power steering to the market</p> <p>Introduced Tilt-Wheel steering to the market which offers greater driver comfort and better automobile control</p> |
| 1968  | <ul style="list-style-type: none"> <li>● Introduced anti-theft steering column to the market. Energy absorbing steering column is a critical element of governmental safety legislation in developed markets such as the U.S. and Europe, while anti-theft functionality is a critical technical requirement for automobiles</li> </ul>                              |
| 1969  | <ul style="list-style-type: none"> <li>● Plant #7 in the U.S. was constructed to increase power gear manufacturing capacity</li> </ul>   |
| 1970  | <ul style="list-style-type: none"> <li>● Produced 20 millionth Energy Absorbing Column which was officially recognized by the U.S. Department of Transport</li> </ul>  |
| 1976  | <ul style="list-style-type: none"> <li>● Rack and pinion (R&amp;P) steering system was introduced to the market on the AMC Pacer. This system provides a more direct steering connection with greater road feedback to the driver</li> </ul>   |
| 1995  | <ul style="list-style-type: none"> <li>● Expanded into China market by establishing Nexteer Zhuozhou, a joint venture, in China to produce halfshafts</li> </ul> <p>Advanced systems center opened in Saginaw, Michigan</p> <p>Delphi EPS system was made available to the market</p>  |

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## OUR HISTORY AND REORGANIZATION

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| Year | Milestone  |
|------|--|
| 1995 | <ul style="list-style-type: none"> <li>● Vehicle evaluation test track commenced construction in Saginaw, Michigan to facilitate faster development of steering and driveline products</li> </ul>  |
| 1996 | <ul style="list-style-type: none"> <li>● Expanded into the India market by constructing a manufacturing facility in Bangalore to produce halfshafts</li> </ul>   |
| 1998 | <ul style="list-style-type: none"> <li>● Launched EPS business with Volkswagen</li> </ul> <p>Expanded into Poland market by commencing construction of a manufacturing facility in Tychy, Poland to produce axle shafts</p> <p>Organized as a division of Delphi Corporation which was created by GM</p>   |
| 1999 | <ul style="list-style-type: none"> <li>● Became a division of an independent publicly held corporation after Delphi Corporation was spun-off from GM</li> </ul> <p>Received Pace Award for E-STEER™ EPS from Automotive News, which covers all aspects of the automotive industry. The Automotive News Pace Awards honor superior innovation, technological advancement and business performance among automotive suppliers</p> <p>Launched the driveline business with Volkswagen</p> |
| 2000 | <ul style="list-style-type: none"> <li>● Received Shingo Prize for Excellence Award from The Shingo Prize for Operational Excellence, which is awarded to organizations demonstrating the wise application of improvement techniques across an enterprise</li> </ul>   |
| 2000 | <ul style="list-style-type: none"> <li>● International Organization for Standardization 140001 certification obtained for the manufacturing site in the U.S.</li> </ul>  |
| 2003 | <ul style="list-style-type: none"> <li>● Introduced Delphi EPS on the Fiat Panda, the European Car of the Year in 2004</li> </ul>  |
| 2006 | <ul style="list-style-type: none"> <li>● 100-year anniversary</li> </ul> <p>Introduced Driver Protection Module and One Touch Adjustable Column to the market</p>  |
| 2007 | <ul style="list-style-type: none"> <li>● Launched the EPS product with Ford</li> </ul>   |
| 2009 | <ul style="list-style-type: none"> <li>● Acquired by GM and renamed Nexteer Automotive</li> </ul> <p>Received Innovation Award for “Most Innovative Use of Plastics” from the Society of Plastics Engineers which is an international organization dedicated to the advancement of knowledge and education for all plastics professionals</p>  |
| 2010 | <ul style="list-style-type: none"> <li>● Acquired by PCM China from GM</li> </ul> <p>High Output 12 Volt Rack EPS debuts on Ford Mustang and Ford F-150 Truck</p>  |
| 2011 | <ul style="list-style-type: none"> <li>● AVIC Auto acquired a 51% interest in PCM China from Beijing E-Town</li> </ul>   |

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## OUR HISTORY AND REORGANIZATION

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| Year | Milestone   |
|------|---|
| 2012 | <ul style="list-style-type: none"><li>● Expanded product portfolio by securing contract for entry-level CEPS products</li></ul> <p>Grew high-output REPS business by contracting with an additional global OEM customer</p> <p>Contracted for the first global business with Volkswagen</p> |

### REORGANIZATION

In anticipation of the Global Offering, we underwent a pre-listing reorganization pursuant to which the Company became the holding company of our subsidiaries.

On August 10, 2012, Nexteer Hong Kong was incorporated as a limited liability company under the laws of Hong Kong. Nexteer Hong Kong issued and allotted one share to PCM China, and became a direct wholly-owned subsidiary of PCM China.

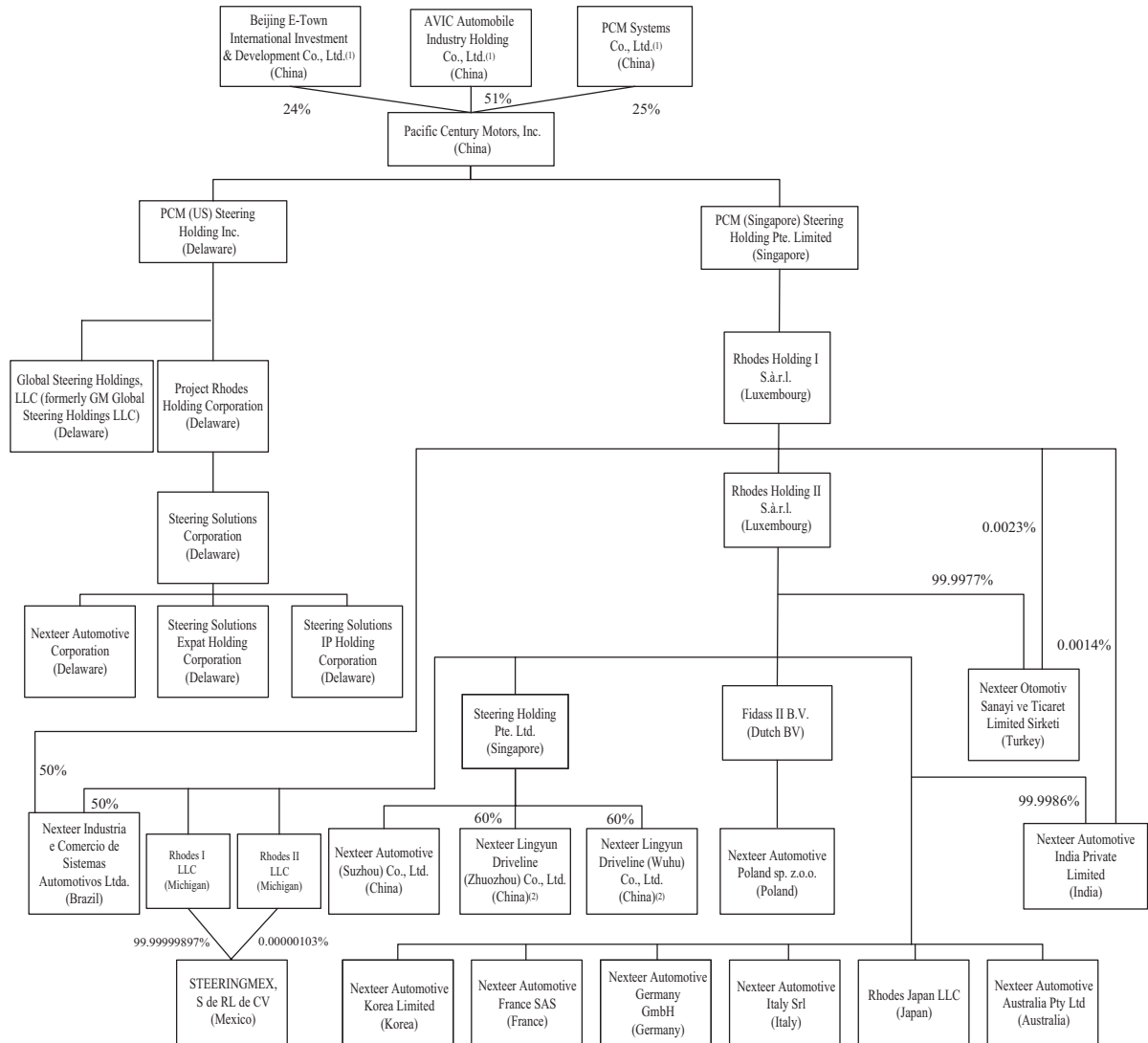
On August 21, 2012, the Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands. The Company issued and allotted one share to the initial subscriber, which was then transferred to Nexteer Hong Kong on the same day and became a direct wholly-owned subsidiary of Nexteer Hong Kong.

Pursuant to a contribution agreement dated January 30, 2013 entered into among the Company, Nexteer Hong Kong and PCM China, PCM China transferred the entire issued share capital of PCM (US) Steering to the Company for a consideration of one share issued by Nexteer Hong Kong to PCM China. Such consideration was determined based on the net appraised value of the shares of PCM (US) Steering.

Pursuant to a contribution agreement dated January 30, 2013 entered into among the Company, Nexteer Hong Kong and PCM China, PCM China transferred the entire issued share capital of PCM (Singapore) Steering to the Company for a consideration of one share issued by Nexteer Hong Kong to PCM China. Such consideration was determined based on the net appraised value of the shares of PCM (Singapore) Steering.

## OUR HISTORY AND REORGANIZATION

The diagram below sets forth our shareholding and corporate structure immediately before the Reorganization:



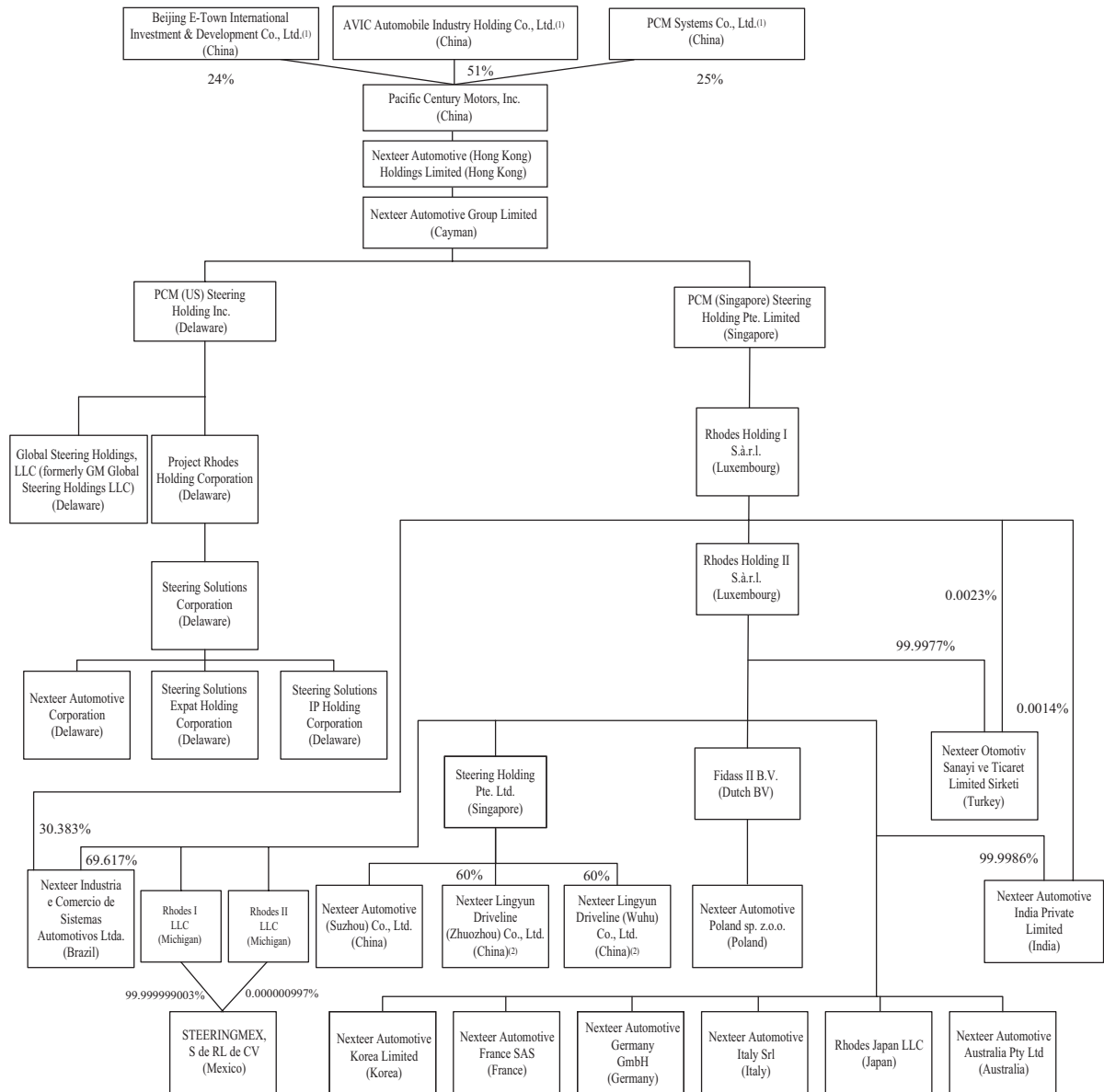
Note: Unless specifically indicated, all shareholding percentages in the above diagram are 100%.

Note (1): Save for being a shareholder of PCM China, each of Beijing E-Town, PCM Systems and AVIC Auto are independent from each other.

Note (2): Lingyun Industrial holds 40% interest in each of Nexteer Zhuzhou and Nexteer Wuhu. Save for its interests in Nexteer Zhuzhou and Nexteer Wuhu, Lingyun Industrial is not connected to our Group.

## OUR HISTORY AND REORGANIZATION

The diagram below sets forth our shareholding and corporate structure following completion of the Reorganization but before Capitalization Issue and completion of the Global Offering:



Note: Unless specifically indicated, all shareholding percentages in the above diagram are 100%.

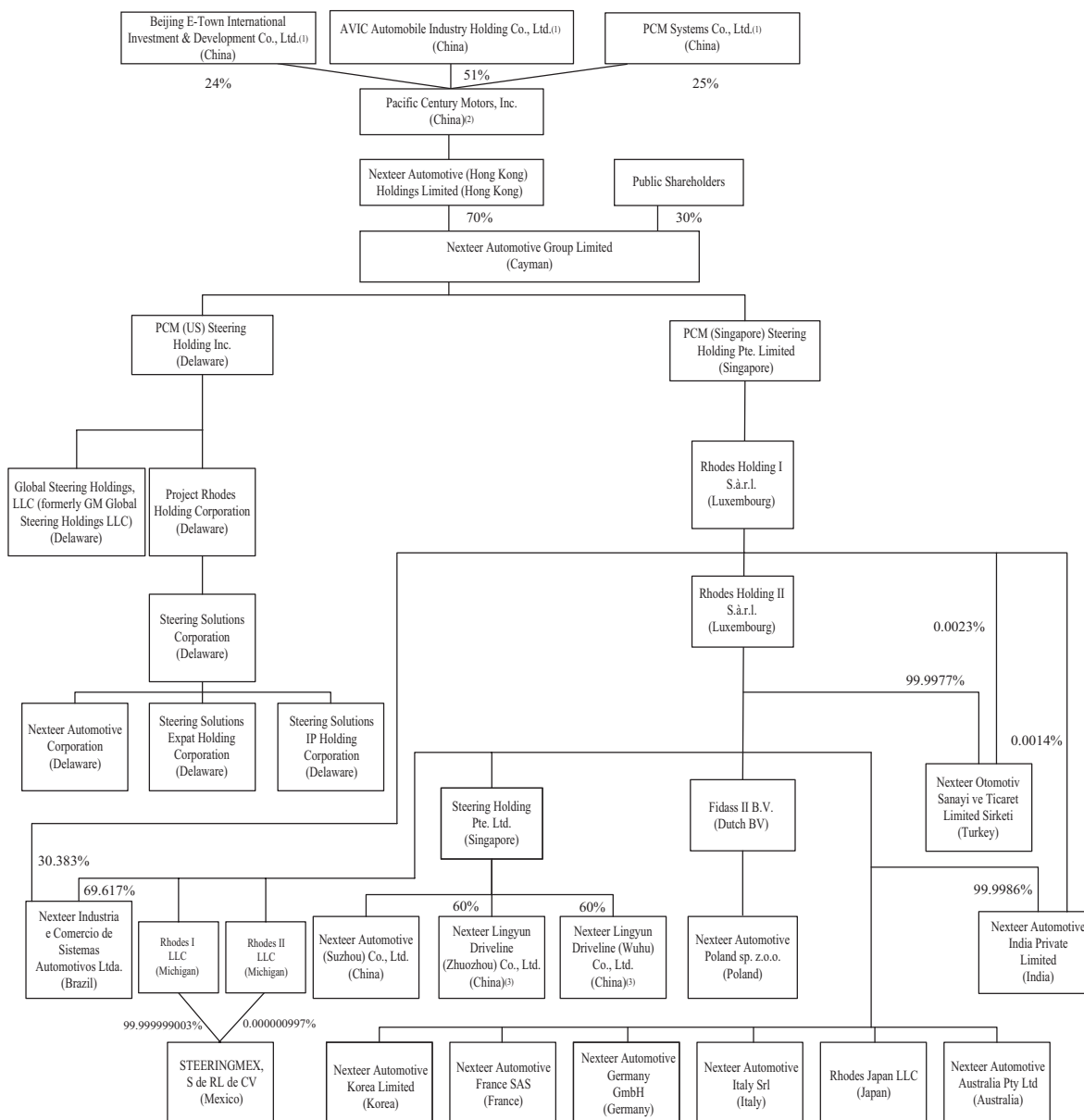
Note (1): Save for being an indirect shareholder of our Group, each of Beijing E-Town, PCM Systems and AVIC Auto are independent from each other.

Note (2): Lingyun Industrial holds 40% interest in each of Nexteer Zhuozhou and Nexteer Wuhu. Save for its interests in Nexteer Zhuozhou and Nexteer Wuhu, Lingyun Industrial is not connected to our Group.



## OUR HISTORY AND REORGANIZATION

The diagram below sets forth our shareholding and corporate structure following completion of the Reorganization, Capitalization Issue and the Global Offering, assuming the Over-allotment Option is not exercised:



Note: Unless specifically indicated, all shareholding percentages in the above diagram are 100%.

Note (1): Save for being an indirect shareholder of our Group, each of Beijing E-Town, PCM Systems and AVIC Auto are independent from each other.

Note (2): PCM China received an implementation assistance notice (the “Implementation Assistance Notice”) from the Daxing District People’s Court in Beijing (北京市大兴区人民法院) (the “Court”) in relation to a case initiated by Beijing E-Town against PCM Systems regarding the pledge by PCM Systems of its 25% interest in PCM China (the “PCM Systems Interests”) to Beijing E-Town. The Implementation Assistance Notice, among other things, stipulates that PCM Systems Interests would be frozen from January 5, 2013 to January 4, 2015, during which PCM Systems Interests cannot be disposed of and that no dividend shall be distributed by PCM China to PCM Systems in respect of the PCM Systems Interests. In addition, the Court has scheduled a public auction in early July 2013 for the sale of the PCM Systems Interests. Notwithstanding this, the PRC Legal Advisor advises that it is not aware of any matter that affects the validity of AVIC Auto’s 51% equity interest in PCM China, AVIC Auto’s status as the controlling shareholder of our Company and AVIC Auto’s existing indirect interest in our Company. Based on the above and AVIC Auto’s shareholding and board control of PCM China, the Directors are of the view that AVIC Auto’s ability to exercise its controlling interest in PCM China, and in turn PCM China’s ability to exercise indirect control over our Company, would not be affected as a result.

Note (3): Lingyun Industrial holds 40% interest in each of Nexteer Zhuozhou and Nexteer Wuhu. Save for its interests in Nexteer Zhuozhou and Nexteer Wuhu, Lingyun Industrial is not connected to our Group.

**OVERVIEW**

We are among the world's leading steering and driveline suppliers. In 2012, in terms of revenue, we were the fifth-largest steering supplier globally with approximately 6% of total global market share, the largest steering supplier in the United States with approximately 31% of total U.S. market share and the third-largest halfshafts supplier globally with approximately 5% of total global market share, according to the IPSOS Report. Our deep understanding of system integration and technical expertise enables us to offer our customers a comprehensive product portfolio and integrated customer solutions in both steering and driveline systems. Our principal products are: (i) steering systems and components that include EPS, HPS and steering columns; and (ii) driveline systems and components that include halfshafts, intermediate drive shafts and propeller shaft joints. Our products are utilized on a broad range of vehicles from small passenger cars to full-size trucks.

We have an established global footprint. As of the Latest Practicable Date, we had 20 manufacturing plants, ten customer service centers and five regional application engineering centers located in North and South America, Europe and Asia in close proximity to many of the world's largest automotive vehicle markets. This enables us to respond timely to business opportunities and to establish and maintain close relationships with global OEMs, as well as local OEMs in regional markets, in order to provide our customers with regional and customer-specific design, application and technical capabilities.

We have established strong relationships with many of the world's leading OEMs as a result of our ability to offer high-quality products and customer service at competitive prices. We currently supply our products to more than 50 customers, including substantially all of the world's top ten major OEMs in terms of production volume in 2012. Through the years, we have diversified our customer base and, as of the Latest Practicable Date, our global customers included GM, Ford, Fiat, Chrysler and PSA Peugeot Citroën, as well as local OEMs in regional markets such as China and India. We have supplied our products to our largest customer, GM, for over 100 years, and we have supplied our next four largest customers for more than 20 years.

Our business has a global presence. In 2012, 70.9% of our revenues were from North America, 15.2% were from Europe, 8.4% were from China and 5.5% were from the rest of the world. One of our key strategies for growth is to increase our market share in China and other emerging markets, which have experienced rapid growth in both vehicle sales and the adoption of EPS in recent years. In particular, since we became a subsidiary of AVIC, we have increased our focus on opportunities in China. Through our global presence, technological expertise in EPS and strong relationships with our customers, we believe we are well-positioned to capitalize on future growth in these emerging markets.

We have accumulated extensive technical knowledge and developed a high degree of technical expertise through our 100-year history as a steering products and driveline products supplier, with a consistent focus on research and development. Our research and development team consists of over 1,100 engineers, designers and technicians worldwide, and we have a core team of 40 engineers who focus on early-stage product development. At our systems engineering center in Saginaw, Michigan, United States, our acoustics and vibration center provides full vehicle, multiple system and component testing facilities, including advanced hemianechoic chambers. Our testing facilities allow us to solve complex NVH problems and develop product designs that can be tailored for regional application. We also have our own

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comprehensive vehicle evaluation test track for product development and customer product evaluation. In addition, we operate a global network of 10 customer service centers and five regional application engineering centers that provide our customers with regional and customer-specific design, application and technical capabilities. As of the Latest Practicable Date, we had over 800 granted patents and nearly 200 pending patent applications.

Our advanced technology is demonstrated by our strong technical expertise in the field of EPS, which is widely considered a pioneering and industry-leading technology. Due to increasingly stringent government fuel efficiency, emissions and safety regulations, OEMs have increased demand for EPS to replace conventional HPS. According to the IPSOS Report, EPS grew the fastest among all product types at a CAGR of approximately 9.3% in terms of sales revenue from US\$10,198 million in 2007 to US\$15,909 million in 2012, compared to a total market CAGR of approximately 3.4% for the same period. According to the IPSOS Report, the EPS global market by sales revenue is forecasted to grow at a CAGR of approximately 10.2% from 2012 to 2017, compared to a total market CAGR of approximately 5.3% for the same period. The market share of EPS increased from 44.6% in 2007 to 58.8% of the total steering industry in 2012 in terms of sales revenue and is expected to account for a market share of approximately 74.0% of the total steering industry by 2017, according to the IPSOS Report.

We maintain direct control over the design of both hardware and software, including conducting all electronic and software development in-house, during our production process. Since EPS systems include highly customized software algorithms that control the operation of the steering system, our system integration allows us to customize our products to address specific customer requirements and respond to customer needs quickly and accurately. As a result, we believe we are among the technology leaders in the EPS field and are well-positioned to capture future growth in the global EPS market. See “— Our Strengths — Highly advanced technology through a long history of research and development.”

For the years ended December 31, 2010 (combining revenues of our Predecessor and our Group), 2011 and 2012, our revenue was US\$2,051.9 million, US\$2,247.8 million and US\$2,167.8 million, respectively. The following table sets forth our revenue by product lines for the periods/years indicated:

|                                 | Our Predecessor  |       | Our Group   |       | Combined <sup>(1)</sup> |       | Our Group                            |       |                                      |       |
|---------------------------------|--|-------|---|-------|-------------------------|-------|--------------------------------------|-------|--------------------------------------|-------|
|                                 | For the period from January 1, 2010 to November 30, 2010 |       | For the period from November 4, 2010 to December 31, 2010 |       | Total 2010              |       | For the year ended December 31, 2011 |       | For the year ended December 31, 2012 |       |
|                                 | (US\$ thousands)   | %     | (US\$ thousands)  | %     | (US\$ thousands)        | %     | (US\$ thousands)                     | %     | (US\$ thousands)                     | %     |
| <b>Steering</b>                 |  |       |   |       |                         |       |                                      |       |                                      |       |
| EPS . . . . .                   | 553,811  | 29.2  | 46,782  | 29.9  | 600,593                 | 29.3  | 762,967                              | 33.9  | 764,937                              | 35.3  |
| HPS . . . . .                   | 485,992  | 25.7  | 40,585  | 25.9  | 526,577                 | 25.7  | 540,396                              | 24.0  | 447,314                              | 20.6  |
| Steering Column (CIS) . . . . . | 487,822  | 25.7  | 38,240  | 24.4  | 526,062                 | 25.6  | 500,193                              | 22.3  | 481,827                              | 22.2  |
| <b>Driveline</b> . . . . .      | <u>367,570</u>   | 19.4  | <u>31,081</u>   | 19.8  | <u>398,651</u>          | 19.4  | <u>444,196</u>                       | 19.8  | <u>473,724</u>                       | 21.9  |
| <b>Total</b> . . . . .          | <u>1,895,195</u>   | 100.0 | <u>156,688</u>  | 100.0 | <u>2,051,883</u>        | 100.0 | <u>2,247,752</u>                     | 100.0 | <u>2,167,802</u>                     | 100.0 |

Note:

(1) Revenue for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “Financial Information — Basis of Presentation.”

**OUR STRENGTHS**

We believe that our success and our ability to capitalize on future growth opportunities are attributable to our following strengths:

**A leading steering and driveline supplier with a global presence**

We are among the world's leading steering and driveline suppliers. In 2012, in terms of revenue, we were the fifth-largest steering supplier globally with approximately 6% of total global market share, the largest steering supplier in the United States with approximately 31% of total U.S. market share and the third-largest halfshafts supplier globally with approximately 5% of total global market share, according to the IPSOS Report. Halfshafts accounted for approximately 64% of the total revenue of global driveline market in 2012, according to the IPSOS Report.

We have an established global footprint. As of the Latest Practicable Date, we had 20 manufacturing plants, ten customer service centers and five regional application engineering centers located in North and South America, Europe and Asia in close proximity to many of the world's largest automotive vehicle markets. This enables us to respond timely to business opportunities and to establish and maintain close relationships with global OEMs, as well as local OEMs in regional markets, in order to provide our customers with regional and customer-specific design, application and technical capabilities. We also seek to operate our manufacturing plants in low-cost countries that are also located in close proximity to our customers, which minimizes our production costs, reduces delivery costs and mitigates exposure to currency exchange risk. In addition, we serve customers through customer service centers and regional engineering centers around the world staffed with local representatives familiar with local customs and business practices. Our local representatives interface directly with customers, which enables us to provide our customer services on a timely basis and satisfy regional variations in our global OEM customers' global vehicle platforms.

Our business has a global presence. In 2012, 70.9% of our revenues were from North America, 15.2% were from Europe, 8.4% were from China and 5.5% were from the rest of the world. One of our key strategies for growth is to increase our market share in China and other emerging markets, which have experienced rapid growth in both vehicle sales and the adoption of EPS in recent years. In particular, since we became a subsidiary of AVIC, we have increased our focus on opportunities in China. Through our global presence, technological expertise in EPS and strong relationships with our customers, we believe we are well-positioned to capitalize on future growth in these emerging markets.

We believe our market position, established platform and global presence provide us with a solid foundation to strengthen our market position in the global steering and driveline industries.

**Comprehensive product portfolio and integrated customer solutions**

Our deep understanding of system integration and technical expertise enables us to offer our customers a comprehensive product portfolio and integrated customer solutions in both driveline and steering systems. Our products are utilized on a broad range of vehicles from small passenger cars to full-size trucks. Our product offerings include:

- a diverse array of EPS products, including CEPS, SPEPS and REPS;
- a range of HPS products, such as rack and pinion gears and power steering pumps;
- steering column products, including non-adjustable steering columns, power adjustable steering columns, active energy-absorbing steering columns and power one-touch adjustable columns; and
- driveline products, including front and rear wheel drive halfshafts, intermediate drive shafts and propeller shaft joints.

Our history as a systems supplier embedded within a global OEM allowed us to develop a deep understanding of automotive system interaction and provide our customers with integrated solutions in both steering and driveline systems. We are able to seamlessly integrate our steering and driveline products with related vehicle systems, resulting in balanced mechanical function between our products and the vehicle. We also work closely with customers in each stage of a product's life cycle, including design, prototyping, production and after-sales customer support to provide our customers with efficient, highly customized solutions. As a result, we believe that OEM customers using our steering or driveline systems are able to provide users of automobiles with a higher degree of control and better sense of connection with the road, as well as enhanced vehicle performance and reliability.

Our comprehensive product portfolio and integrated customer solutions in both driveline and steering systems enable us to meet our customers' diverse product and service requirements as well as product quality and reliability standards. We believe this increases customer confidence in our products, solidifies our business relationships with existing customers and enables us to expand our business with new customers.

**Highly advanced technology through a long history of research and development**

We have accumulated extensive technical knowledge and developed a high degree of technical expertise through our 100-year history as a steering products and driveline products supplier with a consistent focus on research and development. Our technological innovation is supported by advanced engineering and testing capabilities. Our research and development team consists of over 1,100 engineers, designers and technicians worldwide, and we have a core team of 40 engineers who focus on early-stage product development. At our systems engineering center in Saginaw, Michigan, United States, our acoustics and vibration center provides full vehicle, multiple system and component testing facilities, including advanced hemianechoic chambers. Our testing facilities allow us to solve complex NVH problems and develop product designs that can be tailored for regional application. We also have our own comprehensive vehicle evaluation test track for product development and customer product evaluation. In addition, we operate a global network of ten customer service centers and five regional application engineering centers to provide our customers with regional and customer-specific designs, applications and technical capabilities. As of the Latest Practicable

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Date, we had over 500 U.S. patents and over 300 non-U.S. patents, and we had applied for nearly 300 additional U.S. and non-U.S. patents. In addition, in recognition of our technological achievement, we have received several industry awards, including the Pace Award for Horizontal Modeling and Digital Process Design for CAD/CAM in 2004 and the Innovation Award for “Most Innovative Use of Plastics” from the Society of Plastics Engineers in 2009.

We prioritize our research and development efforts on technologies that offer attractive long-term growth opportunities by improving our product performance, reducing our costs or expanding our product portfolio. Our advanced technology can be demonstrated by our strong technical expertise in the field of EPS, which is widely considered a pioneering and industry-leading technology. Due to increasingly stringent government fuel efficiency, emissions and safety regulations, OEMs have increased demand for EPS to replace conventional HPS. According to the IPSOS Report, EPS grew the fastest among all product types at a CAGR of approximately 9.3% in terms of sales revenue from US\$10,198 million in 2007 to US\$15,909 million in 2012, compared to a total market CAGR of approximately 3.4% for the same period. According to the IPSOS Report, the EPS sector by sales revenue is forecasted to grow at a CAGR of approximately 10.2% from 2012 to 2017, compared to a total market CAGR of approximately 5.3% for the same period. The market share of EPS increased from 44.6% in 2007 to 58.8% in 2012 in terms of sales value and is expected to account for a market share of approximately 74.0% of the total steering industry by 2017, according to the IPSOS Report.

As we are transitioning from HPS to EPS systems, our historical focus on research and development has allowed us to capture a wide range of business opportunities. We maintain direct control over the design of both hardware and software, including conducting all electronic and software development in-house, during our production process. Since EPS systems include highly customized software algorithms that control the operation of the steering system, our system integration allows us to customize our products to address specific customer requirements and respond to customer needs quickly and accurately. As a result, we believe we are among the technology leaders in the EPS sector and are well-positioned to capture future growth in the global EPS market. Some of our major technology achievements in the EPS sector include:

- pioneering the introduction of brushless EPS in Europe in 1999;
- simplifying our mechanical designs, advancing our electro-mechanical engineering techniques, refining the handling (NVH) characteristics of steering response through successive generations of product enhancement and adding customer-focused product features, including:
  - Nexteer E-Tune software that enables customers to collaborate with us in tuning a steering system;
  - control algorithms that provide crisp on-center feel and the desirable balance between effort and road feedback over a wide range of vehicle speeds and operating conditions;
  - automatic correction for steering pull created by the suspension, tire, road or cross-wind;
  - automatic cancellation of steering wheel vibrations created by out-of-balance wheels, brake shudder and other vehicle sources;

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- support for functions that overlay external commands for stability enhancement and lane keeping; and
- support for autonomous steering functions such as parking assist.
- developing a high output, rack-based 12-volt steering system, which we believe will enable us to become the dominant supplier of EPS systems to the North American full-size truck market; and
- developing a compact modular power pack that enables us to customize a product through software calibrations and communication protocols rather than mechanical changes, leading to a more standardized product that can be efficiently customized to meet diverse OEM customer applications requirements.

The driveline industry is capital intensive and requires careful planning to manufacture the correct product types at the required torque capacities for the markets we serve. Our technical expertise enables us to provide a driveline portfolio that includes all basic joint types, ranging from low-cost tripot designs to mid-Premium Tri-Glide and Cross-Glide, which enable us to compete for a wide range of customer business opportunities. As a result, our driveline products are found on a range of vehicles from large trucks, such as the Dodge Ram in the United States, to entry-level automobiles. Our major technology achievements in the driveline field are the acoustic tuning for improved NVH performance and the introduction of the Tri-Glide premium inboard joint, a premium inboard joint that incorporates an added degree of freedom to deliver superior NVH performance.

We believe that as the automotive industry transitions from HPS to EPS systems, our commitment to and history of technological innovation, our strong engineering and testing capabilities and our experienced research and development team will serve as key elements driving our long-term growth and leverage on the emergence of new markets.

### **Established and diverse customer base**

We have established strong relationships with many of the world's leading OEMs as a result of our ability to offer high-quality products and customer service at competitive prices. Our customer base has been expanding significantly since we ceased to be a division of GM and became an independent steering and driveline supplier in late 2010. We currently supply our products to more than 50 customers, including substantially all of the world's top ten OEMs in terms of production volume in 2012. As of the Latest Practicable Date, our global customers included GM, Ford, Fiat, Chrysler and PSA Peugeot Citroën, as well as local OEMs in regional markets such as China and India. We have supplied our products to our largest customer, GM, for over 100 years, and we have supplied our products to our next four largest customers for more than 20 years.

We supply our products to a variety of OEMs. Our products are used in both mass-market and luxury vehicles covering small automobiles through heavy vehicles. In addition, most of our customers use our products in multiple models. Our diverse customer base not only mitigates our exposure to fluctuations in geographic locations, vehicle classes, vehicle types and customer demands, but also strengthens our understanding of customer needs and business opportunities worldwide.

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### **International management team with extensive industry experience**

Our international management team includes Mr. ZHAO Guibin, our chief executive officer, Chairman and executive Director, who has extensive management and strategic decision-making experience in large enterprise groups and the automotive industry, and other members from different countries and backgrounds. Members of our executive team have an average of approximately 22 years of experience with both OEMs and automotive suppliers. Their significant experience in the global automotive industry has provided them with deep industry knowledge and market understanding.

Moreover, we have established a high-performance corporate culture focused on clarity of purpose, accountability for results, open and challenging dialogue and strong relationships among our employees, customers and stakeholders. We believe the diversity and experience of our global management team, coupled with our strong corporate culture, makes us well-positioned to compete in the global steering and driveline industries.

### **OUR STRATEGIES**

We aim to strengthen our market position in the steering and driveline industries and enhance our profitability by pursuing the following strategies:

#### **Expand business in China and other emerging markets**

We are strategically focused on increasing market share in high growth emerging markets, including China, which have experienced rapid growth in both vehicle sales and the adoption of EPS in recent years. According to the IPSOS Report, steering sales by sales revenue in China are forecast to grow at a CAGR of approximately 12.4% from 2012 to 2017. The driveline industry is expected to display strong growth, with halfshafts sales revenue in China forecast to grow at a CAGR of approximately 10.5% from 2012 to 2017. During the Track Record Period, the majority of our revenues were derived from developed markets such as North America and Europe, which together accounted for approximately 86.1% of our total revenues in 2012. We believe that our global presence, strong customer relationships and technological expertise position us well to capitalize on future growth in these emerging markets.

We plan to expand our business in emerging markets by offering steering and driveline products that are tailored to different emerging markets' product performance and price requirements. In order to implement this strategy, we have expanded our traditional product portfolio. For example, in India, we recently launched low-cost, lightweight halfshafts to be produced in our Bangalore, India plant. In China and South Korea, we have launched premium halfshafts to be produced in our Zhuozhou, China plant to supply premium global OEM vehicle platforms. In China, we have expanded our presence in the economy market by securing three production programs for our new CEPS product for multi-purpose vehicles and in the premium market by securing a program for our high output REPS product. See "Future Plans and Use of Proceeds — Use of Proceeds."

In addition, we plan to continue to build upon existing relationships with global and local OEMs in these markets and may pursue selected strategic acquisitions and alliances. We plan to expand our manufacturing plants in certain countries, such as China, to increase our production capacity. We believe that by offering tailored products, building upon existing relationships, pursuing strategic acquisitions and alliances and expanding our manufacturing plants, our brand recognition and sales in emerging markets will continue to grow.



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Our estimated total capital expenditures for the period from July 1, 2013 to December 31, 2015 amount to approximately US\$370 million, which will be funded with the proceeds of the Global Offering, bank borrowings and our internal resources. US\$130 million of these capital expenditures is to be invested in China, which includes: (i) approximately US\$119 million expected to be invested in machinery and equipment to increase production capacity to launch new product programs that have been secured or are expected to be secured from OEM customers; and (ii) approximately US\$11 million expected to be invested in expansion and construction of manufacturing plants in the PRC.

### **Strengthen technological leadership**

We are committed to maintaining a technology leadership position in the steering and driveline industries. We plan to prioritize our research and development efforts in technologies that offer attractive long-term growth opportunities by improving our product performance and reducing our costs. In addition, we will also continue to focus our research efforts on green technologies such as EPS and certain high-end EPS offerings, such as Rack Assist EPS. We also plan to evaluate opportunities to form strategic alliances with other industry participants such as our customers and other steering or driveline Tier 1 suppliers. For more information regarding our expansion plans, see “— Production Facilities and Production Capacity.”

### **Solidify established customer relationships and continue to diversify customer base**

We have a strong, long-established relationship with GM, one of the world’s largest OEMs, according to the IPSOS Report. We plan to continue to strengthen this relationship, and intend to seek opportunities on additional GM vehicle programs. Since becoming an independent component supplier, we have also focused on working closely with, and increasing our sales to, other OEMs to support our business growth. We currently supply more than 50 customers, including substantially all of the world’s top ten major OEMs in terms of production volume in 2012.

We plan to continue to solidify our relationships with existing customers and attract new customers as we continue to improve our technological expertise and lower our costs so that we can offer our customers high quality and cost-efficient products. We target potential customers and track various opportunities through an opportunity plan, which tracks and assesses potential customer program bookings that we intend to secure. In addition, we continue to monitor industry trends and may also consider adjusting the geographic mix or the number of our production facilities, customer service centers and regional engineering centers to support our future business development and to enable us to quickly respond to the needs of our OEM customers in different jurisdictions.

### **Focus on cost structure optimization and operational efficiency**

We continue to focus on optimizing our cost structure and improving operational efficiency to increase our profit margin. In recent years, we have closed manufacturing plants in relatively high-cost locations and replaced them with manufacturing plants in low-cost locations such as China. In addition, we have implemented cost control measures, improved productivity and simplified work rules to allow greater workforce flexibility.

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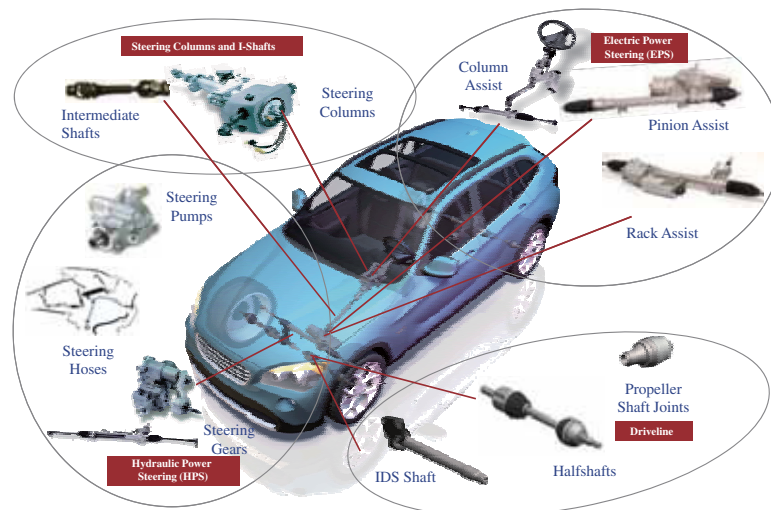
We plan to continue to reduce our costs by improving our cost structure and maximize the utilization of our production capacity by improving our operational efficiency. In addition, we aim to improve our waste elimination and manufacturing processes. Furthermore, our procurement and engineering teams will continue to focus on reducing our costs related to product design and reducing purchased parts costs. We will also seek to improve our operational efficiency by increasing our focus on management accountability, such as tying management compensation to growth targets.

### Pursue selected acquisitions and strategic alliances

We plan to strengthen our geographic presence, research and development capabilities and customer base by considering strategic acquisition and alliance opportunities. We intend to evaluate acquisition opportunities as well as joint ventures and strategic alliances that we believe will complement our current business to expand into new geographic areas, diversify our customer base and specialize, build scale or enhance technology abilities. Such strategic alliances may include other industry participants such as customers, suppliers and competitors. We believe that our strong customer relationships and technological expertise make us an attractive partner as we pursue alternative acquisition opportunities and strategic alliances. In particular, our Group is pursuing strategic initiatives to access new vehicle segments and customers for its steering products in China. Our Group is currently engaged in discussions with a potential business partner with complementary product and process expertise and market access. As of the Latest Practicable Date, our Group had not identified any other specific acquisition targets or strategic alliances or entered into any binding agreements with any specific acquisition targets or strategic alliances.

### OUR PRODUCTS

We design, engineer, manufacture and distribute steering and driveline systems and components for OEMs.



### Steering Systems

A steering system consists of the components that control the direction of vehicle motion. Our steering system product lines include electric power steering, hydraulic power steering and steering columns.




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**Electric Power Steering (EPS)** uses an electric motor to assist driver steering. Sensors detect the position and torque of the steering column through the steering wheel. Our hardware and software work together to connect the driver with the road, taking into account driving dynamics and the operating environment. The EPS system monitors vehicle speed and steering angle to ensure that steering feel is optimized for every driving situation. Depending on the type of EPS, a computer module applies assistive power via an electric motor coupled directly to either the steering gear or the steering column.

The following chart summarizes our key EPS products:

| Our Products   | Description   |
|--|---|
| <p data-bbox="181 540 778 576">Column Assist Electric Power Steering</p>      | <ul style="list-style-type: none"><li data-bbox="815 540 1418 789">● Column Assist EPS (CEPS) systems integrate the system electronics (motor, controller and sensor) and the assist mechanism with the steering column. The required EPS hardware is integrated with the steering column and contained within the passenger compartment.</li><li data-bbox="815 804 1418 910">● These products are designed for a wide range of vehicles, from small cars to compact sport utility vehicles.</li><li data-bbox="815 925 1418 1081">● OEM customers that use our Column Assist EPS include GM in its small cars, such as the Aveo, Chrysler in its Fiat 500 and Fiat in its small cars.</li></ul> |
| <p data-bbox="181 1087 778 1123">Rack Assist Electric Power Steering</p>    | <ul style="list-style-type: none"><li data-bbox="815 1087 1418 1242">● Rack Assist EPS (REPS) systems integrate the required steering elements within the steering rack where they are contained under the hood in the engine compartment.</li><li data-bbox="815 1257 1418 1364">● These products are designed for heavy vehicles due to their ability to handle higher front-axle loads.</li><li data-bbox="815 1378 1418 1470">● OEM customers that use our Rack Assist EPS include Ford in its F-150 Truck and Mustang and Chrysler in its Ram Truck.</li></ul>   |
| <p data-bbox="181 1476 778 1513">Pinion Assist Electric Power Steering</p>  | <ul style="list-style-type: none"><li data-bbox="815 1476 1418 1668">● Pinion Assist EPS (SPEPS) systems integrate the controller motor unit of the system electronics and the assist mechanism with the steering gear pinion shaft.</li><li data-bbox="815 1683 1418 1789">● These products are designed for a wide range of vehicles from small automobiles to full-size sport utility vehicles.</li><li data-bbox="815 1804 1418 1904">● OEM customers that use our Pinion Assist EPS include PSA Peugeot Citroën in the Citroën C3 and DS3.</li></ul>   |


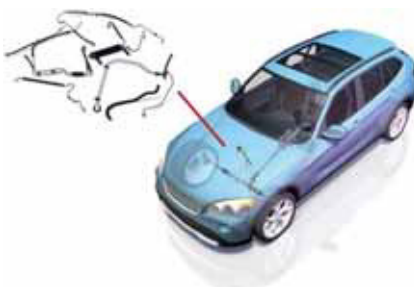
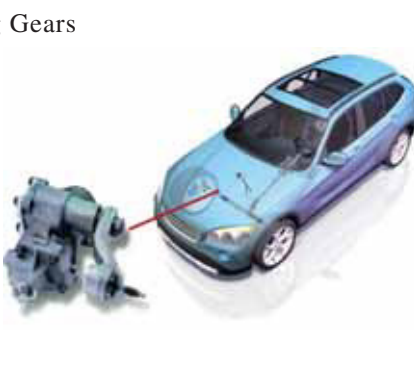
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**Hydraulic Power Steering (HPS)** uses high pressure fluids to assist driver steering. A belt-driven power steering pump creates system pressure. The pressurized fluid is then routed into a cylinder that turns the wheels of the vehicle.



The following chart summarizes our key HPS products:

| Our Products  | Description  |
|---|--|
| <p data-bbox="178 434 375 470">Steering Pumps</p>      | <ul style="list-style-type: none"><li>● Steering pumps provide the hydraulic power for steering.</li><li>● These products are designed for most car and light-duty truck applications.</li><li>● OEM customers that use our steering pumps include GM and PSA Peugeot Citroën.</li></ul>   |
| <p data-bbox="178 761 375 798">Steering Hoses</p>     | <ul style="list-style-type: none"><li>● Steering hoses include a wide range of products for bundled hoses, pressure hoses, return hoses, coolers and remote reservoir hoses.</li><li>● These products are designed for any vehicles with HPS.</li><li>● OEM customers that use our steering hoses include GM in its Buick Regal.</li></ul>   |
| <p data-bbox="178 1091 375 1127">Steering Gears</p>  | <ul style="list-style-type: none"><li>● Steering gears provide directional control of a vehicle by converting hydraulic pressure to a rotation force that moves the steering linkage left or right.</li><li>● These products are designed for vehicles that do not use rack and pinion or certain heavy vehicles.</li><li>● OEM customers that use our steering gears include GM in its full-size trucks and large vans.</li></ul> |

The steering column connects the steering wheel to the steering mechanism and controls steering by transferring the driver's input torque from the steering wheel.

## BUSINESS

The following chart summarizes our key Steering Column (CIS) products:

| Our Products   | Description  |
|--|--|
| <p>Intermediate Shafts</p>  | <ul style="list-style-type: none"> <li>• Intermediate shafts connect the end of the steering column to the rack and pinion gear box. With couplings on both ends, the Intermediate Shaft is able to pivot and allows the car to better manage turns.</li> <li>• These products are designed for all vehicles regardless of market segment.</li> <li>• OEM customers that use our intermediate shafts include GM in its full-size trucks and full-size sport utility vehicles.</li> </ul> |
| <p>Steering Columns</p>    | <ul style="list-style-type: none"> <li>• Steering columns connect the steering wheel to the steering mechanism and control steering by transferring the driver's input torque from the steering wheel.</li> <li>• These products are designed for small cars, sport utility vehicles and trucks.</li> <li>• OEM customers that use our steering columns include GM in its full-size trucks, large vans and Chevy Impala and Ford in its F-150 Truck.</li> </ul>                          |

The following table sets forth the major vehicle models for which we supplied steering system products as of December 31, 2012:

| OEMs                        | Vehicle Nameplate                             | Our Products         |
|-----------------------------|---|----------------------|
| <b><i>North America</i></b> |   |                      |
| GM .....                    | Chevy Silverado Truck, Tahoe SUV & Savana Van | Column, I-Shaft, HPS |
| GM .....                    | Chevy Impala                                  | Column, HPS          |
| Ford .....                  | Ford F-150 Truck                              | REPS, Column         |
| Ford .....                  | Ford Mustang                                  | REPS                 |
| Ford .....                  | Ford Escape & Ford Escape Hybrid              | CEPS                 |
| Chrysler .....              | Ram Truck                                     | REPS                 |
| Chrysler .....              | Fiat 500                                      | CEPS                 |
| <b><i>Europe</i></b>        |   |                      |
| Fiat .....                  | Fiat Punto, Panda & 500                       | CEPS                 |
| PSA Peugeot Citroën .....   | Citroën C3 & DS3                              | SPEPS                |
| GM .....                    | Opel Corsa                                    | CEPS                 |
| <b><i>Other</i></b>         |   |                      |
| Shanghai GM .....           | Sonic   | CEPS                 |

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The following table sets forth the major vehicle models for which we supplied steering system products as of December 31, 2011:

| OEMs                        | Vehicle Nameplate                                | Our Products         |
|-----------------------------|--|----------------------|
| <b><i>North America</i></b> |  |                      |
| GM .....                    | Chevy Silverado Truck, Tahoe<br>SUV & Savana Van | Column, I-Shaft, HPS |
| GM .....                    | Chevy Impala                                     | Column, HPS          |
| GM .....                    | Chevy Malibu                                     | CEPS, HPS, Column    |
| GM .....                    | Chevy Corvette                                   | Column, HPS          |
| Ford .....                  | Ford F-150 Truck                                 | REPS, Column         |
| Ford .....                  | Ford Mustang                                     | REPS                 |
| Ford .....                  | Ford Escape &<br>Ford Escape Hybrid              | CEPS                 |
| Chrysler .....              | Fiat 500   | CEPS                 |
| <b><i>Europe</i></b>        |  |                      |
| Fiat .....                  | Fiat Punto, Panda & 500                          | CEPS                 |
| PSA Peugeot Citroën .....   | Citroën C3 & DS3                                 | SPEPS                |
| GM .....                    | Opel Corsa                                       | CEPS                 |
| <b><i>Other</i></b>         |  |                      |
| Shanghai GM .....           | Sonic & Regal                                    | CEPS, R&P Gear       |

The following table sets forth the major vehicle models for which we supplied steering system products as of December 31, 2010:

| OEMs                        | Vehicle Nameplate                                | Our Products         |
|-----------------------------|--|----------------------|
| <b><i>North America</i></b> |  |                      |
| GM .....                    | Chevy Silverado Truck, Tahoe<br>SUV & Savana Van | Column, I-Shaft, HPS |
| GM .....                    | Chevy Impala                                     | Column, HPS          |
| GM .....                    | Chevy Malibu                                     | CEPS, HPS, Column    |
| GM .....                    | Chevy Corvette                                   | Column, HPS          |
| Ford .....                  | Ford F-150 Truck                                 | REPS, Column         |
| Ford .....                  | Ford Mustang                                     | REPS                 |
| Ford .....                  | Ford Escape &<br>Ford Escape Hybrid              | CEPS                 |
| <b><i>Europe</i></b>        |  |                      |
| Fiat .....                  | Fiat Punto, Panda & 500                          | CEPS                 |
| PSA Peugeot Citroën .....   | Citroën C3 & DS3                                 | SPEPS                |
| GM .....                    | Opel Corsa                                       | CEPS                 |
| <b><i>Other</i></b>         |  |                      |
| Shanghai GM .....           | Sonic & Regal                                    | CEPS, R&P Gear       |
| Fiat Brazil .....           | Uno  | Pump                 |

## Driveline Systems

A driveline system consists of the components that transfer power from the transmission and deliver it to the drive wheels. Our driveline system products include front wheel drive halfshafts, intermediate drive shafts and rear wheel drive halfshafts as well as propeller shaft joints.

The following chart summarizes our key driveline system product lines:

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**Our Products**

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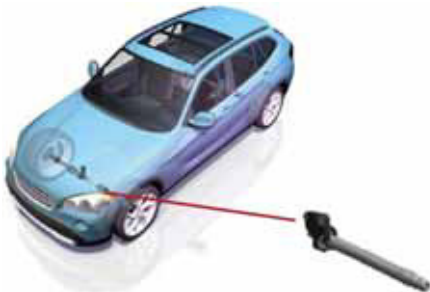
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**Description**

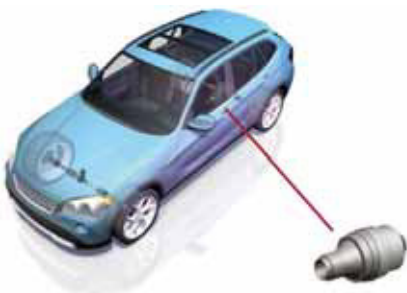
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**Halfshafts**

- Front wheel drive halfshafts transmit torque at constant velocity from the transmission to the front wheel of the vehicle.
- Rear wheel drive halfshafts transmit torque from the rear differential to the wheels.
- These products are designed for a variety of vehicles and are custom engineered to meet the needs of specific vehicle requirements.
- OEM customers that use our halfshafts include GM and Chrysler.

**Intermediate Drive Shafts**

- Intermediate drive shafts work in conjunction with the halfshafts to improve vehicle handling and eliminate driveline disturbance issues on front wheel drive vehicles with unequal length axles, higher torque and running angles.
- These products are designed for vehicles in which axle shaft lengths are unequal due to transmission layout to improve NVH performance by equalizing axle length.
- OEM customers that use our intermediate drive shafts include GM in its large crossovers.

**Propeller Shaft Joints**

- Propeller shaft joints, as part of the complete propeller shaft assembly, transmit torque from the transmission or transfer case to the front and rear axles.
- These products are designed for vehicles employing a front engine, rear drive powertrain configuration.
- OEM customers that use our propeller shaft joints include Ford in its D3.

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The following table sets forth the major vehicle models for which we supplied driveline system products as of December 31, 2012:

| OEMs                             | Vehicle Nameplate  | Our Products                             |
|----------------------------------|--|--|
| <b><i>North America</i></b>      |  |  |
| GM .....                         | Silverado, Tahoe, Malibu,<br>Lacross, Regal, Cruze,<br>Impala, Camaro, Equinox,<br>Terrain & ATS | Halfshafts                               |
| GM .....                         | Traverse & Enclave   | Halfshafts, Intermediate Drive<br>Shafts |
| Chrysler .....                   | Ram Truck, Mini Van & 300  | Halfshafts                               |
| <b><i>Other</i></b>              |  |  |
| PSA Peugeot Citroën Brazil . . . | Various models   | Halfshafts                               |
| Chinese local OEMs .....         | Various models   | Halfshafts                               |
| Indian local OEMs .....          | Various models   | Halfshafts                               |

The following table sets forth the major vehicle models for which we supplied driveline system products as of December 31, 2011:

| OEMs                             | Vehicle Nameplate   | Our Products                             |
|----------------------------------|---|--|
| <b><i>North America</i></b>      |   |  |
| GM .....                         | Silverado, Tahoe, Malibu,<br>Lacross, Regal, Cruze,<br>Impala, Camaro, Equinox &<br>Terrain | Halfshafts                               |
| GM .....                         | Traverse & Enclave  | Halfshafts, Intermediate Drive<br>Shafts |
| Chrysler .....                   | Ram Truck, Mini Van, 300 &<br>Liberty   | Halfshafts                               |
| <b><i>Other</i></b>              |   |  |
| PSA Peugeot Citroën Brazil . . . | Various models  | Halfshafts                               |
| Chinese local OEMs .....         | Various models  | Halfshafts                               |
| Indian local OEMs .....          | Various models  | Halfshafts                               |

The following table sets forth the major vehicle models for which we supplied driveline system products as of December 31, 2010:

| OEMs                        | Vehicle Nameplate   | Our Products                             |
|-----------------------------|---|--|
| <b><i>North America</i></b> |   |  |
| GM .....                    | Silverado, Tahoe, Malibu,<br>Lacross, Regal, Cruze,<br>Impala, Camaro, Equinox &<br>Terrain | Halfshafts                               |
| GM .....                    | Traverse & Enclave  | Halfshafts, Intermediate Drive<br>Shafts |
| Chrysler .....              | Ram Truck, Mini Van, 300 &<br>Liberty   | Halfshafts                               |



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| OEMs                               | Vehicle Nameplate | Our Products |
|------------------------------------|-------------------|--------------|
| <b>Other</b>                       |                   |              |
| PSA Peugeot Citroën Brazil . . . . | Various models    | Halfshafts   |
| Chinese local OEMs . . . . .       | Various models    | Halfshafts   |
| Indian local OEMs . . . . .        | Various models    | Halfshafts   |

### Product Mix

The following table sets forth our revenue by product lines for the periods/years indicated:

|                                 | Our Predecessor  |       | Our Group   |       | Combined <sup>(1)</sup> |       | Our Group                            |       |                                      |       |
|---------------------------------|--|-------|---|-------|-------------------------|-------|--------------------------------------|-------|--------------------------------------|-------|
|                                 | For the period from January 1, 2010 to November 30, 2010 |       | For the period from November 4, 2010 to December 31, 2010 |       | Total 2010              |       | For the year ended December 31, 2011 |       | For the year ended December 31, 2012 |       |
|                                 | (US\$ thousands)   | %     | (US\$ thousands)  | %     | (US\$ thousands)        | %     | (US\$ thousands)                     | %     | (US\$ thousands)                     | %     |
| <b>Steering</b>                 |  |       |   |       |                         |       |                                      |       |                                      |       |
| EPS . . . . .                   | 553,811  | 29.2  | 46,782  | 29.9  | 600,593                 | 29.3  | 762,967                              | 33.9  | 764,937                              | 35.3  |
| HPS . . . . .                   | 485,992  | 25.7  | 40,585  | 25.9  | 526,577                 | 25.7  | 540,396                              | 24.0  | 447,314                              | 20.6  |
| Steering Column (CIS) . . . . . | 487,822  | 25.7  | 38,240  | 24.4  | 526,062                 | 25.6  | 500,193                              | 22.3  | 481,827                              | 22.2  |
| <b>Driveline</b> . . . . .      | <u>367,570</u>   | 19.4  | <u>31,081</u>   | 19.8  | <u>398,651</u>          | 19.4  | <u>444,196</u>                       | 19.8  | <u>473,724</u>                       | 21.9  |
| <b>Total</b> . . . . .          | <u>1,895,195</u>   | 100.0 | <u>156,688</u>  | 100.0 | <u>2,051,883</u>        | 100.0 | <u>2,247,752</u>                     | 100.0 | <u>2,167,802</u>                     | 100.0 |

Note:

(1) Revenue for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “Financial Information — Basis of Presentation.”

### Product Life Cycle

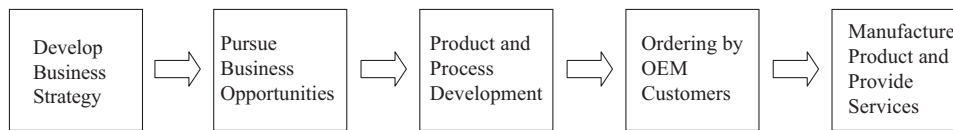
OEMs typically enter into business contracts with suppliers that last the life of a vehicle program, which is usually four to seven years but can vary depending on the customer. During the course of a vehicle program, our customers conduct a global supplier search to source the next generation of this vehicle program, which may or may not include the incumbent supplier. Each new vehicle program includes new requirements for suppliers, including new design specifications.

### Seasonality

Our business is seasonal in nature. Our North American customers typically shut down vehicle production for approximately two weeks in July and for one week in December of each year for scheduled breaks and maintenance. Our customers in Europe typically shut down vehicle production during periods in July or August and for one week in December of each year for scheduled breaks and maintenance. In addition, vehicle production in certain regions is traditionally reduced in July, August and December as a result of product changeover and holidays.

## OUR BUSINESS MODEL

The following diagram illustrates our business model:



### Develop Business Strategy

Our business development process begins with an examination of our corporate vision and values, market practices, regulatory environment, customer relationships and expectations and available resources. Based on this examination, we create a strategic plan that includes a value statement, a description of our business objectives including growth and revenue objectives, and our high level strategic goals, such as target markets and customers, product line portfolio expansion and key geographic region growth. We then communicate our strategic plan to our employees to guide business development and product and process design decisions.

### Pursue Business Opportunities

Our objective during this stage is to identify target opportunities and develop customer proposals. The process begins when our product team decides to pursue a business opportunity and ends at the program kick-off. In pursuing business opportunities, our product team meets with the customer to develop a proposal based on their input, as well as our team’s input on competitive product and process portfolios, manufacturing footprint strategy, supply base strategy, and customer requirements relating to technical specifications, volume, logistics and packaging, aftermarket service and timing. Internally, the product team completes a risk assessment, manufacturing plan, sourcing plan, and a business case with supporting cost data. The process culminates in a decision regarding whether or not to initiate the program and complete the project charter. If we decide to initiate the program, we then provide the customer with an official quote for the project, as well as an accompanying technical proposal, a timeline of key deliverables and dates and commercial terms. See “— Customers — Supply Relationships with Our Customers.”

### Product and Process Development

Our objective during this stage is to create achievable and validated product and process designs and to procure the necessary materials for these designs. This stage of the process begins when the vehicle program is initiated. In developing product and process designs, our team relies on inputs from the customer, including technical specifications and project timetables sent to the customer. Based on this input, we validate a set of designs for the project, including:

- product design, which includes the prints for parts, product specifications, testing results, and required customer and regulatory documents;
- supplier capability, which includes supplier purchase orders and other documentation; and
- manufacturing system design, including operator job instructions, routing plans, packaging plans, logistics plans and schedules.

**Ordering by OEM Customers**

We typically supply products to our OEM customers through purchase orders for specific products supplied for particular vehicles, which are typically governed by general terms and conditions established by each OEM customer. Although the purchase orders with our customers vary from customer to customer, they typically contemplate a relationship under which our customers place orders for their requirements of specific components or systems supplied for particular vehicles but are not required to purchase any minimum amount of products from us. Prices are negotiated with respect to each purchase order, which may be subject to adjustments under certain circumstances, such as commodity or foreign exchange escalation/de-escalation clauses or for cost reductions achieved by us.

Individual purchase orders are terminable for cause or non-performance and, in most cases, upon our insolvency and certain change of control events. In addition, many of our OEM customers have the option to terminate for competitiveness or convenience, which permits our customers to impose pressure on pricing during the life of the vehicle program. They also have the ability to issue purchase orders for less than the duration of the vehicle program, which potentially reduces our profit margins and increases the risk of our losing future sales under those purchase orders.

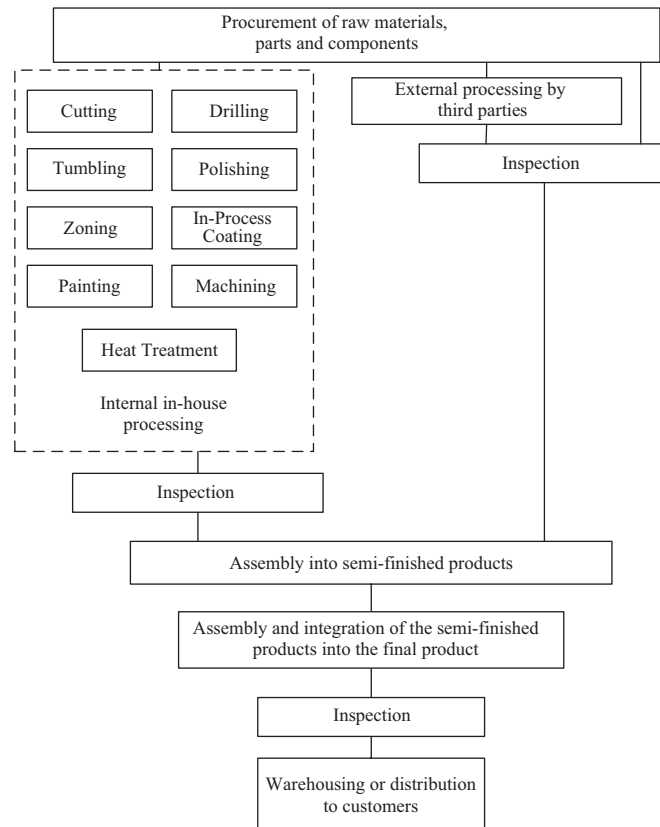
**Manufacture Product and Provide Services**

Our objective during this stage is to manufacture products and deliver services that meet or exceed our customers' needs and expectations. This stage of the process begins when we acquire the necessary materials or expertise to meet the customer requirements that we have already identified, and produce the end-products based on our validated product designs. In addition to producing goods and services, we also focus on meeting quality and warranty requirements and responding to customer complaints during this stage.

## **MANUFACTURING, MANUFACTURED COMPONENTS AND RAW MATERIALS**

### **Manufacturing Process**

Our manufacturing process is designed to emphasize product integrity and quality. Generally, the manufacturing process for most of our steering and driveline products can be broadly categorized into the following steps:



- **Procurement of raw materials, parts and components.** Principal raw materials, parts and components include castings, controllers, steel tubing and bars, motors, aluminum and magnesium components, machined parts, bearings and assemblies. Some raw materials, parts and components do not need to be processed. They can be assembled into semi-finished products upon completion of quality inspection.
- **Processing of raw materials, parts and components.** Raw materials, parts and components are processed according to the necessary technical specifications to form the specified components. Such treatment process includes cutting, drilling, tumbling, polishing, zoning, in-process coating, painting, machining and heat treatment. We typically purchase components for assembly into our steering systems and driveline systems from third-party suppliers, except for those components that we view as critical to product performance, which we manufacture, complete or finish in-house. We maintain design control of our products, including the various components that are manufactured by third-party suppliers. This ensures that we maintain control of critical design and process elements during the manufacturing process. For example, in the case of sensors, motors and power electronics used in our EPS products, we create the product design in-house and partner with capable third-party suppliers to manufacture these

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components. This “make to print” model promotes consistent implementation of our product designs around the world by our carefully selected third-party suppliers.

- ***Assembly of parts and components into semi-finished products.*** Raw materials, parts and components are further processed to form semi-finished parts ready for final assembly.
- ***Final assembly.*** We assemble the semi-finished parts and components in the final assembly to form the finished products.
- ***Warehousing.*** Final products are either sent directly to the end customer or sent to a warehouse for storage and final distribution to our customers, depending on the overall value stream cost efficiency and customer requirements.

Our production time varies by product. For example, total production time ranges from approximately 23 to 46 minutes for EPS products, eight to 41 minutes for HPS products, 14 to 24 minutes for steering columns and 10 to 13 minutes for halfshafts. In order to utilize our manufacturing facilities more effectively and enhance our manufacturing efficiency, we have developed and implemented the Nexteer Production System, which is an advanced manufacturing system that focuses on lean production methodology and zero-defect manufacturing measures. We develop general strategies to improve our manufacturing efficiency at our headquarters, which are then adjusted and implemented by each of our divisions, to suit their manufacturing activities. We believe this enables our business divisions to tailor implementation of the strategies and improve their respective manufacturing processes, and thus, allocate resources more efficiently and better address their practical business needs.

### **Procurement of Raw Materials, Parts and Components**

We purchase raw materials, parts and components from various suppliers on a global and local basis for use in our manufacturing processes. These principal raw materials, parts and components primarily consist of castings, controllers, steel tubing and bars, motors, aluminum and magnesium components, machined parts, bearings and assemblies. These raw materials, parts and components are generally available from multiple sources in quantities sufficient for our needs. Although there are multiple suppliers for these raw materials, parts and components, we generally use single source suppliers consistent with industry practice because it is more cost-efficient. Sourcing from multiple suppliers would be more expensive than single supplier sourcing because multiple supplier sourcing would require us to, among other things, monitor, manage and purchase tooling from multiple suppliers. Furthermore, we may be able to negotiate better pricing with single source suppliers due to the volume of our purchasing.

We seek to mitigate the adverse impact that could be caused by any of our single source suppliers experiencing financial difficulties by regularly monitoring and reviewing our single source suppliers’ financial information to identify single source suppliers that may experience financial difficulties. As our Group typically is not the sole customer of a supplier, our Group together with the other customers of a supplier may, consistent with industry practice, provide financial assistance to any of our single source suppliers experiencing financial difficulties where necessary, in order to maintain such single supplier’s operations and therefore supply of the raw material, part or component to our Group. Such financial assistance would typically be provided until: (i) the completion of the relevant vehicle program; or (ii) in cases where our Group considers it more cost-effective to engage alternative suppliers taking into account the

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remaining duration of the vehicle program as well as the time and cost required to switch to alternative suppliers, until an alternative supplier is engaged. In rare cases, because of the technology or process involved or because the raw material, part or component is patented, there may be only a sole source that can provide the required raw materials, parts or components to manufacture our products. For the year ended December 31, 2012, approximately 1.5% of our total purchases of raw materials, parts and components were from sole source suppliers who were the only suppliers that can provide the required raw material, part or component. Similar to the above, our Group seeks to mitigate the adverse impact of using such sole source suppliers for several raw materials, parts and components through regularly monitoring and reviewing suppliers' financial information and providing financial assistance to our sole source suppliers experiencing financial difficulties where necessary.

We purchase our raw materials from suppliers in many countries including the United States, Mexico, China, Taiwan, South Korea, the Netherlands, Poland, India, Spain and Japan. During the Track Record Period, we did not experience any significant shortages of raw materials, parts or components and normally do not carry inventories of those items in excess of those reasonably required to meet our production and shipping schedule.

Our top five suppliers are manufacturers of automotive components. For the years ended December 31, 2010 (combining purchases of our Predecessor and our Group), 2011 and 2012, our five largest suppliers accounted for approximately 18.4%, 20.7% and 19.5% of our total purchases, respectively. For the years ended December 31, 2010 (combining purchases of our Predecessor and our Group), 2011 and 2012, our largest supplier accounted for approximately 6.3%, 6.1% and 5.9% of our total purchases, respectively. Our five largest suppliers for the year ended December 31, 2012 have maintained business relationships with us for an estimated range of 11 to over 40 years. None of our suppliers are our customers, nor are they our connected persons. During the Track Record Period, none of our Directors or their associates or our Shareholders who, to the knowledge of our Directors, owns more than 5% of our issued share capital had any interest in any of the five largest suppliers.

### ***Our Procurement Process***

The objective of our procurement process is to purchase high quality, cost-effective parts. If a new customer program or product initiative requires purchased parts, we first determine whether the part is already in production and whether the current supplier for the part has performed well in the past. If both are satisfactory, we negotiate with the incumbent supplier regarding the cost and technical requirements. If the required part is not in production or the current supplier is rated unsatisfactorily, we initiate a bidding process with a number of suppliers. We then evaluate the supplier proposals to select one that best meets our needs. Once the selected supplier passes our technical review and quality inspection and we analyze the cost structure, our supplier selection team makes a recommendation to the global supplier management sourcing board, which consists of a cross section of commercial, supplier quality and commodity supervisors and managers. If the selected supplier is approved by the global supplier management sourcing board, and after notification to and acceptance from the supplier of the business award, we then proceed to develop the specifics of the production process and issue purchase orders to the supplier for the parts.

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We have a comprehensive quality control system that focuses on the quality of our products from development through production, which covers product and process development, manufacturing systems, problem solving and supply management. See “— Quality Control and Certifications.”

### *Agreements with Suppliers*

Although the terms and conditions vary from supplier to supplier, we typically place orders for the amount we require of specific components or parts through purchase orders that are governed by the terms and conditions. The terms and conditions of our agreements with our suppliers may provide:

- escalation/de-escalation clauses for the increase in the price of raw materials, such as steel, aluminum, copper and key rare earth materials;
- termination for breach and termination for convenience with notice;
- suppliers shall provide a supply of raw materials, parts or components, as the case may be, that meets our Group’s production requirements; and
- a requirement that suppliers comply with all applicable laws, rules, regulations, orders, conventions, ordinances and standards of the country or countries of origin and destination or that relate to the manufacture, labeling, transportation, importation, exportation, licensing, approval, performance and/or certification of the goods or services.

Most of these agreements do not have an automatic renewal clause. If a supplier breaches its supply contract, we may terminate the agreement and recover, recoup or set off any losses, costs or damages resulting from the supplier’s breach of contract. We may also be entitled to equitable relief as well as monetary damages. The standard credit terms offered by our suppliers provide for payment to be due between 45 to 60 days following shipment. We primarily make payment to our suppliers through electronic funds transfer or check.

In Turkey and Korea, we do not have manufacturing plants but have entered into agreements with contractors for manufacturing services. These agreements provide that the contractor would provide manufacturing services to us, but the fee for the service and the amount of products to be supplied would be determined from time to time through purchase orders.

### *Supply Shortages*

We seek to avoid supply shortages through a number of measures, including:

- To avoid a supply shortage caused by a supplier’s labor issues, our global supply management department monitors each supplier’s relationship with its unions and work councils and the expiration dates of its collective bargaining agreements. Our production control and logistics department sends a letter to any supplier with a collective bargaining agreement expiring within six months. This letter requests information on the status of the renewal of the collective bargaining agreement. Based on the supplier’s reply, we work with the supplier to develop contingency plans to minimize the risk of supply stoppage.

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- We also monitor our suppliers and review their financial information to identify suppliers that may be facing financial difficulties. In instances where a supplier becomes insolvent, we work with that supplier and its other customers to develop exit plans and alternate sourcing. See “— Procurement of Raw Materials, Parts and Components.”

### *Contech*

Contech, one of our largest suppliers and our single source supplier for certain casting parts, is currently experiencing financial difficulties, and its indirect but controlling parent, Revstone, has filed for bankruptcy protection. As of the Latest Practicable Date, Contech’s financial difficulties had not resulted in any disruption in its ability to supply products to us.

The casting parts we purchase from Contech are manufactured mainly in its production facilities in Clarksville, Tennessee and Alma, Michigan. Contech’s Clarksville, Tennessee manufacturing facility is dedicated solely to the production of castings supplied to us. We currently forecast that our production program at Contech’s Clarksville, Tennessee manufacturing facility will be completed by mid-July of 2013 due to the expected expiration of a vehicle program that requires Contech parts, after which we will no longer require the products produced in Contech’s Clarksville, Tennessee manufacturing facility.

Huron Consulting Group (“Huron”), Revstone’s restructuring agent, has retained an investment banking firm to seek a third-party buyer(s) for Contech and facilitate the sale process. On June 11, 2013, Contech entered into a purchase agreement with a third-party buyer pursuant to which Contech agreed to sell its manufacturing facilities. The closing of the sale is subject to several conditions, including Contech obtaining (i) approval of the Revstone bankruptcy court, (ii) sale support agreements with us and other key customers and (iii) a settlement agreement with respect to certain pension obligations related to Contech’s affiliates. If any of these conditions are not met, the buyer will not be obligated to complete the sale. If the conditions are met, the closing is expected to occur on or before August 2, 2013.

We entered into an agreement, dated as of April 29, 2013, among Contech, us and the other Key Customers, pursuant to which we and the other Key Customers agreed to provide financial assistance until June 15, 2013 to Contech to enable Contech to continue its operations uninterrupted. While the financial assistance that Contech will require is uncertain at this time, based on a budget plan for Contech prepared by Huron, our Directors currently estimate that our Group’s forecasted exposure related to the provision of financial assistance to Contech would be approximately US\$3.4 million. If Contech cannot be sold in the near future or if we encounter delays in completing our production at Contech’s Clarksville, Tennessee manufacturing facility, our Directors estimate that our Group’s exposure would increase. This exposure primarily consists of cash assistance to Contech to fund its operations, including potential expenses relating to any bankruptcy of Contech, until a sale of Contech can occur or production can be obtained from another supplier. In exchange for this financial assistance, Contech’s Key Customers received a right to use the operating assets and occupy the real estate at Contech’s manufacturing facilities for up to 12 months upon the occurrence of certain events of default, including Contech’s failure to meet its supply obligations to a Key Customer resulting in the likelihood of an imminent interruption of such Key Customer’s operations or Contech’s failure to sell its manufacturing facilities on or before June 14, 2013. We expect to



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amend the agreement to (i) extend the length of the Key Customers' obligations to provide financial assistance to August 2, 2013 and (ii) to extend Contech's deadline to sell its manufacturing facilities to June 28, 2013 (subject to extension to August 2, 2013 under certain circumstances). In the event that Contech fails to meet its supply obligations to us or fails to sell its manufacturing facilities on or before the extended deadline, our Group will consider our available options, including (i) further amending the agreement with Contech or (ii) exercising our access rights in order to produce the Contech casting parts necessary for our production until our Group can engage an alternative supplier(s) for such casting parts.

Meanwhile, we are currently evaluating alternative replacement suppliers for the products supplied by Contech except those products manufactured at Contech's Clarksville, Tennessee manufacturing facility. An alternative replacement supplier has passed our Group's technical and manufacturing reviews, and our Group estimates that an alternative supplier could be engaged and operational before the expiration of any 12-month access period with Contech. Our Group will actively monitor the financial condition of Contech and evaluate the engagement of alternative supplier(s) as and when appropriate after assessing the costs and benefits of various alternative options.

While the financial assistance that our Group will be required to provide Contech is subject to uncertainty, as of the Latest Practicable Date our Directors were of the view that Contech's financial difficulties will not have a material adverse effect on the business, financial condition and results of operation of our Group due to, among others, the factors below:

- On June 11, 2013, Contech entered into a purchase agreement with a third-party buyer pursuant to which Contech agreed to sell its manufacturing facilities subject to several conditions. Upon the completion of the sale, we believe the buyer will be able to continue its operations and the supply of casting products to us will be secured;
- Contech's financial difficulties have not resulted in any disruption in its ability to supply casting products to us as of the Latest Practicable Date, and an agreement among Contech and the Key Customers, dated as of April 29, 2013, regarding the provision of financial assistance has been executed. We expect to amend the agreement to (i) extend the length of the Key Customers' obligations to provide financial assistance to August 2, 2013 and (ii) to extend Contech's deadline to sell its manufacturing facilities to June 28, 2013 (subject to further extension to August 2, 2013 under certain circumstances);
- our Group is currently evaluating an alternative replacement supplier for certain products supplied by Contech that has passed our Group's technical and manufacturing reviews;
- in exchange for the provision of financial assistance to Contech, Contech's Key Customers, including us, received a right to use the operating assets and occupy the real estate at Contech's manufacturing facilities for up to 12 months upon the occurrence of certain events of default, including Contech's failure to meet its supply obligations to a Key Customer resulting in the likelihood of an imminent interruption of such Key Customer's operations or if Contech does not sell its manufacturing facilities on or before the deadline. In the event that Contech fails to

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meet its supply obligations to us or fails to sell its manufacturing facilities on or before the extended deadline, our Group will consider its available options, including (i) further amending the agreement with Contech or (ii) exercising our access rights in order to produce the Contech casting parts necessary for our production until our Group can engage an alternative supplier(s) for such casting parts; and

- the casting parts we purchase from Contech are manufactured mainly in its production facilities in Clarksville, Tennessee and Alma, Michigan. Contech's Clarksville, Tennessee manufacturing facility is dedicated solely to the production of castings supplied to us. We currently forecast that our production program at Contech's Clarksville, Tennessee manufacturing facility will be completed by mid-July of 2013 due to the expected expiration of a vehicle program that requires Contech parts, after which we will no longer need to purchase the products produced in Contech's Clarksville, Tennessee manufacturing facility.

Since January 1, 2010, other than Contech, our Group has not granted material: (i) direct or indirect price increases; (ii) adjusted payment terms; or (iii) financial assistance to any of our other suppliers who made the request as a direct result of their economic distress. In addition, other than Contech, we have not provided material financial support or been required to take other material measures to ensure a continuous supply of raw materials, parts or components due to a supplier's financial or operational difficulties. See "Risk Factors — Risks Related to Our Business and Industry — Certain of our suppliers are experiencing or may experience economic distress, which may require us to provide substantial financial support or take other measures to ensure supplies of raw materials, parts or components and could increase our costs, affect our liquidity or cause production constraints or disruption."

### *Price Fluctuations*

We seek to manage fluctuations in prices of raw materials by passing our cost increases to our customers, to the extent possible. The prices of our products are negotiated in connection with each purchase order, which may be subject to adjustment under certain circumstances, such as commodity or foreign exchange escalation/de-escalation clauses or for cost reductions that we achieve. For increases in the price of raw materials which our Group is unable to pass on to its customers, our Group attempts to mitigate the adverse impact of such price increases by improving our manufacturing and purchasing efficiency.

We experience fluctuations in the price of purchased raw materials, such as steel. See "Risk Factors — Risks Related to Our Business and Industry — Increases in costs of the raw materials, parts, components and other supplies that we use in our products may have a negative effect on our business." The sensitivity analysis below reflects the impact of fluctuations in the American Metal Market #1 Bundle Three-City Index, a commonly used index tracking the cost of scrap material that is the main ingredient in our bar steel, on our raw steel purchases in 2012, and the effect on our gross profit for the year ended December 31, 2012. On average, a US\$20 per ton change in the market price of steel, which is approximately a 5% change in the scrap index, will impact gross profits by approximately US\$1.1 million.

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The following table sets forth a sensitivity analysis of steel prices:

|   | Total Spent on<br>Steel for the year<br>ended December<br>31, 2012 <sup>(1)</sup> | Impact on Gross<br>Profit for the year<br>ended December<br>31, 2012 |
|---|---|--|
|   | (US\$ millions)   |  |
| Impact of fluctuation on steel prices ..... | 56.9  | –  |
| with 5% increase in scrap index .....       | 58.0  | (1.1)  |
| with 5% decrease in scrap index .....       | 55.7  | 1.1  |
| with 10% increase in scrap index .....      | 59.2  | (2.3)  |
| with 10% decrease in scrap index .....      | 54.6  | 2.3  |

Note:

(1) The American Metal Market #1 Bundle Three-City Index tracks the cost of high grade scrap material in scrap yards across various cities.

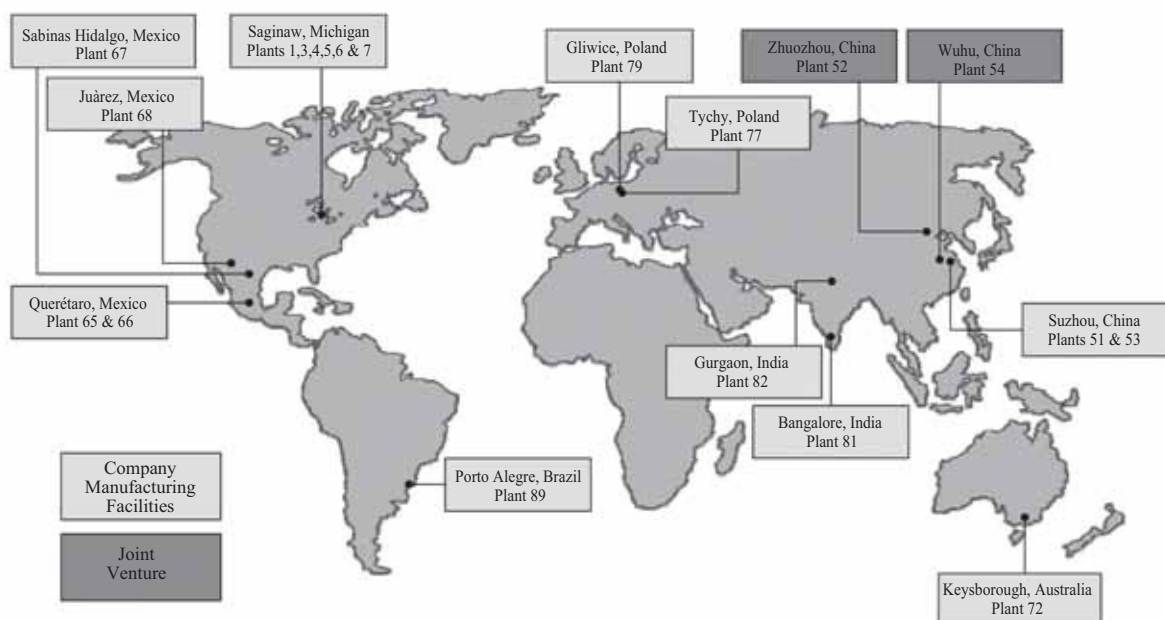
We do not currently have any hedging policies with regard to our raw materials, parts and components, but we evaluate from time to time the costs and benefits of hedging.

## PRODUCTION FACILITIES AND PRODUCTION CAPACITY

### Production Facilities

As of the Latest Practicable Date, we had 20 manufacturing plants located in the United States, Mexico, China, Poland, India, Brazil and Australia, with an aggregate GFA of approximately 473,163 sq.m.

We seek to operate our manufacturing plants in low-cost countries that are also located in close proximity to our OEM customers, which minimizes production costs, shortens delivery time and mitigates exposure to currency exchange risk. The map below shows the various locations of our manufacturing plants as of the Latest Practicable Date:



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The following table sets forth details of our manufacturing plants as of the Latest Practicable Date:

| Manufacturing Site                   | Plant(s)          | Approximate<br>Total GFA<br>(sq.m.) | Products  |
|--------------------------------------|-------------------|-------------------------------------|---|
| Saginaw, Michigan,<br>U.S. . . . .   | 1, 3, 4, 5, 6, 7  | 321,748                             | Pump, Gear, REPS <sup>(1)</sup> , Halfshafts,<br>Column |
| Juárez, Mexico . . . . .             | 68                | 10,288                              | Column, I-Shaft   |
| Zhuozhou, China . . . . .            | 52                | 7,905                               | Halfshafts  |
| Querétaro, Mexico . . . . .          | 65                | 16,486                              | REPS, CEPS, R&P   |
|                                      | 66                | 11,676                              | Gear, Column, Propeller Shaft Joint                     |
| Wuhu, China . . . . .                | 54                | 15,837                              | Halfshafts  |
| Tychy, Poland . . . . .              | 77                | 14,900                              | CEPS, SPEPS   |
| Sabinas Hidalgo,<br>Mexico . . . . . | 67 <sup>(2)</sup> | 13,288                              | Hoses   |
| Suzhou, China . . . . .              | 51                | 13,634                              | R&P Gear, Pump,   |
|                                      | 53                | 11,831                              | Hoses, Column, CEPS, I-Shaft,<br>SPEPS <sup>(1)</sup>   |
| Gliwice, Poland . . . . .            | 79                | 12,220                              | R&P Gear, Column, CEPS <sup>(1)</sup>                   |
| Bangalore, India . . . . .           | 81                | 10,215                              | Column, Halfshafts, Pump <sup>(1)</sup> , R&P<br>Gear   |
| Porto Alegre, Brazil. . . . .        | 89                | 9,814                               | Column, Halfshafts, Pump, SPEPS                         |
| Keysborough, Australia. . . . .      | 72 <sup>(3)</sup> | 1,946                               | R&P Gear, Column  |
| Gurgaon, India . . . . .             | 82                | 1,375                               | Column, Halfshafts                                      |

Notes:

- (1) Some products have started production and some other products are expected to start production in the second half of 2013.
- (2) We entered into an asset purchase agreement on April 26, 2013 regarding a strategic divestiture of, among other assets, our hose plant in Sabinas Hidalgo, Mexico. This plant manufactures hydraulic hoses, a component of the declining HPS product line. The revenue attributable to this plant for the year ended December 31, 2012 was approximately US\$32 million or 1.5% of our Group's total revenue for the same period. The purchase price is less than 1% of our revenue for the year ended December 31, 2012, and we expect minimal net financial impact on our Group. The sale of the plant is expected to be completed by June 30, 2013.
- (3) We opened the new Plant 72 in Keysborough, Australia, which became operational on March 25, 2013, to replace the old Plant 72 in Somerton, Australia, which was transferred to the owner on March 7, 2013.

### Production Volume, Production Capacity and Utilization

The following table sets forth our production volume, production capacity and utilization rate for the specified products for the years indicated:

| Products             | For the year ended December 31, 2010 <sup>(1)</sup> |                                    |  | For the year ended December 31, 2011 |                                    |  | For the year ended December 31, 2012 |                                    |  |
|----------------------|---|------------------------------------|--|--------------------------------------|------------------------------------|--|--------------------------------------|------------------------------------|--|
|                      | Volume<br>(units) <sup>(2)</sup>                    | Capacity<br>(units) <sup>(3)</sup> | Utilization<br>Rate (%) <sup>(4)</sup> | Volume<br>(units) <sup>(2)</sup>     | Capacity<br>(units) <sup>(3)</sup> | Utilization<br>Rate (%) <sup>(4)</sup> | Volume<br>(units) <sup>(2)</sup>     | Capacity<br>(units) <sup>(3)</sup> | Utilization<br>Rate (%) <sup>(4)</sup> |
| EPS . . . . .        | 2,278,000   | 3,286,000                          | 69%                                    | 2,682,000                            | 3,428,000                          | 78%                                    | 2,680,000                            | 3,639,000                          | 74%                                    |
| HPS                  |   |                                    |  |                                      |                                    |  |                                      |                                    |  |
| Gears . . . . .      | 3,198,000   | 4,591,000                          | 70%                                    | 2,826,000                            | 4,763,110                          | 59%                                    | 1,835,000                            | 3,888,005                          | 47%                                    |
| Pumps . . . . .      | 3,577,000   | 6,119,000                          | 58%                                    | 3,741,000                            | 5,392,000                          | 69%                                    | 3,565,000                            | 5,002,000                          | 71%                                    |
| Steering             |   |                                    |  |                                      |                                    |  |                                      |                                    |  |
| Columns . . . . .    | 4,098,000   | 9,371,000                          | 44%                                    | 3,727,000                            | 8,957,000                          | 42%                                    | 3,463,000                            | 5,643,000                          | 61%                                    |
| Halfshafts . . . . . | 7,944,000   | 10,306,000                         | 77%                                    | 8,018,000                            | 10,000,000                         | 80%                                    | 8,694,000                            | 10,219,000                         | 85%                                    |

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Notes:

- (1) Production volume and capacity for our Predecessor and our Group have been combined for the year ended December 31, 2010.
- (2) We aggregate the production volume of all categories of a product to arrive at the product volume for the product.
- (3) We calculate capacity using reusable capacity, which excludes legacy equipment related to older generation products that are not usable for new customers or projects. Legacy equipment is considered not usable if the cost of upgrading the equipment for reuse would require investment of over 50% of the cost of purchasing new equipment. Capacity represents weighted average of reusable capacity available by product line. To calculate reusable capacity, we assume five working days a week, three shifts for machining and two shifts for assembly.
- (4) We calculate utilization rate based on the units of products produced compared to the capacity of our total existing facilities.

Primary factors affecting production capacity levels include the phase out of certain production equipment and expansions in our manufacturing facilities from new customer projects. There was an increase in production capacity for EPS from 2010 to 2012, primarily due to the expansion in manufacturing facilities resulting from new customer projects.

Primary factors affecting the utilization rate of our manufacturing facilities include the market demand for certain products and vehicles, which affects the volume of orders from our OEM customers, and our ability to utilize our newly ramped-up capacity. Although we generally increase our production capacity on a project-by-project basis, there are cyclical fluctuations in our utilization rate due to the time required, generally at least six months, for newly ramped-up capacity to run at full capacity. Our utilization rate for a given period is also affected by the accuracy of our customers' projections. For instance, an OEM customer may overestimate the market demand for certain vehicles. As a result, the number of units produced may be lower than the available capacity the customer contracted. See "Risk Factors — Risks Related to Our Business and Industry — Our purchase orders with our OEM customers are generally requirements contracts, and a decline in the production requirements of any of our customers, in particular our largest customers, could materially and adversely affect our business, results of operations and financial condition."

The increase in utilization rate for EPS from approximately 69% in 2010 to approximately 78% in 2011 was primarily driven by the growing market demand for EPS products and vehicles in general. The utilization rate for HPS gears decreased from approximately 70% in 2010 to approximately 59% in 2011 due to a decrease in production volume of HPS gears as a result of the industry conversion from HPS to EPS. The utilization rate for HPS pumps increased from approximately 58% in 2010 to approximately 69% in 2011 due to a decrease in production capacity resulting from the elimination of obsolete technology. The utilization rate for steering columns decreased from approximately 44% in 2010 to approximately 42% in 2011 due to a decrease in production volume as a result of decreased market demand due to customers deciding to switch to Column Assist EPS from steering columns, as well as a decrease in production capacity from phasing out certain legacy facilities from our Predecessor. We also adjusted our installed production capacity for halfshafts from 10,306,000 units in 2010 to 10,000,000 units in 2011, primarily due to changes in the product design that required process changes. The utilization rate for halfshafts increased from approximately 77% in 2010 to approximately 80% in 2011, primarily due to an increase in production volume and a decrease in installed capacity during that period.

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The decrease in utilization rate for EPS from approximately 78% in 2011 to approximately 74% in 2012 was primarily due to timing as the newly installed capacity generally requires a period of time to ramp up before it can run at full speed. The utilization rate for HPS gears decreased from approximately 59% in 2011 to approximately 47% in 2012 due to a decrease in production volume of HPS gears as a result of the industry conversion from HPS to EPS. The utilization rate for HPS pumps increased from approximately 69% in 2011 to approximately 71% in 2012 as a result of rationalizing a portion of our HPS pumps capacity to increase manufacturing floor space for EPS programs. Production capacity for both HPS gears and HPS pumps were reduced in 2012 because of the conversion to EPS. The utilization rate decreased from 2011 to 2012 for HPS gears, but not for HPS pumps, because there was a larger decrease in the production volume for HPS gears during that period as compared to HPS pumps. The utilization rate for steering columns increased from approximately 42% in 2011 to approximately 61% in 2012 due to a decrease in production capacity as we eliminated installed capacity that was not capable of meeting new steering column design requirements. The increase in utilization rate for halfshafts from approximately 80% in 2011 to approximately 85% in 2012 was due to the increase in production volume resulting from increased customer demand in North America and China.

### **Expansion and Upgrade of Production Capacity**

To continue supporting our growth, we have expanded manufacturing capacity to meet market demand for our products and to support EPS programs under contract. We believe that our manufacturing facilities are well maintained, in good operating condition and suitable for their current purposes. In addition to expanding our manufacturing capacity in response to increased market demand, we also plan to continue to improve manufacturing efficiency by upgrading existing process technologies. Moreover, we will invest in new program designs and make changes to our existing production lines from time to time in response to specific customer requirements. Due to the highly customized nature of our products, we will need to make capital expenditures on machinery and equipment to increase production capacity and adjust production lines for new contracts secured with OEMs. Such capital expenditures are necessary even though the utilization rates for our production lines have not reached their maximum levels.

We expect market demand for EPS to increase significantly as customers transition from HPS to EPS. This transition caused our production capacity for HPS products to not be fully utilized during the Track Record Period. In order to capitalize on the EPS transition as well as support our business growth, we are investing and plan to invest in a large number of EPS programs. In addition, we intend to invest in converting some of our HPS capacity to EPS capacity. Based on the expected revenue of contracted EPS programs for which production is expected to begin before December 31, 2015, we expect that we will need to significantly increase our EPS production capacity.

Our estimated total capital expenditures for the period from July 1, 2013 to December 31, 2015 amount to approximately US\$370 million, which will be funded with the proceeds of the Global Offering, bank borrowings and our internal resources. Of the total capital expenditures of approximately US\$370 million, (i) approximately 27% is expected to be paid out in the second half of 2013; (ii) approximately 35% is expected to be paid out in 2014; and (iii) the remaining 38% is expected to be paid out in 2015. Of the total capital expenditures of

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approximately US\$370 million, approximately US\$23 million is expected to be invested in maintenance and non-program related matters, approximately US\$20 million is expected to be invested in facility expansion and approximately US\$327 million is expected to be invested in machinery and equipment to increase production capacity to launch new product programs that have been or are expected to be secured from OEM customers. Of the US\$327 million program-related capital expenditures, among other things, approximately US\$177 million will be used in North America, approximately US\$20 million will be used in Europe, approximately US\$119 million will be used in China and the remainder in the rest of the world (including approximately US\$6 million and US\$5 million in India and Brazil, respectively). Assuming the mid-point of the proposed Offer Price range, approximately US\$188 million of these capital expenditures, which we expect will mainly be used to strengthen our manufacturing footprint in certain geographic locations such as the PRC and to support EPS programs, will be funded with the proceeds of the Global Offering. See “Future Plans and Use of Proceeds — Use of Proceeds.”

Based on the indicative production arrangements provided by OEM customers and a rolling forecast based on information provided by a third-party industry source, we expect our capital expenditure will significantly increase our EPS and halfshafts capacity, if the relevant purchase orders are performed in accordance with their terms. We expect our utilization rate for each product category, other than pumps, to show moderate growth during the period. The below table sets forth our planned capacity expansion for the years ending December 31, 2013 and 2014.

| <b>Products</b>        | <b>2013</b> | <b>2014</b>            |
|------------------------|-------------|------------------------|
|                        |             | (units) <sup>(1)</sup> |
| EPS .....              | 4,483,000   | 5,892,000              |
| HPS                    |             |                        |
| Gears .....            | 2,492,050   | 1,714,200              |
| Pumps .....            | 4,062,000   | 3,800,000              |
| Steering columns ..... | 4,935,000   | 4,975,000              |
| Halfshafts .....       | 11,109,000  | 12,442,582             |

Note:

(1) For calculation methods, see “— Production Volume, Production Capacity and Utilization.”

The forecast above is subject to a number of risks and uncertainties, including our inability to forecast the level of customer orders with certainty. See “Risk Factors — Risks Related to Our Business and Industry — We could be adversely affected by a shortage of supplies causing a production disruption” and “Risk Factors — Risks Related to Our Business and Industry — We and our suppliers face manufacturing challenges.”

## INVENTORY CONTROL

We aim to optimize inventory control to promote cash management, operational effectiveness and productivity. Our global PC&L Team oversees inventory control and is responsible for inventory management. A PC&L leader is stationed in each of our global facilities and is responsible for overall inventory management. The PC&L leader is supported by a data coordinator, who is responsible for the coordination of inventory activities and the accuracy of his or her plant’s inventory balance. Because inventory control is the responsibility of our entire Group, we assign various other departments to support inventory management, such as the industrial engineering team, the finance team and the operations team.

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In managing our global inventories, we focus on two primary metrics. First, DIO monitors whether our suppliers are localized, overall value stream design, vertical integration in the supply chain and other elements. A comparative metric, DIO helps us track trends in our inventory management performance. Second, API is conducted at least once per year in each plant and measures the enterprise inventory management and the PC&L team's performance in reporting accurate inventory levels at all times. We use other metrics such as Customer Ship Performance, which measures how often our customer shipments are on-time, and schedule attainment, which measures each plant's performance in meeting its schedule every hour of every day.

### QUALITY CONTROL AND CERTIFICATIONS

Our quality system is designed to monitor the quality of our products from development to production. Our Program Management and Engineering team is responsible for quality control in the design process. Our Manufacturing Operations team is responsible for quality control in the manufacturing process. Some of our quality control employees have more than 20 years of experience in the industry, and many of them hold engineering degrees. Quality control in purchased parts is the responsibility of our Global Supply Management team. In addition to our internal quality standards, our OEM customers often have their own specific requirements or warranty metrics regarding quality control. To promote quality control in our plants, all of our locations worldwide are TS-16949 certified, which is an automotive industry quality certification that is recognized by most of our customers. The TS-16949 certification scheme was developed by the IATF, and includes third-party auditor qualifications and common rules for consistent global certification. The certification is valid for three years and must be confirmed annually by an IATF-certified auditor of an accredited certification body.

In launching new products and customer programs, our development managers and engineers are responsible for quality control in our design of product and manufacturing systems and in our advanced product development planning. During production, our parts approval process aims to ensure that customer requirements are fully understood and satisfied before any new or revised parts are produced. We also undertake failure mode and risk analysis to identify potential problems early in the development cycle when they are easier to resolve. In addition, our system establishes specific quality benchmarks for our products to enhance safety, assure regulatory compliance, and optimize vehicle functionality.

In our manufacturing systems, we set standardized work instructions for each manufacturing operation to promote compliance with safety, equipment operation, and product repair requirements. We use error-proofing systems that aim to detect and remove defective parts before they are produced. Our containment and sorting systems identify and segregate non-conforming parts during the manufacturing process. Each manufacturing plant assesses compliance with our quality system requirements on a weekly basis. These weekly assessments involve reviewing relevant documentation, interviewing personnel, documenting compliance or non-compliance, implementing any corrective actions and monitoring and reviewing the results. In addition, we conduct quality audits regularly in which trained auditors review and verify that our manufacturing processes meet our quality and customer requirements. These regular audits involve, among other processes, reviewing the applicable customer requirements, conducting interviews with the relevant personnel, recording evidence of compliance or non-compliance and preparing an audit report. When we require purchased parts, we monitor our suppliers using



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quality control processes similar to what we use for internally produced parts. We work directly with suppliers from the pre-sourcing stage through production to ensure that they meet our quality standards.

Our problem solving systems aim to identify the root causes of quality issues. When problems are identified and resolved, we communicate lessons learned to each of our global plants that may face similar problems. For persistent issues that require permanent corrective action, we use advanced problem solving tools, such as Six Sigma, to identify and remove the root causes of product defects and variability in our manufacturing processes. We have product identification and traceability methods in place which allow us to locate parts that may be defective in order to mitigate the risk of quality issues. We also monitor customer warranty data on a regular basis and analyze parts returned from warranty to identify emerging quality issues. Our annual quality plan promotes our culture of quality control by setting specific objectives, initiatives and timing targets that require individual ownership and responsibility. Progress toward these objectives is measured by metrics such as the percentage of quality parts for each production run, customer returns per million parts sold, and the volume of quality complaints worldwide.

## CUSTOMERS

As of the Latest Practicable Date, we supplied our products to more than 50 customers, including substantially all of the world's top ten major OEMs in terms of production volume in 2012.

For the years ended December 31, 2010 (combining revenues of our Predecessor and our Group), 2011 and 2012, sales to our five largest customers accounted for 79.2%, 82.4% and 82.7% of our total revenues, respectively. Each of our five largest customers for the year ended December 31, 2012 have maintained business relationships with us for over 20 years. During the Track Record Period, none of our Directors or their associates or our Shareholders who, to the knowledge of our Directors, owns more than 5% of our issued share capital had any interest in any of the five largest customers. As of the Latest Practicable Date, taking into consideration the payment histories of our five largest customers, we were not aware of any material issues with respect to such customers' financial condition.

We seek opportunities to build relationships with OEMs other than GM to reduce our dependence on any single customer, and diversifying our Group's customer base has been and continues to be one of our key strategies. Since becoming an independent component supplier after the Acquisition, we have also focused on working closely with and increasing sales to OEMs other than GM by offering cost-effective solutions tailored to the needs of each of our customers. We target potential customers and track various opportunities through an opportunity plan, which tracks and assesses potential customer program bookings that we intend to secure. We have also focused on expanding our business in emerging markets such as China, where we pursue business opportunities with global OEMs, as well as local OEMs. See "— Our Strategies — Solidify established customer relationships and continue to diversify customer base."

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We plan to continue diversifying our customer base to manage the risk of a decrease in any customer's demand. In addition, to mitigate the adverse impact of a potential reduction in purchases from a customer, we would attempt to adjust the size of our workforce to match anticipated production needs and would continue to seek new programs from other customers. We would also evaluate the pricing of purchase orders with such customer, assess the situation with the aim to win new business awards from such customer and evaluate alternative uses for the available capacity, to the extent possible.

OEMs must make a substantial investment of engineering and other resources to develop a vehicle program with a supplier. The products of our Group are engineered for specific customers and vehicle programs and our Group works closely with our customers at each stage of a product's life cycle, including design, prototyping, production and after-sales customer support to provide our customers with efficient and highly customized solutions. We believe that our customers would need to spend significant time and expense to secure an alternative supply of the steering and driveline products currently provided by us. Each steering supplier typically relies on a few key OEM customers. In view of the production schedules, internal policies of OEMs and the time and costs involved to secure an alternative supply during a vehicle's program life, it is very rare for an OEM to terminate a working relationship with a supplier during a vehicle's program life, which typically lasts four to seven years. During the Track Record Period, no customer terminated a supply agreement with us during the life of a vehicle program.

The competitive landscapes of the global automotive industry, the steering industry and the halfshafts industry are dominated by a few key manufacturers. Steering and halfshafts suppliers typically rely on a few key OEM customers and OEM customers typically rely on a few key steering and halfshafts suppliers. According to the IPSOS Report, steering system manufacturers with established supply relationships with automotive manufacturers enjoy competitive advantages in the industry because the cost of switching steering suppliers is high for OEMs. See "Industry Overview — Global Steering System Industry Overview — Competitive Landscape of the Steering Industry — Key Manufacturers in the Global Steering System Industry," "Industry Overview — Global Automotive Industry Overview — Overview of the Global Automotive Industry — Major Automotive Manufacturers of the Global Automotive Industry" and "Industry Overview — Global Driveline System Industry Overview — Competitive Landscape of the Driveline Industry — Key Manufacturers in the Global Halfshafts Industry."

### **Relationship with GM**

We have a strong, long-established relationship with GM, including approximately ninety years as an internal division of GM, and we plan to continue to strengthen this relationship. We are not the sole supplier of steering or driveline products to any particular OEM customer (including GM), but our Group believes that we are an important supplier to GM.

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For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, sales to our largest customer, GM, accounted for 50.4%, 50.6% and 52.3%, respectively, of our revenues. Trade receivables from GM accounted for 43.1%, 43.0% and 48.6% of total trade receivables as of December 31, 2010, 2011 and 2012, respectively. Average turnover days for GM were 46.5, 42.2 and 46.9 for the years ended December 31, 2010, 2011 and 2012, respectively.

We, PCM China and GM entered into a number of agreements in connection with the Acquisition. These agreements provided, among other things, the framework for certain aspects of our ongoing relationship with GM, including some transitional arrangements. Our Group entered into the Supply Agreement and the Access and Security Agreement in connection with the Acquisition to provide GM assurance that our Group would duly fulfill its supply obligations after the Acquisition. Our Group entered into the IP Agreements in connection with the Acquisition to govern the ownership and licensing rights of intellectual property that GM acquired from Delphi in 2009 or conceived by our Predecessor when it was owned by GM. Our Group believes that these agreements are not industry practice in the ordinary course of business. The material terms of certain of these agreements are summarized below.

### ***Master Purchase Agreement***

On July 7, 2010, PCM China executed a Master Purchase Agreement (as amended on November 30, 2010, the “Master Purchase Agreement”) with GM, PCM U.S. Acquisition Company and New Pacific Century Investment Pte. Limited, which provided for GM’s sale of our business to PCM China. Under the Master Purchase Agreement, GM agreed, among other things, not to compete with the global steering and halfshafts business operated by our Predecessor, including the design, testing, manufacture, development, marketing, sale and distribution of automotive steering and halfshafts products until November 30, 2013, subject to certain exceptions including, among others, GM’s ability to continue operating existing lines of business, manufacture parts for its own products, and sell and distribute service parts and parts in the aftermarket. Based on our Group’s experience with GM, our Group is not aware of any GM plans to engage in the manufacture of automotive steering and halfshafts products following the expiration of the non-competition period on November 30, 2013. Accordingly, our Group is not aware that the expiration of the non-competition period will result in a material adverse impact on our Group’s business, results of operations and financial condition. We and PCM China also agreed to, among other things, (i) assume and indemnify GM for all of our Predecessor’s liabilities, including environmental liabilities, except limited employment liabilities; (ii) maintain a manufacturing presence at our facility in Saginaw, Michigan until September 14, 2015; and (iii) honor all collective bargaining agreements with unions and work councils in effect on November 30, 2010. See “— Employees.”

### ***Supply Agreement***

Prior to the Acquisition, a number of purchase orders and other agreements were in place governing the supply of products by Nexteer Automotive to GM. In connection with the sale of our Predecessor to PCM China, Nexteer Automotive, PCM China and GM entered into a Supply Agreement dated November 30, 2010 that governs the terms of sale by us to GM of products that were under contract with GM on November 30, 2010 (“Component Parts”). In the event that the Supply Agreement and any other purchase order or other agreement governing our sales of

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Component Parts to GM conflict, the terms of the Supply Agreement prevail. Our sales to GM of products that were not under contract with GM on November 30, 2010 are generally not covered by the Supply Agreement and are governed by a number of purchase orders and other agreements.

The Supply Agreement provided certain key terms that superseded any conflicting terms in the existing purchase orders and other agreements governing the supply of Component Parts. Under the Supply Agreement, GM agreed to offer us the opportunity to participate in the sourcing process for its new and future steering and driveline business on the same competitive basis as its other suppliers without special accommodation and subject to GM's general terms and conditions until November 30, 2020. The Supply Agreement also extended GM's purchase and our supply obligations with respect to Component Parts until the end of the applicable vehicle program life, although GM has no minimum quantity or purchase obligations with respect to Component Parts. Pursuant to the Supply Agreement, the vehicle program life includes an extension of such vehicle program but does not include extensions to new vehicle programs or additional vehicle platforms. The Supply Agreement does not restrict the circumstances under which an extension of the applicable vehicle program could be made or the maximum possible length of such extension. OEMs typically extend programs for a variety of lengths and reasons. Our contracts with GM that are governed by the Supply Agreement and had not expired as of the Latest Practicable Date were entered into between 2005 and 2010 and are expected to expire between 2013 and 2020, assuming the applicable vehicle programs are not extended. The Supply Agreement also provided that, subject to our reasonable internal capacity limitations, we will build an inventory bank of Component Parts at GM's request.

The Supply Agreement provided that payment for Component Parts would be made on average in 47 days, which we believe is in line with general industry practice. The Supply Agreement stipulated that pricing for Component Parts would follow the pricing terms in the existing contracts, which were based on the market price that resulted from the competitive bidding process, consistent with our typical practice. See “— Customers — Supply Relationships with Our Customers.” Unless the existing contracts for the Component Parts provided otherwise, we would not be entitled to adjustments in pricing of Component Parts for changes in our costs. While our Group is not entitled to price adjustments under the Supply Agreement unless the existing contracts for the Component Parts provided otherwise, our Group has still been able to negotiate with GM regarding pricing when there are unexpected factors that impact our Group's operations. For example, our Group has been able to negotiate commodity price escalation/de-escalation terms with GM from time to time.

In addition to the existing termination provisions, the Supply Agreement allows GM to terminate its purchase obligations for a Component Part if, in GM's reasonable opinion, a Component Part does not remain competitive with respect to technology, design or quality. In addition, the Supply Agreement narrowed GM's ability to terminate its order of a Component Part for convenience to terminations due to program cancellations or modifications.

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Moreover, we agreed that tooling that was or is used in connection with the manufacture, assembly or transportation of parts for GM is owned by GM, and agreed to a presumption in favor of GM in the event of any dispute over whether any tooling is GM-owned tooling (subject to any other customer ownership rights). The Supply Agreement also provides that GM has the right to, without notice, take immediate possession of GM-owned tooling, and prohibits the use of any GM-owned tooling for the production of parts for sale to any third party without GM's written consent (which we believe are in line with general industry practice).

Upon the occurrence of an event of default under the Supply Agreement, GM may terminate the Supply Agreement or any of the purchase orders or other agreements for the Component Parts. An event of default under the Supply Agreement is defined as our breach of our obligations under the Supply Agreement or purchase orders or other agreements governing the supply of Component Parts, our acts that would materially and imminently endanger our supply of Component Parts to GM, our failure to maintain a manufacturing presence in Saginaw, Michigan until September 14, 2015 and certain events of insolvency and acts by our creditors.

Our Group entered into the Supply Agreement in connection with the Acquisition to provide GM assurance that our Group would duly fulfill its supply obligations after the Acquisition. For the years ended December 31, 2011 and 2012, approximately 94% and 96%, respectively, of our sales to GM were governed by the Supply Agreement. As described above, the Supply Agreement generally only governs our supply of Component Parts to GM under contracts entered into on or before November 30, 2010. Our Group believes that as the vehicles programs covered by the Supply Agreement end over time (resulting in a decline in our Group's revenue relating to the supply of Component Parts under the Supply Agreement in the future) and are replaced with contracts with GM that are not governed by the Supply Agreement, any adverse impact of the Supply Agreement will have a gradually lessened overall impact on our Group.

Since steering and halfshafts suppliers typically rely on a few key OEM customers and OEM customers typically rely on a few key steering and halfshafts suppliers, we do not believe our reliance on GM affects our bargaining power with GM when compared to GM's other existing suppliers. We also believe we compete for GM business on the same competitive basis as its other existing suppliers.

Based on the above, our Directors are of the view that the Supply Agreement did not have a material adverse effect on our Group during the Track Record Period, and our Directors are not aware that it will have a material adverse effect on our Group in the future.

### ***Access and Security Agreement***

If an event of default occurs under the Access and Security Agreement, the Access and Security Agreement provides GM with the right to use the operating assets that are used in, helpful or necessary to the manufacture of Component Parts and occupy the real estate at our plants in: (i) Saginaw, Michigan, USA; (ii) Sabinas Hidalgo, Mexico; (iii) Querétaro, Mexico; and (iv) Juárez, Mexico (each a "Facility" and together the "Facilities") for a period of up to 24 months from and after the occurrence of an event of default under the Access and Security Agreement. In addition, the Access and Security Agreement grants GM a license to use or sublicense our intellectual property that is necessary to manufacture the GM products produced

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at the Facilities on a royalty-free basis during the Occupancy Period. GM agreed to produce parts for our other customers during the Occupancy Period subject to certain conditions, including such customers' agreement to pay GM the expenses related to production of its products, and provided that production for such other customers does not unreasonably interfere with GM's production of Component Parts. GM's rights under the Access and Security Agreement with respect to each Facility will continue until the expiration or termination by GM of all purchase orders, supply agreements and other formal agreements for products ("Existing Parts") manufactured at the Facilities that were in existence as of November 30, 2010 (the "Pre-November 2010 Purchase Orders"). We may not sell or dispose of, encumber or use the operating assets and real estate at the Facilities in a manner that materially and adversely affects GM's rights under the Access and Security Agreement without GM's prior written consent, which may not be unreasonably withheld.

The following constitute an event of default under the Access and Security Agreement:

- our written acknowledgement that we are unable to satisfy our obligations under (i) the Supply Agreement or (ii) the Pre-November 2010 Purchase Orders;
- our failure to ship or produce Existing Parts supplied by a Facility resulting in an imminent interruption of production at GM's assembly operations;
- our request for financial accommodations from GM and our acknowledgment that without such accommodations we cannot timely perform our obligations under the Supply Agreement and Purchase Orders;
- a creditor commences action or a court order or other relief is granted against us or against a material portion of the operating assets of a Facility such that an imminent and material interruption of production at GM's assembly operations will result; or
- any lender providing us financing ceases to provide financing such that an imminent and material interruption of production at GM's assembly operations will result.

An event that would constitute an event of default under the Access and Security Agreement did not occur during the Track Record Period. Accordingly, our Directors are of the view that the Access and Security Agreement did not have a material adverse effect on our Group during the Track Record Period. As of the Latest Practicable Date, our Directors are not aware of the occurrence of any event that with the passage of time would be an event of default under the Access and Security Agreement in the future. Accordingly, our Directors are not aware that the Access and Security Agreement will have a material adverse effect on our Group in the future. See "Risk Factors — Risks Related to Our Business and Industry — Our business, results of operations and financial condition could be materially and adversely affected if we fail to comply with the terms and conditions of our agreements with GM."

***IP Agreements***

We also entered into an Intellectual Property Joint Ownership Agreement and related assignment agreements, which provide that we and GM Global Technology Operations, Inc. (“GM Global Technology”), a subsidiary of GM, jointly own the intellectual property (copyrights, know-how, patents, software and trade secrets) that GM acquired from Delphi in 2009 and any intellectual property conceived by our Predecessor between October 6, 2009 and November 30, 2010 (the “Steering Technology”). The Steering Technology primarily is comprised of certain technology for the production of each of our product lines, which we believe GM is not currently engaged in. The Intellectual Property Joint Ownership Agreement does not have a fixed term and cannot be terminated except with the written consent of both parties.

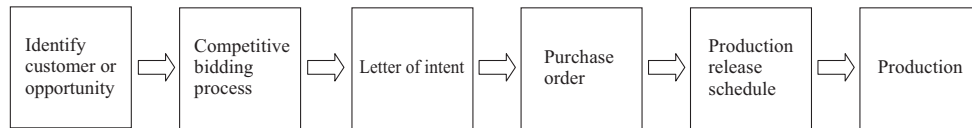
We and GM Global Technology also entered into fully paid non-exclusive, perpetual, royalty free, worldwide, irrevocable and non-transferable cross-licenses that provide for: (i) rights from us to GM and its affiliates, and from GM Global Technology to us, to use the Steering Technology as well as certain modifications of the Steering Technology; (ii) limited rights for GM Global Technology and us to sublicense Steering Technology to the respective affiliates and suppliers, as the case may be; and (iii) rights for GM Global Technology and us to sublicense certain modifications of the Steering Technology. In addition, each party granted the other a covenant not to sue or transfer its rights with respect to intellectual property related to the Steering Technology. While GM has the right to use the Steering Technology, we are not aware of any such use during the Track Record Period and up to the Latest Practicable Date. In addition, while GM has the limited right to sublicense the Steering Technology and certain of its modifications to its other suppliers, we are not aware of any such GM sublicensing during the Track Record Period and up to the Latest Practicable Date. Moreover, as the technology has advanced since our entry into the Intellectual Property Joint Ownership Agreement and cross-licenses, we have developed our own intellectual property rights subsequently which gradually replace the Steering Technology. Accordingly, the impact of the use and/or sublicensing by GM of the Steering Technology on our Group will gradually lessen. Accordingly, our Directors are of the view that the IP Agreements did not have a material adverse effect on our Group during the Track Record Period, and they are not aware that the IP Agreements will have a material adverse effect on our Group in the future. See “Risk Factors — Risks Related to Our Business and Industry — Our intellectual property portfolio exposes us to certain risks, which could have a material adverse effect on our business, results of operations and financial condition.”

In addition, GM assigned and transferred to us all of its rights to the Nexteer trademarks under a Trademark Agreement and a related assignment agreement.

Our Group is not dependent on any particular patent. See “Business — Intellectual Property.”

### **Supply Relationships with Our Customers**

Although the process varies from customer to customer, the following chart sets forth the main steps in many of our customer supply relationships:



Any new customer relationship begins with our identification of the potential customer or opportunity. At this stage, our team will consider whether the potential business opportunity is aligned with our revenue plan, manufacturing footprint strategy and other business objectives. Once we have decided to pursue a business opportunity, our sales team will develop a customer proposal that includes a technical proposal, pricing quote, timeline and other commercial terms. The customer then conducts a bidding process in which our Group's proposal, including its pricing quote, is compared to the proposals of the other suppliers that are competing for the business.

When preparing a pricing quote, our Group determines the minimum price at which our Group would approve the program based on our Group's estimated costs for the program and an internally determined minimum profit margin requirement for the program. The price that our Group offers the customer during the bidding process is based on market pricing but does not fall below our Group's minimum acceptable price. Thus, although our Group considers its estimated costs and internally determined profit margin requirement for the program when determining its minimum acceptable price, our Group's pricing is based on the market price that results from the competitive bidding process. In the event our proposal passes multiple rounds of technical reviews by the customer and we win the bidding process, some of our customers may provide a letter of intent that further specifies the customer's requirements. The letter of intent is then reviewed for revenue planning. Once the letter of intent passes our internal review and we have accepted the letter of intent, we consider the business opportunity accepted. Once we have accepted the business opportunity, it typically takes 24 to 30 months for us to implement the required manufacturing capacity and for the customer to complete development of the vehicle before commencing production.

We typically supply products to our OEM customers through purchase orders for specific products supplied for particular vehicles, which are governed by general terms and conditions established by each OEM. For customers that provide a letter of intent upon the award of business, we typically receive a purchase order shortly before the expected start of production. Our customers that do not provide a letter of intent generally issue purchase orders following the award of business. Although the purchase orders with our customers vary from customer to customer, they typically establish a relationship under which our customers place orders for their requirements of specific components or systems supplied for particular vehicles but are not required to purchase any minimum amount of products from us. These relationships typically extend over the life of the related vehicle, which generally ranges from four to seven years.



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Our purchase orders typically stipulate the product prices that are negotiated with respect to each purchase order, which may be subject to adjustments under certain circumstances, such as commodity or foreign exchange escalation/de-escalation clauses or for cost reductions achieved by us. Prices may decrease at a pre-negotiated percentage at certain intervals through a program's life cycle based on the customer's demand for annual savings. In most instances, our OEM customers agree to purchase their requirements for specific products but are not required to purchase any minimum amount of products from us.

The general terms and conditions established by each OEM that govern the purchase orders, although they vary from customer to customer, typically provide the following:

- We are typically subject to a warranty on our products. The average warranty period offered by an OEM to the end-user of the vehicle is typically two to five years of the product life. In most cases, the duration of warranty provided by us for our products is coterminous with the warranty offered by the OEM to the end-user of the vehicle. Our warranties typically provide that our products will conform to the customer's specifications, be free from defect, and comply with all applicable laws and regulations.
- If we deliver goods that fail to conform to specifications, our customers may revoke acceptance, reject or require correction or return the goods to us at our expense and risk of loss.
- We may also be obligated to share in all or a part of the recall costs if the OEM recalls its vehicles for defects attributable to our products. See "Risk Factors — Risks Related to Our Business and Industry — Product recalls by OEMs could negatively affect their production levels and therefore have a material adverse effect on our business, results of operations and financial condition."

Individual purchase orders are terminable for cause or non-performance and, in most cases, upon our insolvency and certain change of control events. The Listing does not constitute a change of control event under our terms and conditions with our customers. In addition, many of our OEM customers have the option to terminate for competitiveness or convenience, which permits our customers to impose pressure on pricing during the life of the vehicle program. They also have the ability to issue purchase orders for less than the duration of the vehicle program, which potentially reduces our profit margins and increases the risk of our losing future sales under those purchase orders.

Although customer programs typically extend to future periods, and there is an expectation that we will supply certain levels of OEM production during such future periods, our customers' purchase orders, including applicable terms and conditions, are typically requirements contracts that do not stipulate production amounts. Our customers place their orders for actual production and shipment via specific and authorized customer release schedules placed with our manufacturing and distribution centers. We manufacture and ship based on these customer release schedules that are normally provided on a weekly basis, but are subject to change and can vary due to cyclical vehicle production or dealer inventory levels. Once received, customers' orders are typically fulfilled as promptly as possible.

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Pricing pressure is an industry-wide characteristic. We attempt to offset the negative impact of price decreases by improving our manufacturing and purchasing efficiency through methods such as technological innovation, contemporary product design, economies of scale, reduction of defect rates and bulk purchasing. Historically, our Group has lowered the production cost of products during the life of a vehicle program. Moreover, our Group believes our pricing pressure is lessened when existing products that our Group supplies to OEMs are replaced with new products that can be sold at a premium compared to existing products.

In some instances, we may offer an existing customer price reductions on current business in order to win their new business. During the Track Record Period, price reductions extended to existing customers on current business to win their new business amounted to approximately 0.5% of our total revenue (combining revenue of our Predecessor and our Group).

We have a payment and credit terms policy that provides corporate standards for determining the appropriate payment and credit terms for our customers. These standards take into account certain factors, including country risk and credit risk of the customer. The goal of this policy is to minimize the commercial risk associated with the transaction. As the overall credit risk of a customer increases, we require more stringent payment and credit terms. Standard credit terms provide for payment to be due between 30 and 90 days following shipment. The majority of our customers settle their invoices with cash payments. However, in the Asia-Pacific region and certain other countries, certain customers pay us with bank notes that mature on a future date.

Our Group maintains recall and warranty reserves and our Directors believe that such reserves are adequate based on our estimates of amounts necessary to settle future and existing claims. For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, our warranty expenses were US\$1.2 million, US\$11.5 million and US\$16.7 million, respectively. For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, our payment of warranties was US\$0.7 million, US\$10.9 million and US\$9.5 million, respectively. As of December 31, 2010, 2011 and 2012, our provisions relating to warranty claims were US\$24.6 million, US\$25.1 million and US\$32.4 million, respectively.

As of the Latest Practicable Date, we had 12 significant purchase orders with OEM customers for vehicle programs that were under development for which we had not started production as of December 31, 2012. These purchase orders generally stipulate the product prices and that OEM customers will purchase their requirements for specific products from us but are not required to purchase any minimum quantity of products from us. See “— Our Business Model — Ordering by OEM Customers,” and “Risk Factors — Risks Related to Our Business and Industry — Our purchase orders with our OEM customers are generally requirements contracts, and a decline in the production requirements of any of our customers, in particular our largest customers, could materially and adversely affect our business, results of operations and financial condition.”

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The following table sets forth a breakdown of the selected key booked business and the corresponding expected lifetime volume. The selected key booked business is expected to begin generating revenue on the start of the production date noted in the table. We estimate the value of the selected key booked business awards amounts to approximately US\$7.2 billion over the lifetime of the relevant vehicle programs. Estimated lifetime volumes are based on indicative production arrangements provided by OEM customers and a rolling forecast based on information provided by a third-party industry source. The estimated revenue of the booked business represents the amount we expect to receive over the lifetime of the vehicle program if the contract is performed in accordance with its terms. The value of a booked business is not a measure defined by generally accepted accounting principles, and our methodology for determining the value may not be comparable to the methodology used by other companies in determining the value of their booked business.

| Product Content      | Estimated<br>Lifetime<br>Revenue | Customer   | Vehicle Type  | Estimated<br>Lifetime<br>Volume | Award Date | First Start of<br>Production<br>Date | Duration in<br>Years |
|----------------------|----------------------------------|------------|---------------|---------------------------------|------------|--------------------------------------|----------------------|
|                      | (US\$<br>billions)               |            |               |                                 |            |                                      |                      |
| CIS . . . . .        | 1.5                              | US OEM 2   | Pick Up & SUV | 5,356,825                       | Jul-10     | Apr-13                               | 5                    |
|                      |                                  | US OEM 1   | Pick Up       | 3,162,000                       | Jul-11     | Jul-14                               | 6                    |
| HPS . . . . .        | 0.2                              | US OEM 2   | Pick Up & SUV | 747,300                         | Nov-12     | Sep-13                               | 6                    |
| Halfshafts . . . . . | 1.0                              | US OEM 2   | Pick Up & SUV | 7,726,800                       | Nov-10     | Apr-13                               | 5                    |
|                      |                                  | US OEM 2   | SUV           | 8,052,275                       | Jan-13     | Oct-15                               | 7                    |
|                      |                                  | US OEM 2   | Car           | 4,291,805                       | Aug-11     | Jul-14                               | 7                    |
|                      |                                  | US OEM 2   | Car           | 3,684,800                       | Apr-11     | Sep-14                               | 5                    |
| EPS . . . . .        | 4.5                              | US OEM 2   | Pick Up & SUV | 3,841,075                       | Apr-10     | Apr-13                               | 5                    |
|                      |                                  | German OEM | Car           | 6,301,028                       | Aug-10     | Sep-13                               | 12                   |
|                      |                                  | US OEM 1   | Car           | 647,980                         | Jul-11     | Jul-14                               | 5                    |
|                      |                                  | US OEM 1   | Pick Up       | 3,162,000                       | Jul-11     | Jul-14                               | 6                    |
|                      |                                  | China OEM  | Car           | 1,290,000                       | Dec-10     | Sep-13                               | 6                    |

We anticipate that we will begin to derive revenue under these business awards within 24 to 30 months from the date when business was awarded, which will provide visibility of our near term revenue growth.

### Sales, Marketing and Distribution

As of December 31, 2012, our sales and marketing team had 69 employees who were located in 11 countries, many of whom have an engineering background. Our sales and marketing employees are organized into customer-dedicated teams who are responsible for developing and supporting our relationships with each of our major customers on a global basis. In addition, we also have sales managers who focus exclusively on promoting our global product lines. We market our products to our OEM customers directly except for aftermarket sales of certain HPS components that accounted for an insignificant portion of our total sales in 2012.

Our marketing strategy is focused on building our brand through media events and product demonstrations that educate the media about our products and business development achievements. In addition, we participate in customer-directed technology shows and exhibits and present at select technology conferences.

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The major countries to which we export our products include the United States, Mexico, Canada, Turkey, France, Germany, Italy, Spain, Korea, Australia, Argentina and Thailand. The following table sets forth our revenue by geographic segment for the periods/years indicated:

|  | Our Predecessor  |            | Our Group   |            | Combined <sup>(1)</sup> |            | Our Group                            |            |                                      |              |
|--|--|------------|---|------------|-------------------------|------------|--------------------------------------|------------|--------------------------------------|--------------|
|  | For the period from January 1, 2010 to November 30, 2010 |            | For the period from November 4, 2010 to December 31, 2010 |            | Total 2010              |            | For the year ended December 31, 2011 |            | For the year ended December 31, 2012 |              |
|  | (US\$ thousands)   | %          | (US\$ thousands)  | %          | (US\$ thousands)        | %          | (US\$ thousands)                     | %          | (US\$ thousands)                     | %            |
| <b>Geographic segment:</b>             |  |            |   |            |                         |            |                                      |            |                                      |              |
| North America . . . . .                | 1,200,748  | 63.4       | 96,858  | 61.8       | 1,297,606               | 63.2       | 1,470,392                            | 65.4       | 1,536,351                            | 70.9         |
| Europe . . . . .                       | 430,868  | 22.7       | 31,715  | 20.2       | 462,583                 | 22.5       | 456,359                              | 20.3       | 328,444                              | 15.2         |
| China . . . . .                        | 129,240  | 6.8        | 18,125  | 11.6       | 147,365                 | 7.2        | 168,477                              | 7.5        | 182,326                              | 8.4          |
| Rest of World <sup>(2)</sup> . . . . . | 134,339  | 7.1        | 9,990   | 6.4        | 144,329                 | 7.1        | 152,524                              | 6.8        | 120,681                              | 5.5          |
| <b>Total</b> . . . . .                 | <u>1,895,195</u>   | <u>100</u> | <u>156,688</u>  | <u>100</u> | <u>2,051,883</u>        | <u>100</u> | <u>2,247,752</u>                     | <u>100</u> | <u>2,167,802</u>                     | <u>100.0</u> |

**Notes:**

(1) Revenue for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “Financial Information — Basis of Presentation.”

(2) Includes Brazil, India, Korea and Australia.

One of our key strategies is to increase market share in China and other emerging markets by expanding our product portfolio to offer products specifically tailored to these emerging markets. In addition, we plan to continue building upon our established relationships with global and local OEMs in these markets and may pursue selected strategic acquisitions and alliances. We also plan to further expand our manufacturing capability in these markets, consistent with the growth of our business.

### Joint Ventures

We established two joint ventures in China, namely Nexteer Zhuozhou and Nexteer Wuhu, in 1995 and 2006, respectively. Nexteer Zhuozhou and Wuhu are engaged in the development, manufacture, assembly and sale of driveline systems, constant velocity joint products and related automotive components. We and Lingyun Industrial hold 60% and 40%, respectively, of the respective interests in each of Nexteer Zhuozhou and Nexteer Wuhu. Lingyun Industrial is a company incorporated under the laws of the PRC and listed on the Shanghai Stock Exchange (Stock Code: 600480). It is engaged in, among other things, the manufacturing and sale of automotive parts and components as well as piping systems. Its principal shareholder is Northern Lingyun Industrial Group Co., Ltd. (北方凌雲工業集團有限公司), which held approximately 34.11% of the share interest in Lingyun Industrial as of September 30, 2012. Save for its interests in Nexteer Zhuozhou and Nexteer Wuhu, Lingyun Industrial is not connected to our Group.

Under the joint venture contract of each of Nexteer Zhuozhou and Nexteer Wuhu:

- (i) the board of directors shall consist of seven directors, four (including the chairman) to be appointed by us and three (including the vice-chairman) to be appointed by Lingyun Industrial;
- (ii) the general manager (who shall be nominated by us) shall be responsible for the day-to-day operation and management of the joint venture, with the assistance of the deputy general manager (who shall be nominated by Lingyun Industrial);

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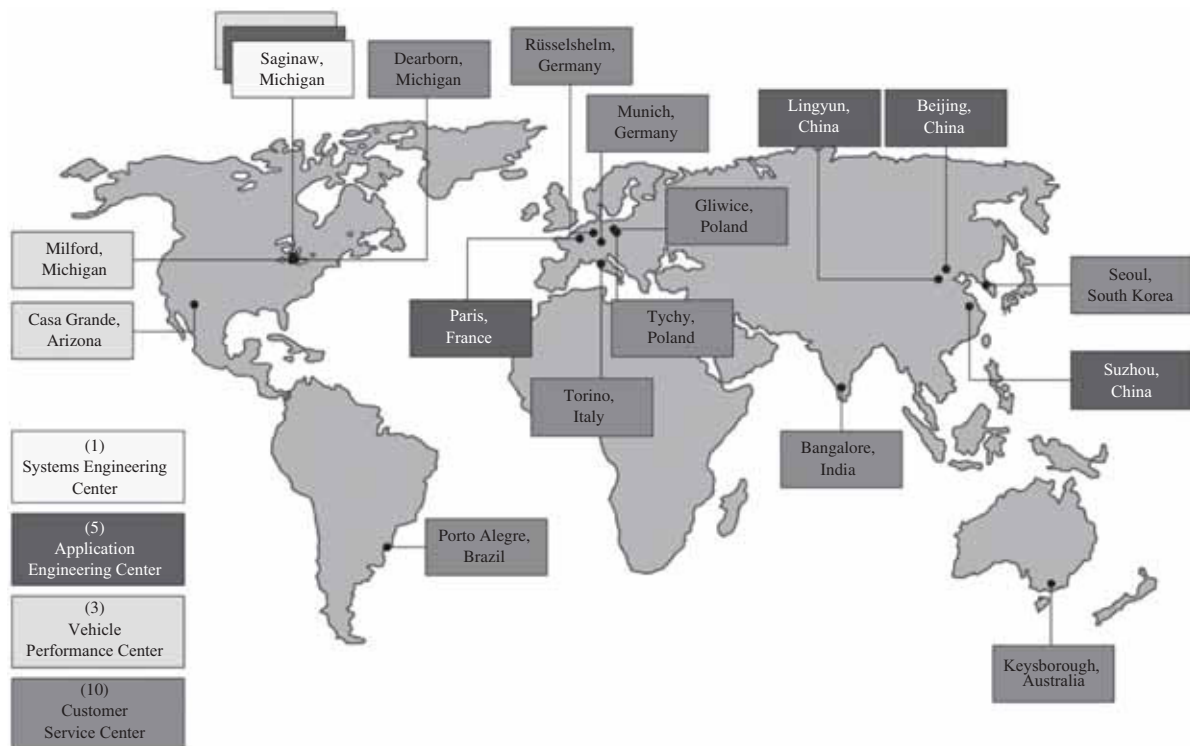
## BUSINESS

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- (iii) the chief financial officer shall be nominated by us;
- (iv) the net profits shall be distributed to the shareholders in proportion to their respective shares of the registered capital;
- (v) any transfer of share interests of the joint venture to any third party requires unanimous approval of the board of directors, and the non-transferring party has the preemptive right to purchase such share interests; and
- (vi) Lingyun Industrial shall assist the joint venture in obtaining necessary (a) approvals, permits, certificates and licenses from PRC governmental authorities and (b) utilities for the production activities of the joint venture.

### Customer Support

We operate three vehicle performance centers, five regional application engineering centers and ten customer service centers that provide support to our customers around the world. We develop, evaluate, verify and validate our products at our vehicle performance centers where we are able to conduct vehicle tests in a safe environment. Our regional application engineering centers are responsible for tailoring our products and processes to meet customer specifications and requirements. Our customer service center employees are our customers' primary contact for technical support. The following map sets forth our customer support coverage as of the Latest Practicable Date:



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Our regional application engineering centers and customer service centers around the world are staffed with local representatives who are familiar with local customs and business practices and can interface directly with customers. This enables us to meet customer support requirements on a timely basis and satisfy regional variations in our global OEM customers' global vehicle platforms. During the Track Record Period, there have not been any major changes in our points of sales, except the opening of our Munich customer service center in October 2010.

### COMPETITION

The automotive steering and driveline industries are very competitive. OEMs typically rigorously evaluate Tier 1 suppliers on the basis of product quality, price, reliability and timeliness of delivery, product design capability, technical expertise and development capability, new product innovation, financial viability, operational flexibility and excellence, customer service and overall management. We believe we compete effectively with other Tier 1 suppliers. In the steering market, we have six such global competitors, who, along with us, comprise approximately 73% of the steering market in terms of sales revenue in 2012. See "Industry Overview — Global Steering System Industry Overview — Competitive Landscape of the Steering Industry — Key Manufacturers in the Global Steering System Industry." The barriers to entry to the global steering system market include the competitive nature of the market, the cost to OEMs of changing steering suppliers and the capital and technical capability required for the continuous testing of new products and development. In the halfshafts market, we have two such competitors, who, along with us, comprise approximately 59% of the global market in terms of sales revenue in 2012. See "Industry Overview — Global Driveline System Industry Overview — Competitive Landscape of the Driveline Industry — Key Manufacturers in the Global Halfshafts Industry." The barriers to entry to the global driveline system market include the competitive nature of the market, which is dominated by a few key manufacturers who have typically established long-term relationships with automotive manufacturers, and limited access to relevant technology, which creates a competitive advantage for established manufacturers. In addition, in certain circumstances some OEMs may compete with suppliers because they manufacture steering and driveline systems for their own use.

For more information on the global automotive market, see "Industry Overview — Global Automotive Industry Overview — Overview of the Global Automotive Industry."

### RESEARCH AND DEVELOPMENT

We have a high degree of expertise in the design, development, manufacture and operation of steering and driveline systems. We were a market leader in the introduction of brushless EPS in Europe in 1999 and continue to be a market leader in EPS technology. We have also been a pioneer in the automobile-driver interface through steering column adjustability and crash energy management. At the same time, we are committed to results-driven research and development initiatives and employ processes such as Lean Design Methodology in order to respond quickly to customer needs and competitive pressures. Our expertise, together with our emphasis on innovation and efficiency, allow us to use the advanced technologies, materials and processes to efficiently solve problems for customers and to bring relevant, innovative products to market.

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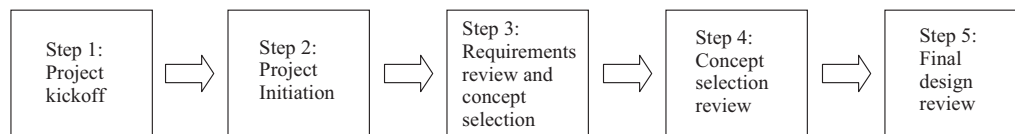
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Our Systems Engineering Center, located in Saginaw, Michigan, is the center of our research and development department where we establish our product portfolio and develop core product designs and manufacturing processes. Customer prototypes are generally produced within a single TS-16949 certified pre-production facility and distributed globally. Within our four hundred acre site in Saginaw, Michigan, we have our own comprehensive vehicle test track for product development and customer product evaluation. Our 39,000 sq. ft. acoustics and vibration center provides full vehicle and multiple system and component test facilities, including advanced hemianechoic chambers.

As of the Latest Practicable Date, our core team of advanced engineers in Saginaw had 40 members, who focus on early-stage product development. As of December 31, 2012, we employed over 1,100 engineers, scientists, designers and technicians worldwide. Most members of our research and development team have undergraduate and graduate degrees in engineering or the sciences. In addition, most have between five to 30 years of experience in the automotive industry. In addition, we operate a global network of 10 customer service centers and five regional application engineering centers that provide our customers with regional and customer-specific design, application and technical capabilities. Our total engineering and product development costs were US\$118.0 million, US\$13.3 million, US\$179.1 million and US\$190.3 million for the period from January 1, 2010 to November 30, 2010, the period from November 4, 2010 to December 31, 2010, the year ended December 31, 2011 and the year ended December 31, 2012, respectively, of which nil, US\$4.8 million, US\$70.8 million and US\$108.7 million, respectively, were capitalized as intangible assets. For information on how research and development expenses are accounted for, see “Financial Information — Significant Accounting Policies and Critical Accounting Estimates — Intangible Assets — Research and Development.”

In recognition of our technological achievements, we have received several industry awards, including the Pace Award for Horizontal Modeling and Digital Process Design for CAD/CAM in 2004 and the Innovation Award for “Most Innovative Use of Plastics” from the Society of Plastics Engineers in 2009. See “— Awards and Accreditation.”

Our Advanced Development Process, the process by which we develop a new project design, can be summarized in five main steps:



- **Project kickoff.** We create a clear mission and scope for the project, including the deliverables and timing requirements. At this time, we also weigh the financial goals of the project against the amount of investment and resources needed for completion.
- **Project initiation.** We translate the customer’s requirements into concrete technical targets, product requirements and process goals. In this phase, we will also consider

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various strategies for meeting these requirements. Examples of such strategies include Six Sigma Analysis, a quality management process that helps to minimize errors in manufacturing, Pareto Analysis, a statistical technique that improves decision making, and Quality Function Deployment, a method of turning customer needs into engineering characteristics.

- **Requirements review and concept selection.** We conduct a literature and patent search to seek engineering opportunities and assess the scope of designs that have already been patented. At this time, we also consider alternative design concepts and lessons we have learned from past projects. By reaching out to our key suppliers in advance, we may gather additional design or process ideas. After the review process, we decide on a final product concept.
- **Concept selection review.** We make decisions regarding whether to make or procure certain components that are required for a product. If we decide to procure certain parts, we develop a sourcing plan with potential suppliers. We also refine the product design, focusing on reliability and risk-mitigation. Any request for capital funding, if required, is made at this time.
- **Final design review.** We consider potential shortcomings or changes in the market landscape, we make any necessary improvements to the project design. At this point, our review board makes the final decision as to whether to proceed with the proposed design. The duration of the Advanced Development Process depends largely on the size of the project and whether the project involves new inventions.

## INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we had over 500 U.S. patents and over 300 non-U.S. patents, and we have applied for nearly 300 additional U.S. and non-U.S. patents. We have registered or are in the course of registering several trademarks, including our brand “Nexteer Automotive,” in various markets, including those where our products are principally sold, such as the United States, Canada and certain European countries. As of the Latest Practicable Date, we had also obtained patent protection and were in the process of applying for patent protection for certain inventions, including inventions in our EPS technologies and steering columns and intermediate shaft technologies, HPS technologies and halfshafts technologies. While we consider our brand name and the aforementioned patents and patent applications to be important for our business, we are not dependent on any particular trademark or patent. In addition, as part of the Acquisition, we entered into intellectual property joint ownership and licensing agreements with GM pursuant to which we share joint rights with GM in certain intellectual property. See “— Customers — Relationship with GM — IP Agreements.”

In order to defend our intellectual property rights and the intellectual property rights that we are licensed to use, we implement a set of internal intellectual property management procedures and all matters related to trademarks, patents and trade secrets are required to comply with such procedures. We monitor whether there is any infringement of our intellectual property rights by regularly reviewing industrial information and our competitors’ product and technology offerings, as well as conducting patent and technology searches and other internet searches.



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Having considered the operational needs of our Group, the measures adopted by our peers and the cost and benefit in connection with the measures available, we believe the following measures implemented by our Group are adequate for ensuring that our products do not infringe other parties' intellectual property rights:

- we examine at an early stage of a program, through competitive analysis (namely reviewing brochures and other publicly-available marketing materials of the products of our competitors, suppliers and customers) and patent searches on parts designed by us and manufacturing process specified by us, to assess whether there is potential infringement of a third party's intellectual property;
- if our engineers discover certain products or components purchased from suppliers and/or sub-suppliers may infringe a third party's patents, we will request from the supplier verification of ownership of the patent or written confirmation of non-infringement of the patent; and
- in line with industry practice, we rely on our terms and conditions of purchase, which are incorporated into all of our purchase orders issued to our suppliers, which ensure that our suppliers are in compliance with all applicable intellectual property laws and will indemnify us for any and all costs associated with products sold to us that may infringe or allegedly infringe one or more of the patents of third parties.

### AWARDS AND ACCREDITATION

During the Track Record Period, we received 135 National Safety Council Awards, including two Prestigious Industrial Leadership Awards, eight Safety Leadership Awards, 32 National Safety Council Perfect Record Awards, 21 Significant Improvement Awards, 47 Occupational Excellence Achievement Awards and 25 Millions Hours Worked Awards.

The following table sets forth some of the significant awards and certifications we have received from independent entities:

| Awards/Certificate  | Awarded by                                  | Year |
|---|---|------|
| National Safety Achievement Award for "Exceptional Safety Performance in the Workplace" . . . . . | National Safety Council (U.S.)              | 2012 |
| Seven projects as finalists at International Ergo Cup . . . . .                                   | Global Organization of Ergonomics           | 2012 |
| OHSAS 18001:2007 Specification . . . . .  | Lloyd's Register Quality Assurance          | 2012 |
| Best Place to Work — Paris, France. . . . .   | Great Place to Work Institute               | 2012 |
| Award for Simplicity at International Ergo Cup. . . . .   | Global Organization of Ergonomics           | 2011 |
| Top Human Being Award . . . . .   | Brazilian Association of Human Resources    | 2011 |
| National Safety Achievement Award . . . . .   | National Safety Council (U.S.)              | 2010 |
| Innovation Award for "Most Innovative Use of Plastics". . . . .                                   | Society of Plastics Engineers (U.S.)        | 2009 |
| Shingo Prize Award. . . . .   | The Shingo Prize for Operational Excellence | 2006 |
| Pace Finalist Award for Active Energy-Absorbing Steering Column . . . . .                         | <i>Automotive News</i>                      | 2006 |

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| Awards/Certificate  | Awarded by                                  | Year |
|---|---|------|
| 2006 Six Sigma Excellence Award . . . . .   | <i>iSixSigma</i>                            | 2006 |
| Finalist for <i>Industry Week's</i> "2005 Best Plants" . . . . .                    | <i>Industry Week</i>                        | 2005 |
| Finalist for the Society of Plastics Engineers Innovation Award . . . . .           | Society of Plastics Engineers               | 2005 |
| Finalist for Shingo Prize . . . . .   | The Shingo Prize for Operational Excellence | 2004 |
| Pace Award for Horizontal Modeling and Digital Process Design for CAD/CAM . . . . . | <i>Automotive News</i>                      | 2004 |
| Finalist for Shingo Prize . . . . .   | The Shingo Prize for Operational Excellence | 2003 |
| Pace Award for QUADRA STEER system . . . . .  | <i>Automotive News</i>                      | 2002 |
| Pace Award for Math Based Metal Removal (MBMR) software . . . . .                   | <i>Automotive News</i>                      | 2001 |
| Shingo Prize for Excellence Award . . . . .   | The Shingo Prize for Operational Excellence | 2000 |
| Pace Award for E-STEER™ electronic steering . . . . .                               | <i>Automotive News</i>                      | 1999 |

### REAL PROPERTIES

We occupy properties around the world in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and they principally include premises for use as manufacturing sites, customer support centers, storage, and engineering and technical centers. As of the Latest Practicable Date, we owned eight parcels of land with a total site area of approximately 1,974,331.8 sq.m. and 47 buildings with a total GFA of approximately 403,995.2 sq.m., and leased 27 properties with a total GFA of approximately 102,138.7 sq.m.

According to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) notice, this Prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all our interests in land or buildings, since as of December 31, 2012, each of our properties has a carrying amount of less than 15% of our consolidated total assets.

### Our Owned Properties

As of the Latest Practicable Date, we owned eight parcels of land with a total site area of approximately 1,974,331.8 sq.m. and 47 buildings with a total GFA of approximately 403,995.2 sq.m. in the United States, China, Brazil, India, Mexico and Poland. Our owned properties are primarily used for manufacturing, with GFA ranging from approximately 7,905 sq.m. to 321,748.2 sq.m. Our owned properties accounted for approximately 79.8% of the aggregate properties occupied by us.

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Among these owned properties, the following are considered material by us because they are main manufacturing sites of the Company. Details of such properties are set out below:

| No. | Owned properties  | Site area<br>(sq.m.) | GFA<br>(sq.m.) | Registered owners  |
|-----|---|----------------------|----------------|--|
| 1   | Sabinas Hidalgo, Mexico<br>Plant 67 <sup>(1)</sup><br>Inturbide 1305, Barrio de Sonora<br>Sabinas Hidalgo, Mexico                                       | 41,463.8             | 13,288         | Steering mex S<br>de RI de Cv                                |
| 2   | Wuhu, China<br>Plant 54<br>No. 18 Huaihai Road, Wuhu Economic &<br>Technological Development Area (WEDA)<br>Anhui Province, China                       | 26,666.9             | 15,836.5       | Nexteer Wuhu   |
| 3   | Saginaw, Michigan<br>Plants 1, 3, 4, 5, 6 & 7<br>Nexteer Automotive Corporation<br>3900 Holland Road<br>Saginaw, MI 48601-9494<br>United States         | 1,650,672.3          | 321,748.2      | Nexteer<br>Automotive  |
| 4   | Juárez, Mexico<br>Plant 68<br>Avenue Rio Bravo #1445<br>Parque Industrial Rio Bravo<br>Cd. Juárez, Chihuahua, Mexico                                    | 20,241.8             | 10,287.8       | Steering mex S<br>de RI de Cv                                |
| 5   | Porto Alegre, Brazil<br>Plant 89<br>Rua Giuseppe Mandelli<br>118 Bairro Sao Joao<br>Porto Alegre, Rio Grande do Sul 90200-290<br>Brazil                 | 68,200.1             | 9,814.4        | Nexteer Ind. e<br>Com. de<br>Sistemas<br>Automotivos<br>Ltda |
| 6   | Zhuozhou, China<br>Plant 52<br>1 Ling Yun Industrial Zone, Zheng Yang Jie Road<br>Song Lin Dian Town, Zhuozhou<br>Hebei Province, China                 | 13,520               | 7,905          | Nexteer<br>Zhuozhou  |
| 7   | Bangalore, India<br>Plant 81<br>No. 106 to 109 & 111 to 113<br>Jigani Phase II<br>KIADB Industrial Area, Hobli Jugani Taluk<br>Anekal, Karnataka, India | 43,333               | 10,215.4       | Nexteer<br>Automotive<br>India                               |

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| No. | Owned properties   | Site area<br>(sq.m.) | GFA<br>(sq.m.) | Registered owners                             |
|-----|--|----------------------|----------------|---|
| 8   | Tychy, Poland<br>Plant 77<br>Siedziba: 43-100 Tychy Towarowa ul.6<br>43110 Tychy, Poland | 110,234              | 14,900         | Nexteer<br>Automotive<br>Poland<br>Sp. z o.o. |

Note:

(1) We entered into an asset purchase agreement on April 26, 2013 regarding a strategic divestiture of, among other assets, our hose plant in Sabinas Hidalgo, Mexico. This plant manufactures hydraulic hoses, a component of the declining HPS product line. The revenue attributable to this plant for the year ended December 31, 2012 was approximately US\$32 million or 1.5% of our Group's total revenue for the same period. We expect minimal net financial impact on our Group. The sale of the plant is expected to be completed by June 30, 2013.

As of the Latest Practicable Date, our owned property in Saginaw, Michigan, United States, which has a GFA of approximately 321,748.2 sq.m., representing approximately 79.6% of the aggregate GFA of our owned properties, had been mortgaged under a credit agreement. This property has been used by us primarily for manufacturing.

We own substantially all of our assets and equipment. The repair and maintenance of assets and equipment are charged as expenses are incurred. The age and condition of such assets and equipment vary. We review the useful lives of our assets and equipment annually.

### Our Leased Properties

As of the Latest Practicable Date, we have leased 27 properties with a total GFA of approximately 102,138.7 sq.m. in the United States, Mexico, India, Poland, Australia, Brazil, Germany, France, Italy, Korea, Turkey and China. Our leased properties are primarily used for manufacturing sites, customer service centers, storage, and engineering and technical centers, with GFA ranging from approximately 32 sq.m. to 16,486 sq.m. Our leased properties accounted for approximately 20.2% of the aggregate GFA of the properties occupied by us.

Among these leased properties, six of them are considered material by us because they consist of our main manufacturing sites and an engineering center and contribute a significant portion to our total revenue. Details of such properties are set out below:

| No. | Leased properties  | GFA<br>(sq.m.) | Occupied by                     | Expiry dates of<br>the leases |
|-----|--|----------------|---------------------------------|-------------------------------|
| 1   | Querétaro, Mexico<br>Plant 65<br>Building Finsa III-I Santa Rosa De Viterbo<br>No 12 Parque Industrial FINSA CP 76246 El<br>Marques, Querétaro, Mexico | 16,486         | Steeringmex<br>S de RL de<br>CV | June 15,<br>2019              |
| 2   | Suzhou, China<br>Plant 53<br>Suzhou Industrial Park, No. 72 Fengli Street<br>Suzhou City, Jiangsu Province, China                                      | 11,830.9       | Nexteer<br>Suzhou               | November 30,<br>2017          |

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| No. | Leased properties   | GFA<br>(sq.m.) | Occupied by   | Expiry dates of<br>the leases |
|-----|---|----------------|---|-------------------------------|
| 3   | Suzhou, China<br>Plant 51<br>Suzhou Industrial Park, No. 72 Fengli Street<br>Suzhou City, Jiangsu Province, China         | 13,633.7       | Nexteer<br>Suzhou                                       | January 31,<br>2018           |
| 4   | Querétaro, Mexico<br>Plant 66<br>No. 12 Parque Industrial FINSA CP 76246<br>El Marques Querétaro, Mexico                  | 11,676         | Steeringmex<br>S de RL de<br>CV                         | May 31,<br>2014               |
| 5   | Gliwice, Poland<br>Plant 79<br>Gliwice-Diamond Business Park, ulica<br>Leonardo Da Vinci Street, 44-100 Gliwice<br>Poland | 12,220         | Nexteer<br>Automotive<br>System<br>Poland<br>Sp. Z o.o. | May 15,<br>2014               |
| 6   | Troy, Michigan Level 1, an office building<br>SEMCSO Troy, Michigan United States   | 2,828.9        | Nexteer<br>Automotive                                   | January 14,<br>2019           |

As of the Latest Practicable Date, our leasehold interests in two leased properties with an aggregate GFA of approximately 1,384 sq.m., which accounted for approximately 1.4% of the aggregate GFA of our leased properties, were subject to certain defects as follows:

- Our landlord did not provide a certificate of official ownership of a property in the PRC with a GFA of approximately 144 sq.m., representing approximately 0.1% of the aggregate GFA of our leased properties. The property is used mainly as a garage and for new products testing. We are of the view that we can replace such property with a comparable building, if necessary, without any material adverse effect on our operations, given the limited size and number as well as usage of such property.
- One of our leased properties in the PRC, which has a GFA of approximately 1,240 sq.m., representing approximately 1.2% of the aggregate GFA of our leased properties, had been pledged before we leased the property. The property is used for office purposes. We have been advised by our PRC legal advisors that (i) our rights under the relevant lease agreement may be affected by any future sale, auction or transfer of the property by the landlord, in which cases we may need to enter into a new lease agreement with the new owner of the property if we wish to continue to use it; and (ii) the existing pledge of the property would not have any material impact on our operations. We are of the view that this property can, if necessary, be replaced by other comparable premises without any material adverse effect on our business, results of operations or financial condition, given the limited size and number as well as the usage of such property.

As of the Latest Practicable Date, we have not been subject to any material claim arising from or in connection with any defect in our leasehold interest in any of our leased properties.

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### EMPLOYEES

As of December 31, 2012, we employed 5,842 employees in our North American segment, 1,183 in our European segment, 460 in our China segment, and 579 in our rest of the world segment. As of December 31, 2012, we employed 2,281 salaried employees. The number of our salaried employees classified by function is as follows:

| Functions                            | Number of<br>Employees as of<br>December 31, 2012 | % of total  |
|--------------------------------------|---|-------------|
| Product Engineer.....                | 693   | 30%         |
| Manufacturing Engineer .....         | 427   | 19%         |
| Manufacture.....                     | 293   | 13%         |
| Global Supply Management .....       | 193   | 8%          |
| Customer Satisfaction .....          | 175   | 8%          |
| Finance.....                         | 149   | 7%          |
| Production Control & Logistics ..... | 132   | 6%          |
| Human Resource.....                  | 72  | 3%          |
| Sales.....                           | 69  | 3%          |
| Administration.....                  | 49  | 2%          |
| Information Technology.....          | 29  | 1%          |
| <b>Total</b> .....                   | <u>2,281</u>                                      | <u>100%</u> |

As of December 31, 2012, approximately 3,300, 390, 460 and 260 of our workforce in our North America, Europe, China and other international segments, respectively, were represented by 11 unions and work councils. We acknowledge an employee's membership in unions and work councils and make it a priority to have positive relationships with our employees through regular communication and dialogue. We believe that we maintain a constructive relationship with each of our global unions and work councils and communicate with them on a regular basis. In addition, our local representatives monitor our ongoing relationship with our unions and work councils. As of the Latest Practicable Date, we had no plans to change our labor strategy. We had not experienced any material industrial action, work stoppages or labor disputes during the Track Record Period and up to the Latest Practicable Date.

As of December 31, 2012, approximately 21% of our employees were represented by the UAW. Our memorandum of understanding, or MOU, with the UAW will expire on September 14, 2015. The MOU governs, among other things, the hourly wages, benefits, retirement benefits, health and safety policy and vacation policy for the covered employees. Our obligations under the MOU include:

- a commitment to situate manufacturing activities at our Saginaw, Michigan plant for new customer programs such as integral gear housing and pumps;
- benefits relating to individual retirement plans, profit sharing plans and post retirement health care accounts; and

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- wage and separation provisions to achieve a reduced ongoing wage rate. The MOU provides for multiple tiers of wages. The MOU provides that new employees are hired at the lower hourly rate while current hourly employees retained their existing wage rate unless they agreed to the lower hourly rate as described below. Effective upon the Acquisition, existing hourly employees were offered a: (i) lump sum payment for employees who agreed to a lower hourly rate after the Acquisition (mandatory for skilled trade employees and voluntary for other employees); (ii) lump sum payment for employees who decided to retire; or (iii) a lump sum payment for employees who decided to terminate their employment. As further incentive for existing hourly employees to agree to the lower hourly rate, the MOU also provides that in each of the last two years of the MOU: (i) existing hourly employees that agreed to the lower hourly rate and newly hired hourly employees will receive a 2% base wage increase beginning January 2014 and 2015, respectively, and their maximum incentive compensation payment, which is paid when our Group has reached a pre-determined operating cash flow threshold, will increase by 1% for 2014 and 2015; and (ii) current hourly employees who have not agreed to the lower hourly rate will only receive a 2% performance bonus, which will be paid as a lump sum in January 2014 and 2015, and their maximum incentive compensation payment will increase by 1% for 2014 and 2015.

While we cannot assure you that we will be successful in renewing our agreements with unions and work councils upon expiry, or that our new agreements will be on terms as favorable to us as past agreements, we did not expect any material impediments to renewing our collective bargaining agreements in light of our ongoing discussions with our unions and work councils as of the Latest Practicable Date.

We view recruiting, training and retaining skilled employees as an important element of our business. Our recruitment process begins when an individual department or plant determines that it has a specific personnel requirement after a review of its business requirements. We recruit employees from a number of sources, including certain universities, internal applicants, search firms, career fairs, advertising or the Internet. Candidates are reviewed internally and interviewed by a selection team. We offer training programs to our employees, which are designed to develop their skills that we need to meet our enterprise goals and customer requirements, and to meet certain training requirements such as mandated customer or regulatory requirements and contractual obligations. For example, we have a retention program that includes individual development plans, merit wage adjustments and promotions. In addition, we have adopted employee incentive plans designed to attract, retain and incentivize employees with a view to encouraging the participants to commit to enhancing value for us and our Shareholders as a whole. Our full time employees also participate in various employee benefit plans including pension schemes, extended disability benefits and workers compensation.

Depending on our Company's business development, our Company intends to implement a share option scheme following the Listing. The implementation of such scheme is subject to prior approval of the SASAC, and will be effected in accordance with Chapter 17 of the Listing Rules and other relevant rules and regulations.

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### INSURANCE

As of the Latest Practicable Date, we maintained insurance coverage that is customary for our industry including, but not limited to, property damage insurance and product liability insurance. In the event that we are liable for a product liability claim, we currently have worldwide product liability insurance coverage with maximum coverage of US\$2 million per year globally that covers legal liability incurred as a result of bodily injury and/or property damage to a third party caused by our products which occurs anywhere in the world except for the U.S., Puerto Rico and Canada. We also maintain product liability insurance coverage in the U.S., Puerto Rico and Canada with a self-insured retention of US\$500,000 per occurrence and maximum coverage of US\$2 million per year that covers legal liability incurred as a result of bodily injury and/or property damage to a third party caused by our products.

In order to cover our Group from liability, we maintain policies of a nature and amount that we consider adequate and evaluate from time to time such policies based on our past experience, production changes, industry developments, benchmarking and various considerations. We generally do not maintain insurance for product warranty or recall matters. Apart from the product liability insurance coverage, we strive to minimize the risk of product liability claims, warranty claims and product recalls through stringent quality control. See “— Quality Control and Certifications.” Furthermore, in cases where one or more of our suppliers is determined to be at fault, in whole or in part, we will evaluate seeking indemnification or contribution (as appropriate), from such supplier pursuant to the terms and conditions of the supply contracts with the relevant supplier, taking into account various commercial considerations, including, but not limited to, the amount sought, such supplier’s financial viability and the risk of disruption in the supply of products to us and our customers as a result of a possible claim by us for indemnification or contribution.

During the Track Record Period and up to the Latest Practicable Date: (i) there were no known material product liability claims filed against us or by our Group on our Group’s product liability insurance; and (ii) we have not (A) received any significant customer complaints or (B) participated in any recalls by our customers involving any of our products, either of which would have a material adverse effect on our business, financial condition and results of operations. Recalls during the Track Record Period were generally caused by products that did not or were suspected not to conform to our customers’ specifications. Customer complaints during the Track Record Period generally arose from quality issues or scheduling concerns. The recalls and customer complaints during the Track Record Period were not caused by material quality issues. Product liability claims would result from product quality issues.

Our quality control system seeks to reduce the risk of customer issues through use of error proofing and quality control measures. We conduct weekly assessments and regular audits of our quality control systems and monitor customer warranty data on a regular basis in order to assess whether we believe any enhancement to our quality control measures is required. See “— Quality Control and Certifications.”

Based on the above, while we cannot assure you that we will not experience material quality issues, product liability claims, recalls or customer complaints, our Directors are of the view that our quality control system is sufficient. See “Risk Factors — Risks Related to Our Business and Industry — Product recalls by OEMs could negatively affect their production levels and therefore have a material adverse effect on our business, results of operations and



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financial condition” and “Risk Factors — Risks Related to Our Business and Industry — We may incur material losses and costs as a result of warranty claims and product liability actions that may be brought against us.”

### TAXATION

We are subject to various tax benefits and jurisdiction-specific tax arrangements. For more information regarding the tax arrangements in jurisdictions we operate in, see “Regulations — Laws and Regulations of Poland,” “Regulations — Laws and Regulations of the PRC,” “Regulations — Laws and Regulations of Mexico” and “Financial Information — Factors Affecting Our Group’s Results of Operations — Our Tax Rates,” “Risk Factors — Risks Related to Our Business and Industry — Under the EIT Law and other PRC tax laws, we may be classified as a “resident enterprise,” which could result in unfavorable tax consequences to us and our non-PRC shareholders,” “Risk Factors — Risks Related to Our Business and Industry — The preferential tax treatment that our PRC subsidiaries currently enjoy may be changed or discontinued, which may adversely affect our business, results of operations and financial condition.”

Our global transfer pricing policy stipulates that intra-group sales of products between our group entities are charged at cost plus 5%, unless there is a specific market price for the product that more closely approximates an arms-length transaction. Furthermore, our non-U.S. entities are charged royalties for the use of intellectual property owned by our U.S. entities. Our Group’s transfer pricing arrangements comply with all relevant tax laws and regulations.

### OCCUPATIONAL HEALTH AND SAFETY

We are subject to various laws and regulations regarding labor, safety and work-related incidents. Our corporate safety requirements promote safe manufacturing practices at our manufacturing plants, and each plant also establishes its own safety rules to minimize site-specific employee hazards. Our occupational health and safety goals are mainly measured by lost work days, or any work-related injury severe enough to prohibit the employee from working the next day, or recordables, which refers to work-related injuries that require medical attention beyond first aid. We post health and safety communications in our plants to keep our employees up-to-date on our health and safety goals as well as our progress towards meeting these goals. Moreover, each plant’s management team is required to attend monthly safety review meetings to review recent safety incidents and to monitor performance, in addition to conducting weekly safety tours looking for unsafe acts and conditions that require corrective action. Further, each plant manager is assigned to promote at least one safety program and implement compliance at his or her plant. During the Track Record Period, we have complied with the relevant workplace safety regulatory requirements in all material respects and have not had any incidents or complaints which would materially and adversely affect our business, results of operations and financial condition.

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### ENVIRONMENTAL COMPLIANCE

We are subject to the requirements of environmental and safety and health laws and regulations in the countries in which we operate. These include laws regulating air emissions, water discharges, and hazardous materials and waste management. Although it is our intent to comply with all such requirements and regulations, such regulations are complex, change frequently and have tended to become more stringent over time. In the past, we have failed to obtain or be in compliance with certain environmental licenses or permits primarily for the following reasons:

- (i) the renewal of a license or permit is conditional upon the relevant authority carrying out a satisfactory inspection visit of our Group's facilities: although our Group has submitted applications for renewal of licenses or permits within the stipulated period of time under applicable laws and regulations, the relevant authority has not carried out the inspection visit prior to the expiry of the necessary license or permit;
- (ii) the renewal of a license or permit is conditional upon the obtaining of pre-approval or certification from the relevant authority: the relevant authority has taken a longer time than expected to grant the pre-approval or certification and, as a result, our Group has not been able to obtain the renewal of licenses or permits;
- (iii) the granting or renewal of a license or permit is conditional upon the relevant authority issuing a resolution on the matter: although our Group has submitted applications for the issuance or renewal of licenses or permits within the stipulated period of time under applicable laws and regulations, the relevant authority has failed to issue the corresponding resolution; or
- (iv) our Group submitted applications for renewal of licenses or permits to the authorities after the license or permit had expired: the operations of our Group require a number of licenses and permits which are required to be renewed at different times and our Group did not renew some of them within the stipulated period of time due to administrative oversight.

Our Group is in the course of obtaining or renewing the licenses and permits. In the cases of (i) to (iii) above, our Group has followed up with the relevant authorities to ascertain the status of scheduling of the inspection visits, the obtaining of pre-approvals or certifications or the issuing of resolutions, as the case may be. In the case of (iv), our Group has submitted applications for renewal and followed up with the relevant authorities. Our Directors are of the view that these incidents of non-compliance, whether individually or collectively, will not have a material operational or financial impact on us. Having considered the latest status of the renewal and the nature of such licenses and permits, as of the Latest Practicable Date, there is no outstanding environmental license(s) or permit(s) that would have a material adverse effect on the operations of our Group. The Company, on the basis of legal advice obtained, confirms that we are not aware of any legal impediment in renewing the outstanding environmental licences required to be renewed or that the renewal is purely a procedural formality. We cannot assure you that our environmental requirements will not become more stringent over time or our eventual environmental costs and liabilities will not be material. See "Risk Factors — Risks Related to Our Business and Industry — We may be adversely affected by environmental and occupational health and safety regulations, litigation or other liabilities."

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In order to ensure ongoing compliance with the relevant laws and applications concerning the validity of the business licenses and operational permits, our Group has since March 2013 been in the course of formulating and adopting a policy at both headquarters and subsidiary level to review and monitor the status and validity of its business licenses and operational permits on a periodic basis. We have consulted the internal control consultant in identifying the factors relevant to formulating such policy and the procedures required for such policy. Under the policy, the internal control coordinator of the local entity monitors the effectiveness of the policy and he/she or the person designated by the country manager of the local entity is responsible for preparing a business licenses and operating permits matrix which sets out, among other things, the following information: (i) area of responsibility: the work plan defines which functionality of our Group is affected by the license or permit, such that the staff of the relevant functionality shall assist the country manager of the local entity to ascertain the status of the licenses and permits, and whether any new licenses and permits, or renewal of existing licenses and permits, are necessary; (ii) impact on our Group: the internal control coordinator of the local entity or the person designated by the country manager of the local entity shall assess the impact of the breach or expiry of license or permit on our Group and any related risks that may arise as a result for our Group's customers and suppliers; and (iii) complexity of the application for renewal and expiry dates: the internal control coordinator of the local entity or the person designated by the country manager of the local entity shall ascertain the date when our Group shall prepare the application taking into account the complexity and necessary steps to renew the license or permit, including the time required for the authority to process the application (including the obtaining of pre-approval and certification) and the expiry dates of the license or permit. For renewals that are expected to take more time, our Group would set an earlier commencement date of the renewal process, such that our Group can obtain renewals prior to the expiry dates of the licenses or permits.

The internal control coordinator monitors the effectiveness of the policy and he/she or the person designated by the country manager of the local entity is responsible for monitoring the latest status of preparation, submission and granting of the licenses and permits and updating the matrix accordingly so as to ensure timely submission of the application and proper follow-up with the authorities when necessary. The internal control coordinator or the person designated by the country manager of the local entity is generally required to have a bachelor's degree in accounting and/or be a public accountant, with at least two years of experience in internal auditing and be familiar with risk management and internal control policies. The country manager of the local entity shall monitor the situation by conducting regular meetings with its internal control coordinator every six months to evaluate the status and in any event, the internal control coordinator or the person designated by the country manager of the local entity will alert the country manager when necessary. In addition, the plant manager, human resources director and finance director of each local entity will work collectively with the internal control coordinator or the person designated by the country manager of the local entity to ensure that all its applicable operational/environmental, health/safety and legal/tax licenses and permits, respectively, are in place and current, and designate proper resources to comply with the policy. The plant manager, human resources director and finance director of the local entity are required to report every six months on the status of the licenses and permits of the local entity to the country manager of such local entity, and the country manager is in turn required to report every six months to the chief operating officer of our Group, who is responsible for overseeing the process of our Group as a whole. Our Group will also consult our internal counsel, engage external consultants, including legal advisors and internal control consultant, to provide

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recommendations, to review any updates of the applicable laws and regulations relevant to our business and production or in case of material change in the scope of our business and production, ensure proper documentation and compliance of such requirements in a timely manner, and assist in enhancing our Group's internal control measures in the future if necessary. We are also in the course of formulating policies to formalize the reporting procedures of our operating subsidiaries to the headquarters on its compliance status regularly. Our Audit and Compliance Committee will also be responsible for monitoring the status of the regulatory compliance of our Group as a whole and at subsidiary level, advising on and overseeing the implementation of any necessary measures. Based on the above, the Directors consider that the above internal control policy should be sufficient for the purpose of ensuring ongoing material compliance with the relevant laws and applications concerning the validity of the business licenses and operational permits. Based on the above and the relevant due diligence work conducted, the Joint Sponsors consider that the above internal control policy should be sufficient for the purpose of ensuring ongoing material compliance with the relevant laws and applications concerning the validity of the business licenses and operational permits.

For the period from January 1, 2010 to November 30, 2010, our Predecessor's cost of compliance with applicable environmental rules and regulations was US\$0.07 million. We did not incur any material costs with respect to environmental compliance with applicable environmental rules and regulations for the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012. We cannot assure you that environmental requirements will not change or become more stringent over time or that our eventual environmental remediation costs and liabilities will not exceed the amount of our current reserves. In the event that such liabilities were to significantly exceed the amounts recorded, our results of operations could be materially affected. See "Risk Factors — Risks Related to Our Business and Industry — We may be adversely affected by environmental and occupational health and safety regulations, litigation or other liabilities."

### **REGULATORY COMPLIANCE AND LEGAL PROCEEDINGS**

From time to time we are subject to various legal actions and claims incidental to our business, including those arising out of alleged defects, breach of contracts, product warranties, intellectual property matters, and employment-related matters.

#### **Material Licenses and Permits**

As of the Latest Practicable Date, there is no outstanding material license(s), permit(s) or approval(s) that would have a material adverse effect on the operations of our Group.

#### **Legal Proceedings**

##### ***OFAC***

In 2010, when our Predecessor was owned by GM, GM made a voluntary self-disclosure to OFAC, in which GM alleged that certain activities of Nexteer Automotive may have constituted "possible" facilitation violations under the Iranian Transactions and Sanctions Regulations (the "ITSR"), then called the Iranian Transactions Regulations.

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As set out in the section headed “Our History and Reorganization — Our History,” in 2009 GM acquired, among other things, most of the steering operations of Delphi Corporation, which effectively comprise the operating subsidiaries of our Group, and subsequently renamed these operations “Nexteer” (comprising Nexteer Automotive and certain other Nexteer entities). The scope of such acquisition excluded, among other things, the steering manufacturing facility operated by Delphi Corporation in Strasbourg, France (the “Strasbourg Facility”). The Strasbourg Facility never formed part of our Group or our Predecessor and the Strasbourg Facility was subsequently closed in November 2010. Prior to its closure, the Strasbourg Facility produced and supplied steering pumps to certain OEM automobile producers in Europe, and some of them thereafter shipped the pumps for use in Iranian automobile production. The sales of these pumps were by the Strasbourg Facility and not by any member of our Group or our Predecessor.

In anticipation of the shutdown of the Strasbourg Facility, Nexteer intended to take over some of the business of the Strasbourg Facility. Nexteer agreed with some customers of the Strasbourg Facility that when the Strasbourg Facility ceased production of certain pumps, Nexteer would commence to supply the same to such customers. Among various types of pumps that the Strasbourg Facility produced, Nexteer decided not to and did not offer to supply a particular model of pump (the “Excluded Pump”), which was used by a customer (the “Excluded Pump Customer”) exclusively for its production in Iran. Apart from the Excluded Pump, the Excluded Pump Customer also purchased some other pumps from the Strasbourg Facility and Nexteer would supply such other pumps to the Excluded Pump Customer after the Strasbourg Facility ceased production.

In July 2010, in light of confusion in France as to whether Nexteer would supply the Excluded Pump, and considering that Nexteer would not supply the Excluded Pump after the closure of the Strasbourg Facility, to avoid disruptions in supply to the Excluded Pump Customer, and thereby maintain good business relationships with the Excluded Pump Customer as it would purchase some other models of pumps other than the Excluded Pump from Nexteer, Nexteer Automotive sent an email to Nexteer Automotive France SAS (“Nexteer France”), asking Nexteer France to remind the Excluded Pump Customer that (i) Nexteer would not be supplying the Excluded Pump; and (ii) the Excluded Pump Customer should consider this fact in its final order from the Strasbourg Facility (the “July Email”).

In anticipation of the closure of the Strasbourg Facility, all customers submitted final orders to the Strasbourg Facility in quantities that greatly exceeded its production capacity. To address this demand issue and to ensure a smooth transition of certain sales of pumps from the Strasbourg Facility to Nexteer (excluding the Excluded Pump which Nexteer would not supply), meetings were held from September 2010 at which representatives from Nexteer, including Nexteer Automotive and Nexteer France, and the Strasbourg Facility discussed the timing of cessation of production of pumps at the Strasbourg Facility and the commencement of supply of certain pumps (excluding the Excluded Pump) by Nexteer (the “Transition Meetings”).

The July Email and the subsequent Transition Meetings raised the appearance of “possible” facilitation by U.S. persons of trading by non-U.S. persons with Iran in violation of the ITSR because Nexteer Automotive, a U.S. person, could potentially be considered to have assisted with the final production and supply of the Excluded Pump by the Strasbourg Facility that the Excluded Pump Customer used exclusively in Iran.

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Other than the Excluded Pump, the Strasbourg Facility supplied two other models of pumps that two of its customers used for production in numerous places including Iran. Nexteer agreed to supply these models of pumps to such customers but prior to supplying these models of pumps, Nexteer obtained written assurances from such customers that such models of pumps to be supplied by Nexteer would not be used in Iran. There is no indication of facilitation by Nexteer Automotive of the sale of these other pumps to Iran.

An OFAC violation could result in monetary penalties being imposed against us by OFAC. Subsequent to GM's voluntary disclosure, Nexteer Automotive has submitted findings to OFAC and fully responded to an administrative subpoena issued by OFAC, reiterating that there was no evidence that Nexteer Automotive sold any pumps destined for Iran, and that Nexteer Automotive and its personnel had not facilitated the production or sale by the Strasbourg Facility of the Excluded Pump for use by the Excluded Pump Customer in Iran. The matter remains pending at OFAC and there have been no additional requests for information, subpoenas or any indication of whether there will be an administrative penalty from OFAC. We have and will continue to cooperate with OFAC in this matter.

The following are grounds in support of a finding by OFAC that this incident does not constitute a facilitation of trade with Iran in violation of the ITSR: (i) the July Email from Nexteer Automotive was sent with a view to avoid disruptions in supply to the Excluded Pump Customer, and thereby maintaining good business relationships with the Excluded Pump Customer as it would purchase some other models of pumps other than the Excluded Pump from Nexteer. The July Email merely confirmed and restated a prior agreement reached by the Strasbourg Facility and the Excluded Pump Customer; and (ii) the Transition Meetings subsequent to the July Email were conducted to avoid disruptions in the supply of products to the customers that Nexteer took over from the Strasbourg Facility (excluding the Excluded Pump). Nexteer Automotive did not act to facilitate the Strasbourg Facility in the production and supply of the Excluded Pump to the Excluded Pump Customer as the Strasbourg Facility already committed to supply the final quantities of the Excluded Pump prior to those Transition Meetings. In addition, in the event of an unfavorable decision by OFAC, the maximum penalty under a reasonable interpretation of the facts would be a potential penalty of approximately US\$500,000. Furthermore, any penalty would be mitigated by the voluntary disclosure and cooperation of Nexteer Automotive. Accordingly, considering the amount of the maximum penalty, our Directors are of the view that the incident will not have any material adverse effect on the business, financial condition and results of operation of our Group.

While the incident was a one-time incident merely related to the takeover of some of the business of a facility not owned by our Group instead of our daily operation, in order to ensure ongoing compliance with OFAC regulations and avoid conducting business with sanctioned customers and sanctioned countries, our Group has been continually implementing and updating a number of internal control measures since September 2011, including the following: revising and enhancing a code of conduct to include compliance policies that prohibit transactions and facilitation of transactions with sanctioned countries and denied or sanctioned entities and individuals and providing compliance training to employees on OFAC issues, as well as screening of and monitoring new customers, suppliers, employees and other parties with whom our Group deals with. This screening is conducted through an independent service provider which provides restricted and denied party screening and other related foreign trade compliance solutions. In the event we suspect, following the screening procedure mentioned

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above or otherwise identified, that a customer is using its product in any sanctioned country, we will demand that the customer stop this practice immediately and request written confirmation from such customer that it will not use any Nexteer product in a sanctioned country. In the event such customer continues to use any Nexteer products in a sanctioned country after providing the written confirmation, the Company will take legal and commercial action it deems appropriate, including ceasing supply of products to such customer. In addition, we have undertaken to the Hong Kong Stock Exchange that, after the Listing, we will not engage in business activities with countries subject to sanctions administered by OFAC, which activities are determined by a competent authority to be violations under applicable laws and regulations. We are aware that the breach of such undertaking may lead to delisting of the Company.

### *Nexter Systems*

In May 20, 2010, Nexter Systems, a French armaments supplier, filed two opposition proceedings against our Community trademark applications of our “Nexteer” brand with the EU Office of Harmonization of the Internal Market. In their opposition proceedings request, they allege that our name Nexteer infringes upon their earlier right to their name, Nexter. We have obtained a suspension of the opposition proceedings tentatively until November 2013. We are pursuing negotiations with Nexter Systems to obtain a co-existence agreement, which is based on commercial grounds. If we are unable to do so and if we are unsuccessful in the opposition proceedings, our trademark applications in question will be rejected, in which case, we will assess the feasibility of using an alternative name and trademarks globally in order to maintain a global brand of our Group. We believe any global change of our name, brand and trademarks will not have any material adverse effect on us as our business, financial condition and results of operations as a whole are not dependent on the “Nexteer” brand and trademarks for the following reasons: (i) we have established long-term relationships with our customers based on our ability to offer quality products and customer service at competitive prices, independent of our “Nexteer” brand and trademarks; (ii) we work closely with our customers at each stage of a product’s life cycle and we believe our customers would need to spend significant time and expense to secure alternative supply and are therefore unlikely to switch suppliers merely due to the change in our name, brand and trademarks; and (iii) the existing “Nexteer” brand only came into existence in October 2009 following the acquisition of the steering operations of Delphi by GM and that the historical change in name and brand of our Predecessor had not caused any material adverse effect on its business, financial condition and results of operations. Similar to the previous change, we believe any change in the “Nexteer” name, brand and trademarks will not have any material adverse effect on us.

### *Landstar*

On March 19, 2013, Landstar Express America, Inc. (“Landstar”), a transportation and logistics services company, filed a complaint against Nexteer Automotive as well as three third-party co-defendants in the Circuit Court of the Fourth Judicial Circuit in Duval County, Florida. Landstar was engaged by Contech, one of our Group’s suppliers, to provide transportation services for delivery of products from Contech to our Group. Contech failed to satisfy its payment obligations to Landstar with respect to certain transportation charges incurred in 2011 in respect of goods sold by Contech to us. In 2012, Landstar sought to recover payment from Contech by filing a separate lawsuit and obtained a judgment against Contech of approximately US\$6 million. We believe Landstar has been unsuccessful in obtaining payment

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of the judgment from Contech. Landstar subsequently filed the current lawsuit against Nexteer Automotive, and asserts breach of contract and unjust enrichment claims against Nexteer Automotive in connection with Contech's unpaid transportation charges. Pursuant to U.S. federal statutes governing freight transportation and applicable case law, lawsuits for freight charges can be asserted as breach of contract or unjust enrichment claims, and are based on the terms of the bills of lading. Landstar is seeking unspecified damages in excess of the jurisdictional minimum of US\$15,000.

As of the Latest Practicable Date, the suit was in a preliminary stage. On May 1, 2013, Nexteer Automotive filed an initial responsive pleading and a motion to dismiss the lawsuit. The trial is not expected to occur until 2014. Given the early stage of the lawsuit, we and our legal advisors are unable to evaluate our potential liability with reasonable certainty because we are still in the course of gathering the relevant information, ascertaining the merits of the case and evaluating potential defenses. As of the Latest Practicable Date, based on the information currently available and after considering our possible defenses, our Directors were of the view that the suit is unlikely to have a material adverse effect on our Group's business, results of operations and financial condition as a whole.

In addition, as of the Latest Practicable Date, we were party to numerous administrative, legal and arbitration proceedings and claims that arise in the ordinary course of our business involving purported violations of contractual terms, regulations and laws, none of which are expected to have a material adverse effect on our business, results of operations and financial condition, or on our Shares, the Global Offering and the Listing. As of the Latest Practicable Date, we were also not aware of any material pending or threatened litigation, arbitration, administrative proceeding or claim.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OVERVIEW

AVIC, AVIC Auto, PCM China and Nexteer Hong Kong will be entitled to directly or indirectly exercise or control the exercise of 30% or more of the voting power at the general meetings of our Company immediately upon the Global Offering, assuming the Over-allotment Option is not exercised. Accordingly, these parties are considered our Controlling Shareholders immediately following the Global Offering.

Save as disclosed below, none of our Controlling Shareholders, our Directors nor any of their respective associates had interests in any other companies as of the Latest Practicable Date that may, directly or indirectly, compete with the business of our Group and would require disclosure under Rule 8.10 of the Listing Rules.

### DELINEATION OF BUSINESS

AVIC, one of our Controlling Shareholders, is one of the largest Chinese state-owned entities. AVIC's business spans across several segments including defense, transport-aircraft, engine, helicopter, avionics and systems, general aviation, assets management, finance services and automobiles. Two companies controlled by AVIC, namely Zhuzhou Yilida Electrical Mechanical Co., Ltd. (株洲易力達機電有限公司) ("Yilida") and Yubei Steering System Co., Ltd. (豫北轉向系統股份有限公司) ("Yubei Steering"), are engaged in businesses (the "Retained Business") which potentially compete with our core business.

In addition, one of the indirect subsidiaries of AVIC, Jincheng, has established a joint venture ZF Steering Jincheng (Nanjing) Co., Ltd. (采埃孚轉向泵金城(南京)有限公司) ("ZF Nanjing") in the PRC with ZF Lenkesystem GmbH ("ZF"), an Independent Third Party. ZF Nanjing is engaged in the production of steering system parts including hydraulic steering pumps. ZF Nanjing is owned as to 70% by ZF and as to 30% by Jincheng. Neither AVIC nor Jincheng controls or influences the business operations of ZF Nanjing. Jincheng does not have the right to appoint and does not appoint a majority of the members of the board of directors of ZF Nanjing, which approves the key decisions of ZF Nanjing by majority. Moreover, the general manager of ZF Nanjing who is primarily responsible for implementing the decision of the board of directors and monitoring the daily operation of ZF Nanjing, is designated by ZF, and is assisted by the deputy general manager designated by Jincheng. For the three years ended December 31, 2010, 2011 and 2012, the turnover of ZF Nanjing was approximately RMB648 million, RMB606 million and RMB603 million, respectively.

Although ZF Nanjing and our Group are both engaged in the production of hydraulic steering pumps and potentially compete with each other in the hydraulic steering pump business, ZF Nanjing's customers are primarily located in the PRC with insignificant sales to customers in non-PRC markets. On the other hand, our Group's overall growth strategy is to shift our focus from HPS to the EPS product line and we have relocated some production capacity for hydraulic steering pumps from China to India in January 2013, taking into account market demands and customer requirements. While our global hydraulic steering pump sales represented approximately 6.1% of our Group's total global sales in 2012, our hydraulic steering pump sales in China, which potentially compete with ZF Nanjing, represented only approximately 1.7% and 1.8% of our Group's global sales in 2011 and 2012, respectively.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Based on the limited overlap in geographical scope between the businesses of our Group and ZF Nanjing coupled with the fact that AVIC does not have control of, or have influence on, the business decisions of ZF Nanjing via Jincheng, we therefore consider that our Controlling Shareholders would not be in competition with our business through ZF Nanjing. Based on the above and that AVIC is only a passive investor in ZF Nanjing, AVIC currently has no intention to inject ZF Nanjing into our Group prior to or in the near future after the Listing.

### **Summary of the Retained Businesses**

Two companies controlled by AVIC, namely Yilida and Yubei Steering, are engaged in businesses that potentially compete with our business. AVIC currently has no intention to inject, prior to or in the near future after Listing, the Retained Business into our Group, since our business only has a limited coverage in the PRC market whereas the Retained Business mainly serves the PRC market. In addition, our business and the Retained Business supply different products or products in the same categories with different specifications and targeted at different market segments, as described more fully below.

#### ***Yilida***

Yilida is held as to 72% indirectly by AVIC through its two wholly-owned subsidiaries, namely Hunan Southern Aerospace Industrial Co. Ltd. (湖南南方宇航工業有限公司) and China Southern Aviation Industrial (Group) Co., Ltd. (中國南方航空工業(集團)有限公司).

Yilida is principally engaged in the development and manufacturing of brush motor column electronic steering systems and rack and pinion electronic steering gears. It is focused on the PRC domestic OEM applications for low-cost brush motor type EPS.

For the year ended December 31, 2010, the turnover and net profit of Yilida were approximately RMB160 million and RMB29 million, respectively. For the year ended December 31, 2011, the turnover and net profit of Yilida were approximately RMB220 million and RMB19 million, respectively. For the year ended December 31, 2012, the turnover and net profit of Yilida were approximately RMB370 million and RMB8 million, respectively.

Yilida's customers are mainly located in the PRC with relatively insignificant sales to customers in North America, Europe and the Middle East. In 2012, approximately 2.2% of Yilida's sales was to customers in non-PRC markets, and approximately 97.8% of Yilida's sales was to customers in the PRC market.

#### ***Yubei Steering***

Yubei Steering is held indirectly as to 49.93% by AVIC through its subsidiary Yubei Machinery Factory (Xinxiang) (豫北機械廠(新鄉)).

Yubei Steering is principally engaged in the development and manufacturing of power steering systems (including EPS systems). It is focused on the PRC domestic OEM applications for low-cost brush motor type EPS. It also has a large portfolio of traditional hydraulic steering system components (i.e. rack and pinion gears) which it primarily sells to domestic OEMs in the PRC.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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For the year ended December 31, 2010, the turnover and net profit of Yubei Steering were approximately RMB905 million and RMB40 million, respectively. For the year ended December 31, 2011, the turnover and net profit of Yubei Steering were approximately RMB1,082 million and RMB37 million, respectively. For the year ended December 31, 2012, the turnover and net profit of Yubei Steering were approximately RMB1,298 million and RMB44 million, respectively.

Yubei Steering's customers are mainly located in the PRC, Russia and Turkey. In 2012, approximately 3.6% of Yubei Steering's sales was to customers in non-PRC markets, and approximately 96.4% of Yubei Steering's sales was to customers in the PRC market.

Nexteer Suzhou, an indirect wholly-owned subsidiary of the Company, carries out certain transactions with Yubei Steering. See the section headed "Connected Transactions — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions — Yubei Purchase Agreements."

### **Overlap between the Retained Business and Our Business**

While there is potential product overlap between the Retained Business and our Group as described below, we believe that the potential overlap is not material for reasons set forth below.

#### ***Product segmentation***

Our products overlap to a certain extent with the types of products manufactured by each of Yubei Steering and Yilida. For such overlapping types of products, our business and the Retained Business manufacture and supply products with different specifications which are targeted at different market segments and/or different vehicle types, and therefore do not and are not likely to compete directly with each other. Our products typically have a higher price range than those of the Retained Business.

Automotive manufacturers, based on their market positioning strategies and evaluation of the cost structure and functions of the vehicle model, typically select potential components and parts suppliers from different pools of suppliers according to certain criteria, including manufacturing cost, market positioning and pricing. An automotive manufacturer may have different steering and driveline systems supplier pools for its vehicle models with higher price ranges and specification requirements and those vehicle models with lower price ranges and less stringent performance requirements, and they typically do not procure steering and driveline systems from different supplier pools for the same vehicle model at the same time.

#### ***Yubei***

Yubei Steering and our Group are both engaged in the production and/or sale of brush motor column electronic steering systems, hydraulic rack and pinion steering gears, hydraulic recirculating ball steering gears and steering hydraulic hoses. Set out below are the primary differences in the specification and performance of the overlapping products produced by us and Yubei Steering:

- For brush motor column electronic steering systems, the products manufactured by us have higher system efficiency, reduced level of noise and more stable torque performance than those manufactured by Yubei Steering. Our brush motor column

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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electronic steering systems are designed for global and local OEMs who commit to meeting global standards for system performance, quality and safety, whereas Yubei Steering's brush motor column electronic steering systems are designed with lower specification requirements.

- Our hydraulic rack and pinion steering gears have higher mechanical efficiency compared with those produced by Yubei Steering.
- Our hydraulic recirculating ball steering gear sales are focused on the relatively higher-scale pick-up truck market in North America whereas Yubei Steering's recirculating ball hydraulic steering gears are primarily focused on the light commercial vehicle market in China.
- Our steering hydraulic hose business is focused on the supply of complete hydraulic steering systems including hydraulic hose to OEMs. Yubei Steering does not directly manufacture steering hydraulic hoses but instead collaborates with third-party suppliers to jointly manufacture hydraulic steering systems for its customers.

### *Yilida*

Yilida and our Group are both engaged in the production of brush motor column electronic steering systems and manual rack and pinion gears. The brush motor column electronic steering systems manufactured by us have higher price range than those manufactured by Yilida. Our manual rack and pinion gears have better vibration and noise performance and system efficiency to allow for efficient use of electric energy, utilization of a smaller motor size and more accurate driver maneuver input and feedback of road conditions, compared to those manufactured by Yilida.

Based on the above, our business and the Retained Business rarely compete directly due to the different product specifications and market segments that each serves. Each of us, Yilida and Yubei Steering currently has no plans to materially change the types of products it produces and the market segments in which it operates. The percentages of our global sales of products that overlapped with Yilida and Yubei Steering were approximately 0.6% and 2.4% in 2011 and 2.8% and 3.2% in 2012 respectively, and are expected to be less than 5% in 2013.

### *Limited overlap in customers*

While our business and the Retained Business have certain common customers, the revenue attributable to such customers for each of the three years ended December 31, 2012 was less than 0.0007% of our revenue and therefore we only sell a considerably limited amount of products to these overlapping customers. In addition, such common customers are primarily large automotive producers that develop a range of vehicles, and the steering systems and automotive components they purchase from us and the Retained Business respectively have different specifications, pricing and performance and are used in different vehicle models as described in the paragraph headed “— Product Segmentation” above. Accordingly, our business and the Retained Business do not compete directly with each other in serving these customers. Each of us, Yilida and Yubei Steering currently has no plan to materially change the current clientele.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### *Limited overlap in suppliers*

While our business and the Retained Business have certain common suppliers, primarily component suppliers, we only purchase a limited amount of raw materials, parts and components from such overlapping suppliers. In the year ended December 31, 2012, our Group's purchases attributable to common suppliers with the Retained Business accounted for less than 0.54% of our aggregate purchase value from all suppliers of our Group.

### *Limited overlap in geographical scope*

The Retained Business mainly serves the PRC market (in 2012, approximately 97.8% of Yilida's sales and approximately 96.4% of Yubei Steering's sales were to the PRC market), whereas our business only has a limited coverage in the PRC market. To the knowledge of the Company, Yilida and Yubei Steering will continue to focus their sales in the PRC, the percentages of sales of Yilida to the PRC markets will remain stable for the years ending December 31, 2013 and beyond, and the percentages of sales of Yubei Steering to the PRC markets will remain stable for the years ending December 31, 2013 and 2014 and slightly decrease to 80% in 2015 and then remain stable beyond 2015. Since each of Yilida and Yubei Steering currently has no plans to materially change the types of products it produces and the market segments in which it operates, any products sold by Yilida or Yubei Steering to non-PRC markets is expected to be insignificant and hence not expected to directly compete with our products in the near future.

While our Group's strategy is to expand generally into developing countries including the PRC, and the Retained Business primarily sells products to the PRC, the overlapping products sold by our Group and the Retained Business have different product specifications and are targeted at different market segments and/or different vehicle types as described in "—Product Segmentation." To the knowledge of the Company, each of our Group and the Retained Business has no plans to materially change its current product mix in the near future. Therefore, notwithstanding the overlap in geographic scope, our Group and the Retained Business rarely compete with each other.

### *No overlap in management and staff*

Each of our business and the Retained Business has its own management teams and different staff.

## NON-COMPETITION UNDERTAKING

AVIC, AVIC Auto, PCM China and Nexteer Hong Kong provided a non-competition undertaking on June 15, 2013 (the "Non-competition Undertaking"), pursuant to which AVIC, AVIC Auto, PCM China and Nexteer Hong Kong have unconditionally and irrevocably undertaken that apart from the Retained Business, it will not, and will procure its subsidiaries not to, whether directly or indirectly through third parties or the provision of support to such third parties, engage in any automotive steering systems and driveline systems business (the "Core Business") that competes, or is likely to compete, directly or indirectly with our Group.

In addition, under the Non-competition Undertaking, AVIC, AVIC Auto, PCM China and Nexteer Hong Kong unconditionally and irrevocably granted us the option to acquire new business opportunities, options for acquisitions, and pre-emptive rights in respect of the Core Business.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Options for New Business Opportunities

Each of AVIC, AVIC Auto, PCM China and Nexteer Hong Kong has unconditionally and irrevocably undertaken in the Non-competition Undertaking that:

- (a) if it becomes aware of a new business opportunity offered to it which directly or indirectly competes, or may compete, with the Core Business, it will notify us in writing within 20 business days upon becoming aware of such business opportunity and provide to us all information which is reasonably necessary for us to consider whether or not to engage in such business opportunity, including but not limited to the nature and details of the new business as well as cost of acquisition (the “Offer Notice”). It is also obliged to use its best efforts to procure that such opportunity is first offered to us on terms that are fair and reasonable, and no less favorable than those terms first offered to it. We are entitled to decide whether or not to take up such business opportunity within 20 business days from receiving the Offer Notice, which may be extended by an additional period of 30 business days at our request.
- (b) shall procure that its subsidiaries first offer to us any Core Business opportunities offered to it on the same terms to which it is subject, subject to the same procedures described in item (a) above.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to take up each new business opportunity referred to us by AVIC, AVIC Auto, PCM China, Nexteer Hong Kong or their respective subsidiaries, and such decision will be made by our independent non-executive Directors. When AVIC, AVIC Auto, PCM China and Nexteer Hong Kong or their subsidiaries deliver to us an Offer Notice, we will notify our independent non-executive Directors within seven business days of receipt for their consideration before responding to AVIC, AVIC Auto, PCM China and Nexteer Hong Kong or their subsidiaries within the specified time period.

We will make an announcement in due course on, and disclose in our annual report, our decision to pursue or decline any new business opportunity and the basis of our decision.

### Options for Acquisition

In relation to:

- (a) the Retained Business; and/or
- (b) any new business opportunity AVIC, AVIC Auto, PCM China, Nexteer Hong Kong or any of their subsidiaries may obtain in the Core Business, which has been offered to, but has not been taken up by our Group, and has been retained by AVIC, AVIC Auto, PCM China or Nexteer Hong Kong or any of their subsidiaries,

AVIC, AVIC Auto, PCM China and Nexteer Hong Kong have granted us the option, pursuant to applicable laws and regulations, the articles of association, shareholders’ agreements and shareholders’ undertaking of AVIC Auto, PCM China, Nexteer Hong Kong, the Retained Business and/or the new business, to purchase any equity interest, assets or other interests which form part of the Retained Business or new business as described above. The consideration and other terms for the acquisition of the Retained Business and certain future new businesses will be determined after arm’s length negotiation between AVIC, AVIC Auto, PCM China or Nexteer Hong Kong (or their subsidiaries, as the case may be) and us.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Our independent non-executive Directors will be responsible for reviewing and considering whether or not to exercise the options for acquisition and such decision will be made by our independent non-executive Directors. As of the Latest Practicable Date, we had no intention to purchase any of the Retained Businesses. The independent non-executive Directors will review the operation of our business regularly. If and when they find there is a need to exercise the option to acquire the Retained Business, or upon request of the management of our Company, the independent non-executive Directors will bring the topic to the attention of, and for consideration by, the Board of Directors. The decision of whether to exercise the option will be subject to annual review.

### **Pre-emptive Rights**

AVIC, AVIC Auto, PCM China and Nexteer Hong Kong have unconditionally and irrevocably undertaken that if it, its subsidiaries intends to transfer, sell, lease, license or by any other means transfer or grant the right to use any of the following interests to a third party:

- (a) the Retained Business; and/or
- (b) any new business opportunity AVIC, AVIC Auto, PCM China or Nexteer Hong Kong or any of the subsidiaries may obtain in the Core Business, which has been offered to, but has not been taken up by our Group, and has been retained by AVIC, AVIC Auto, PCM China or Nexteer Hong Kong or any of the subsidiaries,

then we shall, pursuant to applicable laws and regulations, the articles of association, shareholders' agreements and shareholders' undertaking of AVIC Auto, PCM China, Nexteer Hong Kong, the Retained Business and/or the new business, have a pre-emptive right of first refusal which can be exercised by us at any time for so long as the Non-competition Undertaking remains effective and that it shall notify us by written notice (the "Selling Notice") before or at the same time of notifying the third party of any such transaction. The Selling Notice shall attach the terms of the transfer, sale, lease or license and any information which may be reasonably required by us to make a decision on whether to exercise the pre-emptive right. We shall reply to AVIC, AVIC Auto, PCM China or Nexteer Hong Kong within 20 business days after receiving the Selling Notice from AVIC, AVIC Auto, PCM China or Nexteer Hong Kong which may be extended by an additional period of 30 business days at our request. We will notify our independent non-executive Directors within seven business days of receipt of a Selling Notice and provide such notice for their consideration before responding to AVIC, AVIC Auto, PCM China or Nexteer Hong Kong within the stipulated period. Our independent non-executive Directors will be responsible for reviewing and deciding whether to exercise the pre-emptive rights described above. Each of AVIC, AVIC Auto, PCM China and Nexteer Hong Kong has undertaken that until it receives such reply, it shall not notify any third party of the intention to transfer, sell, lease or license the Retained Business and/or new business opportunity.

If we decide not to exercise our pre-emptive rights or if we do not reply within the stipulated time period, AVIC, AVIC Auto, PCM China and Nexteer Hong Kong or their subsidiaries are entitled to proceed with the transfer, sale, leasing or licensing of the Retained Business and/or new business opportunity to the third party on the terms set forth in the Selling Notice, where applicable. If we intend to exercise the right, the terms will be determined between AVIC, AVIC Auto, PCM China or Nexteer Hong Kong (or their subsidiaries, as the case may be) and us based on applicable laws and regulations and arm's length negotiation based on principles of fairness and reasonableness.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Any exercise of such options and pre-emptive rights described above would constitute connected transactions as defined under the Listing Rules and would be subject to the applicable disclosure and independent Shareholders' approval requirements under the Listing Rules. Under the Non-competition Undertaking, each of AVIC, AVIC Auto, PCM China and Nexteer Hong Kong has undertaken that:

- (a) it will unconditionally and irrevocably commit and procure its subsidiaries to provide us with the necessary information required for ascertaining the enforcement and compliance of the Non-competition Undertaking, including annual confirmation of AVIC, AVIC Auto, PCM China, Nexteer Hong Kong and their subsidiaries' compliance and enforcement of the Non-competition Undertaking, which includes whether AVIC, AVIC Auto, PCM China and Nexteer Hong Kong have given priority in offering us new business opportunities and other confirmations that our independent non-executive Directors consider appropriate;
- (b) it will allow us to disclose the details of the Non-competition Undertaking to any legal, regulatory or securities exchange authorities, including but not limited to disclosures required for the Listing; and
- (c) it will not, without our prior written consent, make any public announcement, provide or disclose to any company, entity, organization or individual any information about our business or any materials or information relating to the Non-competition Undertaking, unless required by law or relevant regulatory authorities, or for the purposes of the Listing (or to maintain our listing status).

We will make an announcement in due course on, and disclose in our annual report, any decision to exercise or waive applicable pre-emptive rights and the basis of such decision.

In order to monitor ongoing compliance with the Non-competition Undertaking, we intend to adopt the following measures:

- (a) provision to our independent non-executive Directors of any Offer Notice or Selling Notice received, within seven business days of such receipt;
- (b) disclosure in our annual reports of the findings of our independent non-executive Directors on each Offer Notice or Selling Notice received, and the basis of their decisions; and
- (c) disclosure in our annual reports of the confirmation by AVIC, AVIC Auto, PCM China and Nexteer Hong Kong of their compliance with the Non-competition Undertaking, including that all relevant notices and pre-emptive offers have been given to us for the relevant business opportunities.

Our Directors are of the opinion that our independent non-executive Directors have sufficient experience for the purposes of assessing such new business opportunities. In addition, our independent non-executive Directors may appoint financial advisors or other professional experts to advise them in connection with their consideration of exercise of rights under the Non-competition Undertaking.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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The Non-competition Undertaking will terminate upon the earlier of:

- (a) AVIC, AVIC Auto, PCM China and Nexteer Hong Kong and their subsidiaries, directly or indirectly, holding less than 30% in aggregate of our total share capital, ceasing to have control of voting rights of such shareholding, or ceasing to be controlling shareholders (as defined under the Listing Rules); or
- (b) our Shares no longer being listed on the Main Board.

### INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Our Board is satisfied, on the basis of the following matters, that our Group is capable of carrying on its business independently of the Controlling Shareholders (including any associates of such Controlling Shareholders) after the Listing.

#### Operational independence

We do not rely on the Controlling Shareholders for our manufacturing, research and development, staffing, marketing or sales activities. Save as disclosed in the section headed “Connected Transactions — Continuing Connected Transactions — Non-Exempt Continuing Connected Transactions — Yubei Purchase Agreements”, the Controlling Shareholders are not expected to have any interest in any of our suppliers of raw materials, parts and components required for our operations. We independently manage and have independent access to our customers. The Controlling Shareholders do not have any interest in any of our corporate customers.

#### Management independence

Our Board consists of eight Directors, of whom four are executive Directors, one is a non-executive Director and three are independent non-executive Directors. ZHAO Guibin, chief executive officer, chairman of the Board and one of our executive directors, FAN, Yi, one of our executive directors and joint company secretary and LUO Qunhui, our non-executive Director, serve as directors or members of senior management of our Controlling Shareholders. Please refer to the table below for details:

| <u>Name</u>          | <u>Company</u>           | <u>Current Position</u>            | <u>Responsibility</u>                           |
|----------------------|--------------------------|------------------------------------|---|
| ZHAO Guibin. . . . . | AVIC                     | Deputy chief economist             | Participation in financial planning             |
|                      | AVIC Auto                | Chairman of the board of directors | Participation in decision making                |
|                      | PCM China <sup>(1)</sup> | Chairman of the board of directors | Participation in decision making                |
| LUO Qunhui . . . . . | PCM China <sup>(1)</sup> | Director and the general manager   | Participation in management and decision making |
| FAN, Yi. . . . .     | AVIC Auto                | Deputy general manager             | Participation in management and decision making |

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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| Name | Company                          | Current Position                                 | Responsibility                                  |
|------|----------------------------------|--|---|
|      | PCM China <sup>(1)</sup>         | Director and secretary to the board of directors | Participation in management and decision making |
|      | Nexteer Hong Kong <sup>(1)</sup> | Director and secretary to the board of directors | Participation in decision making                |

(1) Investment holding company.

Save as disclosed above, none of our Directors or senior management members hold any position in any of the companies in which our Controlling Shareholders are interested in other than those within our Group. Even though Mr. ZHAO, Mr. LUO and Mr. FAN have overlapping directors and management roles in our Controlling Shareholders, our Directors believe our Board and senior management members will function independently from our Controlling Shareholders. Mr. ZHAO is primarily responsible for formulating the overall development, corporate and business strategies of our Controlling Shareholders and is not involved in their day-to-day management and operations. Mr. ZHAO is designated an executive Director of our Company and he will primarily be responsible for setting the strategic vision, direction and goals of our Group and overseeing the overall execution of our Group's strategy. Mr. LUO is designated a non-executive Director of our Company and is not expected to manage our Group on a daily basis. He will primarily be responsible for participating in our Group's strategic and key operational decision-making processes and advising us on our strategies and policies from industry perspective. For Mr. FAN, one of our executive Directors, as the deputy general manager of AVIC Auto, he is primarily responsible for overseeing the operation and development of our Group and is not involved in the day-to-day management and operation of our Controlling Shareholders. In addition, the other companies that he serves, namely, PCM China and Nexteer Hong Kong, are merely investment holding companies and do not engage in other commercial activities. On this basis, Mr. ZHAO, Mr. LUO and Mr. FAN confirmed that their respective involvement in companies set forth above will not affect the discharge of their respective duties to our Group.

In addition, we consider that our Board will function independently from our Controlling Shareholders for the following reasons:

- (a) each of our Directors is aware of his fiduciary duties as a Director, which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;
- (b) under the Listing Rules, the Directors are required to abstain from voting on matters in which they or their associates have a material interest and shall not be counted in the quorum;
- (c) our Company has established internal control mechanisms to identify related party transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (d) the independent non-executive Directors will be entitled to engage professional advisors at our cost for advice on matters relating to any potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates;
- (e) our board comprises eight Directors and three of them are independent non-executive Directors, which represents more than one-third of the Board; and
- (f) our daily management and operations are carried out by a senior management team.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently and manage the business of our Group independently from our Controlling Shareholders after the Listing.

### Financial independence

We have established an independent finance department with a team of independent financial staff, as well as a standardized financial and accounting system. We make financial decisions according to our own business needs. We have opened basic accounts with banks independent of the Controlling Shareholders and the Controlling Shareholders do not share any bank account with us. We have made independent tax registrations and paid tax independently pursuant to applicable laws.

AVIC, one of our Controlling Shareholders, together with Beijing E-Town have provided guarantees for certain of our loans. As of the Latest Practicable Date, the total amount of guarantees provided by AVIC and Beijing E-Town to our Group amounted to US\$426 million. Such guarantees are provided in connection with the loans from Export-Import Bank of China (the “EXIM Bank”) to each of PCM (Singapore) Steering in the amount of US\$126 million and PCM (US) Steering in the amount of US\$300 million (the “EXIM Guaranteed Bank Loans”). The uses of the EXIM Guaranteed Bank Loans are set out below:

- US\$316 million to repay the previous loans borrowed from Bank of China, Los Angeles Branch in the amount of US\$190 million and from Industrial and Commercial Bank of China Limited, Singapore Branch in the amount of US\$126 million for the purpose of funding the Acquisition. The aforesaid loan from Bank of China was guaranteed by AVIC and the controlling shareholder of Beijing E-Town and the aforesaid loan from Industrial and Commercial Bank of China was guaranteed by AVIC and Beijing E-Town;
- approximately US\$82.2 million to replenish the cash used in repaying/repay the payments related to the Acquisition; and
- approximately US\$27.8 million, being the balance, for operation of our Group.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The following table sets forth the details of the EXIM Guaranteed Bank Loans as of December 31, 2012:

| Borrower                           | Lender    | Date of loan agreement | Principal and duration   | Interest rate and arrangement fee                           | Outstanding loan amount as of December 31, 2012 (US\$) | Guarantor(s)  |
|------------------------------------|-----------|------------------------|--|---|--|---|
| PCM (Singapore) Steering . . . . . | EXIM Bank | October 29, 2012       | US\$126,000,000 (i.e. the principal amount of the loan) shall be repaid in 14 installments commencing June 2014 and shall be fully settled in October 2020 | LIBOR+3.5% per annum and an upfront arrangement fee of 0.8% | US\$126,000,000  | 51% of the loan (i.e. US\$64,260,000) by AVIC and 49% of the loan (i.e. US\$61,740,000) by Beijing E-Town   |
| PCM (US) Steering . . . . .        | EXIM Bank | October 29, 2012       | US\$300,000,000 (i.e. the principal amount of the loan) shall be repaid in 14 installments commencing June 2014 and shall be fully settled in October 2020 | LIBOR+3.5% per annum and an upfront arrangement fee of 0.8% | US\$300,000,000  | 51% of the loan (i.e. US\$153,000,000) by AVIC and 49% of the loan (i.e. US\$147,000,000) by Beijing E-Town |

### Capability to obtain financing independently

#### *Refinancing of EXIM Guaranteed Bank Loans*

We believe our Group is able to obtain replacement financing from independent financial institutions without guarantees provided by our Controlling Shareholders to refinance the EXIM Guaranteed Bank Loans if necessary. We have obtained a firm commitment by the EXIM Bank pursuant to a letter dated December 12, 2012 (the “EXIM Bank Letter”) under which the EXIM Bank agreed to provide loans with an aggregate amount equivalent to the EXIM Guaranteed Bank Loans of US\$426 million to PCM (US) Steering and PCM (Singapore) Steering, without parent guarantee or guarantee from any other third party (the “EXIM Unguaranteed Bank Loans”) to refinance the EXIM Guaranteed Bank Loans. The EXIM Bank Letter is valid for one year from the date of the EXIM Bank Letter, until December 12, 2013. In case we proceed to apply for the EXIM Unguaranteed Bank Loans, the approval is subject to applicable laws and regulations, compliance requirements and EXIM Bank’s internal procedures that are applicable to all its applicants for loans of similar nature. The EXIM Bank Letter provides an agreed range of interest rate of LIBOR +3.8% to 4.5% per annum, which is higher than that under the EXIM Guaranteed Bank Loans. Save for the increase in interest rate, other terms of the EXIM Unguaranteed Bank Loans are expected to be substantially the same as those of the EXIM Guaranteed Bank Loans, and the parties will only be required to fix the actual interest rate within the agreed range.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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As of the Latest Practicable Date, we have not applied for the EXIM Unguaranteed Bank Loans, as the interest rate stated in the EXIM Bank Letter is higher than the interest rate under the EXIM Guaranteed Bank Loans. We believe that refinancing the EXIM Guaranteed Bank Loans with the EXIM Unguaranteed Bank Loans would unnecessarily increase financing costs of our Group, and it is in the commercial interests of our Group to retain the EXIM Guaranteed Bank Loans.

### *Ability to Obtain Independent Financing*

We have obtained a letter of intent from the Bank of China, Los Angeles Branch (“BOCLA”) dated December 11, 2012 pursuant to which BOCLA agreed to provide a loan of up to US\$426 million to our Company for a term of up to five years without a guarantee from the shareholders of our Company, or any other third party (the “BOCLA Letter”). The BOCLA Letter is valid until December 11, 2013, one year from the date of the BOCLA Letter and availability of the loan shall be conditional upon the compliance with applicable laws and regulations and compliance requirements, BOCLA’s internal approval procedure and finalization of loan covenants that are acceptable to BOCLA. The BOCLA Letter provides that the interest rate and other key terms of the loans will be negotiated separately with reference to market terms. The interest rate will be in the range of LIBOR + 3.0% to 4.5%.

We expect that the EXIM Guaranteed Bank Loans would be our Group’s only loans with guarantees provided by our Controlling Shareholders at the Listing. Since our steering operations operated as a business division of GM, we have developed stable bank relations to support our operations. As at December 31, 2012, our Group has obtained 17 loans from independent financial institutions in the aggregate amount of approximately US\$319 million that were not guaranteed by the Controlling Shareholder or secured by any of the Controlling Shareholder’s assets. As at December 31, 2012, the undrawn amount of such loans was approximately US\$235 million.

In view of the lower financing costs of the EXIM Guaranteed Bank Loans, we do not intend to repay the EXIM Guaranteed Bank Loans prior to maturity, or seek release of the guarantees given by AVIC or Beijing E-Town. We believe that the EXIM Bank Letter demonstrates that we are able to refinance the EXIM Guaranteed Bank Loans with EXIM Unguaranteed Bank Loans on market terms without guarantee from our Controlling Shareholders following the Listing.

In addition, the BOCLA Letter and the other independent bank loans obtained by our Group demonstrates that we are able to obtain new financing on market terms without guarantee or security from our Controlling Shareholders following the Listing. Accordingly, we believe that, notwithstanding the existence of EXIM Guaranteed Bank Loans upon the Listing, we can demonstrate our financial independence.

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## CONNECTED TRANSACTIONS

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### CONTINUING CONNECTED TRANSACTIONS

#### Summary of Our Continuing Connected Transactions

| Nature of transaction                               | Applicable Listing Rules | Waiver sought | Annual cap for the year ending December 31, |               |               |
|---|--------------------------|---------------|---|---------------|---------------|
|   |                          |               | 2013<br>(RMB)                               | 2014<br>(RMB) | 2015<br>(RMB) |
| <b>Exempt continuing connected transactions</b>     |                          |               |   |               |               |
| Guarantees from AVIC . . . . .                      | 14A.65(4)                | N/A           | N/A   | N/A           | N/A           |
| <b>Non-exempt continuing connected transactions</b> |                          |               |   |               |               |
| Yubei Purchase Agreements . . .                     | 14A.35                   | Yes           | 11,700,000                                  | 83,900,000    | 86,100,000    |

#### Exempt Continuing Connected Transactions

##### *Guarantees from AVIC*

AVIC, one of our Controlling Shareholders, and Beijing E-Town have together provided guarantees to the EXIM Guaranteed Bank Loans. Such guarantees have enabled us to obtain more favorable financing terms from EXIM Bank. For instance, the EXIM Guaranteed Bank Loans have a lower interest rate of LIBOR + 3.5% per annum when compared with the EXIM Unguaranteed Bank Loans, which bear interest at the rate ranging from LIBOR + 3.8% to 4.5% per annum. The difference between the finance costs of EXIM Guaranteed Bank Loans and that of the EXIM Unguaranteed Bank Loans in 2013 ranging from approximately US\$1.3 million (as compared to the EXIM Unguaranteed Bank Loans assuming interest rate at LIBOR + 3.8%) to US\$4.3 million (as compared to the EXIM Unguaranteed Bank Loans assuming interest rate at LIBOR + 4.5%) per annum at the total principal amount of US\$426 million. The difference between the finance costs of the EXIM Guaranteed Bank Loans and that of the EXIM Unguaranteed Bank Loans will gradually decrease starting from 2014 when the repayment of the EXIM Guaranteed Bank Loans commences until 2020 when the EXIM Guaranteed Loans are scheduled to be repaid in full.

## CONNECTED TRANSACTIONS

The following table sets forth the information in respect of the EXIM Guaranteed Bank Loans and the outstanding amounts of such bank loans as of December 31, 2012:

| Borrower                           | Lender    | Date of loan agreement | Principal              | Purpose   | Duration  | Interest rate and arrangement fee                           | Outstanding loan amount as of December 31, 2012 (US\$) | Guarantor(s)  |
|------------------------------------|-----------|------------------------|------------------------|---|---|---|--|---|
| PCM (Singapore) Steering . . . . . | EXIM Bank | October 29, 2012       | US\$126,000,000        | To repay previous loans borrowed for the sole purpose of settling the purchase price of the Acquisition; replenish related cash and borrowings previously used to fund the deferred payment of the purchase price of the Acquisition and related expenses; and operation of our Group | The principal amount shall be repaid in 14 installments commencing June 2014 and shall be fully settled in October 2020 | LIBOR+3.5% per annum and an upfront arrangement fee of 0.8% | US\$126,000,000  | 51% of the loan (i.e. US\$64,260,000) by AVIC and 49% of the loan (i.e. US\$61,740,000) by Beijing E-Town   |
| PCM (US) Steering . . . . .        | EXIM Bank | October 29, 2012       | US\$300,000,000        | To repay previous loans borrowed for the sole purpose of settling the purchase price of the Acquisition; replenish related cash and borrowings previously used to fund the deferred payment of the purchase price of the Acquisition and related expenses; and operation of our Group | The principal amount shall be repaid in 14 installments commencing June 2014 and shall be fully settled in October 2020 | LIBOR+3.5% per annum and an upfront arrangement fee of 0.8% | US\$300,000,000  | 51% of the loan (i.e. US\$153,000,000) by AVIC and 49% of the loan (i.e. US\$147,000,000) by Beijing E-Town |
| <b>Total . . . . .</b>             |           |                        | <u>US\$426,000,000</u> |   |   |   | <u>US\$426,000,000</u>                                 |   |

Our Directors are of the view that the guarantees as well as the associated lower financing costs of EXIM Guaranteed Bank Loans, being financial assistance (as defined in the Listing Rules) provided by AVIC and Beijing E-Town for our benefit, were on normal commercial terms and no security over our assets was granted in respect of such financial assistance provided by AVIC and Beijing E-Town. Accordingly, such guarantees as well as the associated lower financing costs of EXIM Guaranteed Bank Loans, are exempt from all reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### Non-exempt Continuing Connected Transactions

#### *Yubei Purchase Agreements*

We conduct certain transactions with Yubei Steering Systems Co., Ltd. (豫北轉向系統股份有限公司) (“Yubei Steering”), a company indirectly held as to 49.93% by AVIC, one of our Controlling Shareholders, and is therefore our connected person pursuant to Rule 14A.11(4) of the Listing Rules.

Nexteer Suzhou issued three nomination letters, all of which were accepted by Yubei Steering, on June 5, 2013, pursuant to which Nexteer Suzhou agreed to purchase, and Yubei Steering agreed to supply, certain manual and hydraulic rack and pinion gears for a term of three years commencing in 2013. Following acceptance of the nomination letters, Yubei Steering will undergo a purchased part approval process to ensure they have the appropriate capabilities for production, and provided that Yubei Steering successfully obtains the approval, Nexteer Suzhou and Yubei Steering are expected to enter into supplemental agreements annually during the three-year term and Nexteer Suzhou will issue purchase orders from time to time (collectively, the “Yubei Purchase Agreements”).

The indicative unit prices for each type of the rack and pinion gears to be provided by Yubei Steering for each year during the three-year term is set out in the nomination letters, which are subject to annual review of the parties and will be confirmed in the annual agreement. Separate purchase orders will be issued from time to time to indicate the quantities required by Yubei Steering for the relevant period. The Yubei Purchase Agreements are subject to the Nexteer General Terms and Conditions which became effective on October 7, 2009, under which Nexteer Suzhou may immediately terminate all or any part of the Yubei Purchase Agreements at any time and for any reason, by notifying Yubei Steering in writing. The Yubei Purchase Agreements may be renewed upon mutual agreement subject to compliance with the requirements under Chapter 14A of the Listing Rules.

The hydraulic rack and pinion gears purchased by us from Yubei Steering under the Yubei Purchase Agreements are tailor-made for our CEPS systems and hydraulic rack and pinion steering systems in connection with primarily three programs which we have secured sales agreements with two of our OEM customers. Under such programs, we will supply CEPS systems and hydraulic rack and pinion gears to our OEM customers for three vehicle models. We work with Yubei Steering to develop its production process and quality control system for such systems and rack and pinion gears to meet our and our OEM customers’ requirements. In the case of the hydraulic rack and pinion gears, we provide the core steering valve component to Yubei Steering for assembly. The CEPS systems program and the hydraulic rack and pinion gear program will commence production in June 2013 and August 2013, respectively. The OEM customers are expected to start purchasing our CEPS systems and hydraulic rack and pinion gears according to their expected vehicle production schedules:

- |   |  |               |
|---|--|---------------|
| – | Program A, Phase I (CEPS):                   | June 2013     |
| – | Program B (hydraulic rack and pinion gears): | August 2013   |
| – | Program C (CEPS):                            | February 2014 |
| – | Program A, Phase II (CEPS):                  | March 2014    |



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## CONNECTED TRANSACTIONS

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For each of the two years ended December 31, 2011 and 2012, our Group only conducted testing and development of rack and pinion gears for the above programs and hence our purchase from Yubei Steering during this period was limited to prototypes and sample products and amounted to approximately RMB63,000 (equivalent to approximately US\$10,000) and RMB64,000 (equivalent to approximately US\$10,000), respectively. See Note 32(b) of the Accountant's Reports of our Group in Appendix IA to this Prospectus.

Our Directors estimate that the annual amount to be paid by Nexteer Suzhou to Yubei Steering for the purchase of the rack and pinion gears will not exceed the following annual caps for each of the years ending December 31, 2013, 2014 and 2015:

|                                | Year ending December 31, |            |            |
|--------------------------------|--------------------------|------------|------------|
|                                | 2013                     | 2014       | 2015       |
|                                | (RMB)                    | (RMB)      | (RMB)      |
| Yubei Purchase Agreements..... | 11,700,000               | 83,900,000 | 86,100,000 |

In arriving at the above annual caps, our Directors have considered the following factors: (i) expected growth in the demand for our CEPS systems and hydraulic rack and pinion gears from the OEM customers based on their expected production volume of the relevant vehicles; (ii) the indicative prices set out in the nomination letters; (iii) the estimated growth in our production capacity and volume in response to the increase in sales demand; and (iv) the estimated market demand for relevant vehicles according to an independent third-party industry forecast provider as reference.

In particular, the increase in the aggregate purchase from Yubei Steering from approximately RMB64,000 for the year ended December 31, 2012 to the expected annual cap of RMB11,700,000 for the year ending December 31, 2013, reflects the completion of the product testing and development phase and the expected commencement of our CEPS system production following the OEM customers' purchases for program A, phase I starting from June 2013 and the expected commencement of our hydraulic rack and pinion gears production for program B starting from August 2013.

The increase in the annual cap from RMB11,700,000 for the year ending December 31, 2013 to RMB83,900,000 for the year ending December 31, 2014, reflects the expected increase in our demand for rack and pinion gears produced by Yubei Steering to support our supply of CEPS systems and hydraulic rack and pinion gears to meet the growth in demand from the OEM customers as a result of: (i) increase in volume of vehicle production for programs A and B due to the full year ramp-up and organic growth; (ii) the commencement of purchases for program C in February 2014; and (iii) the additional purchase for a new vehicle variant for program A, phase II commencing from March 2014.

The increase in the annual cap from RMB83,900,000 for the year ending December 31, 2014 to RMB86,100,000 for the year ending December 31, 2015 reflects the expected increase in our demand for rack and pinion gears produced by Yubei Steering to support the organic growth in OEM customers' demand for our CEPS steering gears and hydraulic rack and pinion gears for programs A, B and C above as well as the full year ramp-up for production of program C and program A, phase II which will start during 2014.

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## CONNECTED TRANSACTIONS

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Since the highest of all applicable percentage ratios for the Yubei Purchase Agreements calculated in accordance with Rule 14.07 of the Listing Rules are more than 0.1% but less than 5%, the transactions under the Yubei Purchase Agreements are non-exempt continuing connected transactions subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47, the annual review requirements set out in Rules 14A.37 to 14A.40 and the requirements set out in Rules 14A.35(1) and Rules 14A.35(2) of the Listing Rules, but exempt from the independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules.

### WAIVERS

#### Application for waiver

We will continue to enter into or carry out the transactions set out in the section headed “— Continuing Connected Transactions — Non-exempt Continuing Connected Transactions” following the Global Offering and these transactions will constitute continuing connected transactions for our Company under the Listing Rules following the Listing.

#### Scope of waiver

Under the Listing Rules, the continuing connected transactions under the Yubei Purchase Agreements set out under the section “— Continuing Connected Transactions — Non-exempt Continuing Connected Transactions” above are considered to be non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47, the annual review requirements set out in Rules 14A.37 to 14A.40 and the requirements set out in Rules 14A.35(1) and Rules 14A.35(2) of the Listing Rules, but exempt from the independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules.

As these connected transactions are expected to be carried out on a continuing and recurring basis and are expected to extend over a period of time, our Directors consider that strict compliance with the announcement requirements under the Listing Rules would be unduly burdensome, impractical and would add unnecessary administrative costs to our Company. Accordingly, our Directors have applied to and have received from the Hong Kong Stock Exchange a waiver from strict compliance with the announcement requirements relating to continuing connected transactions under Chapter 14A of the Listing Rules. In addition, we will comply with the applicable provisions under Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as of the date of this Prospectus on the continuing connected transactions referred to in this section including, but not limited to, a requirement that these transactions be made conditional on approval by our independent shareholders, we will take immediate steps to ensure compliance with such requirements.

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## CONNECTED TRANSACTIONS

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### **Opinion of our Directors**

Our Directors (including the independent non-executive Directors) are of the opinion that (i) each of these continuing connected transactions disclosed above has been entered into, and will be carried out in the ordinary and usual course of business and on normal commercial terms; (ii) each of these continuing connected transactions disclosed above is fair and reasonable and in the interest of our Shareholders as a whole, and (iii) the maximum aggregate annual value for such continuing connected transactions (where applicable) are fair and reasonable as far as our Shareholders as a whole are concerned.

In addition, we will comply with the reporting requirements and disclose the details of the transactions in our subsequent annual reports for each of the three financial years ending December 31, 2015 pursuant to Rules 14A.25 and 14A.46 of the Listing Rules. Upon the expiry of the waiver after December 31, 2015, we shall comply with the applicable provisions of Chapter 14A of the Listing Rules as amended from time to time or apply for relevant waivers.

### **Confirmation from the Joint Sponsors**

The Joint Sponsors are of the view that (i) the continuing connected transactions described above for which waivers are sought have been entered into in the ordinary and usual course of our business, on normal commercial terms and are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the maximum aggregate annual value for such continuing connected transactions (where applicable) are fair and reasonable as far as our Shareholders as a whole are concerned.

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## DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS/BOARD OF DIRECTORS

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

| Name  | Age | Position/Title   | Date of appointment(s)                            | Roles and responsibilities  |
|---|-----|--|---|---|
| <b><i>Executive Directors</i></b>                 |     |  |   |   |
| ZHAO, Guibin<br>(趙桂斌) .....                       | 49  | Chairman, Executive Director and Chief Executive Officer   | June 15, 2013                                     | Overseeing our Group's strategic vision, direction and goals and overseeing the overall execution of our Group's strategy |
| RICHARDSON, Michael Paul .....                    | 56  | Executive Director, Senior Vice President, Chief Technology and Strategy Officer and Chairman of China division and driveline business units | June 15, 2013                                     | Our Group's technology planning, information technology and strategic planning  |
| FAN, Yi (樊毅).....                                 | 47  | Executive Director and Joint Company Secretary   | August 21, 2012 and January 28, 2013 respectively | Managing our Group's operations and handling of company secretarial duties  |
| ZHU, Jian (朱建).....                               | 45  | Executive Director   | June 15, 2013                                     | Participating in our Group's operations   |
| <b><i>Non-executive Director</i></b>              |     |  |   |   |
| LUO, Qunhui<br>(羅群輝) .....                        | 49  | Non-executive Director   | June 15, 2013                                     | As a non-executive Director   |
| <b><i>Independent Non-executive Directors</i></b> |     |  |   |   |
| TSANG, Hing Lun<br>(曾慶麟) .....                    | 64  | Independent Non-executive Director   | June 15, 2013                                     | As an independent Director  |
| LIU, Jianjun<br>(劉健君) .....                       | 45  | Independent Non-executive Director   | June 15, 2013                                     | As an independent Director  |
| WEI, Kevin Cheng<br>(蔚成) .....                    | 45  | Independent Non-executive Director   | June 15, 2013                                     | As an independent Director  |

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## DIRECTORS AND SENIOR MANAGEMENT

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### EXECUTIVE DIRECTORS

**ZHAO, Guibin** (趙桂斌), aged 49, was appointed as our executive Director and chairman of the Board on June 15, 2013. He is also our chief executive officer since June 2012. Mr. ZHAO has 16 years of relevant experience in the automotive industry. He is primarily responsible for setting our strategic vision, direction and goals and overseeing the overall execution of our Group's strategy. Mr. ZHAO is also a director of PCM (US) Steering, PCM (Singapore) Steering, and chairman of the board of directors of several of our subsidiaries. Mr. ZHAO has been a director of PCM China, one of our Controlling Shareholders, since December 2010, and chairman of the board of directors and general manager of AVIC Auto, one of our Controlling Shareholders, since 2010 and from 2009 to 2010, respectively. He is also the deputy chief economist of AVIC. From April 2010 to April 2013, Mr. ZHAO was the chairman of the board of directors of AVIC Heavy Machinery Co. Ltd. (中航重機股份有限公司), a non-wholly owned subsidiary of AVIC, and a company listed on the Shanghai Stock Exchange (stock code: 600765). From 1997 to 2003, Mr. ZHAO was the general manager of Sichuan Lingfeng Aeronautics Hydraulic Machinery Co. (四川凌峰航空液壓機械有限公司), a wholly owned subsidiary of AVIC, where he was in charge of corporate governance and operational management. He was appointed as general manager, director and chairman of AVIC Chengdu Engine (Group) Co., Ltd (中航工業成都發動機(集團)有限公司), a non-wholly owned subsidiary of AVIC, and as director and chairman of the board of its non-wholly owned subsidiary, Sichuan Chengfa Aero Science and Technology Co., Ltd (四川成發航空科技股份有限公司) in August 2003. Mr. ZHAO became a first-tier senior economist in September 2004, awarded by China Aviation Industry Corporation II (中國航空工業第二集團公司). He was awarded an executive master's degree in business administration by the University of Electronic Science and Technology of China, the PRC (電子科技大學), in June 2007. Mr. ZHAO has received numerous awards in recognition of his achievements, including the Government Special Allowance awarded by the PRC State Council in 2000 (2000年中國國務院政府特殊津貼).

In view of Mr. ZHAO's experience, personal profile and his roles in our Group as mentioned above and that Mr. ZHAO has assumed the role of chief executive officer of our Group since June 2012, the Board considers it beneficial to the business prospect and operational efficiency of our Group that upon Listing, Mr. ZHAO acts the chairman and continues to act as the chief executive officer of our Company. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises three independent non-executive Directors out of eight Directors, which is more than the Listing Rules requirement of one-third, and we believe there is sufficient check and balance in the Board; (ii) Mr. ZHAO and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. See "— Management of our Group." The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

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## DIRECTORS AND SENIOR MANAGEMENT

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**RICHARDSON, Michael Paul**, aged 56, was appointed as our executive Director on June 15, 2013. Mr. RICHARDSON has been senior vice president, chief technology and strategy officer, as well as chairman of both the China division and the driveline business unit of Nexteer Automotive since June 2012. Mr. RICHARDSON has over 39 years of relevant experience in the automotive industry. He is responsible for all of our Group's technology planning, information technology and strategy planning, as well as mergers and acquisitions. He is currently a member of the NSC. Mr. RICHARDSON began his automotive career with GM in 1974, as a co-operative student at the former Saginaw Steering Gear Division. He was a staff engineer for the halfshafts product line in 1990. From 1992 to 1995, Mr. RICHARDSON was a staff engineer for steering products, and from 1995 to 1999, he was regional director of engineering, production control and logistics, based in Paris, France. In 1999, Mr. RICHARDSON returned to the United States as chief engineer of hydraulic power steering. He was promoted to director of engineering of Delphi Steering in 2001. From 2006 to 2009, Mr. RICHARDSON relocated to Shanghai, China, where he became regional director of the Asia-Pacific region. In 2009, Mr. RICHARDSON returned to the United States, and was made vice president of the steering business line. In 2011, Mr. RICHARDSON became chief operating officer (China division) of our Group while retaining his business line and global engineering responsibilities. He is currently based in our Shanghai and Saginaw offices. Mr. RICHARDSON is a professional engineer, awarded in 1984 by the State of Michigan, the U.S. He obtained a bachelor's degree in mechanical engineering from Kettering University (formerly known as the General Motors Institute), the U.S. in 1979 and a master's degree in business administration from Central Michigan University, the U.S. in 1990. He is a Boss Kettering Award recipient, and was inducted into the Delphi Innovation Hall of Fame for career innovation in 2004.

**FAN, Yi (樊毅)**, aged 47, was appointed as our Director on August 21, 2012 and was designated our executive Director on June 15, 2013, and was appointed as our joint company secretary on January 28, 2013. He is responsible for the management of our operations and handling of company secretarial duties. Mr. FAN has approximately 14 years of relevant experience in the automotive industry. Mr. FAN currently serves as director and secretary to the board of directors of PCM (Singapore) Steering and PCM (US) Steering, and as director of several of our subsidiaries. Mr. FAN has held the following positions in our Controlling Shareholders, namely, secretary to the board of directors, assistant to the general manager and planning department head of AVIC Auto in 2010; and deputy general manager since January 2012 and director and secretary to the board of directors of PCM China since 2010; and the sole director of Nexteer Hong Kong since its incorporation in August 2012. From 1992 to 1999, Mr. FAN worked at the economic research center of AVIC Corporation (中國航空工業總公司), the predecessor of AVIC, where he became assistant director in 1995. From 1999 to 2005, Mr. FAN served as management director of the automotive department of China Aviation Industry Corporation II (中國航空工業第二集團公司), one of the predecessor companies of AVIC. Since 2005, he started working in the automotive department of AviChina Industry & Technology Company Limited (中國航空科技工業股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 2357), a non-wholly owned subsidiary of AVIC, where he was initially deputy manager, and was later appointed as manager in 2007. Mr. FAN graduated in 1987 from Beijing Aviation Institute of Aeronautics and Astronautics, the PRC (北京航空學院) (now known as Beijing University of Aeronautics and Astronautics, the PRC (北京航空航天大學)), with a bachelor's degree in engineering from the Faculty of Automatic Control, and completed a master's research course in education, economics and management from Beijing University of Aeronautics and Astronautics, the PRC (北京航空航天大學), from 1999 to 2001. Mr. FAN was certified as a researcher in natural sciences by China Aviation Industry Corporation II (中國航空工業第二集團公司) in September 2007.

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## DIRECTORS AND SENIOR MANAGEMENT

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**ZHU, Jian (朱建)**, aged 45, was appointed as our executive Director on June 15, 2013. He is responsible for participating in the management of our operations. Mr. ZHU has over 20 years of relevant experience in the automotive industry, including automotive research and development, product purchase management and operations management. Mr. ZHU was also appointed as director and deputy general manager of our Controlling Shareholder, PCM China, from December 2010 to May 2013. Mr. ZHU will not hold any management positions in the Controlling Shareholders and/or its associates upon the Listing. Since November 2010, Mr. ZHU has served as director of PCM (US) Steering, PCM (Singapore) Steering, as well as several of our subsidiaries. Mr. ZHU was appointed by Jiangxi Changhe Group Co., Ltd (江西昌河汽車股份有限公司) (now known as AVIC Avionics Equipment Co., Ltd, (中航航空電子設備股份有限公司)) as a technician and an engineer of a minivan plant from August 1993 to December 1994, deputy chief of the planning and operations department from May 2005 to December 2006. He was appointed as the deputy general manager in June 2009. Mr. ZHU was also appointed by Jiangxi Automobile Co., Ltd (江西昌河鈴木汽車有限責任公司), as a technician in the corporate planning department, assistant to the departmental head and section chief from August 1995 to March 2002, assistant to the general manager from January 2008 to March 2009, as well as deputy manager and product development manager from March 2009. Mr. ZHU attended the Automotive Department of Tongji University, the PRC (同濟大學汽車工程系) from September 1987 to July 1992, where he obtained a bachelor's degree in mechanical engineering, and obtained a master's degree in engineering from the School of Mechanical Engineering of Tsinghua University, the PRC (清華大學機械工程學院), in July 2005. Mr. ZHU became a certified senior engineer awarded by China Aviation Industry Corporation II (中國航空工業第二集團公司) in September 2001.

### NON-EXECUTIVE DIRECTOR

**LUO, Qunhui (羅群輝)**, aged 49, was appointed as our non-executive Director on June 15, 2013. Mr. LUO is responsible for participating in our Group's strategic and key operational decision-making processes and advising on our strategies and policies from an industry perspective. Mr. LUO has six years of relevant experience in the automotive industry. Mr. LUO is president of PCM (Singapore) Steering and PCM (US) Steering. He was also director and general manager of AVIC Auto, one of our Controlling Shareholders, from September 2010 to April 2013 and director and general manager of PCM China, one of our Controlling Shareholders, since December 2010. Mr. LUO was chairman and director of Hubei Aviation Machinery Technology Co., Ltd (湖北中航精機科技股份有限公司) a non-wholly-owned subsidiary of AVIC, and a company listed on the Shenzhen Stock Exchange (stock code: 002013), from 2006 to 2010. Mr. LUO obtained his doctor of philosophy in management sciences and engineering from Nanjing University of Aeronautics and Astronautics, the PRC (南京航空航天大學), in May 2009. Mr. LUO became a senior engineer awarded by Aviation Industry First Corporation of China (中國航空工業第一集團公司), one of the predecessor companies of AVIC, in 2000. Mr. LUO received the Special Government Allowance awarded by the PRC State Council in 2007 (2007年中國國務院政府特殊津貼) for his contribution to technological sciences, and was awarded the Hubei Province Outstanding Youth Entrepreneur (傑出青年企業家) by the State-owned Assets Supervision and Administration Commission of Hubei Provincial People's Government and the Labour and Social Security Department of Hubei Province, in May 2004.

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## DIRECTORS AND SENIOR MANAGEMENT

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### INDEPENDENT NON-EXECUTIVE DIRECTORS

**TSANG Hing Lun (曾慶麟)**, aged 64, was appointed as our independent non-executive Director on June 15, 2013. Mr. TSANG has over 30 years of experience in the banking, finance and wealth management sectors, and has held the following independent non-executive directorships in publicly listed companies:

| Companies  | Positions  | Duration                     |
|--|--|------------------------------|
| China Rongsheng Heavy Industries Group Holdings Limited (中國熔盛重工集團控股有限公司) (Stock code: 1101) .....  | Independent non-executive director and chairman of the Audit Committee | October 2010–present         |
| Sinotrans Shipping Ltd. (中外運航運有限公司) (Stock code: 368) .....  | Independent non-executive director and chairman of the Audit Committee | August 2007–present          |
| Sino-Ocean Land Holdings Limited (遠洋地產控股有限公司) (Stock code: 3377) ..  | Independent non-executive director and chairman of the Audit Committee | June 2007–present            |
| Beijing Media Corporation Limited (北青傳媒有限公司) (Stock code: 1000) .....  | Independent non-executive director and chairman of the Audit Committee | November 2004 to May 2013    |
| China GrenTech Corporation Ltd. (delisted on the NASDAQ after April 30, 2012) .....  | Independent non-executive director                                     | September 2011 to April 2012 |
| First China Financial Network Holdings Limited (首華財經網絡集團有限公司) (formerly known as International Financial Network Holdings Ltd) (Stock code: 8123)..... | Independent non-executive director and chairman of the Audit Committee | June 2005 to January 2011    |

Mr. TSANG has served in the senior management of several publicly listed companies operating in Hong Kong and Singapore. Mr. TSANG has been chairman of Influential Consultants Ltd. (欣斌顧問有限公司) since July 1998. Mr. TSANG was a deputy general manager of China Construction Bank, Hong Kong Branch (中國建設銀行香港分行) from 1995 to 1998. He was an executive director of the Hong Kong Stock Exchange in 1993. Mr. TSANG joined United Overseas Bank Limited in Singapore (新加坡大華銀行集團) in March 1990 as its first vice president. Prior to that, he was with Hang Seng Bank for 17 years from 1973 to 1990, where he was assistant general manager of the planning and development division in the last 5 years. In addition, Mr. TSANG became qualified as a Certified Financial Planner (認可財務策劃師) in March 2010, and as a financial planner in the PRC in July 2006. Mr. TSANG became a fellow of the Hong Kong Institute of Directors (香港董事學會) in July 2001, was admitted as a fellow of the Association of Certified Accountants (英國特許公認會計師公會) in November 1982, and became a fellow of the Hong Kong Institute of Certified Public Accountants (香港會計師公會) (formerly known as the Hong Kong Society of Accountants) in December 1978. Mr. TSANG graduated from Chinese University of Hong Kong (香港中文大學), Hong Kong, with a bachelor's degree in business administration (first class honors) in October 1973.



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## DIRECTORS AND SENIOR MANAGEMENT

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**LIU, Jianjun** (劉健君), aged 45, was appointed as our independent non-executive Director on June 15, 2013. Mr. LIU was in the legal department of China Ocean Shipping (Group) Company container lines (中國遠洋運輸(集團)總公司(集裝箱運輸)) from July 1993 to March 1999, a partner at Zhong Sheng Law Firm, Beijing (北京中盛律師事務所) from April 2001 to October 2006, a senior associate in Zhong Lun Law Firm, Beijing (北京中倫律師事務所) from November 2006 to May 2007, and has been a partner at Zhonglun W&D Law Firm, Beijing (北京中倫文德律師事務所) since June 2007. Mr. LIU started practicing as a lawyer in the PRC in August 2001. He obtained a master's degree in law from Peking University, the PRC, in July 1998, and a law degree from Washington University in St. Louis, the U.S., in May 2004.

**WEI, Kevin Cheng** (蔚成), aged 45, was appointed as our independent non-executive Director on June 15, 2013. Mr. WEI has been an independent non-executive director of Tibet 5100 Water Resources Holdings Ltd. (西藏5100水資源控股有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 1115), since March 2011. Mr. WEI has also served as the chief financial officer of IFM Investments Limited (stock code: CTC), a NYSE listed real estate services company headquartered in Beijing, since December 2007, and has been a director of IFM Investments Limited since November 2008. From 2006 to 2007, Mr. WEI served as the chief financial officer of Solarfun Power Holdings Co., Limited (stock code: SOLF), a NASDAQ listed solar company (now known as Hanwha SolarOne Co., Ltd and relisted on NASDAQ as Hanwha SolarOne (stock code: HSOL)). Mr. WEI became a member of the American Institute of Certified Public Accountants in February 1999. He graduated in June 1991 from Central Washington University, the U.S., where he received his bachelor of science degree (cum laude) with a double major in accounting and business administration.

### DIRECTORS' INTEREST

Save as disclosed in this Prospectus, each of our Directors (i) did not hold any other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders as of the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. As of the Latest Practicable Date, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matters with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

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## DIRECTORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our business. The table below shows certain information in respect of the senior management of our Company:

| Name                                      | Age | Position/Title  |
|---|-----|---|
| BRESSON, Laurent Robert . . . . .         | 41  | President and global chief operating officer  |
| PERKINS, Joseph Michael. . . . .          | 44  | Senior vice president and chief financial officer   |
| SIMPLICEAN, Ileana. . . . .               | 45  | Senior vice president and general counsel   |
| RODRIGUEZ GOMEZ, Sergio Antonio . . . . . | 43  | Senior vice president of organizational effectiveness   |
| GANNON, Michael Philip . . . . .          | 58  | Senior vice president, chief human resources officer, and chief operating officer of the Saginaw division |
| CORBEIL, James Martin. . . . .            | 46  | Vice president and chief procurement officer  |
| LUBISCHER, Frank Peter Josef . . .        | 51  | Vice president of global engineering and chief operating officer of Europe                                |
| HOEG, Dennis Steven. . . . .              | 56  | Vice president of enterprise systems, manufacturing engineering and capital                               |
| FRIES, Diane Marthey. . . . .             | 61  | Vice president of quality   |

**BRESSON, Laurent Robert**, aged 41, was appointed as our president in June 2012 and global chief operating officer in May 2012. He is responsible for reporting to the chairman of the Board and overseeing our Group’s global functions including sales, engineering, operation, human resources, finance and global supply management, and is in charge of overseeing our Group’s product lines. Mr. BRESSON is concurrently leading the NSC, the top strategy and policy making body in our Group. Mr. BRESSON has 17 years of relevant experience in the automotive industry. Mr. BRESSON has held various positions in Nexteer Automotive, including executive director from October 2009 to March 2011, vice president of global sales and marketing of the European region from March 2011 to March 2012, senior vice president from March 2012 to June 2012 and chief operating officer of the international division and global sales from March 2012 to May 2012. Mr. BRESSON also held a number of managerial positions at Delphi Corporation, including managing director (Europe) from December 2008 to October 2009 where he was in charge of European business growth and profitability, marketing and public affairs director (European sales) from May 2008 to December 2008, director of European sales and marketing, and public relations of the European customer service centers of the steering division from March 2007 to April 2008, chief engineer, sales manager and product line manager (Europe) in the power products and product line, electronic division, where he was in charge of the business growth and profitability of the product lines in Europe from mid-2005 to January 2007, and power product line engineering manager and product team leader (Europe)

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## DIRECTORS AND SENIOR MANAGEMENT

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within the thermal and interior division from October 2002 to mid-2005, where he was responsible for mechanical engineering, advanced engineering and project management. Prior to that, Mr. BRESSON held various positions at Siemens-VDO from September 1995 to May 1999, including sales manager and engineer, amongst other roles. Mr. BRESSON became a qualified engineer at the École nationale supérieure d'ingénieurs in Caen, France (majoring in Electro-mechanics) in June 1994. He obtained a master's degree in science from the University of Manchester Institute of Science and Technology in Manchester, the United Kingdom, in December 1994. Mr. Bresson was awarded the Certificat d'Aptitude à l'Administration des Entreprises (the certificate for assessing the ability to administer corporations) at the Instituts d'Administration des Entreprises in Basse Normandie, France, in October 1994, which was completed via part-time online course modules.

**PERKINS, Joseph Michael**, aged 44, was appointed as our senior vice president and chief financial officer on December 1, 2012. He is responsible for our Group's treasury, capital funding and structure, accounting and financial reporting, financial planning and analysis, program finance, risk management, financial controls and taxation. He is also a member of the NSC. Mr. PERKINS was an assistant finance director from October 2009 to March 2011, and later served as vice president, controller and chief accounting officer from March 2011 to November 2012. Mr. PERKINS was an assistant finance director of Delphi Corporation from January 2005 to October 2009, a manager in corporate financial performance from September 2002 to December 2004, a manager in energy and chassis systems financial performance from January 2000 to September 2002 and a plant controller in energy and chassis systems from May 1998 to January 2000. Prior to that, Mr. PERKINS worked at GM from January 1991 to May 1998 as an analyst and supervisor. Mr. PERKINS obtained a bachelor of arts degree with a major in accounting from Michigan State University, the U.S., in December 1990, and a master's degree in business administration from Wayne State University, the U.S., in December 1999.

**SIMPLICEAN, Ileana**, aged 45, was appointed as our senior vice president and general counsel on August 17, 2011. She is responsible for managing the legal affairs of our Group, advising the Board on legal matters and ensuring legal compliance. She is also a member of the NSC. Ms. SIMPLICEAN was admitted to the New York State Bar in January 1999 and the Paris Bar in 2001, and has over 14 years of legal experience. Ms. SIMPLICEAN was an in-house lawyer at Delphi Corporation from May 2003 to August 2011. Prior to joining Delphi Corporation, Ms. SIMPLICEAN was an associate in the Paris office of Paul, Weiss, Rifkind, Wharton and Garrison. She obtained a bachelor of arts degree with specialization in international studies at University of Michigan, the U.S., in August 1990. In conjunction with her bachelor of arts studies at University of Michigan, she also obtained French degrees in business administration-economics and advanced French studies from the University of Nice, France, in February 1989 and June 1989, respectively. Ms. SIMPLICEAN obtained her Juris Doctor degree from the University of Pittsburgh School of Law, the U.S., in December 1997. She also obtained a French degree in European Union law from the University of Paris, France, in conjunction with her Juris Doctor studies at University of Pittsburgh, the U.S, in July 1997.

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## DIRECTORS AND SENIOR MANAGEMENT

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**RODRIGUEZ GOMEZ, Sergio Antonio**, aged 43, was appointed as our senior vice president of organizational effectiveness in December 2012. He is responsible for driving the implementation of our goal-oriented strategies to enhance our performance and achieve efficiency with reference to our competitors. He is also a member of the NSC. Mr. RODRIGUEZ GOMEZ was senior vice president and chief operating officer of the Saginaw division from January 2012 to November 2012, and senior vice president of global manufacturing operations from December 2010 to December 2011. Mr. RODRIGUEZ GOMEZ held various positions in Delphi Corporation from 1995 to 2009, including customer support engineer in Saginaw, manufacturing plant superintendent and plant manager in Querétaro, Mexico, operations director in Mexico, regional director in Mexico and Brazil, and director of regional manufacturing outside the U.S. Mr. RODRIGUEZ GOMEZ obtained a bachelor's degree in industrial engineering and manufacturing systems from Universidad Autonoma Del Noreste, Saltillo Coahuila, Mexico, in December 1995.

**GANNON, Michael Philip**, aged 58, is our senior vice president and chief human resources officer, and was appointed as chief operating officer of the Saginaw division on December 1, 2012. He is responsible for business operations and monitoring the financial position of the Saginaw division, and is in charge of human resources, external affairs and global administration of our Group. He is also a member of the NSC. Mr. GANNON has served as senior vice president and chief human resources officer since December 2010. Prior to this, he was vice president of business strategy and human resources at Delphi Corporation from 2009 to 2010, and divisional vice president of human resources from 1999 to 2009. Mr. GANNON was with GM from 1980 to 1999, and held a number of managerial positions, including general director and vice president of human resources in Europe. Mr. GANNON obtained a bachelor's degree in industrial administration from Kettering University (formerly known as the General Motors Institute), the U.S., in July 1978, and a master's degree in business administration from the University of Michigan, the U.S., in May 1980. Mr. GANNON is expected to retire at the end of July 2013 and his current duties as chief human resources officer and chief operating officer of the Saginaw division are currently planned to be shared among the existing members of the senior management team and any decision in the relevant areas will be made by the senior management collectively. See “— Management of Our Group.”

**CORBEIL, James Martin**, aged 46, was appointed as our vice president and chief procurement officer in November, 2012. He is responsible for purchasing, supplier development, production control, global logistics as well as supplier launch management functions. Mr. CORBEIL has 24 years of global, progressive and multi-functional experience in both the defense and automotive industries. Mr. CORBEIL has been with our Group since April 2011, and held the position of vice president of global supply management from April 2011 to November 2012. Prior to joining our Group, Mr. CORBEIL was appointed as purchasing director of North America by Magna Powertrain USA, Inc. from September 2009. Between November 1996 and July 2009, he held various managerial positions at BorgWarner Inc., including manager in advanced purchasing from November 1996 to January 2001, director of supply chain management from January 2001 to April 2001, business development director from April 2001 to September 2003, director of the North American global supply management organization from September 2003 to July 2006, director of global supply management from July 2006 to December 2008, and vice president of global supply management from December 2008 to July 2009. He concurrently served as project director of the China Technical Center from October 2007 to July 2008 and Ramos Plant site selection and negotiation leader from May

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## DIRECTORS AND SENIOR MANAGEMENT

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2007 to September 2007. Mr. CORBEIL obtained a bachelor's degree in economics and management from Albion College, the U.S., in May 1988, and a master's degree in business administration from the University of Michigan, the U.S., in August 2001.

**LUBISCHER, Frank Peter Josef**, aged 51, was appointed as our chief operating officer (Europe), and vice president of global engineering on December 1, 2012. He is responsible for our Group's global engineering, monitoring the financial position of the European business unit, technology definition, design and development of product portfolio and manufacturing engineering, and customer application. He is also a member of the NSC. Prior to joining our Group, Mr. LUBISCHER was with TRW Automotive Chassis System Engineering from 1988, where he served as vice president of global steering engineering from August 2007 to November 2012, technical director of brake systems (North America) from September 2001 to July 2007, and chief engineer of ABS Systems, North America from January 2000 to September 2001. He also worked for Lucas Automotive/LucasVarity in Germany as a development engineer, section leader and chief engineer for ABS systems from September 1988 to December 1999, before LucasVarity was integrated with TRW Automotive Chassis System Engineering in 1999. Mr. LUBISCHER obtained a CEO diploma (an executive business degree) from the SMP Institute of University of St. Gallen, Switzerland, in March 2005.

**HOEG, Dennis Steven**, aged 56, was appointed as our vice president of enterprise systems, manufacturing engineering and capital on December 1, 2012. He is responsible for our Group's global manufacturing engineering (focusing primarily on launch of products), capital plan, and enterprise system improvements. He is also a member of the NSC. Mr. HOEG served as vice president of engineering at Nexteer Automotive from June 2011 to November 2012. He was executive director of global supply management from 2007 to 2011, director of global manufacturing engineering from 2002 to 2007, and plant manager from 1999 to 2002 at Delphi Saginaw Steering Systems. Mr. HOEG began his automotive career with GM in 1978 as a manufacturing engineer at the former Saginaw Steering Gear division. In 1997, he was program manager for the GMT800 and L/N/P90 programs in Plant 7, chief manufacturing engineer for hydraulic steering in 1994, and staff engineer for integral gears in 1992. Following a number of assignments that included plant engineer, process engineer, advanced manufacturing engineer, and assistant staff engineer, he served as the value stream manager for steering valves at Plant 7 in 1988. He obtained a bachelor's degree in mechanical engineering from Iowa State University, the U.S., in May 1978, and a master of science from Purdue University, Indiana, the U.S., in May 1983.

**FRIES, Diane Marthey**, aged 61, was appointed as our vice president of quality in February 2012. She is responsible for the establishment and improvement of our Group's quality culture and quality system, representing our Group's quality systems to customers and third parties, and managing corporate responsibilities for warranty, audit, problem solving, advanced product quality planning and metrics. She is also a member of the NSC. Ms. FRIES has 17 years of quality system expertise in the automotive industry. Ms. FRIES was executive director of quality from October 2009 to February 2012. Ms. FRIES held a number of positions in Delphi Corporation, Steering Division in Saginaw from 1999 to 2009, including director of steering transition from September 2007 to October 2009, director of global supply management from August 2006 to September 2007, director of global supply quality from February 2001 to August 2006, and assistant quality director of advanced product quality

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## DIRECTORS AND SENIOR MANAGEMENT

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planning & office of project management from January 1999 to February 2001. Prior to that, she was with the Saginaw Division of GM, where she held various managerial posts, including customer support manager from August 1996 to January 1999, quality system certification manager from June 1995 to August 1996, quality assurance manager from June 1993 to June 1994, quality manager from July 1991 to June 1993, and purchasing manager from January 1989 to July 1991. In addition, Ms. FRIES has 12 years of finance experience, covering areas of capital appropriation and forecast, financial accounting and financial analysis. She was a finance administrator from July 1983 to April 1986 and became the finance manager of the steering systems business unit from April 1986 to January 1989 at the Saginaw Division of GM. She was a manager cost analyst at GM Service Parts Operation from September 1978 to July 1983. Ms. FRIES became a certified public accountant in 1977. She obtained both a bachelor's degree in business (majoring in accounting), and a master's degree in business administration (majoring in finance), from Ohio University, the U.S., both in June 1974. She was a Sloan Fellow at the Massachusetts Institute of Technology, the U.S., from June 1994 to June 1995, where she obtained a master's degree of science in management in June 1995.

### MANAGEMENT OF OUR GROUP

Our Group is managed collectively by our core management team, which comprises our Board and senior management of our Group as set out above. Members of our senior management are responsible for overseeing their respective functionalities and making day-to-day decisions of our Group. They meet regularly to discuss issues of their respective functionalities and make relevant decisions and report to our Board regularly and when necessary. Our senior management as a whole is also responsible for formulating the overall strategies, annual budget, key business, financial and other operational policies and preparing proposals of any key business, financial and other operational decisions of our Group taking into account inputs from different functionalities for our Board's approval. Our Board members will consult with our senior management on such proposals and discuss the same at Board level with an aim to reach a consensus that is in the best interest of our Group. Once the key policies and decisions are formulated and made, our senior management as a whole will implement the same throughout our Group. Accordingly, the overall strategic and other key business, financial and operational policies and decisions of our Group are made collectively from its inception to implementation after thorough discussion at both Board and senior management levels.

In the past, we have experienced changes in our core management team. For instance, our former chief executive officer resigned in June 2012 in order to pursue other opportunities which he considered more suitable for him. Our former chief financial officer left our Group upon the expiry of his service agreement with our Group in November 2012. Two other members of senior management retired in September 2012, whereas another member of senior management based in Australia left our Group in February 2013 as part of our general restructuring plan in Australia. The aforementioned departures took place in accordance with the respective employment contracts and mutually agreed terms and they do not have any disagreement or dispute with our Group.

Notwithstanding the historical changes in the composition of the core management and the expected retirement of Mr. GANNON, the majority of the members of the current core management have held key management positions prior to and throughout the Track Record Period and are expected to remain part of the core management of our Group following the

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## DIRECTORS AND SENIOR MANAGEMENT

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Listing. Our Company has recently appointed Mr. ZHAO, Mr. LUO, Mr. FAN and Mr. ZHU as Directors, where Mr. LUO (being a non-executive Director) is responsible for participating in our Group's strategic and key operational decision-making processes and advising on its strategies and policies from an industry perspective. Of these four new Directors, Mr. ZHAO, (an executive Director) has been part of the core management of our Group following the acquisition of a 51% interest in PCM China by AVIC Auto in March 2011, as disclosed in his biography in “— Directors/Board of Directors”, and he, together with other members of the core management, have made decisions collectively with other members of our Board and senior management in the aforementioned manner primarily based on the business needs of our Group, industry trends and other relevant commercial considerations. Mr. RICHARDSON, an executive Director, a senior vice president, chief technology and strategy officer and chairman of the China division and driveline division of our Group, as well as Mr. BRESSON, the president and global chief operating officer of our Group, and Mr. PERKINS, the chief financial officer, have joined our Group prior to the Track Record Period and assumed key management positions throughout the Track Record Period, and have in-depth understanding of the corporate goals, strategies and operations of our Group. We believe that the addition of new Directors and the departure of certain members of the core management, did not lead to any material shift in the key strategies and policies of our Group, and did not have any material adverse impact on our Group's operations and financial results, as demonstrated by the stable financial performance of our Group during the Track Record Period and the stable relationship between our Group and our major customers (with over 20 years of relationship with its top five customers). See “Business — Customers.”

On the basis of the above, namely (i) the collective decision-making mechanism detailed above; (ii) the majority of the existing core management team have held key management positions prior to and throughout the Track Record Period (including Mr. RICHARDSON as executive Director, senior vice president, chief technology and strategy officer and chairman of the China division and driveline division of our Group, Mr. BRESSON, as president and global chief operating officer of our Group and Mr. PERKINS, as chief financial officer of our Group); and (iii) the change in core management did not lead to any material shift in the key strategies and policies of our Group and did not have any material adverse impact on our Group, we believe that we are able to satisfy the management continuity requirement under Rule 8.05 of the Listing Rules.

### COMPANY SECRETARY

FAN, Yi and MOK, Ming Wai are our joint company secretaries.

**FAN, Yi**, aged 47, is an executive Director. Please refer to the section headed “— Executive Directors — FAN, Yi” in this section for his biography.

**MOK, Ming Wai**, aged 41, is a director of KCS Hong Kong Limited. She has over 15 years of professional and in-house experience in the company secretarial field. She is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She currently acts as the joint company secretary of Shanghai Pharmaceuticals Holding Co., Ltd. (stock code: 02607), Huaneng Renewables Corporation Limited (stock code: 00958), New China Life Insurance Company Ltd (stock code: 1336), China Hanking Holdings Limited (stock code: 03788), Haitong Securities

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## DIRECTORS AND SENIOR MANAGEMENT

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Co., Ltd (stock code: 6837), Huadian Fuxin Energy Corporation Limited (stock code: 816), Xiao Nan Guo Restaurants Holdings Limited (stock code: 3666), Chinalco Mining Corporation International (stock code: 03668) and DYNAM JAPAN HOLDINGS Co., Ltd. (stock code: 6889); and also acts as the sole company secretary of China Yongda Automobiles Services Holdings Limited (stock code: 3669), China NT Pharma Group Company Limited (stock code: 1011), C.banner International Holdings Limited (stock code: 01028), Tenfu (Cayman) Holdings Company Limited (stock code: 06868), SPT Energy Group Inc. (stock code: 1251) and Kai Shi China Holdings Company Limited (stock code: 1281).

### BOARD COMMITTEES

Our Company has established an Audit and Compliance Committee and a Remuneration and Nomination Committee. The committees operate in accordance with terms of reference established by our Board of Directors.

#### Audit and Compliance Committee

Our Company established an Audit and Compliance Committee on June 15, 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 and paragraph D.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit and Compliance Committee consists of three members, comprising WEI, Kevin Cheng, TSANG, Hing Lun and LUO, Qunhui. The chairman of the Audit and Compliance Committee is Mr. WEI, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit and Compliance Committee include, without limitation, assisting our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

#### Remuneration and Nomination Committee

Our Company established a Remuneration and Nomination Committee on June 15, 2013 with written terms of reference in compliance with paragraphs B.1 and A.4 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration and Nomination Committee consists of three members, comprising TSANG, Hing Lun, LIU, Jianjun and LUO, Qunhui. The chairman of the Remuneration and Nomination Committee is Mr. TSANG. The primary functions of the Remuneration and Nomination Committee include, without limitation, (i) making recommendations to the Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time; (iv) reviewing the structure, size and composition of the Board of Directors; (v) assessing the independence of independent non-executive Directors; and (vi) making recommendations to the Board on matters relating to the appointment of Directors.



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## DIRECTORS AND SENIOR MANAGEMENT

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### REMUNERATION POLICY

We value our employees and recognize the importance of a good relationship with our employees. Our Group's remuneration policies are formulated based on the performance of individual employees and company performance and are reviewed regularly. The remuneration to our employees includes salaries and benefits. We provide training to our staff to enhance their technical and product knowledge.

We offer competitive remuneration packages to our Directors and senior management. The primary goal of the remuneration policy with regard to the remuneration packages of our executive Directors and senior management is to enable us to retain and motivate executive Directors and senior management by linking their compensation with performance as measured against corporate objectives achieved. The principal elements of our executive Directors and senior management remuneration packages include salaries, allowances and benefits in kind, contribution to defined contribution retirement plans and discretionary bonuses. We determine the salaries of our Directors and senior management based on the qualification, position, performance and leadership of each Director and member of senior management.

The aggregate amounts of remuneration (including salaries, housing and other allowances, discretionary bonuses, other benefits and contributions to retirement plan) which were paid to our Directors for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012 were approximately US\$86,000, US\$1,055,000 and US\$1,425,000 respectively.

The aggregate amounts of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to retirement plan) which were paid by our Group to our five highest paid individuals for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012 were approximately US\$658,000, US\$4,290,000 and US\$5,162,000, respectively.

It is estimated that remuneration equivalent to approximately US\$3,200,000 in aggregate will be paid and granted to our Directors by us in respect of the year ending December 31, 2013 under arrangements in force at the date of this Prospectus.

We have not experienced any material disruption to our operations due to labor disputes.

### SHARE OPTION SCHEME

Depending on our Company's business development, our Company intends to implement a share option scheme following the Listing. The implementation of such scheme is subject to prior approval of the SASAC, and will be effected in accordance with Chapter 17 of the Listing Rules and other relevant rules and regulations.

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## DIRECTORS AND SENIOR MANAGEMENT

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### COMPLIANCE ADVISOR

We have appointed Somerley Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this Prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares, the possible development of a false market in our Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the financial year ending December 31, 2014 and such appointment may be extended by mutual agreement based on our Directors' review of the corporate governance status of our Group at that time.

## SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following the completion of the Capitalization Issue and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option), have an interest or short position in Shares or underlying shares which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

| Name                                   | Capacity/Nature of Interest        | Number of Shares held after the Capitalization Issue and the Global Offering | Approximate percentage of shareholding in the total issued share capital of the Company after the Capitalization Issue and the Global Offering |
|--|------------------------------------|--|--|
| Nexteer Hong Kong <sup>(1)</sup> ..... | Registered owner                   | 1,680,000,000  | 70%  |
| PCM China <sup>(1)</sup> .....         | Interest of controlled corporation | 1,680,000,000  | 70%  |
| AVIC Auto <sup>(1) (2)</sup> .....     | Interest of controlled corporation | 1,680,000,000  | 70%  |
| AVIC <sup>(2)</sup> .....              | Interest of controlled corporation | 1,680,000,000  | 70%  |

Notes:

- (1) Nexteer Hong Kong is wholly-owned by PCM China, which is in turn owned as to 51% by AVIC Auto, as to 25% by PCM Systems and as to 24% by Beijing E-Town. Each of PCM China and AVIC Auto is deemed to be interested in the 1,680,000,000 Shares held by Nexteer Hong Kong.
- (2) AVIC Auto is wholly-owned by AVIC. AVIC is deemed to be interested in the 1,680,000,000 Shares held by Nexteer Hong Kong.

If the Over-allotment Option is fully exercised, the beneficial interests of each of AVIC, AVIC Auto and PCM China will all be approximately 67%.

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

## SHARE CAPITAL

The authorized and issued share capital of our Company is as follows:

| Authorized share capital:      | HK\$        |
|--------------------------------|-------------|
| 4,000,000,000 Shares . . . . . | 400,000,000 |

Assuming the Over-allotment Option is not exercised at all, our Company's issued share capital immediately following the Capitalization Issue and the Global Offering will be as follows:

| Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalization Issue: | HK\$           | Approximate percentage of issued share capital (%) |
|--|----------------|--|
| 1 Share in issue as of the date of this Prospectus .   | 0.10           | 0.01   |
| 1,679,999,999 Shares to be issued under the Capitalization Issue. . . . .  | 167,999,999.90 | 69.99  |
| 720,000,000 Shares to be issued under the Global Offering . .  | 72,000,000     | 30   |
| 2,400,000,000 Total. . . . .   | 240,000,000    | 100  |

Assuming the Over-allotment Option is exercised in full, our Company's issued share capital immediately following the Capitalization Issue and the Global Offering will be as follows:

| Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalization Issue: | HK\$           | Approximate percentage of issued share capital (%) |
|--|----------------|--|
| 1 Share in issue as of the date of this Prospectus .   | 0.10           | 0.01   |
| 1,679,999,999 Shares to be issued under the Capitalization Issue. . . . .  | 167,999,999.90 | 66.98  |
| 828,000,000 Shares to be issued under the Global Offering . .  | 82,800,000     | 33.01  |
| 2,508,000,000 Total. . . . .   | 250,800,000    | 100  |

### RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank *pari passu* for all dividends or other distributions declared, made or paid after the date of this Prospectus.

### GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option); and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

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## SHARE CAPITAL

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This mandate will expire at the earlier of:

- (iii) the conclusion of our Company's next annual general meeting; or
- (iv) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

For further details of this general mandate, see "Appendix V — Statutory and General Information — A. Further Information about the Company — 5. Resolutions of the Sole Shareholder of the Company passed on June 15, 2013" in this Prospectus.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Capitalization Issue and the Global Offering (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Hong Kong Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "Appendix V — Statutory and General Information — A. Further Information about the Company — 6. Repurchase by the Company of its Own Shares."

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

For further details of this repurchase mandate, see "Appendix V — Statutory and General Information — A. Further Information about the Company — 5. Resolutions of the Sole Shareholder of the Company passed on June 15, 2013."

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## FINANCIAL INFORMATION

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*The following discussion should be read in conjunction with the combined financial statements of our Group for the period from November 4, 2010 to December 31, 2010, and for the years ended December 31, 2011 and 2012, together with the accompanying notes, set forth in Appendix IA to this Prospectus and the consolidated financial statements of “our Predecessor” for the period from January 1, 2010 to November 30, 2010, together with the accompanying notes, set forth in Appendix IB to this Prospectus. The financial statements included in the Accountant’s Reports in Appendices IA and IB have been prepared in accordance with IFRS. The basis of presentation of our Predecessor’s financial information is not comparable to the basis of presentation of our Group’s financial information. Accordingly, with the exception of revenue, we have not combined our Predecessor’s financial information for the period from January 1, 2010 to November 30, 2010 with our Group’s financial information for the period from November 4, 2010 to December 31, 2010. See “Basis of Presentation” below.*

*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 our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties some of which are beyond our control. Factors that could cause or contribute to such differences include those described in the section entitled “Risk Factors” and elsewhere in this Prospectus.*

## OVERVIEW

We are among the world’s leading steering and driveline suppliers. In 2012, in terms of revenue, we were the fifth-largest steering supplier globally with approximately 6% of total global market share, the largest steering supplier in the United States with approximately 31% of total U.S. market share and the third-largest halfshafts supplier globally with approximately 5% of total global market share, according to the IPSOS Report. Our deep understanding of system integration and technical expertise enables us to offer our customers a comprehensive product portfolio and integrated customer solutions in both steering and driveline systems. Our principal products are: (i) steering systems and components that include EPS, HPS and steering columns; and (ii) driveline systems and components that include halfshafts, intermediate drive shafts and propeller shaft joints. Our products are utilized on a broad range of vehicles from small passenger cars to full-size trucks.

We have an established global footprint. As of the Latest Practicable Date, we had 20 manufacturing plants, ten customer service centers and five regional application engineering centers located in North and South America, Europe and Asia in close proximity to many of the world’s largest automotive vehicle markets. This enables us to respond timely to business opportunities and to establish and maintain close relationships with global OEMs, as well as local OEMs in regional markets, in order to provide our customers with regional and customer-specific design, application and technical capabilities.

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## FINANCIAL INFORMATION

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We have established strong relationships with many of the world's leading OEMs as a result of our ability to offer high-quality products and customer service at competitive prices. We currently supply our products to more than 50 customers, including substantially all of the world's top ten major OEMs in terms of production volume in 2012. Through the years, we have diversified our customer base and, as of the Latest Practicable Date, our global customers included GM, Ford, Fiat, Chrysler and PSA Peugeot Citroën, as well as local OEMs in regional markets such as China and India. We have supplied our products to our largest customer, GM, for over 100 years, and we have supplied our next four largest customers for more than 20 years.

Our business has a global presence. In 2012, 70.9% of our revenues were from North America, 15.2% were from Europe, 8.4% were from China and 5.5% were from the rest of the world. One of our key strategies for growth is to increase our market share in China and other emerging markets, which have experienced rapid growth in both vehicle sales and the adoption of EPS in recent years. In particular, since we became a subsidiary of AVIC, we have increased our focus on opportunities in China. Through our global presence, technological expertise in EPS and strong relationships with our customers, we believe we are well-positioned to capitalize on future growth in these emerging markets.

### **BASIS OF PRESENTATION**

This Prospectus includes two Accountant's Reports set forth as Appendices IA and IB, respectively.

- Appendix IA sets forth the Accountant's Report of our Group under our current corporate structure for the period from November 4, 2010 to December 31, 2010, and for the years ended December 31, 2011 and 2012; and
- Appendix IB sets forth the Accountant's Report of our Predecessor for the period from January 1, 2010 to November 30, 2010.

Prior to November 30, 2010, our Predecessor was an indirect, wholly-owned subsidiary of GM. In connection with the Acquisition, PCM China formed PCM (Singapore) Steering and PCM (US) Steering on November 4, 2010 and November 8, 2010, respectively. On November 30, 2010, PCM China acquired our Predecessor and contributed all acquired assets and operations of our Predecessor to PCM (US) Steering and PCM (Singapore) Steering. See "Our History and Reorganization — Our History." Prior to the Acquisition, our Group was comprised of PCM (US) Steering and PCM (Singapore) Steering only and had limited business activity consisting primarily of the incurrence of expenses related to the Acquisition. Our Group principally commenced operations upon the closing of the Acquisition on November 30, 2010. Accordingly, no revenues or cost of sales and only insignificant expenses have been recognized in the combined financial statements of our Group for the period from November 4, 2010 to November 30, 2010. In March 2011, AVIC Auto, a subsidiary of AVIC, acquired a 51% equity interest in PCM China from Beijing E-Town. See "Our History and Reorganization — Our History." The acquisition by AVIC Auto of a 51% interest in PCM China (the "AVIC Auto Acquisition") is a transaction at PCM China's shareholders' level (i.e., just between AVIC Auto and Beijing E-Town) which would only be separately accounted for in AVIC Auto's and Beijing E-Town's own financial statements and is not required to be accounted for in PCM China's financial statements or our Group's financial statements. In addition, Beijing E-Town and AVIC Auto are under the common control of the PRC government and, as a result, this is a common

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control transaction that is scoped out in IFRS 3 “Business Combinations” based on the guidance in IFRS 3 paragraph 2(c). As a result, the AVIC Auto Acquisition should not be accounted for and did not affect the combined financial information of our Group presented in the Accountant’s Report as set out in Appendix IA of the Prospectus.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 21, 2012. Pursuant to the Reorganization, we became the holding company of the companies now comprising our Group on January 30, 2013. See “Our History and Reorganization.” The Reorganization involved business combinations under common control because our principal businesses were under the control of PCM China, both before and after the Reorganization. Accordingly, the financial information of our Group has been prepared using the principles of merger accounting, under which (i) our Group’s combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows have been prepared to include the results of operations, changes in equity and cash flows, respectively, of the companies comprising our Group as if our Group’s current group structure had been in existence since November 4, 2010 or, with respect to companies incorporated or acquired by our Group after November 4, 2010, since their respective dates of incorporation or acquisition and, with respect to companies disposed of by us prior to December 31, 2012, up to their respective dates of disposal; and (ii) our combined balance sheets as of December 31, 2010, 2011 and 2012 have been prepared to present the assets and liabilities of the companies comprising our Group as of the respective dates as if the current group structure had been in existence on those dates, taking into account those companies incorporated, acquired or disposed of during the Track Record Period. All material intra-group transactions and balances have been eliminated upon consolidation. Since our Group did not constitute a separate legal group in the past, our Group’s combined historical financial statements have been prepared on a basis that combines the results and assets and liabilities of each of the companies constituting our Group. See Note 1 in “Appendix IA — Accountant’s Report on the Financial Information of the Group” and Note 2 in “Appendix IB — Accountant’s Report on the Financial Information of Our Predecessor.”

Our Predecessor came under the control of our Group on November 30, 2010. The financial information for our Predecessor for the period from January 1, 2010 to November 30, 2010 is set forth in separate financial statements in Appendix IB to this Prospectus. Our Predecessor’s operating results are not directly comparable to the results of our Group in the following aspects:

- In relation to the Acquisition, we engaged a third party appraiser to assist in applying the purchase method of accounting (as in accordance with IFRS 3) in valuing the assets acquired and liabilities assumed in the Acquisition. Our management considered all identified tangible and intangible assets acquired in the Acquisition in completing this valuation exercise. In connection with the Acquisition, the assets acquired and liabilities assumed by our Group from our Predecessor were generally recorded at fair value in accordance with IFRS acquisition accounting standards. IFRS 3 requires that assets acquired and liabilities assumed in a business combination be recognized at their fair value. Any difference between the value of the consideration paid and the fair value of the assets acquired and liabilities assumed is recognized as goodwill. When estimating the value of the customer relationships and other intangible assets, our management considered an income approach called the excess earnings method. This method is



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commonly used to value intangible assets of this nature. The estimated earnings used in this approach represent the best estimate of the cash flows a market participant would expect our Predecessor to generate considering the economic conditions of the business at the Acquisition and the uncertainty arising from the adverse impact of GM's ownership on our Predecessor's ability to expand its customer base. While the Company acquired a business with numerous contracts and customer relationships, at the time of the Acquisition the earnings that were expected to be generated from those contracts and customer relationships were only sufficient to provide a return on the acquired working capital (i.e., inventory, account receivables and so forth) and tangible assets of the business. As a result, there is no indication of material value being attributable to any intangible assets acquired in the business combination. Based on the above, management noted the excess earnings approach indicated no material value was attributable to the customer relationships or other intangible assets.

Had value been assigned to the intangible assets, this would have resulted in either: (i) a bargain purchase; or (ii) a reduction in the values assigned to other identifiable tangible assets. In IFRS 3 paragraph 34, a bargain purchase is a business combination in which the amount of identifiable assets/liabilities exceeds the aggregate of the consideration amounts, and might happen in a forced sale in which the seller is acting under compulsion. Bargain purchases should rarely be recognized if the valuations inherent in the accounting for a business combination are properly performed and all of the acquiree's identifiable liabilities and contingent liabilities have been properly identified and recognized. As the Acquisition was subject to normal market forces with a third party and was not under compulsion, our management concluded the Acquisition was not a bargain purchase. The fair value of all identifiable tangible assets and liabilities equaled the consideration, indicating that no amount of consideration should be assigned to any intangible asset. Had any value been ascribed to intangible assets, the value of other tangible assets recognized would have to be reduced to an amount below their fair values in order to avoid a bargain purchase gain. Our management concluded this corroborated their conclusion that the value of the acquired intangible assets was immaterial, thus no amount for intangible assets was recognized upon the Acquisition.

- For the period from January 1, 2010 to November 30, 2010, our Predecessor was a wholly-owned subsidiary of GM. During this period, GM and its subsidiaries provided certain services and functions to our Predecessor, particularly for its U.S. entities and employees. These services included payroll management, tax filing, treasury and financing, legal, human resources and executive management. While the costs for some of these services were charged to our Predecessor and are included in our Predecessor's consolidated financial statements, the costs charged by GM to our Predecessor for these services may not be indicative of the costs that our Predecessor would have incurred had our Predecessor been a stand-alone entity. In addition, GM did not charge our Predecessor for all the direct costs it incurred on our Predecessor's behalf, nor did GM allocate any charges to our Predecessor for

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shared or common expenses. Accordingly, no expense or provision has been included in our Predecessor's consolidated financial statements for the following:

- salaries for certain management employees, including the Chief Financial Officer and Chief Legal Officer;
- payroll administration for our Predecessor's U.S. employees;
- risk management and insurance costs;
- external audit and tax consulting;
- U.S. banking fees;
- certain legal services and other corporate governance costs; and
- U.S. defined benefit plan obligation and certain other employee benefit costs related to programs that were maintained by GM.

Subsequent to the Acquisition, our Group incurred costs relating to these services.

- In accordance with the criteria for capitalization under IAS 38, engineering and product development costs incurred by our Predecessor did not qualify for capitalization due to uncertainty at the time regarding the probable future economic benefit of product development spending, whereas certain engineering and product development costs incurred by our Group qualified for capitalization under IAS 38 due to the significant change in the probable future economic benefit of product development spending after the Acquisition. As such, engineering and product development costs for our Group are not comparable to those of our Predecessor. There was no change in accounting policy and the criteria under IAS 38 were consistently applied in evaluating the capitalization of engineering and product development costs for our Predecessor prior to December 1, 2010 and for our Group subsequent to the Acquisition. The nature of the engineering and product development costs incurred by our Predecessor and our Group did not change before or after the Acquisition.

Certain engineering and product development costs of our Group qualified for capitalization under IAS 38, whereas the engineering and product development costs of our Predecessor did not, due to the significant change in probable future economic benefit of product development spending after the Acquisition for the following reasons:

- (i) The global automotive market had been experiencing significant distress since 2008. While the industry started to recuperate in 2010, there was ongoing uncertainty at the time about our Predecessor's current and future financial performance. In addition, there was ownership uncertainty about our Predecessor as GM intended to dispose of its interest in our Predecessor after acquiring us from Delphi Corporation in 2009. The uncertainty over our Predecessor's ownership and financial performance together with the prevailing global automotive market distress adversely impacted its long-term financing capabilities and operational performance. After the Acquisition, the stability in ownership as well as the improving outlook of the global automotive market in 2011 resulted in significant business programs awarded by customers.

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- (ii) Prior to the Acquisition, GM's ownership in our Predecessor adversely impacted its ability to market products to, and obtain business from, GM's competing OEMs. Since the Acquisition, we ceased to be under GM's ownership and our Group's customer base has been expanding significantly with new business programs awarded by other key customers. See "Business — Customers — Supply Relationships with Our Customers."

Engineering and product development costs recognized as expense include all expenses related to advanced research, program development engineering and continuous improvement engineering to improve processes that do not qualify for capitalization in accordance with our accounting policies. Engineering and product development costs recognized as expense are charged to the income statement. Development costs that qualify are capitalized as intangible assets. Amortization expenses for capitalized development costs are included in cost of sales. For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, our engineering and product development costs charged to the income statement were US\$8.5 million, US\$108.4 million and US\$81.6 million, respectively. For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, development costs capitalized as intangible assets were US\$4.8 million, US\$70.8 million and US\$108.7 million, respectively. See "— Description of Selected Income Statement Line Items — Engineering and Product Development Costs."

- Our Predecessor only recognized obligations for defined benefit plans for which it was the legal plan sponsor. Our Predecessor participated in certain defined benefit plans in the U.S. for which another GM entity was the legal plan sponsor. For these plans, a defined benefit obligation was not recognized. Instead, our Predecessor only recognized costs equal to their contribution payable for the period in accordance with the employee benefit accounting standards under IFRS.
- Our Predecessor's reported income tax amounts are presented on a separate return basis as if it were a stand-alone entity. Since certain of our Predecessor's legal entities filed a consolidated tax return with GM's legal entities, current taxes were assumed to be settled with GM in the year the related income taxes are recorded through transfers to GM.

For these reasons, with the exception of revenue, we have not combined our Predecessor's financial information for the period from January 1, 2010 to November 30, 2010 with our Group's financial information for the period from November 4, 2010 to December 31, 2010. Revenue has been combined as it was not significantly affected by the factors noted above.

As the operating results of our Predecessor, with the exception of revenue, are not directly comparable to the operating results of our Group, we believe that the profit test requirement under Rule 8.05(1) and the cash flow test requirement under Rule 8.05(2) of the Listing Rules are not applicable in these circumstances. Therefore, we have applied for the Listing pursuant to the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules.

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### FACTORS AFFECTING OUR GROUP'S RESULTS OF OPERATIONS

Our Group's results of operations and financial condition have been and will continue to be affected by a number of factors, including those set forth below.

#### Customer Schedules and New Business Booking

Our business is directly related to automotive sales and production. We primarily sell our products to automotive OEMs and are dependent on the continued growth, viability and financial stability of our customers.

During the period from January 1, 2010 to November 30, 2010, we were a wholly owned subsidiary of GM. GM was our most significant customer, representing 52.8% of our revenue for the period. As a division of GM, our ability to establish business relationships with certain other OEMs was limited because of competition among the global leading OEMs.

Since the Acquisition on November 30, 2010, our Group has secured significant new bookings. Additionally, in 2011 and 2012, the automotive industry continued its global recovery with the exception of Europe which has experienced prolonged economic difficulty. Our Group has secured increased purchase orders in regions where the automotive industry has continued to recover. While GM represented more than a majority of our Group's revenue for the years ended December 31, 2011 and 2012, our Group plans to continue to diversify its customer base in the future. See "Business — Our Strategies — Solidify established customer relationships and continue to diversify customer base."

After the Acquisition, we launched a new technology, REPS, which is a product in our EPS product line. A significant portion of our new bookings relate to the EPS product line. EPS products account for 29.9%, 33.9% and 35.3% of our total revenues for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively.

#### Pricing and Material Cost Pressures

Pricing pressure in the automotive supply industry has been substantial and is likely to continue. Cost-cutting initiatives adopted by our customers can result in downward pressure on the pricing of our products. OEMs also possess significant leverage over their suppliers, including us, because we belong to a highly competitive industry, serve a limited number of customers, have a high fixed cost base and historically have had excess capacity. Based on these factors, and because our customers' product programs encompass large volumes, our customers are able to negotiate favorable pricing terms. Accordingly, as a Tier 1 supplier, we are subject to substantial continuing pressure from OEMs to reduce the price of our products. It is possible that pricing pressures beyond our expectations could intensify as OEMs continue to pursue cost-cutting initiatives. If we are unable to generate sufficient production cost savings in the future, such as by improving our operating efficiencies and reducing expenses, to offset price reductions, our margins and profitability would be materially and adversely affected.

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The costs of raw materials, parts and components constitute a significant part of our total cost of sales. Raw material costs accounted for 64.6% of our Predecessor's total cost of sales for the period from January 1, 2010 to November 30, 2010 and 49.0%, 67.0% and 66.5% of our total cost of sales for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. Our cost of sales for the period from November 4, 2010 to December 31, 2010 was affected by a US\$32.8 million employee restructuring charge. See “— Ability to Manage Manufacturing Challenges.” Our raw material costs are influenced by the prices of several commodities, including steel, rare earth magnet materials, aluminum, copper, and oil. Our material costs include castings, forgings, machined parts, motors, controllers, sensors, and bearings. Continuing volatility in the prices for our raw materials, parts and components may have adverse effects on our business, results of operations and financial condition. We will continue our efforts to pass material, components and supply cost increases on to our customers. However, competitive and market pressures have limited our ability to do so, and may prevent us from doing so in the future, because our customers are generally not obligated to accept our proposed price increases. Even when we are able to pass price increases on to our customers, there can be delays before we are able to do so. In 2011 and 2012, we were successful in negotiating certain contracts that permit us to fully or partially pass along certain raw material price increases, particularly price increases related to steel and rare earth materials, which partially mitigated the impact of rising raw material prices on our gross margin.

### **Ability to Manage Manufacturing Challenges**

The volume and timing of sales to our customers may vary due to a number of factors, including variation in demand for our customers' products, our customers' attempts to manage their inventory, design changes, changes in our customers' manufacturing strategy and acquisitions of or consolidations among customers. Accordingly, many of our customers do not commit to long-term production schedules. Our inability to forecast the level of long-term customer orders with certainty makes it difficult for us to optimize our manufacturing processes and maximize utilization of our manufacturing capacity.

Our Group has implemented a number of cost reduction initiatives relating to cost of sales since the Acquisition. These initiatives included implementing production efficiency improvements, reducing scrap generation, and reducing labor costs. For example, pursuant to the MOU effective upon Acquisition, in order to achieve a reduced wage structure for the U.S. hourly workforce, we offered hourly employees: (i) a lump sum payment for employees who agreed to a lower hourly wage rate after the Acquisition (mandatory for skilled trade employees and voluntary for other employees); (ii) a lump sum payment for employees who decided to retire; or (iii) a lump sum payment for employees who decided to terminate their employment. Our Group recognized employee restructuring charges of US\$32.8 million during the period from November 4, 2010 to December 31, 2010 and US\$1.8 million during the year ended December 31, 2011 in connection with this initiative (the “2010 employee restructuring initiative”). This initiative reduced the manufacturing wage structure of the U.S. hourly workforce in 2011 and future years.

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In 2012, our Group reduced salary and hourly headcount in an effort to reduce manufacturing, engineering, selling and administrative costs in accordance with recent cost reduction initiatives (the “2012 employee restructuring initiative”). In the year ended December 31, 2012, our Group recognized employee restructuring charges of US\$7.4 million, of which US\$2.4 million were related to efforts to reduce manufacturing and engineering labor costs.

### **Success of Capital Investment**

As we continue to grow our business, we expect to require continued substantial capital expenditure in the future as programs approach their respective launch dates and as new programs are won. Accordingly, we have made and expect to continue to make substantial investments in manufacturing operations, engineering centers and other infrastructure to support anticipated growth in EPS. Our capital investments can be categorized into: (i) capital expenditures relating to property, plant and equipment; and (ii) capitalization of qualifying development costs.

Capital expenditures relating to property, plant and equipment were US\$47.5 million, US\$8.6 million, US\$67.1 million and US\$172.4 million for the period from January 1, 2010 to November 30, 2010, the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012.

Our Group capitalized qualifying development costs of US\$4.8 million, US\$69.6 million and US\$104.1 million during the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. These costs were recognized as intangible assets in the period incurred since they represent product development costs that can be clearly assigned to a newly developed product or process and meet the IFRS criteria for capitalization. By contrast, our Predecessor did not capitalize development costs for the period from January 1, 2010 to November 30, 2010 or in prior periods since it could not be determined whether those costs would result in a future benefit.

Amortization expense recognized on these capitalized costs were nil, nil, US\$0.7million and US\$4.6 million for the period from January 1, 2010 to November 30, 2010, the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. When a program is launched, capitalized development costs are amortized using the straight-line method over the life of the related program, usually four to seven years. We expect amortization expense to increase in future years as several programs that are currently in development are launched. Thus, amortization charges will more closely approximate amounts capitalized in those periods. We expect to continue to incur substantial costs for engineering and product development in the future to support our existing technologies and future development efforts.

### **Volatility in Operating Results Caused by Potential Impairment Charge**

Our Group’s balance sheets reflect the impact of deferring qualifying engineering and product development costs. We record these costs as intangible assets in the period incurred since they represent product development costs that can be clearly assigned to a newly developed product or process and meet the IFRS criteria for capitalization. Our balance sheet as of December 31, 2012 reflects a carrying amount of capitalized engineering and product

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development costs of US\$179.1 million. We expect to continue to incur a substantial amount of engineering and product development costs in the future, and expect that the carrying value of our intangible assets will continue to increase as a result. We evaluate the intangible assets for recoverability annually, or more frequently as circumstances warrant. Our evaluation in the future may result in material impairment charges which would have a significant impact on our operating results and potentially our share price.

### **Our Tax Rates**

Effective tax rates for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012 were 0.5%, 7.4% and 5.7%, respectively. Our more significant subsidiaries are subject to tax in either the United States or China. Certain of our subsidiaries are currently exempted or taxed at preferential tax rates that range from 0% to 15%. Termination, revision, or lapse of the various types of preferential treatment mentioned above would have a negative impact on our results of operations and financial condition. See “Risk Factors — Risks Related to Our Business and Industry — The preferential tax treatment that our PRC subsidiaries currently enjoy may be changed or discontinued, which may adversely affect our business, results of operations and financial condition.”

Our Poland subsidiary enjoys a Special Economic Zone (SEZ) tax concession related to its manufacturing operations. This concession operates similar to a tax holiday because it reduces the tax rate from 19% to 0% for the activities subject to the SEZ. We expect to maintain this significant tax concession until the SEZ concession expires in 2020.

Through 2011 our U.S. entities experienced tax losses, which were mostly attributable to Nexteer Automotive, our main U.S. operating entity. Up to 2011, we did not recognize any net deferred tax assets due to the uncertainty surrounding the availability of future profits against which these tax losses could be utilized, taking into consideration the trend of historical financial results as well as our business budget and booked business at the time. In 2012, we determined that it was appropriate to recognize these deferred tax assets due to current and future forecasted taxable profits in the United States. This gave rise to a large income tax benefit in 2012, which partially offset the total income tax expense for the year and was a major driver of the 5.7% effective tax rate. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilized. See “Appendix IA — Accountant’s Report of the Financial Information of the Group — II. Notes on the Financial Information — 2. Summary of Significant Accounting Policies.” As such, we examine the trend of historical earnings as objective evidence to assess the extent to which a deferred tax asset can be recognized. Our U.S. consolidated group incurred net taxable losses for the period from December 1, 2010 to December 31, 2010 and for the year ended December 31, 2011. In view of our history of the tax losses with no utilization in the past, no deferred tax assets attributable to our U.S. operations were recorded up to December 31, 2011. In contrast, the operating results of our U.S. operations experienced improvement in 2012, which resulted in an expected consolidated net taxable profit to be reported in our 2012 U.S. consolidated tax return. Our 2012 taxable profits will commence the utilization of our U.S. consolidated group’s net operating loss carry-forwards. This utilization provides significant positive evidence of the realizability of our U.S. deferred tax assets. After taking into consideration other factors such as our business plan, forecast and budget, booked business on hand and prevailing industry conditions, we commenced the recognition of deferred tax assets

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in 2012 to the extent that we believed it was probable that future taxable profits will be available to utilize previously unrecognized deferred tax assets, which is expected to be primarily tax loss carryforwards. As disclosed under “Appendix IA — Accountant’s Report of the Financial Information of the Group — II. Notes on the Financial Information — 9. Deferred Income Taxes,” as of December 31, 2012, our Group had US\$29.7 million of tax losses carry-forwards in the United States which will begin to expire in 2032 and were fully recognized as deferred tax assets for the year ended December 31, 2012.

We are required to measure current and deferred taxes based on tax laws that are enacted or substantively enacted as of the balance sheet date. The U.S. legislation allowing the federal research credit was not enacted or substantively enacted for the 2012 reporting period until January 2, 2013. Therefore, we did not include a tax benefit of US\$4.0 million for this 2012 credit in our 2012 financial statements. Instead, we will be reporting both the 2012 and 2013 tax benefit of the research credit in 2013, which will favorably impact our effective tax rate in 2013.

### SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our Group’s financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our Group’s financial statements. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Notes 2 and 3 of the Accountant’s Reports in Appendices IA and IB in this Prospectus, respectively.

#### Revenue Recognition

Revenue is measured at the fair value of the consideration received, or receivable, less any trade discounts, sales returns and allowances allowed by our Group or any commercial incentives linked to sales. Our Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of our Group’s activities, as described below. Our Group contracts with customers, which are generally OEMs in the automotive industry, to sell driveline and steering products. In connection with these contracts our Group also contracts to provide tooling and prototype and engineering services. The revenue recognition policies applied by our Group for each of these activities are as follows:

- **Product** — Revenues are recognized when finished products are shipped to customers, both title and the risks and rewards of ownership are transferred, and collectability is reasonably assured.



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- **Prototype and engineering** — Prototype and engineering activities are only performed in connection with the development of a product that will be produced for the customer. Consideration received from customers for engineering and prototyping is deferred and recognized over the product life cycle of the related product.
- **Tooling** — Our Group's development and sale of tooling for customers is performed in connection with the preparations to produce and sell product to our customers. Therefore, consideration received from customers for tooling used in the production of the finished product is recognized as revenue at the time the tooling is accepted by the customer.

Deferred revenue relates to customer deposits or cash advances and is deferred in the balance sheet until revenue recognition criteria are met.

### Property, Plant and Equipment and Depreciation

Items of property, plant and equipment (including tools but excluding construction-in-progress) are measured at cost less accumulated depreciation and accumulated impairment losses. Improvements that materially extend the useful life of these assets are capitalized. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

- |                                    |  |
|------------------------------------|--|
| ● Leasehold improvements           | 10-20 years or over lease term, whichever is shorter |
| ● Buildings                        | 10-40 years  |
| ● Machinery, equipment and tooling | 3-27 years   |
| ● Furniture and office equipment   | 3-10 years   |

Tooling represents tools, dies, jigs and other items used in the manufacturing of customer-specific parts. Tools owned by our Group are capitalized as property, plant and equipment and depreciated to cost of sales over their useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within "Other (losses)/gains, net" in the income statement.

Construction-in-progress represents buildings, machinery and equipment under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

### **Intangible Assets — Research and Development**

Our Group incurs significant costs on research and development activities, which include expenditures on customer-specific applications, prototypes and testing. Research expenditures are charged to the income statement as an expense in the period the expenditure is incurred. Development costs are recognized as assets if they can be clearly assigned to a newly developed product or process and all the following can be demonstrated:

- the technical feasibility to complete the development project so that it will be available for use or sale;
- the intention to complete the development project to use or sell it;
- the ability to use the output of the development project;
- the manner in which the development project will generate probable future economic benefits for our Group;
- the availability of adequate technical, financial and other resources to complete the development project and use or sell the intangible asset; and
- the expenditure attributable to the asset during its development can be reliably measured.

The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

Capitalized development costs are amortized using the straight-line method over the life of the related program, usually four to seven years.

Development costs not satisfying the above criteria are recognized in our Group's income statement as incurred.

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### Provisions

Provisions for restructuring, legal disputes, environmental liabilities, warranties and decommissioning are recognized when our Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions primarily comprise employee payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

- **Litigation.** Our Group is subject to various legal actions and claims incidental to its business, including those arising out of alleged defects, breach of contracts, intellectual property matters and employment related matters.

Our Group believes its established reserves are adequate to cover such items. However, the final amounts required to resolve these matters could differ materially from recorded estimates.

Litigation is subject to many uncertainties and the outcome of the individual litigated matters is not predictable with assurance. Based on currently available information, it is the opinion of management that the outcome of such matters will not have a material adverse impact on our Group.

- **Environmental Liabilities.** Our Group records environmental liabilities based upon estimates of financial exposure with respect to environmental sites. Environmental requirements may become more stringent over time or eventual environmental cleanup costs and liabilities may ultimately exceed current estimates. Moreover, future facilities sales could trigger additional, perhaps material, environmental remediation costs, as previously unknown conditions may be identified.
- **Warranties.** Our Group recognizes expected warranty costs for products sold principally at the time of sale of the product or when it is determined that such obligations are probable and can be reasonably estimated. Amounts recorded are based on our Group's estimates of the amount that will eventually be required to settle such obligations. These accruals are based on factors such as specific customer arrangements, past experience, production changes, industry developments and various other considerations. Our Group's estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims.
- **Decommissioning.** Conditional asset retirement obligations identified by our Group primarily relate to asbestos abatement and removal and disposal of storage tanks at certain of our sites. Amounts recorded are based on our Group's estimate of future obligations to leave or close a facility. Sites are continually monitored for changes that may impact future obligations for decommissioning. Our Group records accretion expense monthly to account for discounting of such obligations.

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## FINANCIAL INFORMATION

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### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Inventory cost includes direct material, direct labor and related manufacturing overhead costs (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### **Current and Deferred Income Tax**

Income tax expense comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is recognized in other comprehensive income or directly in equity, respectively.

#### ***Current Income Tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### ***Deferred Income Tax***

(i) Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(ii) Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by our Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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## FINANCIAL INFORMATION

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### *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

For the period from January 1, 2010 to November 30, 2010, U.S. taxes were estimated on an “as if separate” basis, as if our Predecessor were a stand-alone entity. Since certain of our Predecessor’s legal entities filed a consolidated tax return with GM legal entities, current taxes were assumed to be settled with GM in the year the related income taxes are recorded through transfers to GM.

### **RESULTS OF OPERATIONS**

The following table sets forth a summary of our Predecessor’s consolidated statement of comprehensive income for the period from January 1, 2010 to November 30, 2010 and our Group’s combined statements of comprehensive income for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012. The basis of presentation of our Predecessor’s financial information is not comparable to the basis of presentation of our Group’s financial information. Accordingly, with the exception of revenue, we have not combined our Predecessor’s financial information for the period from January 1, 2010 to November 30, 2010 with our Group’s financial information for the period from November 4, 2010 to December 31, 2010. Revenue has been combined as it was not significantly affected by the factors noted above. Operating results in any historical period may not be indicative of the results that may be expected in any future period.

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## FINANCIAL INFORMATION

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### Our Predecessor

|   | For the<br>period from<br>January 1,<br>2010 to<br>November 30,<br>2010 |
|---|---|
|   | (US\$ thousands)  |
| <b>Revenue</b> .....  | 1,895,195   |
| Cost of sales .....   | (1,610,442)   |
|   | 284,753   |
| <b>Gross profit</b> .....                                   | 284,753   |
| Engineering and product development costs .....             | (118,008)   |
| Administrative expenses .....                               | (59,139)  |
| Selling and distribution expenses .....                     | (17,018)  |
| Other losses, net .....                                     | (5,537)   |
|   | 85,051  |
| <b>Operating profit</b> .....                               | 85,051  |
| Finance income .....  | 790   |
| Finance costs .....   | (4,747)   |
|   | (3,957)   |
| <b>Profit before income tax</b> .....                       | 81,094  |
| Income tax expense .....                                    | (10,991)  |
|   | 70,103  |
| <b>Profit for the period</b> .....                          | 70,103  |
| <b>Profit for the period attributable to:</b>               |   |
| Equity holders of our Predecessor .....                     | 67,955  |
| Non-controlling interests .....                             | 2,148   |
|   | 70,103  |
| <b>Profit for the period</b> .....                          | 70,103  |
| <b>Other comprehensive loss, net of tax</b>                 |   |
| Exchange differences .....                                  | (5,482)   |
| Actuarial losses on defined benefit plans, net of tax ..... | (854)   |
|   | (6,336)   |
| <b>Total comprehensive income, for the period</b> .....     | 63,767  |
| <b>Attributable to:</b>                                     |   |
| Equity holders of our Predecessor .....                     | 61,157  |
| Non-controlling interests .....                             | 2,610   |
|   | 63,767  |

## FINANCIAL INFORMATION

### Our Group

|   | For the<br>period from<br>November 4,<br>2010 to<br>December 31,<br>2010 | For the<br>year ended<br>December 31,<br>2011 | For the<br>year ended<br>December 31,<br>2012 |
|---|--|---|---|
|   |  | (US\$ thousands)                              |   |
| <b>Revenue</b> .....  | 156,688  | 2,247,752                                     | 2,167,802                                     |
| Cost of sales .....   | (182,033)  | (1,970,477)                                   | (1,900,989)                                   |
| <b>Gross (loss)/profit</b> .....  | (25,345)   | 277,275                                       | 266,813                                       |
| Engineering and product<br>development costs .....                      | (8,470)  | (108,376)                                     | (81,623)                                      |
| Administrative expenses .....   | (21,841)   | (78,089)                                      | (88,563)                                      |
| Selling and distribution expenses .....                                 | (994)  | (10,547)                                      | (9,343)                                       |
| Other (losses)/gains, net .....   | (638)  | 8,938   | (3,361)                                       |
| <b>Operating (loss)/profit</b> .....                                    | (57,288)   | 89,201  | 83,923  |
| Finance income .....  | 72   | 838   | 562   |
| Finance costs .....   | (1,744)  | (16,602)                                      | (22,291)                                      |
| Finance costs, net .....  | (1,672)  | (15,764)                                      | (21,729)                                      |
| <b>(Loss)/profit before income tax</b> .....                            | (58,960)   | 73,437  | 62,194  |
| Income tax credit/(expense) .....                                       | 293  | (5,404)                                       | (3,567)                                       |
| <b>(Loss)/profit for the period/year</b> .....                          | (58,667)   | 68,033  | 58,627  |
| <b>(Loss)/profit for the period/year<br/>attributable to:</b>           |  |   |   |
| Equity holders of the Company .....                                     | (58,539)   | 66,686  | 57,096  |
| Non-controlling interests .....   | (128)  | 1,347   | 1,531   |
| <b>(Loss)/profit for the period/year</b> .....                          | (58,667)   | 68,033  | 58,627  |
| <b>Other comprehensive income/(loss),<br/>net of tax</b>                |  |   |   |
| Exchange differences .....  | 2,865  | (11,851)                                      | 4,607   |
| Actuarial gains/(losses) on defined<br>benefit plans, net of tax .....  | 118  | (929)   | (1,394)                                       |
|   | 2,983  | (12,780)                                      | 3,213   |
| <b>Total comprehensive (loss)/income,<br/>for the period/year</b> ..... | (55,684)   | 55,253  | 61,840  |
| <b>Attributable to:</b>   |  |   |   |
| Equity holders of the Company .....                                     | (55,661)   | 53,489  | 60,103  |
| Non-controlling interests .....   | (23)   | 1,764   | 1,737   |
|   | (55,684)   | 55,253  | 61,840  |

## FINANCIAL INFORMATION

### DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

#### Revenue

Revenue represents income from our product sales as well as the provision of tooling, prototype parts and engineering services to customers. Product sales represented approximately 99% of total revenue for the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012. We typically enter into contracts with our OEM customers 24-30 months prior to the recognition of revenue. The revenue we recorded during the Track Record Period primarily represents contracts we received prior to the Acquisition. We generated revenues of US\$2,051.9 million, US\$2,247.8 million and US\$2,167.8 million for the years ended December 31, 2010, 2011 and 2012, respectively.

The following sets forth our revenue by product lines for the periods/years indicated:

|                                 | Our Predecessor  |       | Our Group   |       | Combined <sup>(1)</sup> |       | Our Group                            |       |                                      |       |
|---------------------------------|--|-------|---|-------|-------------------------|-------|--------------------------------------|-------|--------------------------------------|-------|
|                                 | For the period from January 1, 2010 to November 30, 2010 |       | For the period from November 4, 2010 to December 31, 2010 |       | Total 2010              |       | For the year ended December 31, 2011 |       | For the year ended December 31, 2012 |       |
|                                 | (US\$ thousands)   | %     | (US\$ thousands)  | %     | (US\$ thousands)        | %     | (US\$ thousands)                     | %     | (US\$ thousands)                     | %     |
| <b>Steering:</b>                |  |       |   |       |                         |       |                                      |       |                                      |       |
| EPS . . . . .                   | 553,811  | 29.2  | 46,782  | 29.9  | 600,593                 | 29.3  | 762,967                              | 33.9  | 764,937                              | 35.3  |
| HPS . . . . .                   | 485,992  | 25.7  | 40,585  | 25.9  | 526,577                 | 25.7  | 540,396                              | 24.0  | 447,314                              | 20.6  |
| Steering Column (CIS) . . . . . | 487,822  | 25.7  | 38,240  | 24.4  | 526,062                 | 25.6  | 500,193                              | 22.3  | 481,827                              | 22.2  |
| <b>Driveline . . . . .</b>      | <u>367,570</u>   | 19.4  | <u>31,081</u>   | 19.8  | <u>398,651</u>          | 19.4  | <u>444,196</u>                       | 19.8  | <u>473,724</u>                       | 21.9  |
| <b>Total . . . . .</b>          | <u>1,895,195</u>   | 100.0 | <u>156,688</u>  | 100.0 | <u>2,051,883</u>        | 100.0 | <u>2,247,752</u>                     | 100.0 | <u>2,167,802</u>                     | 100.0 |

Note:

(1) Revenue for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “— Basis of Presentation.”

The following table sets forth sales volumes by product lines for the years indicated:

| Product lines <sup>(1)</sup>    | For the year ended               |                   |                   |
|---------------------------------|----------------------------------|-------------------|-------------------|
|                                 | December 31, 2010 <sup>(2)</sup> | December 31, 2011 | December 31, 2012 |
|                                 | (in thousands)                   |                   |                   |
| <b>Steering:</b>                |                                  |                   |                   |
| EPS . . . . .                   | 2,278                            | 2,682             | 2,680             |
| HPS . . . . .                   | 10,700                           | 10,718            | 8,289             |
| Steering Column (CIS) . . . . . | 4,098                            | 3,727             | 3,463             |
| <b>Driveline . . . . .</b>      | <u>7,944</u>                     | <u>8,018</u>      | <u>8,694</u>      |
| <b>Total . . . . .</b>          | <u>25,020</u>                    | <u>25,145</u>     | <u>23,126</u>     |

Notes:

(1) Product lines exclude aftermarket, service and components.  
(2) Sales volumes for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 have been combined. See “— Basis of Presentation.”



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The following table sets forth the ranges of the price per unit by product lines for the years indicated:

| Product lines <sup>(1)</sup> | For the year ended                  |                      |                      |
|------------------------------|-------------------------------------|----------------------|----------------------|
|                              | December 31,<br>2010 <sup>(2)</sup> | December 31,<br>2011 | December 31,<br>2012 |
|                              |                                     | (US\$)               |                      |
| <b>Steering:</b>             |                                     |                      |                      |
| EPS .....                    | 210-335                             | 185-335              | 200-430              |
| HPS .....                    | 2-270                               | 2-270                | 2-270                |
| Steering Column (CIS) .....  | 20-430                              | 20-450               | 20-430               |
| <b>Driveline</b> .....       | 25-100                              | 25-215               | 25-215               |

Notes:

- (1) Product lines exclude aftermarket, service and components.
- (2) Price range for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “— Basis of Presentation.”

The range of prices for each product line is attributable to the wide variety of products within a product line. See “Business — Our Products.” There is a significant difference in pricing depending on whether we sell an entire system or separate products. Furthermore, pricing within a specific product category also varies widely due to the high degree of customer-specific customization of our products.

The following table sets forth our revenue by geographic segment for the periods/years indicated:

|                                    | Our Predecessor   |       | Our Group  |       | Combined <sup>(1)</sup> |       | Our Group                               |       |   |       |
|------------------------------------|---|-------|--|-------|-------------------------|-------|---|-------|---|-------|
|                                    | For the period from January 1,<br>2010 to November 30, 2010 |       | For the period from November 4,<br>2010 to December 31, 2010 |       | Total 2010              |       | For the year ended<br>December 31, 2011 |       | For the year ended<br>December 31, 2012 |       |
|                                    | (US\$ thousands)  | %     | (US\$ thousands)   | %     | (US\$ thousands)        | %     | (US\$ thousands)                        | %     | (US\$ thousands)                        | %     |
| <b>Geographic segment:</b>         |   |       |  |       |                         |       |   |       |   |       |
| North America .....                | 1,200,748   | 63.4  | 96,858   | 61.8  | 1,297,606               | 63.2  | 1,470,392                               | 65.4  | 1,536,351                               | 70.9  |
| Europe .....                       | 430,868   | 22.7  | 31,715   | 20.2  | 462,583                 | 22.5  | 456,359                                 | 20.3  | 328,444                                 | 15.2  |
| China .....                        | 129,240   | 6.8   | 18,125   | 11.6  | 147,365                 | 7.2   | 168,477                                 | 7.5   | 182,326                                 | 8.4   |
| Rest of World <sup>(2)</sup> ..... | 134,339   | 7.1   | 9,990  | 6.4   | 144,329                 | 7.1   | 152,524                                 | 6.8   | 120,681                                 | 5.5   |
| <b>Total</b> .....                 | <u>1,895,195</u>  | 100.0 | <u>156,688</u>   | 100.0 | <u>2,051,883</u>        | 100.0 | <u>2,247,752</u>                        | 100.0 | <u>2,167,802</u>                        | 100.0 |

Notes:

- (1) Revenue for the period from January 1, 2010 to November 30, 2010 and November 4, 2010 to December 31, 2010 has been combined. See “— Basis of Presentation.”
- (2) Includes Brazil, India, Korea and Australia.

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## FINANCIAL INFORMATION

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### Cost of Sales and Gross Profit

Cost of sales represents costs directly attributed to our revenue generating activities and consists principally of raw materials, manufacturing expenses and employee restructuring costs. For the period from January 1, 2010 to November 30, 2010, our Predecessor's costs of sales were US\$1,610.4 million. The following table sets forth our Predecessor's cost of sales and gross profit for the period indicated:

|                      | For the period<br>from January 1,<br>2010 to<br>November 30,<br>2010 |
|----------------------|--|
|                      | (US\$ thousands)   |
| Cost of Sales .....  | 1,610,442  |
| Gross Profit .....   | 284,753  |
| Gross Profit % ..... | 15.0%  |

For the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012, our Group's costs of sales were US\$182.0 million, US\$1,970.5 million and US\$1,901.0 million, respectively. The following table sets forth our Group's cost of sales and gross profit for the period/years indicated:

|                             | For the period<br>from<br>November 4,<br>2010 to<br>December 31,<br>2010 | For the year<br>ended<br>December 31,<br>2011 | For the year<br>ended<br>December 31,<br>2012 |
|-----------------------------|--|---|---|
|                             |  | (US\$ thousands)                              |   |
| Cost of Sales .....         | 182,033  | 1,970,477                                     | 1,900,989                                     |
| Gross (Loss)/Profit .....   | (25,345)   | 277,275                                       | 266,813                                       |
| Gross (Loss)/Profit % ..... | (16.2%)  | 12.3%   | 12.3%   |

The two major components of cost of sales are raw materials and manufacturing costs.

The primary types of materials purchased are electrical parts, particularly controllers, motors and sensors; machined parts, including castings and forgings, bearings, and stampings; and commodity purchases. The cost of the commodity purchases is significantly impacted by global economic conditions. The key commodities that impact material costs are steel and rare earth materials. As economic pressures increase on those commodities, the purchased material cost rises. The impact of price fluctuations of these commodities on our gross profit and margins is significantly mitigated by various commercial agreements with our customers that allow for full or partial pass-through of cost increases. Another significant component of cost of sales is manufacturing cost, which consists primarily of hourly labor cost, salaried labor costs (management and planning for manufacturing and support functions), benefit costs, utilities, scrap expense, indirect and maintenance material, and start-up and launch expenses. A portion of the hourly labor costs is variable and fluctuates with customer requirements, while salaried cost is predominately fixed.

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The following table sets forth the components of cost of sales of our Predecessor for the period indicated:

|                           | <b>For the<br/>period from<br/>January 1, 2010 to<br/>November 30, 2010</b> |            |
|---------------------------|---|------------|
|                           | (US\$ thousands)  | %          |
| Raw materials .....       | 1,039,619   | 64.6       |
| Manufacturing .....       | 525,429   | 32.6       |
| Restructuring costs ..... | —   | —          |
| Other .....               | 45,394  | 2.8        |
| <b>Total .....</b>        | <b>1,610,442</b>  | <b>100</b> |

The following table sets forth the components of cost of sales of our Group for the period/years indicated:

|                           | <b>For the<br/>period from<br/>November 4, 2010 to<br/>December 31, 2010</b> |            | <b>For the<br/>year ended<br/>December 31, 2011</b> |            | <b>For the<br/>year ended<br/>December 31, 2012</b> |            |
|---------------------------|--|------------|---|------------|---|------------|
|                           | (US\$<br>thousands)  | %          | (US\$<br>thousands)                                 | %          | (US\$<br>thousands)                                 | %          |
| Raw materials .....       | 89,145   | 49.0       | 1,320,418   | 67.0       | 1,264,615   | 66.5       |
| Manufacturing .....       | 59,041   | 32.4       | 607,024   | 30.8       | 586,698   | 30.9       |
| Restructuring costs ..... | 32,763   | 18.0       | 1,776   | 0.1        | 2,417   | 0.1        |
| Other .....               | 1,084  | 0.6        | 41,259  | 2.1        | 47,259  | 2.5        |
| <b>Total .....</b>        | <b>182,033</b>   | <b>100</b> | <b>1,970,477</b>                                    | <b>100</b> | <b>1,900,989</b>                                    | <b>100</b> |

For the period from January 1, 2010 to November 30, 2010, our Predecessor's gross profit was US\$284.8 million. For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group's gross (loss)/profit was US\$(25.3 million), US\$277.3 million and US\$266.8 million, respectively. For a description of the gross loss for the period from November 4, 2010 to December 31, 2010, see “— Results of Operations — Period from November 4, 2010 to December 31, 2010 — Our Group.”

### Engineering and Product Development Costs

The following table sets forth the components of engineering and product development costs of our Predecessor for the period indicated:

|   | <b>For the<br/>period from<br/>January 1,<br/>2010 to<br/>November 30, 2010</b> |
|---|---|
|   | (US\$ thousands)  |
| Engineering and product development costs charged to income statement ..... | 118,008   |
| Development costs capitalized as intangible assets .....                    | —   |
| <b>Total engineering and product development costs .....</b>                | <b>118,008</b>  |

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## FINANCIAL INFORMATION

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The following table sets forth the components of engineering and product development costs of our Group for the period/years indicated:

|   | <b>For the<br/>period from<br/>November 4,<br/>2010 to<br/>December 31,<br/>2010</b> | <b>For the<br/>year ended<br/>December 31,<br/>2011</b> | <b>For the<br/>year ended<br/>December 31,<br/>2012</b> |
|---|--|---|---|
|   |  | (US\$ thousands)  |   |
| Engineering and product development costs charged to income statement . . . . . | 8,470  | 108,376   | 81,623  |
| Development costs capitalized as intangible assets . . . . .                    | <u>4,846</u>   | <u>70,771</u>   | <u>108,702</u>  |
| <b>Total engineering and product development costs . . . . .</b>                | <u><u>13,316</u></u>   | <u><u>179,147</u></u>                                   | <u><u>190,325</u></u>                                   |

Engineering and product development costs charged to our income statement include all advanced research, program development engineering, and continuous improvement engineering to improve processes that do not qualify for capitalization as an intangible asset in accordance with our accounting policies discussed above. Amortization expenses for capitalized development costs are included in cost of sales. Our Group's research, development, and engineering department operates a global network of technical centers where we employ and contract engineers, researchers, designers, software experts, process experts, and technicians. This global network allows our Group to develop steering and driveline systems and improve existing products. We believe that continued research, development and engineering activities are critical to our long term growth as we seek additional business with new and existing customers.

For the period from January 1, 2010 to November 30, 2010, no engineering and product development costs were capitalized by our Predecessor. Engineering and product development costs incurred by our Predecessor prior to December 1, 2010 did not meet the IFRS criteria for capitalization due to the then uncertainty about the probable future economic benefit of product development spending after considering such factors as: (i) prevailing global automotive market conditions in 2008, 2009, and early 2010 combined with ownership uncertainty of our Predecessor; and (ii) in October 2009 through November 2010, the adverse impact of GM's ownership upon our Predecessor's ability to market its products to and obtain business from GM's competing OEMs.

For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, capitalized engineering and product development costs were US\$4.8 million, US\$70.8 million and US\$108.7 million, respectively.

Our Group considered the following factors to evaluate whether the capitalization of engineering and product development costs was appropriate: (i) significant awards for new programs were secured from customers since we ceased to be under GM's ownership; (ii) the improving outlook of the global automotive market in 2010; and (iii) as a result of the improving outlook of the global automotive market in 2010, higher profitability forecasts for our Group in future periods resulting from awards from new and existing customers in 2010 and

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2011. Our Group concluded that qualifying engineering and product development costs incurred after December 1, 2010 met the IFRS criteria for capitalization. See “Business — Research and Development.”

For the period from January 1, 2010 to November 30, 2010, our Predecessor’s gross engineering and product development costs were US\$118.0 million, representing 6.2% of our Predecessor’s revenue.

For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group’s gross engineering and product development costs were US\$13.3 million, US\$179.1 million and US\$190.3 million, representing 8.5%, 8.0% and 8.8% of our Group’s revenue, respectively. The increase in gross engineering and product development costs by US\$11.2 million from the year ended December 31, 2011 to the year ended December 31, 2012 is attributable to the volume of programs currently in development that are expected to launch in 2013 and 2014.

Amortization of capitalized development costs recorded under cost of sales amounted to nil, nil, US\$0.7 million, and US\$4.6 million for the period from January 1, 2010 to November 30, 2010, the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. Our Group expects amortization expense to increase in future years as several programs that are currently in development are launched.

### **Administrative Expenses**

Administrative expenses principally include employee wages and benefits for administrative staff, including finance, human resources, IT, legal and others. The largest components of employee wages and benefits within administrative expenses include salaries, bonuses, and contributions to various benefit plans pursuant to our HR policy or applicable regulations. During the period GM owned our Predecessor, the costs charged by GM to our Predecessor for these services may not be indicative of the costs that our Predecessor would have incurred had our Predecessor been a stand-alone entity. Additionally, GM did not charge our Predecessor for all costs it incurred. In all instances where costs were not charged to our Predecessor, no expense has been included in our Predecessor’s consolidated financial statements. Consequently, amounts reported as administrative expenses by our Predecessor are not comparable to our Group. See “— Basis of Presentation.” For the period from January 1, 2010 to November 30, 2010, our Predecessor’s administrative expenses were US\$59.1 million. For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group’s administrative expenses were US\$21.8 million, US\$78.1 million, and US\$88.6 million, respectively.

### **Selling and Distribution Expenses**

Selling and distribution expenses principally include employee wages and benefits for our global sales staff and other related expenses. For the period from January 1, 2010 to November 30, 2010, our Predecessor’s selling costs were US\$17.0 million, representing 0.9% of our Predecessor’s revenue. For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group’s selling costs were US\$1.0 million, US\$10.5 million and US\$9.3 million, representing 0.6%, 0.5% and 0.4% of our Group’s revenue, respectively.

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### **Other (Losses)/Gains, net**

Other (losses)/gains, net, principally include foreign exchange (losses)/gains as well as royalty income offset by special claims. For the period from January 1, 2010 to November 30, 2010, our Predecessor's net other losses were US\$5.5 million. For the period from November 4, 2010 to December 31, 2010, our Group's other losses, net were US\$0.6 million. For the year ended December 31, 2011, our Group's other gains, net were US\$8.9 million, and for the year ended December 31, 2012, our Group's other losses, net were US\$3.4 million.

### **Finance Costs, net**

Finance costs, net, consist of interest income and expense reduced by interest capitalized on qualifying assets. Our Predecessor's financing activities and capital structure were managed by GM. Accordingly, finance costs reported by our Predecessor are not comparable to those of our Group. See "— Basis of Presentation." For the period from January 1, 2010 to November 30, 2010, our Predecessor's net finance costs were US\$4.0 million. For the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, our Group's net finance costs were US\$1.7 million, US\$15.8 million and US\$21.7 million, respectively.

### **Income Tax (Expense)/Credit**

Income tax expenses represent total current and deferred tax expenses.

For the period from January 1, 2010 to November 30, 2010, our Predecessor's income tax expense was US\$11.0 million, representing 13.6% of our Predecessor's profit before income tax. For the period from November 4, 2010 to December 31, 2010, our Group's income tax credit was US\$0.3 million while the tax expense for the years ended December 31, 2011 and 2012 were US\$5.4 million and US\$3.6 million, respectively, representing 0.5%, 7.4% and 5.7% of our Group's (loss)/profit before income tax, respectively.

### **Profit/(Loss) for the Period/Year**

Profit/(loss) for the period/year represents the profit/(loss) after tax. Profits/(loss) between our Predecessor and our Group are not comparable primarily because of the change of the net asset basis when our Group acquired the assets and assumed the liabilities from our Predecessor, the manner in which costs were charged by GM to our Predecessor for the pre-Acquisition period, the capitalization of development costs due by our Group, and the Acquisition fees and costs incurred by our Group. See "— Basis of Presentation."

### ***Our Predecessor***

Our Predecessor's profit for the period from January 1, 2010 to November 30, 2010 was US\$70.1 million, or 3.7%, of our Predecessor's revenue for the period.

### ***Our Group***

For the period from November 4, 2010 to December 31, 2010, our Group's loss was US\$58.7 million. For the years ended December 31, 2011 and 2012, our Group's profit was US\$68.0 million and US\$58.6 million, representing 3.0% and 2.7% of our Group's revenue,

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respectively. The decrease in net profit margin from 2011 to 2012 was primarily attributable to costs incurred as a result of our 2012 employee restructuring initiative, costs related to the Global Offering, as well as an increase in finance costs as a result of an increase in our total borrowings by US\$134.0 million from December 31, 2011 to December 31, 2012.

### Currency Conversion Differences

Currency conversion differences represent exchange differences related to converting the balance sheet and income statement to the functional currency of our Group which is the U.S. Dollar. Balance sheet accounts are converted at the closing period exchange rate and income statement accounts are converted at an average period exchange rate. All resulting exchange differences are recognized in other comprehensive income.

## RESULTS OF OPERATIONS

### Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011

**Revenue.** Our Group's revenue for the year ended December 31, 2012 was US\$2,167.8 million, a decrease of US\$80.0 million, or 3.6%, as compared with our Group's revenue of US\$2,247.8 million for the year ended December 31, 2011. The decrease in revenue was due to the following:

- An overall decrease in total sales volume resulting from the following factors:
  - a slight decline in sales volume of the EPS product line, which was primarily the combined effect of increased demand in China offset by a decline in sales volume of the EPS product line in Europe, primarily due to recessionary economic conditions throughout 2012;
  - a decline in sales volume of the HPS product line. The decline was primarily due to the industry conversion from HPS to EPS, which is consistent with our Group's overall growth strategy of shifting our focus to the EPS product line;
  - a decline in sales volume of the steering columns product line primarily as a result of the integration of steering columns into EPS products. Thus, an increased number of our EPS products include an integrated steering column product; and
  - partially offset by an increase in sales volume of the driveline product line primarily due to new programs and increased sales volumes from existing programs in North America.
- An overall decrease in pricing was a result of:
  - the impact of price reductions to secure new customer programs and contractually scheduled price reductions for existing programs which were agreed upon when certain programs were originally awarded; and
  - the decrease was partially offset by the following: (1) an increase in new program launches and the shift in product mix to higher priced products, such as EPS, and (2) the impact of customer billings for commodity recovery of cost of raw materials. During 2012, in accordance with negotiated contracts with certain customers, increases in the cost of rare earth metals and steel were fully or partially passed through to these customers.

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In line with the industry conversion from HPS to EPS and our Group's EPS-focused growth strategy, we have strategically shifted our production focus from HPS to EPS. While we continue to produce HPS products, we have become more selective with respect to the HPS business we pursue and accept, which has resulted in a decrease in HPS sales volume from 2011 to 2012. Once we have accepted a business opportunity, it typically takes 24 to 30 months for us to implement the required manufacturing capacity and for the customer to complete development of the vehicle before commencing production. Moreover, even after commencing production, it generally takes at least six months for newly ramped up capacity to run at full capacity. As a result, it may take two or three years before the booked business can become significant sources of income. Furthermore our sales volume of EPS and HPS is affected by macroeconomic conditions. Accordingly, the growth in revenue of our EPS products from 2011 and 2012 did not match the decrease in revenue of our Group's HPS products for the same period. The decrease in sales volume of HPS did not have a material adverse effect on our Group's sustainability during the Track Record Period and is in line with our Group's EPS-focused strategies for future growth. See "Business — Customers — Supply Relationships with Our Customers" for a summary of our key booked business as of the Latest Practicable Date, including key EPS programs booked as of the Latest Practicable Date, which have estimated lifetime revenue of US\$4.5 billion.

**Cost of sales.** Our Group's cost of sales for the year ended December 31, 2012 was US\$1,901.0 million, which primarily included raw material costs of US\$1,264.6 million, manufacturing expense of US\$586.7 million, employee restructuring costs of US\$2.4 million, as well as other costs of sales. The decrease in cost of sales by US\$69.5 million, or 3.5%, from US\$1,970.5 million for the year ended December 31, 2011 to US\$1,901.0 million for the year ended December 31, 2012 aligns with the overall decline in our Group's sales revenue of 3.6%. In addition, cost of sales in 2012 continued to improve as a result of cost reduction initiatives, including:

- the implementation of production efficiency improvements;
- a decline in labor costs as a result of the 2010 employee restructuring initiative; and
- a decline in direct material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives, which were partially offset by increased economic commodity pressures resulting in an increase in purchased material costs that were fully or partially passed through to customers.

This decrease was partially offset by a restructuring expense of US\$2.4 million related to manufacturing and engineering headcount reductions which were intended to reduce labor costs in future periods in accordance with recent cost reduction initiatives.

**Gross profit.** Our Group's gross profit for the year ended December 31, 2012 was US\$266.8 million, a decrease of US\$10.5 million, or 3.8%, as compared with our Group's gross profit of US\$277.3 million for the year ended December 31, 2011. The decrease in gross profit was primarily driven by the decline in sales revenue for the reasons described above. See "— Revenue." Our Group's gross profit decreased from 2011 to 2012; however, our gross profit margin for the year ended December 31, 2012 was 12.3%, which remained stable compared to a gross profit margin of 12.3% for the year ended December 31, 2011.



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**Engineering and product development costs.** Our Group's engineering and product development costs for the year ended December 31, 2012 were US\$81.6 million, which primarily included labor and benefits expense of US\$64.6 million, materials expense of US\$13.6 million, as well as other expenses of US\$3.4 million. Our Group capitalized approximately US\$108.7 million, or 57.1%, of total engineering and product development costs in the year ended December 31, 2012. By comparison, our Group capitalized US\$70.8 million, or 39.5%, of total engineering and product development costs in the year ended December 31, 2011. The increase in amounts capitalized in 2012 reflects an increase in the number of programs in development and the later stages of development for certain of our Group's larger programs. Generally, as products advance through the development life cycle, a larger portion of engineering and product development costs can be capitalized.

**Administrative expenses.** Our Group's administrative expenses for the year ended December 31, 2012 were US\$88.6 million, which were primarily comprised of salaries and wages expense of US\$29.5 million and information technology implementation and maintenance expenses of US\$16.2 million. The increase in administrative expenses of US\$10.5 million, or 13.4%, as compared with our Group's administrative expenses of US\$78.1 million for the year ended December 31, 2011 was primarily attributable to restructuring expense of US\$5.0 million incurred in the year ended December 31, 2012 as a result of the 2012 employee restructuring initiative as well as US\$6.6 million in costs related to the Global Offering. This increase was partially offset by a decrease in salaries, wages, and benefits due to the workforce restructuring initiative.

**Selling and distribution expenses.** Our Group's selling and distribution expenses for the year ended December 31, 2012 were US\$9.3 million, which primarily included salaries and wages expense of US\$4.9 million, business travel expense of US\$1.2 million, outside service costs of US\$1.5 million, employee benefits expense of US\$1.3 million, as well as other expenses totaling US\$0.4 million. The decrease in selling and distribution expenses of US\$1.2 million, or 11.4%, as compared with our Group's selling and distribution expenses of US\$10.5 million for the year ended December 31, 2011 was largely attributable to a headcount reduction of temporary employees in connection with our 2012 employee restructuring initiative.

**Other (losses)/gains, net.** Our Group's other losses, net for the year ended December 31, 2012 were US\$3.4 million, which were primarily comprised of a foreign exchange loss of US\$3.3 million. Our Group's other gains of US\$8.9 million for the year ended December 31, 2011 consisted primarily of the unfavorable impact of the Euro against the U.S. Dollar. The foreign exchange (losses)/gains were comprised of US\$8.1 million exchange gains and US\$2.0 million exchange losses on a loan held by our North America subsidiary as of December 31, 2011 and 2012, respectively.

**Finance income.** Our Group's finance income for the year ended December 31, 2012 was US\$0.6 million, a decrease of US\$0.2 million, or 32.9%, as compared with our Group's finance income of US\$0.8 million for the year ended December 31, 2011. Finance income remained stable from the year ended December 31, 2011 to the year ended December 31, 2012.

**Finance costs, net.** Our Group's finance costs, net for the year ended December 31, 2012 were US\$21.7 million, which were comprised of interest expenses and guarantee fees for our outstanding bank loans. The increase in finance costs, net of US\$6.0 million, or 37.8%, as

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compared with our Group's finance costs, net of US\$15.8 million for the year ended December 31, 2011 was primarily attributable to an increase in our total borrowings from US\$406.6 million as of December 31, 2011 to US\$540.6 million as of December 31, 2012. This increase in finance costs, net was also impacted by an increase in our weighted average annual interest rate from 2.9% to 4.1% in the years ended December 31, 2011 and 2012, respectively.

**Income tax expense.** Our Group's income tax expense for the year ended December 31, 2012 was US\$3.6 million. In 2012 we recognized certain deferred tax assets which gave rise to large income tax benefits that partially offset the total income tax expense for the year.

**Profit for the year.** Our Group's profit for the year ended December 31, 2012 was US\$58.6 million, a decrease of US\$9.4 million, or 13.8%, compared to profit for the year ended December 31, 2011 of US\$68.0 million. Our Group's net margin for the years ended December 31, 2012 and 2011 were 2.7% and 3.0%, respectively. The decrease in net profit margin from 2011 to 2012 was primarily attributable to cost incurred as a result of our 2012 employee restructuring initiative, costs related to the Global Offering, as well as an increase in finance costs as a result of an increase in our total borrowings by US\$134.0 million from December 31, 2011 to December 31, 2012.

### **Year Ended December 31, 2011 Compared with the Combined Year Ended December 31, 2010**

Our Predecessor's operating results are not directly comparable to the results of our Group. Accordingly, with the exception of revenue, we have not combined our Predecessor's financial information for the period from January 1, 2010 to November 30, 2010 with our Group's financial information for the period from November 4, 2010 to December 31, 2010 for the purpose of management's discussion and analysis of results of operations. See "— Basis of Presentation."

**Revenue.** Our Group's revenue for the year ended December 31, 2011 was US\$2,247.8 million, an increase of US\$195.9 million or 9.5%, as compared with the combined revenue of our Predecessor for the period from January 1, 2010 to November 30, 2010 and our Group for the period from November 4, 2010 to December 31, 2010 of US\$2,051.9 million. The increase in revenue was due to the following:

- Total sales volume showed a slight increase resulting from the following factors:
  - an increase in sales volume of the EPS product line which contributed to an increase in sales revenue of US\$162.4 million, or 27.0%, from US\$600.6 million in the year ended December 31, 2010 to US\$763.0 million in the year ended December 31, 2011. The increase was primarily due to new programs and increased customer schedules on existing programs in North America. In addition, subsequent to the Acquisition, we launched new REPS technology, which resulted in increased sales volume in North America;
  - an increase in sales volume of the HPS product line which contributed to an increase in sales revenue of US\$13.8 million, or 2.6%, from US\$526.6 million in the year ended December 31, 2010 to US\$540.4 million in the year ended December 31, 2011. The increase was primarily due to an increase in customer schedules on existing programs;

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- partially offset by a decline in sales volume of the steering columns product line which contributed to a decrease in sales revenue of US\$25.9 million, or 4.9%, from US\$526.1 million in the year ended December 31, 2010 to US\$500.2 million in the year ended December 31, 2011 primarily as a result of the integration of steering columns into EPS products. Thus, an increased number of our EPS products include an integrated steering column product; and
- a slight increase in sales volume of the driveline product line primarily due to new programs and increased sales volumes from existing programs in North America.
- An overall decrease in pricing as a result of:
  - the impact of pricing reductions to secure new customer programs. We also experienced contractual price reductions which were agreed upon when certain programs were originally awarded; and
  - the decrease was partially offset by an increase resulting from customer billings for commodity recovery of cost of raw materials. During 2011, in accordance with negotiated contracts with certain customers, increases in the cost of rare earth metals and steel were fully or partially passed through to these customers.
- An increase in revenue relating to the favorable impact of the Euro against the U.S. dollar.

### **Year Ended December 31, 2011 — Our Group**

*Cost of sales.* Our Group's cost of sales for the year ended December 31, 2011 was US\$1,970.5 million. Costs of sales in 2011 included mainly raw material costs of US\$1,320.4 million, manufacturing expense of US\$607.0 million, employee restructuring expense of US\$1.8 million, and others of US\$41.3 million. In addition, cost of sales in 2011 was affected by each of the following:

- In connection with the continued launch of REPS in North America, our Group incurred costs in North America primarily relating to additional labor, incremental scrap and premium freight.
- An increase in raw material costs, particularly for steel and rare earth metals, which were partially passed along to customers, as discussed above.
- Cost of sales increases were offset by significant improvements in cost of sales related to cost reduction initiatives, which included the implementation of production efficiency improvements, reducing labor costs, as a result of the 2010 employee restructuring initiative described below and reduced direct material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives.
- Effective at the Acquisition, in order to achieve a reduced wage structure for the U.S. hourly workforce, U.S. hourly employees were offered (i) a lump sum payment for employees who agreed to a lower hourly rate after the Acquisition (mandatory

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for skilled trade employees and voluntary for other employees); (ii) a lump sum payment for employees who decided to retire; or (iii) a lump sum payment for employees who decided to terminate their employment. Our Group recognized costs of US\$1.8 million during the year ended December 31, 2011 in connection with this employee restructuring initiative, which had a favorable impact in 2011 and is expected to have a favorable impact in future periods as the wage structure of our U.S. hourly workforce decreased substantially. See “— Period from November 4, 2010 to December 31, 2010 — Our Group.”

**Gross profit.** Our Group’s gross profit for the year ended December 31, 2011 was US\$277.3 million, which was primarily affected by the impact of higher revenue stemming from volume increases, cost improvements in manufacturing and direct materials, partially offset by rising commodity costs, particularly steel and rare earth metals, start-up and launch costs of producing a new product and new technology.

**Engineering and product development costs.** Our Group’s engineering and product development costs for the year ended December 31, 2011 were US\$108.4 million, which primarily comprised labor and benefits expense of US\$79.2 million, materials expense of US\$16.8 million and other expenses of US\$12.4 million.

**Administrative expenses.** Our Group’s administrative expenses for the year ended December 31, 2011 were US\$78.1 million, which primarily comprised salaries and wages expense of US\$29.9 million and IT expense of US\$20.1 million. Administrative expense for this period also included a business tax credit approximating US\$9.3 million relating to the Michigan Economic Growth Authority.

**Selling and distribution expenses.** Our Group’s selling and distribution expenses for the year ended December 31, 2011 were US\$10.5 million, which primarily comprised salaries and wages expense of US\$4.8 million, business travel expense of US\$1.1 million, outside service costs of US\$2.0 million, employee benefits expense of US\$1.5 million, and other expenses totaling US\$1.1 million.

**Other gains, net.** Our Group’s other gains, net for the year ended December 31, 2011 were US\$8.9 million.

**Finance income.** Our Group’s finance income for the year ended December 31, 2011 was US\$0.8 million.

**Finance costs, net.** Our Group’s finance costs, net for the year ended December 31, 2011 were US\$15.8 million, which were comprised of interest expenses and guarantee fees for our outstanding bank loans and Acquisition Debt.

**Income tax expense.** Our Group’s income tax expense for the year ended December 31, 2011 were US\$5.4 million.

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### Period from November 4, 2010 to December 31, 2010 — Our Group

**Cost of sales and gross loss.** Our Group's cost of sales for the period from November 4, 2010 to December 31, 2010 was US\$182.0 million. Costs of sales for the period from November 4, 2010 to December 31, 2010 mainly included raw material costs of US\$89.1 million, manufacturing expense of US\$59.0 million, employee restructuring expense of US\$32.8 million, and other costs of sales of US\$1.1 million.

Our Group incurred gross loss for the period from November 4, 2010 to December 31, 2010 mainly due to employee wage restructuring costs of US\$32.8 million. In 2010, we ratified the Nexteer Automotive MOU with the UAW, which included wage and separation provisions to achieve a reduced ongoing wage rate. Pursuant to the MOU effective at the Acquisition, in order to achieve a reduced wage structure for the U.S. hourly workforce, hourly employees were offered: (i) a lump sum payment for employees who agreed to a lower hourly wage rate after the Acquisition (mandatory for skilled trade employees and voluntary for other employees); (ii) a lump sum payment for employees who decided to retire; or (iii) a lump sum payment for employees who decided to terminate their employment. We believe this resulted in a significant favorable impact in 2011 and future periods as the wage structure of our U.S. hourly force decreased substantially.

Excluding the effect of the employee wage restructuring costs, our Group incurred gross profit for the period from November 4, 2010 to December 31, 2010. The low gross profit margin is mainly due to normal seasonality of the business as December is typically a low sales volume month.

**Engineering and product development costs.** Our Group's engineering and product development costs for the period from November 4, 2010 to December 31, 2010 were US\$8.5 million. Engineering and product development costs for the period from November 4, 2010 to December 31, 2010 included labor and benefits expense of US\$6.2 million, materials expense of US\$0.9 million and other expenses of US\$1.4 million.

**Administrative expenses.** Our Group's administrative expenses from November 4, 2010 to December 31, 2010 were US\$21.8 million. Administrative expenses were impacted by acquisition related costs of US\$12.3 million, relating to the Acquisition. In addition, administrative expenses for the period from November 4, 2010 to December 31, 2010 included salaries and wages expense of US\$3.1 million and IT expense of US\$3.0 million.

**Selling and distribution expenses.** Our Group's selling and distribution expenses for the period from November 4, 2010 to December 31, 2010 were US\$1.0 million. Selling costs for the period from November 4, 2010 to December 31, 2010 also included salaries and wages expense of US\$0.3 million, business travel expense of US\$0.1 million, outside service costs of US\$0.3 million, employee benefits expense of US\$0.1 million, and other expenses totaling US\$0.2 million.

**Other losses, net.** Our Group's other losses, net for the period from November 4, 2010 to December 31, 2010 were US\$0.6 million.

**Finance income.** Our Group's finance income for the period from November 4, 2010 to December 31, 2010 was US\$0.1 million representing interest income.

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**Finance costs, net.** Our Group's finance costs, net for the period from November 4, 2010 to December 31, 2010 were US\$1.7 million representing interest expense and guarantee fees.

**Income tax expense.** Our Group's income tax expense for the period from November 4, 2010 to December 31, 2010 were US\$0.3 million. The main components of income tax expense were tax holidays and credits, non-deductible expenses, and unrecognized tax benefits.

### **Period from January 1, 2010 to November 30, 2010 — Our Predecessor**

**Cost of sales.** Our Predecessor's cost of sales for the period from January 1, 2010 to November 30, 2010 was US\$1,610.4 million. Costs of sales for the period from January 1, 2010 to November 30, 2010 mainly included raw material costs of US\$1,039.6 million, manufacturing expense of US\$525.4 million, and other costs of sales of US\$45.4 million.

**Gross profit.** Our Predecessor's gross profit for the period from January 1, 2010 to November 30, 2010 was US\$284.8 million.

**Engineering and product development costs.** Our Predecessor's engineering and product development costs for the period from January 1, 2010 to November 30, 2010 were US\$118.0 million. Engineering and product development costs for the period from January 1, 2010 to November 30, 2010 included labor and benefits expense of US\$72.3 million, materials expense of US\$18.7 million, and other expenses of US\$27.0 million.

**Administrative expenses.** Our Predecessor's administrative expenses for the period from January 1, 2010 to November 30, 2010 were US\$59.1 million. Administrative costs for the period from January 1, 2010 to November 30, 2010 included salaries and wages expense of US\$18.7 million and IT expense of US\$18.6 million.

**Selling and distribution expenses.** Our Predecessor's selling and distribution expenses for the period from January 1, 2010 to November 30, 2010 were US\$17.0 million. Selling and distribution expenses were impacted by business development costs of US\$9.3 million. Selling and distribution expenses for the period from January 1, 2010 to November 30, 2010 also included salaries and wages expense of US\$3.7 million, business travel expense of US\$0.6 million, outside service costs of US\$1.4 million, employee benefits expense of US\$1.0 million and other expenses totaling US\$1.0 million.

**Other losses, net.** Our Predecessor's other losses, net for the period from January 1, 2010 to November 30, 2010 were US\$5.5 million.

**Finance income.** Our Predecessor's finance income for the period from January 1, 2010 to November 30, 2010 was US\$0.8 million representing interest income.

**Finance costs, net.** Our Predecessor's finance costs, net for the period from January 1, 2010 to November 30, 2010 were US\$4.0 million. Finance costs were impacted by US\$2.0 million in interest related to a note payable to GM. The note to GM was repaid in December 2010.

**Income tax expense.** Our Predecessor's income tax expense for the period from January 1, 2010 to November 30, 2010 were US\$11.0 million. The main components of income tax expense were tax holidays, non-deductible expenses, and unrecognized tax benefits.

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### SEGMENT INFORMATION

For management and accounting purposes, we classify our operations and sales by geographic segments. Our business is divided into four reportable segments: North America, Europe, China and Rest of World.

The following table sets forth sales revenue, cost of sales, and gross profit of our Predecessor's reportable segments for the period indicated:

| <u>Our Predecessor</u>        | <u>North<br/>America</u> | <u>Europe</u> | <u>China</u> | <u>Rest of<br/>World</u> | <u>Consolidated</u> |
|-------------------------------|--------------------------|---------------|--------------|--------------------------|---------------------|
|                               | (US\$ thousands)         |               |              |                          |                     |
| <b>For the period from</b>    |                          |               |              |                          |                     |
| <b>January 1, 2010 to</b>     |                          |               |              |                          |                     |
| <b>November 30, 2010</b>      |                          |               |              |                          |                     |
| Revenue . . . . .             | 1,200,748                | 430,868       | 129,240      | 134,339                  | 1,895,195           |
| Cost of Sales . . . . .       | (965,384)                | (344,298)     | (143,332)    | (157,428)                | (1,610,442)         |
| Gross Profit . . . . .        | 235,364                  | 86,570        | (14,092)     | (23,089)                 | 284,753             |
| Gross Profit Margin . . . . . | 19.6%                    | 20.1%         | (10.9%)      | (17.2%)                  | 15.0%               |

The following table sets forth sales revenue, cost of sales, and gross profit of our Group's reportable segments for the period/years indicated:

| <u>Our Group</u>              | <u>North<br/>America</u> | <u>Europe</u> | <u>China</u> | <u>Rest of<br/>World</u> | <u>Consolidated</u> |
|-------------------------------|--------------------------|---------------|--------------|--------------------------|---------------------|
|                               | (US\$ thousands)         |               |              |                          |                     |
| <b>For the period from</b>    |                          |               |              |                          |                     |
| <b>November 4, 2010 to</b>    |                          |               |              |                          |                     |
| <b>December 31, 2010</b>      |                          |               |              |                          |                     |
| Revenue . . . . .             | 96,858                   | 31,715        | 18,125       | 9,990                    | 156,688             |
| Cost of Sales . . . . .       | (132,778)                | (23,875)      | (15,100)     | (10,280)                 | (182,033)           |
| Gross Profit . . . . .        | (35,920)                 | 7,840         | 3,025        | (290)                    | (25,345)            |
| Gross Profit Margin . . . . . | (37.1%)                  | 24.7%         | 16.7%        | (2.9%)                   | (16.2%)             |
|                               | <u>North<br/>America</u> | <u>Europe</u> | <u>China</u> | <u>Rest of<br/>World</u> | <u>Consolidated</u> |
|                               | (US\$ thousands)         |               |              |                          |                     |
| <b>For the year ended</b>     |                          |               |              |                          |                     |
| <b>December 31, 2011</b>      |                          |               |              |                          |                     |
| Revenue . . . . .             | 1,470,392                | 456,359       | 168,477      | 152,524                  | 2,247,752           |
| Cost of Sales . . . . .       | (1,341,372)              | (332,750)     | (145,180)    | (151,175)                | (1,970,477)         |
| Gross Profit . . . . .        | 129,020                  | 123,609       | 23,297       | 1,349                    | 277,275             |
| Gross Profit Margin . . . . . | 8.8%                     | 27.1%         | 13.8%        | 0.9%                     | 12.3%               |
|                               | <u>North<br/>America</u> | <u>Europe</u> | <u>China</u> | <u>Rest of<br/>World</u> | <u>Consolidated</u> |
|                               | (US\$ thousands)         |               |              |                          |                     |
| <b>For the year ended</b>     |                          |               |              |                          |                     |
| <b>December 31, 2012</b>      |                          |               |              |                          |                     |
| Revenue . . . . .             | 1,536,351                | 328,444       | 182,326      | 120,681                  | 2,167,802           |
| Cost of Sales . . . . .       | (1,374,548)              | (257,319)     | (155,103)    | (114,019)                | (1,900,989)         |
| Gross Profit . . . . .        | 161,803                  | 71,125        | 27,223       | 6,662                    | 266,813             |
| Gross Profit Margin . . . . . | 10.5%                    | 21.7%         | 14.9%        | 5.5%                     | 12.3%               |

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### North America

Our North America segment refers to the operations in the United States and Mexico.

### Year Ended December 31, 2012 compared with the Year Ended December 31, 2011

**Revenue.** Our Group's revenue for the North America segment increased by US\$66.0 million, or 4.5%, from US\$1,470.4 million in 2011 to US\$1,536.4 million in 2012. The increase in revenue was primarily attributable to:

- An overall increase in total sales volume as a result of:
  - an increase in volume attributable primarily to existing steering system and driveline programs in the United States; and
  - an increase in volume attributable primarily to existing EPS programs in Mexico.
- The increase in total sales volume was partially offset by a decrease relating to the net impact of pricing. While we continued to experience revenue increases resulting from customer billings for commodity cost recovery, these were partially offset by the year-to-year pricing reductions to secure new customers.

**Cost of sales.** Our Group's cost of sales for the North America segment increased by US\$33.2 million or 2.5% from US\$1,341.4 million in the year ended December 31, 2011 to US\$1,374.5 million in the year ended December 31, 2012. The increase in cost of sales was primarily attributable to:

- Changes in product mix and increased production of high-cost products, such as EPS.
- The increase in warranty expense primarily due to renegotiated terms over new programs in North America which expanded our responsibility to reimburse customers for any defects covered under the customer contract.
- The increase was partially offset by a decrease in material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives which included the implementation of production efficiency improvements and reduced labor costs as a result of the 2012 employee restructuring initiative.

**Gross profit.** Our Group's gross profit for the North America segment increased by US\$32.8 million from US\$129.0 million in the year ended December 31, 2011 to US\$161.8 million in the year ended December 31, 2012. The gross profit margin for the North America segment increased from 8.8% for the year ended December 31, 2011 to 10.5% for the year ended December 31, 2012. The increase was primarily attributable to the increase in sales volume for the segment as well as the decrease in material costs, and was partially offset by the impact of price reductions provided to customers as well as the higher proportion of lower margin business in 2012.



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### Year Ended December 31, 2011 compared with the Year Ended December 31, 2010

**Revenue.** Our Predecessor's and our Group's combined revenue for the North America segment increased by US\$172.8 million, or 13.3%, from US\$1,297.6 million in 2010 to US\$1,470.4 million in 2011. The increase in revenue was primarily attributable to:

- An increase in volume relating to new programs on existing programs. We launched a new EPS technology, Rack Assist EPS, which accounted for the majority of the revenue increase in North America. The remainder of the volume increase was attributable to existing programs across both steering system and driveline product lines.
- A net nil impact on pricing for the year ended December 31, 2011, consisting of the following offsetting factors:
  - Revenue increases resulting from customer billings for commodity cost recovery. During 2011, there were significant commodity price increases related primarily to rare earth metals and steel. Based upon negotiated contracts with certain customers, part of these increases were passed along to customers.
  - The revenue increase was partially offset by year-to-year pricing reductions to secure new customer programs in accordance with contractual price reductions which were agreed upon when programs were originally awarded.

### Europe

Our Europe segment refers to the operations in European countries.

### Year Ended December 31, 2012 compared with the Year Ended December 31, 2011

**Revenue.** Our Group's revenue for the Europe segment decreased by US\$127.9 million, or 28.0%, from US\$456.4 million in the year ended December 31, 2011 to US\$328.4 million in the year ended December 31, 2012. The decrease in revenue was primarily attributable to:

- A decrease in revenue resulting from a decline in sales volume of the EPS product line attributable to continuing difficult economic conditions in most of Europe that accelerated throughout the year ended December 31, 2012.
- A decrease relating to the net impact of the year-to-year pricing reductions to secure new customers which was partially offset by revenue increases resulting from increased customer billing for commodity and materials cost recovery.

**Cost of sales.** Our Group's cost of sales for the Europe segment decreased by US\$75.4 million or 22.7% from US\$332.8 million in the year ended December 31, 2011 to US\$257.3 million in the year ended December 31, 2012. The decrease in cost of sales aligns with the decline in sales revenue for the Europe segment of 28.0%. In addition, the decrease in cost of sales was attributable to cost reduction initiatives, including:

- A decrease relating to reduced material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives.
- A decrease in labor costs as a result of the 2010 and 2012 employee restructuring initiatives.

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**Gross profit.** Our Group's gross profit for the Europe segment decreased by US\$52.5 million from US\$123.6 million in the year ended December 31, 2011 to US\$71.1 million in the year ended December 31, 2012. The gross profit margin for the Europe segment decreased from 27.1% for the year ended December 31, 2011 to 21.7% for the year ended December 31, 2012. The decrease was primarily attributable to the decline in sales volume and a higher proportion of lower margin business, and was partially offset by the impact of reduced material and labor costs.

### **Year Ended December 31, 2011 compared with the Year Ended December 31, 2010**

**Revenue.** Our Predecessor's and our Group's combined revenue for the Europe segment decreased by US\$6.2 million, or 1.3%, from US\$462.6 million in 2010 to US\$456.4 million in 2011. The decrease in revenue was primarily attributable to:

- A decrease in revenue resulting from a decline in volume attributable to continuing difficult economic conditions in most of Europe.
- The decrease was partially offset by an increase relating to the favorable impact of the Euro against the U.S. dollar as well as an increase relating to the net impact of pricing in 2011 comprised mainly of the following:
  - Revenue increases resulting from customer billings for commodity cost recovery. During 2011, there were significant commodity price increases related primarily to rare earth metals and steel. Based upon negotiated contracts with certain customers, all or part of these increases could be passed along to customers.
  - The revenue increases were partially offset by year-to-year pricing reductions resulting from granting customer price reductions to secure new customer programs and as a result of contractual price reductions which were agreed upon when programs were originally awarded.

### **China**

Our China segment refers to the operations in China.

### **Year Ended December 31, 2012 compared with the Year Ended December 31, 2011**

**Revenue.** Our Group's revenue for the China segment increased by US\$13.8 million, or 8.2%, from US\$168.5 million in 2011 to US\$182.3 million in 2012. The year-over-year increase in revenue was primarily attributable to:

- An increase relating to the favorable impact of the RMB against the U.S. dollar.
- An increase due to customer billings for commodity cost recovery.
- An increase in volume relating to new programs as well as an increase in volume on existing programs.

These year-over-year increases in revenue were partially offset by a decrease in pricing resulting from contractual price reductions which were agreed upon when programs were originally awarded.

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## FINANCIAL INFORMATION

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**Cost of sales.** Our Group's cost of sales for the China segment increased by US\$9.9 million or 6.8% from US\$145.2 million in the year ended December 31, 2011 to US\$155.1 million in the year ended December 31, 2012. The increase in cost of sales aligns with the increase in sales revenue for the China segment of 8.2%, and was partially offset by continued improvements in cost of sales related to cost reduction initiatives, including reduced material costs as a result of renegotiated contracts with our suppliers as well as internal cost reduction initiatives.

**Gross profit.** Our Group's gross profit for the China segment increased by US\$3.9 million, or 16.9%, from US\$23.3 million in the year ended December 31, 2011 to US\$27.2 million in the year ended December 31, 2012. The gross profit margin for the China segment increased from 13.8% for the year ended December 31, 2011 to 14.9% for the year ended December 31, 2012. The increase was primarily attributable to the favorable impact of volume combined with an increased proportion of higher margin business as well as the favorable impact of foreign currency exchange, and was partially offset by the impact of previously negotiated contractual price reductions.

### **Year Ended December 31, 2011 compared with the Year Ended December 31, 2010**

**Revenue.** Our Predecessor's and our Group's combined revenue for the China segment increased by US\$21.1 million or 14.3% from US\$147.4 million in 2010 to US\$168.5 million in 2011. The year-over-year increase in revenue was primarily attributable to:

- An increase in volume relating to new programs as well as an increase in volume on existing programs.
- An increase relating to the favorable impact of the RMB against the U.S. dollar.
- These year-over-year increases in revenue were partially offset by a decrease in pricing resulting from contractual price reductions which were agreed upon when programs were originally awarded.

### **Rest of World**

Our Rest of World segment refers to the operations in Australia, South America and Asia except China.

**Revenue.** Our Predecessor's and our Group's combined revenue for the Rest of World segment increased by US\$8.2 million or 5.7%, from US\$144.3 million in 2010 to US\$152.5 million in 2011. Additionally, our Group's revenue for the Rest of World segment decreased by US\$31.8 million, or 20.9%, from US\$152.5 million in 2011 to US\$120.7 million in 2012. The decrease in revenue was primarily attributable to a decline in sales volume of products in Australia resulting from the expiration of two significant sales contracts.

**Cost of sales.** Our Group's cost of sales for the Rest of World segment decreased by US\$37.2 million, or 24.6%, from US\$151.2 million in 2011 to US\$114.0 million in 2012. The decrease in cost of sales aligned with the decrease in sales revenue for the Rest of World segment of 20.9% and also resulted from internal cost reduction initiatives.

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**Gross Profit.** Our Group's gross profit for the Rest of World segment increased from US\$1.3 million for the year ended December 31, 2011 to US\$6.7 million for the year ended December 31, 2012. The increase was primarily attributable to an increased proportion of higher margin business as well as internal cost reduction initiatives. The gross profit margin for the Rest of World segment increased from 0.9% for the year ended December 31, 2011 to 5.5% for the year ended December 31, 2012, which was primarily attributable to our internal cost reduction initiatives.

### ANALYSIS OF FINANCIAL POSITION

The following table sets forth our Group's combined balance sheets as of the dates indicated:

|  | As of December 31, |                  |                  |
|--|--------------------|------------------|------------------|
|  | 2010               | 2011             | 2012             |
|  | (US\$ thousands)   |                  |                  |
| <b>Assets</b>  |                    |                  |                  |
| <b>Non-current assets</b>                              |                    |                  |                  |
| Property, plant and equipment . . . . .                | 270,704            | 290,146          | 434,103          |
| Other non-current assets . . . . .                     | 17,577             | 87,826           | 196,897          |
| Total non-current assets . . . . .                     | 288,281            | 377,972          | 631,000          |
| <b>Current assets</b>                                  |                    |                  |                  |
| Inventories . . . . .                                  | 152,313            | 156,788          | 174,433          |
| Trade receivables . . . . .                            | 308,180            | 315,882          | 324,317          |
| Cash and cash equivalents . . . . .                    | 113,466            | 78,233           | 64,080           |
| Other current assets . . . . .                         | 49,673             | 44,615           | 65,041           |
| Total current assets . . . . .                         | 623,632            | 595,518          | 627,871          |
| <b>Total assets</b> . . . . .                          | <u>911,913</u>     | <u>973,490</u>   | <u>1,258,871</u> |
| <b>Equity and Liabilities</b>                          |                    |                  |                  |
| <b>Total equity</b> . . . . .                          | 74,954             | 123,018          | 191,809          |
| <b>Non-current liabilities</b>                         |                    |                  |                  |
| Borrowings . . . . .                                   | 25,555             | 2,065            | 441,531          |
| Provisions . . . . .                                   | 30,475             | 33,228           | 40,730           |
| Other non-current liabilities . . . . .                | 22,606             | 48,334           | 77,504           |
| Total non-current liabilities . . . . .                | 78,636             | 83,627           | 559,765          |
| <b>Current liabilities</b>                             |                    |                  |                  |
| Trade payables . . . . .                               | 254,667            | 259,687          | 295,741          |
| Other payables and accruals . . . . .                  | 90,813             | 87,489           | 85,549           |
| Borrowings . . . . .                                   | 364,888            | 404,571          | 99,117           |
| Provisions . . . . .                                   | 44,495             | 11,511           | 16,043           |
| Other current liabilities . . . . .                    | 3,460              | 3,587            | 10,847           |
| Total current liabilities . . . . .                    | 758,323            | 766,845          | 507,297          |
| <b>Total liabilities</b> . . . . .                     | <u>836,959</u>     | <u>850,472</u>   | <u>1,067,062</u> |
| <b>Total equity and liabilities</b> . . . . .          | <u>911,913</u>     | <u>973,490</u>   | <u>1,258,871</u> |
| <b>Net current (liabilities)/assets</b> . . . . .      | <u>(134,691)</u>   | <u>(171,327)</u> | <u>120,574</u>   |
| <b>Total assets less current liabilities</b> . . . . . | <u>153,590</u>     | <u>206,645</u>   | <u>751,574</u>   |

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### Inventories

Our inventories include raw materials, work in progress and finished goods. Raw materials primarily include steel and rare earth materials. The following table sets forth a summary of our balance of inventories as of the dates indicated:

|   | As of December 31,    |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | 2010                  | 2011                  | 2012                  |
|   |                       | (US\$ thousands)      |                       |
| Raw materials .....                         | 104,026               | 95,683                | 107,148               |
| Work in progress .....                      | 31,488                | 36,611                | 40,764                |
| Finished goods .....                        | 17,126                | 27,916                | 34,787                |
|   | <u>152,640</u>        | <u>160,210</u>        | <u>182,699</u>        |
| Less: provision for impairment losses ..... | (327)                 | (3,422)               | (8,266)               |
|   | <u><u>152,313</u></u> | <u><u>156,788</u></u> | <u><u>174,433</u></u> |

Our Group typically maintains an average of 30 days of inventory on hand to manage its working capital and customer schedule requirements. The increase in finished goods inventory in 2011 and 2012 reflected our preparation for new program launches as we secure new business during the period.

Our Group regularly reviews our inventories on hand and evaluates future demand based on customer schedules and commitments. Impairment provisions are recognized when there is objective evidence that inventory is obsolete.

The following table sets forth our Predecessor's average inventory days on hand for the period indicated:

|   | For the<br>period from<br>January 1,<br>2010 to<br>November 30, 2010 |
|---|--|
| Inventory days outstanding <sup>(1)</sup> ..... | 31   |

Note:

(1) With respect to our Predecessor, calculated as ending balance of inventory divided by cost of sales in the period then multiplied by the number of days in the period for the period from January 1, 2010 to November 30, 2010.

The following table sets forth our Group's average inventory days on hand for the period/years indicated:

|   | For the<br>period from<br>November 4,<br>2010 to<br>December 31,<br>2010 | For the<br>year ended<br>December 31,<br>2011 | For the<br>year ended<br>December 31,<br>2012 |
|---|--|---|---|
| Inventory days outstanding <sup>(1)</sup> ..... | 26   | 29  | 32  |

Note:

(1) Calculated as average balance of inventory divided by cost of sales in the period then multiplied by number of days in the period for the period from November 4, 2010 to December 31, 2010 and the years ended December 31 2011 and 2012.

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Our turnover days of inventory increased from 29 days in 2011 to 32 days in 2012 primarily as a result of an increase in finished goods inventory to meet the number of delivery dates scheduled subsequent to December 31, 2012 for the North America segment. Additionally, our Group held more raw materials to meet the demand of new EPS program launches subsequent to December 31, 2012 and EPS programs in progress as of December 31, 2012. These launches required additional inventory on-hand for the Rest of World segment. In addition, cost of sales decreased by US\$69.5 million primarily as a result of the overall decline in our Group's sales revenue of 3.5%.

According to our internal estimates, as of February 28, 2013, our Group had used or sold approximately 97% of inventory on hand as of December 31, 2012.

### Trade Receivables

Our trade receivables primarily consist of amounts payable by third-party customers. Credit terms range from 30 to 90 days after invoice date depending on the customer. The creditworthiness of a customer is assessed on their payment history and ability to make repayments and customer credit ratings from third-party rating agencies. The following table sets forth our trade and other receivables as of the dates indicated:

|                                      | As of December 31, |                  |                |
|--------------------------------------|--------------------|------------------|----------------|
|                                      | 2010               | 2011             | 2012           |
|                                      |                    | (US\$ thousands) |                |
| Trade receivables, gross .....       | 308,219            | 317,167          | 327,261        |
| less: provisions for impairment..... | (39)               | (1,285)          | (2,944)        |
| <b>Trade receivables, net.....</b>   | <b>308,180</b>     | <b>315,882</b>   | <b>324,317</b> |

The increase in trade receivables from December 31, 2010 to December 31, 2011 was primarily driven by increased sales to third parties. The increase in trade receivables from December 31, 2011 to December 31, 2012 is primarily driven by the increase in days sales outstanding between the periods.

According to our internal estimates, as of February 28, 2013, 98.2% of the trade receivables outstanding as of December 31, 2012 were settled.

We regularly review our aging analysis and evaluate collectability on an individual basis by specific analysis of those customers with known collection problems due to bankruptcy or liquidity issues. Our trade receivables are primarily related to receivables from a number of our OEM customers, which include substantially all of the world's top ten major OEMs in terms of production volumes and generally have positive credit profiles. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulty on the part of the counterparty or default or significant delay in payment) that we will be unable to collect all of the amounts due.

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The following table sets forth the aging analysis of our trade receivables as of the dates indicated:

|                            | As of December 31, |                  |                |
|----------------------------|--------------------|------------------|----------------|
|                            | 2010               | 2011             | 2012           |
|                            |                    | (US\$ thousands) |                |
| Not overdue .....          | 298,393            | 300,851          | 311,364        |
| Overdue:                   |                    |                  |                |
| Less than 30 days .....    | 5,298              | 8,811            | 11,409         |
| 30–60 days .....           | 1,379              | 3,542            | 1,569          |
| 60–89 days .....           | 906                | 469              | 272            |
| Greater than 90 days ..... | 2,243              | 3,494            | 2,647          |
| Total .....                | <u>308,219</u>     | <u>317,167</u>   | <u>327,261</u> |

The following table sets forth our Predecessor's average days sales in trade receivables for the period indicated:

|   | Our Predecessor  |
|---|--|
|   | For the period from January 1, 2010 to November 30, 2010 |
| Days sales outstanding <sup>(1)</sup> ..... | 58   |

Note:

(1) With respect to our Predecessor, calculated as ending balance of trade receivables divided by revenue in the period then multiplied by the number of days in the period for the period from January 1, 2010 to November 30, 2010.

The following table sets forth our Group's average days sales in trade receivables for the period/years indicated:

|   | Our Group   |                                      |                                      |
|---|---|--------------------------------------|--------------------------------------|
|   | For the period from November 4, 2010 to December 31, 2010 | For the year ended December 31, 2011 | For the year ended December 31, 2012 |
| Days sales outstanding <sup>(1)</sup> ..... | 63  | 51                                   | 54                                   |

Note:

(1) Calculated as average balance of trade receivables divided by revenue in the period then multiplied by number of days in the period for the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012.

Our turnover days of trade receivables increased from 51 days in 2011 to 54 days in 2012, primarily as a result of increased credit sales to GM during the last months of 2012 as well as a decrease in collections from a major customer in our European operations. In addition, sales revenue decreased by US\$80.0 million from 2011 to 2012. See “— Results of Operations.”

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### Other Receivables and Prepayments

The following table sets forth other receivables and prepayments as of the dates indicated:

|   | As of December 31, |                |                |
|---|--------------------|----------------|----------------|
|   | 2010               | 2011           | 2012           |
|   | (US\$ thousands)   |                |                |
| Amounts reimbursable from customers on tools <sup>(1)</sup> ..... | 15,712             | 12,268         | 30,525         |
| Other taxes recoverable <sup>(2)</sup> .....                      | 11,199             | 18,104         | 17,963         |
| Prepaid assets <sup>(3)</sup> .....                               | 9,000              | 10,246         | 12,333         |
| Deposits on vendors .....   | 3,489              | 4,087          | 5,662          |
| Others <sup>(4)</sup> .....                                       | 11,014             | 1,085          | 790            |
|   | <u>50,414</u>      | <u>45,790</u>  | <u>67,273</u>  |
| Less: non-current portion .....                                   | <u>(1,563)</u>     | <u>(1,395)</u> | <u>(2,483)</u> |
| Current portion .....   | <u>48,851</u>      | <u>44,395</u>  | <u>64,790</u>  |

Notes:

- (1) Represents amounts reimbursable from customers on tools we have purchased on behalf of customers and will eventually be billed to the customer.
- (2) Balance primarily represents value-added tax recoverables and certain tax incentives granted to our Group for investing capital and maintaining jobs in the State of Michigan, United States.
- (3) Amount is as of December 31, 2012, and includes prepaid listing expenses of US\$1.0 million.
- (4) Balance includes a related party receivable of US\$10.0 million as of December 31, 2010. For more information regarding the specific terms of this receivable, see "Appendix IA — Accountant's Report on the Financial Information of the Group — II. Notes on the Financial Information — 32. Related party transactions."

Certain of our customer contracts call for OEMs to reimburse us for all or a portion of the tooling costs that we incur in connection with our design, assembly, and manufacturing efforts. Amounts due from OEMs, as of December 31, 2010, 2011 and 2012, were US\$15.7 million, US\$12.3 million, and US\$30.5 million, respectively. The increase in amounts due from OEMs by US\$18.3 million from December 31, 2011 to December 31, 2012 primarily resulted from an increase in the number of customer contracts awarded to our Group in 2012 for which all or a portion of the tooling costs are reimbursable.

### Trade Payables

Our trade payables primarily consist of amounts payable to third parties for the purchase of raw materials and other production costs and overheads. Payment terms to suppliers typically range from 45 to 60 days. The following table sets forth our trade payables as of the dates indicated:

|                      | As of December 31, |                |                |
|----------------------|--------------------|----------------|----------------|
|                      | 2010               | 2011           | 2012           |
|                      | (US\$ thousands)   |                |                |
| Trade payables ..... | <u>254,667</u>     | <u>259,687</u> | <u>295,741</u> |

The increase in the trade payables by US\$5.0 million from December 31, 2010 to December 31, 2011 primarily resulted from increased raw material purchases due to increased production volume intended to meet increased demand for our products. The increase in trade



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payables by US\$36.1 million from December 31, 2011 to December 31, 2012 primarily resulted from an increase in our investment in EPS manufacturing equipment during the last two months of 2012.

The following table sets forth the aging analysis of our trade payables as of the dates indicated:

|                            | As of December 31, |                  |                |
|----------------------------|--------------------|------------------|----------------|
|                            | 2010               | 2011             | 2012           |
|                            |                    | (US\$ thousands) |                |
| Not overdue .....          | 217,352            | 229,829          | 260,576        |
| Overdue:                   |                    |                  |                |
| Less than 30 days .....    | 21,776             | 17,597           | 15,588         |
| 30–60 days .....           | 10,336             | 8,645            | 10,148         |
| 60–89 days .....           | 2,035              | 636              | 3,000          |
| Greater than 90 days ..... | 3,168              | 2,980            | 6,429          |
| Total .....                | <u>254,667</u>     | <u>259,687</u>   | <u>295,741</u> |

The following table sets forth our Predecessor's average trade payables turnover days for the period indicated:

|   | For the<br>period from<br>January 1,<br>2010 to<br>November 30, 2010 |
|---|--|
| Average trade payables turnover days <sup>(1)</sup> ..... | 49   |

Note:

(1) With respect to our Predecessor, calculated as ending balance of trade payables divided by cost of sales in the period then multiplied by the number of days in the period for the period from January 1, 2010 to November 30, 2010.

The following table sets forth our Group's average trade payables turnover days for the period/years indicated:

|   | For the<br>period from<br>November 4,<br>2010 to<br>December 31,<br>2010 | For the<br>year ended<br>December 31,<br>2011 | For the<br>year ended<br>December 31,<br>2012 |
|---|--|---|---|
| Average trade payables turnover days <sup>(1)</sup> ..... | 42   | 48  | 53  |

Note:

(1) Calculated as average balance of trade payables divided by cost of sales in the period then multiplied by number of days in the period for the period from November 4, 2010 to December 31, 2010 and the years ended December 31, 2011 and 2012.

Our turnover days of trade payables increased from 48 days in 2011 to 53 days in 2012, primarily as a result of an increase in our investment in EPS manufacturing equipment during the last two months of 2012. In addition, cost of sales decreased by US\$69.5 million, primarily as a result of the overall decline in our Group's sales revenue of 3.5%.

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### Other Payables and Accruals

The following table sets forth other payables and accruals as of the dates indicated:

|  | As of December 31, |                  |                |
|--|--------------------|------------------|----------------|
|  | 2010               | 2011             | 2012           |
|  |                    | (US\$ thousands) |                |
| Accrued expenses and other payables <sup>(1)</sup> . . . . .                   | 76,403             | 61,516           | 77,637         |
| Other taxes payable . . . . .  | 4,709              | 5,778            | 1,568          |
| Deposits from customers . . . . .  | 8,996              | 8,764            | 6,761          |
| Dividends payable to non-controlling<br>shareholders of subsidiaries . . . . . | —                  | 10,120           | —              |
| Others . . . . .   | 1,331              | 2,725            | 3,110          |
| Total other payables and accruals . . . . .                                    | <u>91,439</u>      | <u>88,903</u>    | <u>89,076</u>  |
| Less: non current portion . . . . .  | <u>(626)</u>       | <u>(1,414)</u>   | <u>(3,527)</u> |
| Current portion . . . . .  | <u>90,813</u>      | <u>87,489</u>    | <u>85,549</u>  |

Note:

(1) Balance includes related party payable of US\$20.5 million, US\$10.5 million, and US\$10.5 million as of December 31, 2010, 2011 and 2012, respectively. See “— Amounts Due to Related Parties.”

Other payables and accruals primarily consisted of accrued payroll expense, accrued staff bonuses and deferred revenue as of December 31, 2010, 2011 and 2012. The increase in other payables and accruals from 2011 to 2012 was primarily due to an increase in accrued hourly wages as a result of an additional two days of service of 2012, an increase in accrued incentive compensation due to improvements in our Group’s operational performance from 2011 to 2012, and an increase in listing expenses related to the Global Offering.

During the year ended December 31, 2011, certain subsidiaries declared dividends of US\$10.2 million to their non-controlling shareholders of which US\$0.3 million and US\$3.1 million were paid in 2011 and 2012, respectively, and the remaining US\$7.0 million was reinvested in these subsidiaries in 2012.

### Amounts Due to Related Parties

Our Group had a related party payable to Beijing E-Town of US\$20.5 million, US\$10.5 million and US\$10.5 million as of December 31, 2010, 2011 and 2012, respectively, which was due on demand. This payable was comprised of US\$10.5 million of outstanding acquisition related costs incurred by PCM China and paid by Beijing E-Town and US\$10.0 million related to an equity contribution paid to GM associated with the Acquisition, which was funded by Beijing E-Town. As of the Latest Practicable Date, such payable had been settled. There are also certain payables due to PCM China by our Group, which represent finance costs paid by PCM China on behalf of PCM (US) Steering and PCM (Singapore) Steering. These payables amounted to US\$3.8 million as of December 31, 2012, and the balance will be fully settled by our Group prior to the Listing.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

Our business requires a significant amount of working capital, which is primarily used to finance the purchase of raw materials and equipment and tooling. We have historically met our working capital and other capital requirements principally from cash provided by operations and loans from banks.

## FINANCIAL INFORMATION

In the future, we believe that our liquidity and capital expenditure requirements will be satisfied by a combination of net proceeds from the Global Offering, cash generated from our operating activities, and continued banking facilities.

The following table sets forth selected cash flows data of our Predecessor for the period indicated:

|   | <b>For the period<br/>from January 1,<br/>2010 to<br/>November 30,<br/>2010</b> |
|---|---|
|   | <b>(US\$ thousands)</b>   |
| Net cash generated from operating activities . . . . .              | 25,373  |
| Net cash used in investing activities . . . . .                     | (47,872)  |
| Net cash used in financing activities . . . . .                     | (38,103)  |
| Net decrease in cash and cash equivalents . . . . .                 | (60,602)  |
| Cash and cash equivalents at beginning of period . . . . .          | 169,149   |
| Exchange losses on cash and cash equivalents . . . . .              | (328)   |
| Adjusted cash and cash equivalents at beginning of period . . . . . | 168,821   |
| Cash and cash equivalents at end of period . . . . .                | <u>108,219</u>  |

The following table sets forth selected cash flows data of our Group for the period/years indicated:

|   | <b>For the period<br/>from November<br/>4, 2010 to<br/>December 31,<br/>2010</b> | <b>For the year ended<br/>December 31,</b> |                 |
|---|--|--|-----------------|
|   | <b>2010</b>  | <b>2011</b>                                | <b>2012</b>     |
|   |  | <b>(US\$ thousands)</b>                    |                 |
| Net cash generated from operating activities . . . . .                        | 48,939   | 96,878                                     | 156,265         |
| Net cash used in investing activities . . . . .                               | (331,303)  | (132,264)                                  | (271,651)       |
| Net cash generated from<br>financing activities . . . . .                     | <u>395,040</u>   | <u>65</u>                                  | <u>99,150</u>   |
| Net increase/(decrease) in cash and<br>cash equivalents . . . . .             | <u>112,676</u>   | <u>(35,321)</u>                            | <u>(16,236)</u> |
| Cash and cash equivalents at beginning of<br>periods/years . . . . .          | —  | 113,466                                    | 78,233          |
| Exchange gains on cash and<br>cash equivalents . . . . .                      | <u>790</u>   | <u>88</u>                                  | <u>2,083</u>    |
| Adjusted cash and cash equivalents at<br>beginning of periods/years . . . . . | <u>790</u>   | <u>113,554</u>                             | <u>80,316</u>   |
| Cash and cash equivalents at end of<br>periods/years . . . . .                | <u>113,466</u>   | <u>78,233</u>                              | <u>64,080</u>   |

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## FINANCIAL INFORMATION

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### *Cash Flows Generated from Operating Activities*

#### *Our Predecessor*

For the period from January 1, 2010 to November 30, 2010, net cash generated from operating activities was US\$25.4 million.

#### *Our Group*

For the period from November 4, 2010 to December 31, 2010, cash generated from operations was US\$49.2 million. Significant working capital movements within net cash generated from operating activities included:

- an increase in payable and accruals of US\$36.1 million, attributable mainly to capital purchases to support EPS program wins; and
- an increase in provisions of US\$33.2 million attributable to provisions established in connection with the wage buy-down restructuring program.

In the year ended December 31, 2011, cash generated from operations was US\$104.6 million. Significant working capital movements within net cash generated from operating activities primarily included:

- an increase in receivables of US\$15.7 million, primarily due to the increased sales in 2011;
- a decrease in provisions of US\$30.2 million attributable to the payment of accrued employee restructuring liabilities in early 2011; and
- an increase in deferred revenue of US\$23.5 million reflecting an increasing level of prototype and engineering activities that our customers reimburse us for, which we classify as deferred revenue, and in support of EPS program wins.

For the year ended December 31, 2012, cash generated from operations was US\$162.1 million. Significant working capital movements within net cash generated from operating activities primarily included:

- an increase in trade and other receivables of US\$32.9 million, primarily due to an increase in the number of days sales outstanding. See “— Trade and Other Receivables”;
- an increase in inventories of US\$22.1 million, mainly due to an increase in the number of delivery dates scheduled on or around December 31, 2012 for the North America segment as well as an increase in EPS programs in progress as of December 31, 2012 requiring additional inventory on-hand for the China and Rest of World segments; and
- an increase in our Group’s deferred revenue of US\$27.3 million reflecting increased prototype and reimbursable engineering activity to support significant EPS program wins.

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## FINANCIAL INFORMATION

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### *Cash Flows Used in Investing Activities*

Cash flow used in investing activities primarily reflect capital spending for customer programs.

#### *Our Predecessor*

Net cash used in investing activities for the period from January 1, 2010 to November 30, 2010 was US\$47.9 million and primarily attributable to capital investments in property, plant, and equipment to meet operational and business requirements.

#### *Our Group*

Net cash used in investing activities for the period from November 4, 2010 to December 31, 2010 was US\$331.3 million mainly reflecting the purchase of our Predecessor from GM. Net cash used in investing activities was US\$132.3 million and was US\$271.7 million for the years ended December 31, 2011 and 2012. This was mainly attributable to the acquisition of steering EPS manufacturing equipment to support future global customer launches and expenditure on qualifying capitalized development costs across all of our geographic segments.

### *Cash Flows Generated from/Used in Financing Activities*

#### *Our Predecessor*

For the period from January 1, 2010 to November 30, 2010, net cash used in financing activities was US\$38.1 million. This net cash used in financing activities was mainly attributable to the payment of intercompany debt and dividends paid to GM prior to the sale of our Predecessor by GM.

#### *Our Group*

For the period from November 4, 2010 to December 31, 2010, net cash generated from financing activities was US\$395.0 million, mainly reflecting debt incurred to finance the purchase of our Predecessor from GM.

Net cash generated from financing activities was US\$0.07 million for the year ended December 31, 2011. Net cash generated from financing activities was US\$99.2 million for the year ended December 31, 2012 which was mainly attributable to the net impact of proceeds obtained from two unsecured term loans of US\$300.0 million and US\$126.0 million used primarily to repay our Group's US\$316.0 million of Acquisition Debt.

## FINANCIAL INFORMATION

### Net Current Assets and Liabilities

The following table sets forth the breakdown of our current assets and current liabilities as of the dates indicated:

|  | As of December 31, |                  |                | As of April 30, |
|--|--------------------|------------------|----------------|-----------------|
|  | 2010               | 2011             | 2012           | 2013            |
|  | (US\$ thousands)   |                  |                | (unaudited)     |
| <b>Current Assets</b>                              |                    |                  |                |                 |
| Inventories . . . . .                              | 152,313            | 156,788          | 174,433        | 183,430         |
| Trade and other receivables . . . . .              | 357,031            | 360,277          | 389,107        | 419,645         |
| Restricted bank deposits . . . . .                 | 822                | 220              | 251            | 4,823           |
| Cash and cash equivalents . . . . .                | 113,466            | 78,233           | 64,080         | 64,871          |
| <b>Total current assets</b> . . . . .              | <b>623,632</b>     | <b>595,518</b>   | <b>627,871</b> | <b>672,769</b>  |
| <b>Current Liabilities</b>                         |                    |                  |                |                 |
| Trade and other payables . . . . .                 | 345,480            | 347,176          | 381,290        | 393,376         |
| Retirement benefits and<br>compensations . . . . . | 954                | 1,141            | 1,721          | 1,867           |
| Current income tax liabilities . . . . .           | 2,458              | 872              | 2,219          | 3,334           |
| Borrowings . . . . .                               | 364,888            | 404,571          | 99,117         | 81,829          |
| Provisions . . . . .                               | 44,495             | 11,511           | 16,043         | 12,001          |
| Deferred revenue . . . . .                         | 48                 | 1,574            | 6,907          | 8,596           |
| <b>Total current liabilities</b> . . . . .         | <b>758,323</b>     | <b>766,845</b>   | <b>507,297</b> | <b>501,003</b>  |
| <b>Net current (liabilities)/assets</b> . . . . .  | <b>(134,691)</b>   | <b>(171,327)</b> | <b>120,574</b> | <b>171,766</b>  |

We have principally financed our working capital from cash provided by operations and loans from banks. We had net current liabilities of US\$134.7 million and US\$171.3 million as of December 31, 2010 and 2011, respectively, and net current assets of US\$120.6 million and US\$171.8 million as of December 31, 2012 and April 30, 2013, respectively.

There was an increase in inventories, trade and other receivables and trade and other payables as of April 30, 2013, as compared to December 31, 2012, which is typically a low sales volume month due to seasonality.

Our current liabilities as of December 31, 2010 and 2011 primarily consisted of a US\$316.0 million bank loan facility incurred to finance the Acquisition Debt. The Acquisition Debt was classified as short-term borrowings as of December 31, 2010 and 2011 because the loan included a provision whereby it was callable by the lender at any time. Our net current liability position primarily resulted from the impact of the classification of the Acquisition Debt.

In November 2012, we repaid the US\$316.0 million bank loan facility and obtained term loans in the amount of US\$426.0 million. The term loans have a term of 96 months, and were classified as non-current liabilities as of December 31, 2012.

Our current liabilities as of December 31, 2012 included borrowings of US\$99.1 million, which consisted mostly of bank loans and revolving loans that we secured following our separation from GM.

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During the Track Record Period and as of the Latest Practicable Date, we had not defaulted on the repayment of any of our borrowings, breached any financial covenants or failed to roll over short-term loans with our principal banks upon maturity of these short-term loans. We believe we will be able to roll over existing short-term borrowings upon their maturity in 2013.

### Working Capital

Taking into account our cash flows from operating activities, presently available bank loans and other borrowings and the estimated net proceeds from the Global Offering, our Directors, after due inquiry, believe that we have sufficient available working capital for our present requirements for the next 12 months from the date of this Prospectus.

### Capital Expenditures

Our capital expenditures include cash expenditures for the purchases of machinery, equipment and tooling and investment on product development. Since the Acquisition, we have secured significant bookings from new OEMs and expect to continue launching new products and technology as the automotive industry continues its global recovery. To support these endeavors, we have required and will continue to require significant capital expenditures. See “Future Plans and Use of Proceeds — Use of Proceeds.”

The following table sets forth our Predecessor’s capital expenditures for the period indicated:

|   | For the<br>period from<br>January 1, 2010<br>to November 30,<br>2010 |
|---|--|
|   | (US\$ thousands)   |
| Capital expenditure in connection with:               |  |
| — Purchase of property, plant and equipment . . . . . | 47,451   |
| — Product development costs capitalization . . . . .  | —  |
| <b>Total</b> . . . . .                                | <b>47,451</b>  |

The following table sets forth our Group’s capital expenditures for the period/years indicated:

|  | For the<br>period from<br>November 4,<br>2010 to<br>December 31,<br>2010 | For the<br>year ended<br>December 31,<br>2011 | For the<br>year ended<br>December 31,<br>2012 |
|--|--|---|---|
|  | (US\$ thousands)   |   |   |
| Capital expenditure in connection with:          |  |   |   |
| — Purchase of property, plant and equipment . .  | 8,614  | 67,071  | 172,381                                       |
| — Product development costs capitalization . . . | 4,846  | 69,585  | 104,091                                       |
| <b>Total</b> . . . . .                           | <b>13,460</b>  | <b>136,656</b>                                | <b>276,472</b>                                |

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Our capital expenditures during the Track Record Period were incurred with respect to activities in North America, Europe, China and Rest of World. We expect to incur US\$214.0 million of capital expenditures for the year ending December 31, 2013. We expect to fund the capital expenditures expected for the year ending December 31, 2013 with cash flows generated by our operations, operational loans from banks and the net proceeds of the Global Offering.

### Capital and Operating Lease Commitments

#### *Capital Commitments*

We had capital expenditure commitments of US\$43.4 million, US\$191.7 million and US\$201.6 million as of December 31, 2010, 2011 and 2012, respectively, to purchase property, plant and equipment contracted but not provided for.

#### *Operating Lease Commitments*

The following table sets forth our Predecessor's non-cancellable operating leases for the period indicated:

|  | For the<br>period from<br>January 1, 2010<br>to November 30,<br>2010 |
|--|--|
|  | (US\$ thousands)   |
| — Within one year .....                    | 7,950  |
| — Between one and five years .....         | 19,270   |
| — More than five years .....               | <u>6,012</u>   |
| <b>Total minimum future payments .....</b> | <b>33,232</b>  |

The following table sets forth our Group's non-cancellable operating leases for the period/years indicated:

|  | For the<br>period from<br>November 4,<br>2010 to<br>December 31,<br>2010 | For the<br>year ended<br>December 31,<br>2011 | For the<br>year ended<br>December 31,<br>2012 |
|--|--|---|---|
|  |  | (US\$ thousands)                              |   |
| — Within one year .....                    | 7,950  | 8,825   | 9,924   |
| — Between one and five years .....         | 18,569   | 24,891  | 26,314  |
| — More than five years .....               | <u>6,012</u>   | <u>5,747</u>                                  | <u>3,600</u>                                  |
| <b>Total minimum future payments .....</b> | <b>32,531</b>  | <b>39,463</b>                                 | <b>39,838</b>                                 |

### Indebtedness

During the Track Record Period, our borrowings primarily consisted of loans and factoring facilities from banks. As of December 31, 2010 and 2011 and 2012 and April 30, 2013, our total indebtedness was US\$390.4 million, US\$406.6 million, US\$540.6 million and US\$594.9 million, respectively.



## FINANCIAL INFORMATION

The following table sets out our borrowings as of the dates indicated:

|   | As of December 31,    |                       |                       | As of April 30,       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 2010                  | 2011                  | 2012                  | 2013                  |
|   | (US\$ thousands)      |                       |                       | (unaudited)           |
| <b>Non-current</b>                            |                       |                       |                       |                       |
| Borrowings from banks                         |                       |                       |                       |                       |
| — secured . . . . .                           | —                     | —                     | 571                   | 67,525                |
| — unsecured . . . . .                         | —                     | 1,153                 | 439,961               | 444,700               |
| Borrowings from a subsidiary of               |                       |                       |                       |                       |
| Delphi Corporation — unsecured . . . .        | 25,536                | —                     | —                     | —                     |
| Finance lease obligations . . . . .           | 19                    | 912                   | 999                   | 814                   |
| <b>Total non-current borrowings . . . . .</b> | <b><u>25,555</u></b>  | <b><u>2,065</u></b>   | <b><u>441,531</u></b> | <b><u>513,039</u></b> |
| <b>Current</b>                                |                       |                       |                       |                       |
| Borrowings from banks                         |                       |                       |                       |                       |
| — secured, for acquisition of business . .    | 316,000               | 316,000               | —                     | —                     |
| — secured, others . . . . .                   | 3,000                 | 49,550                | 47,055                | 33,041                |
| — unsecured . . . . .                         | —                     | 38,553                | 50,045                | 34,804                |
| Borrowings from General Motors                |                       |                       |                       |                       |
| — unsecured . . . . .                         | 37,985                | —                     | —                     | —                     |
| Add: current portion of:                      |                       |                       |                       |                       |
| — non-current secured borrowings              |                       |                       |                       |                       |
| from banks . . . . .                          | —                     | —                     | 285                   | 13,005                |
| — non-current unsecured borrowings            |                       |                       |                       |                       |
| from banks . . . . .                          | 3,414                 | 208                   | 1,388                 | 639                   |
| — non-current unsecured borrowings            |                       |                       |                       |                       |
| from a subsidiary of Delphi                   |                       |                       |                       |                       |
| Corporation . . . . .                         | 4,474                 | —                     | —                     | —                     |
| — finance lease obligations . . . . .         | 15                    | 260                   | 344                   | 340                   |
|   | <u>364,888</u>        | <u>404,571</u>        | <u>99,117</u>         | <u>81,829</u>         |
| <b>Total borrowings . . . . .</b>             | <b><u>390,443</u></b> | <b><u>406,636</u></b> | <b><u>540,648</u></b> | <b><u>594,868</u></b> |

Our secured borrowings are secured by our accounts receivable, inventory and property, plant and equipment.

Our current borrowings as of December 31, 2010 and 2011 consisted primarily of Acquisition Debt of US\$316.0 million, which was incurred solely for the purpose of the Acquisition and was not used for our business operations. The Acquisition Debt was classified as current borrowings because the loan included a provision stipulating that such debt was callable by the lender at any time. The Acquisition Debt represented 80.9% and 77.7% of our total borrowings as of December 31, 2010 and 2011, respectively.

Our current borrowings during the Track Record Period also included borrowings from various financial institutions of US\$3.0 million, US\$88.1 million, US\$97.1 million and US\$67.8 million at December 31, 2010, 2011 and 2012 and April 30, 2013, respectively. The increases in 2011 and 2012 reflect borrowings both in the U.S. and at our foreign subsidiaries mainly to finance our working capital requirements.

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Our non-current borrowings as of December 31, 2012 consisted primarily of two unsecured term loans totaling US\$426.0 million which our Group obtained in November 2012. The proceeds of these term loans were used to repay the Acquisition Debt and repay or replenish the cash used in repaying the acquisition related payments of US\$82.2 million. The remaining approximately US\$27.8 million was used to supplement our working capital. These term loans have a term of 96 months with principal payments of US\$30.5 million payable semi-annually beginning on June 30, 2014. See “Appendix 1A — Accountant’s Report on the Financial Information of the Group — II. Notes on the Financial Information — 17. Borrowings.”

The table below sets forth the maturity profile of our borrowings as of the dates indicated:

|                                   | As of December 31, |         |         | As of April 30, |
|-----------------------------------|--------------------|---------|---------|-----------------|
|                                   | 2010               | 2011    | 2012    | 2013            |
|                                   | (US\$ thousands)   |         |         |                 |
| Within one year . . . . .         | 364,888            | 404,571 | 99,117  | 81,829          |
| One year to two years . . . . .   | 4,490              | 562     | 58,978  | 78,121          |
| Two years to five years . . . . . | 21,065             | 1,503   | 200,553 | 241,614         |
| More than five years . . . . .    | —                  | —       | 182,000 | 193,304         |
|                                   | 390,443            | 406,636 | 540,648 | 594,868         |

For more information regarding the specific terms of our borrowings, including currency denominations and interest rates, see “Appendix IA — Accountant’s Report on the Financial Information of the Group — II. Notes on the Financial Information — 17. Borrowings.”

As of December 31, 2012, the undrawn amount of loans from third-party financial institutions was approximately US\$235.2 million.

As of April 30, 2013, we had other payables due to PCM China of US\$3.8 million, which represented finance costs paid by PCM China on behalf of PCM (US) Steering and PCM (Singapore) Steering. The balance of such payables will be fully settled by our Group prior to the Listing.

On March 1, 2013, we restated our credit agreement for our existing US\$165.0 million revolving loan. The restated credit agreement added a term loan of US\$75.0 million and increased the revolving credit capacity from US\$165.0 million to US\$200.0 million, which increased the total capacity of the credit facility by US\$110.0 million, from US\$165.0 million to US\$275.0 million. The term loan of US\$75.0 million is due in thirty consecutive monthly installments of US\$1.3 million, repayment of which commences on September 1, 2013. The term loan bears interest at LIBOR+3.5% per annum.

### ***General Covenants***

The restated credit agreement contains general covenants restricting the ability of each loan party (Nexteer Automotive, Project Rhodes Holding Corporation, Steering Solutions Corporation, Steering Solutions IP Holding Corporation and Steering Solutions Expat Holding Corporation) and its subsidiaries to, among other things, (i) incur additional indebtedness other than any permitted indebtedness; (ii) incur any liens on any of its assets other than any

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permitted liens; (iii) enter into any merger, dissolution, liquidation, consolidation with another entity or disposition of all or substantially all of its assets; (iv) dispose of all or any part of its assets except permitted dispositions; (v) change the general nature of its business or acquire any properties or assets that are not reasonably related to such business; (vi) prepay certain indebtedness; (vii) amend the terms of certain agreements or governing documents; (viii) cause or permit any change of control; (ix) make restricted payments; (x) make or acquire any investment or incur any liabilities for an investment except permitted investments; (xi) enter into transactions with any affiliates of the loan parties; (xii) use the proceeds of the loans for any purpose other than the permitted uses; or (xiii) sell any of their inventory on certain terms. In each case, there are certain permitted exceptions to these restrictions.

### *Financial Covenants*

In addition, the restated credit agreement requires Nexteer Automotive to maintain an excess availability of facilities of not less than US\$20 million at all times and a minimum required EBITDA amount for the end of each monthly period as set forth in the credit agreement.

As of the Latest Practicable Date, save as disclosed in this Prospectus, we did not have any other debt securities, borrowings, indebtedness, mortgages, contingent liabilities or guarantees.

### **Contingent Liabilities**

#### *Provisions*

The following table sets forth our provisions as of the dates indicated:

|                                 | As of December 31, |                  |          |
|---------------------------------|--------------------|------------------|----------|
|                                 | 2010               | 2011             | 2012     |
|                                 |                    | (US\$ thousands) |          |
| Restructuring .....             | 32,763             | 1,589            | 5,715    |
| Litigation .....                | 266                | 316              | 442      |
| Environmental liabilities ..... | 12,719             | 12,541           | 12,504   |
| Warranties .....                | 24,565             | 25,115           | 32,398   |
| Decommissioning .....           | 4,657              | 5,178            | 5,714    |
| Total provisions .....          | 74,970             | 44,739           | 56,773   |
| Less: non current portion ..... | (30,475)           | (33,228)         | (40,730) |
| Current portion .....           | 44,495             | 11,511           | 16,043   |

In 2010, our Group and the UAW ratified the Nexteer Automotive MOU. Pursuant to the MOU effective at the Acquisition, in order to achieve a reduced wage structure for the U.S. hourly workforce, hourly employees were offered: (i) a lump sum payment for employees who agreed to a lower hourly wage rate after the Acquisition (mandatory for skilled trade employees and voluntary for other employees); (ii) a lump sum payment for employees who decided to retire; or (iii) a lump sum payment for employees who decided to terminate their employment.

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The Company incurred a provision of US\$32.8 million as of December 31, 2010 related to this wage restructuring initiative. Most of the expenses for which provisions were made were paid in early 2011.

In 2012, our Group reduced salary and hourly headcount in an effort to reduce manufacturing, engineering, selling and administrative costs and align our workforce with production and sales levels for the year. The Company incurred a provision of US\$5.7 million as of December 31, 2012 related to this workforce restructuring initiative. See “— Factors Affecting Our Group’s Results of Operations — Ability to Manage Manufacturing Challenges.”

Our warranty provision represents our Group’s estimate of amounts that will eventually be required to settle such obligations. These provisions are based on factors such as specific customer arrangements, past experience, production changes, industry developments and various other considerations. Our estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims. The increase in our warranty provision by US\$7.3 million primarily resulted from renegotiated terms over new programs in North America which expanded our responsibility to reimburse customers for any defects covered under the customer contract.

Our environmental provision represents our Group’s best estimate of financial exposure with respect to environmental sites.

From time to time our Group is subject to various legal actions and claims incidental to its business, including those alleged defects, breach of contracts, intellectual property matters and employment related matters. As of the Latest Practicable Date, our Group did not have any material provisions related to these matters.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, except as set forth above under “— Capital and Operating Lease Commitments — Operating Lease Commitments,” we had not entered into any off-balance sheet transactions.

### FINANCIAL RATIOS

The following table sets forth selected financial ratios of our Predecessor as of the dates indicated:

|   | <u>As of November<br/>30, 2010</u> |
|---|------------------------------------|
| Current ratio <sup>(1)</sup> .....          | 164.8%                             |
| Quick ratio <sup>(2)</sup> .....            | 124.9%                             |
| Gearing ratio <sup>(3)</sup> .....          | 18.5%                              |
| Return on equity <sup>(4)</sup> .....       | —                                  |
| Return on total assets <sup>(5)</sup> ..... | —                                  |

Notes:

(1) Current assets divided by current liabilities.

(2) Current assets minus inventory minus restricted cash then divided by current liabilities.

(3) Total borrowings plus non-recurring related party payables then divided by total equity.

(4) Profit attributable to equity shareholders for the period divided by average balance of total capital and reserve attributable to equity holders.

(5) Profit for the period divided by average balance of total assets.

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The following table sets forth selected financial ratios of our Group as of the dates and for the period/years indicated:

|   | As of or for the<br>period from<br>November 4,<br>2010 to<br>December 31,<br>2010 | As of or for the<br>year ended<br>December 31,<br>2011 | As of or for the<br>year ended<br>December 31,<br>2012 |
|---|---|--|--|
| Current ratio <sup>(1)</sup> .....          | 82.2%   | 77.7%  | 123.8%   |
| Quick ratio <sup>(2)</sup> .....            | 62.0%   | 57.2%  | 89.3%  |
| Gearing ratio <sup>(3)</sup> .....          | 549.5%  | 342.1%   | 289.3%   |
| Return on equity <sup>(4)</sup> .....       | —   | 80.7%  | 40.5%  |
| Return on total assets <sup>(5)</sup> ..... | —   | 7.2%   | 5.3%   |

Notes:

<sup>(1)</sup> Current assets divided by current liabilities.

<sup>(2)</sup> Current assets minus inventory minus restricted cash then divided by current liabilities.

<sup>(3)</sup> Total borrowings plus non-recurring related party payables then divided by total equity.

<sup>(4)</sup> Profit attributable to equity shareholders for the year divided by average balance of total capital and reserve attributable to equity holders.

<sup>(5)</sup> Profit for the year divided by average balance of total assets.

### Current Ratio

Current ratio is calculated by dividing current assets by current liabilities.

The current ratio decreased from 82.2% as of December 31, 2010 to 77.7% as of December 31, 2011, primarily due to an increase in short-term borrowings for acquisition related expenditures, settlement of short-term provision and for capital expenditures in 2011.

The current ratio increased from 77.7% as of December 31, 2011 to 123.8% as of December 31, 2012, primarily due to a decrease in short-term borrowings of US\$305.5 million mainly resulting from repayment of the Acquisition Debt (US\$316.0 million) in November 2012.

### Quick Ratio

Quick ratio is calculated by dividing current assets less inventories and restricted cash by current liabilities.

The quick ratio decreased from 62.0% as of December 31, 2010 to 57.2% as of December 31, 2011, primarily due to the decrease in cash and cash equivalents mainly resulting from the Company's investment in steering EPS manufacturing equipment to support future global customer launches. See “— Liquidity and Capital Resources — Cash Flow.”

The quick ratio increased from 57.2% to 89.3% as of December 31, 2011 and December 31, 2012, respectively, primarily due to a decrease in short-term borrowings of US\$305.5 million, mainly resulting from repayment of the Acquisition Debt (US\$316.0 million) in November 2012.

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## FINANCIAL INFORMATION

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### **Gearing Ratio**

Gearing ratio is the ratio of total borrowings and certain non-recurring related party payables divided by total equity at the end of the respective year. The related party payable balance relates to amounts owed to Beijing E-Town primarily for acquisition expenses and PCM China for interest and guarantee fees on Acquisition Debt.

The gearing ratio decreased from 549.5% as of December 31, 2010 to 342.1% as of December 31, 2011 as equity increased by US\$48.1 million, mainly reflecting profits in 2011.

The gearing ratio decreased from 342.1% as of December 31, 2011 to 289.3% as of December 31, 2012, primarily due to an increase in equity of US\$68.8 million as a result of profits in 2012 and an increase in total borrowings of US\$134.0 million.

### **Return on Equity**

Return on equity is calculated by dividing the net profits attributable to equity shareholders by the arithmetic mean of the opening and closing balances of total capital and reserve attributable to equity holders of the relevant year expressed as a percentage. As discussed under “— Basis of Presentation,” costs and profits for our Predecessor and our Group are not comparable. As a result, return on equity for 2010 has not been presented.

Because of the limited Track Record Period since the Acquisition, the calculation of our return on equity is significantly affected by our after tax earnings. Our opening equity in 2011 included the impact of a substantial after tax loss of US\$58.7 million recorded for the one month ended December 31, 2010. Conversely, we reported net profits of US\$68.0 million for the year ended December 31, 2011, resulting in a return on equity of 80.7%.

Our return on equity decreased from 80.7% as of December 31, 2011 to 40.5% as of December 31, 2012, mainly due to a decrease in after tax profits of US\$9.4 million from US\$68.0 million for the year ended December 31, 2011 to US\$58.6 million for the year ended December 31, 2012 as well as an increase in our total capital from US\$123.0 million as of December 31, 2011 to US\$191.8 million as of December 31, 2012. The increase was primarily due to after tax profits of US\$58.6 million in 2012.

### **Return on Total Assets**

Return on assets is calculated by dividing the profit for the year by the arithmetic mean of the opening and closing balances of total assets of the relevant year expressed as a percentage. See “— Basis of Presentation.” As such, costs and profits for our Predecessor and our Group are not comparable. Our return on total assets was 7.2% for the year ended December 31, 2011.

Our return on assets decreased from 7.2% as of December 31, 2011 to 5.3% as of December 31, 2012 mainly due to an increase in property, plant and equipment resulting from the Company’s investment in EPS manufacturing equipment.

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## FINANCIAL INFORMATION

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### QUANTITATIVE AND QUALITATIVE MARKET RISKS

We are exposed to various types of market risks, including the following:

#### **Credit Risk**

We sell our products to automotive manufacturers throughout the world. Our credit risk arises primarily from our outstanding trade and other receivables with our customers. We are also exposed to credit risk arising from the default of our customers on their obligations to us. The central treasury department of our Company is responsible for managing and analyzing credit risks relating to each new customer before standard payment and delivery terms and conditions are offered. A customer's creditworthiness is also assessed at the subsidiary level through analyzing past due receivables.

We also face concentration risk arising from large customers. Our largest customer is GM, which comprised 50.4%, 50.6% and 52.3% of our revenue during the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012, respectively. Trade receivables from GM accounted for approximately 43.1%, 43.0% and 48.6% of total trade accounts receivables as of December 31, 2010, 2011 and 2012, respectively.

Further, we face credit risk from our deposits with banks and other financial institutions. We monitor the credit ratings of these banks and financial institutions. We had 95%, 95% and 72% of our cash in financial institutions with credit ratings of A or higher for the one month period ended December 31, 2010, and the years ended December 31, 2011 and 2012, respectively.

#### **Price Risk**

Price risk relates to changes in the prices of raw materials purchased for production from the time of the price quotation to the customer to the sale of our products to customers. To minimize the impact of price risk we seek to include clauses in our customer contracts that allow for full or partial pass-through of price increases relating to raw materials to customers.

#### **Liquidity Risk**

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with our financial liabilities. We monitor our liquidity requirements to ensure sufficient cash and cash equivalents to meet our operational needs, and have available sufficient undrawn committed borrowing facilities. We also take into consideration our debt financing plans, covenant compliance and, if applicable, external regulatory or legal requirements.

#### **Interest Rate Risk**

Our interest rate risk arises from fluctuations in interest rates on our current and noncurrent borrowings. Changes in interest rates on borrowings issued at variable rates potentially expose us to cash flow risk. Increases in interest rates would increase expenses relating to our outstanding debt and increase the cost of new debt. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of our debt obligations. Because we generally do not take a speculative view on movements in interest rates, we do not currently use

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## FINANCIAL INFORMATION

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any derivative financial instruments to manage these risks. However, our management monitors our interest rate exposure and will consider hedging significant interest rate exposure as necessary.

If the interest rates had been 100 basis points higher/(lower) than the prevailing rate, and all other variables remained constant, our profits for the period from November 4, 2010 to December 31, 2010 and the year ended December 31, 2011 and 2012, would have been US\$0.3 million, US\$3.6 million, and US\$4.8 million lower/(higher), respectively.

### Foreign Exchange Risk

We operate on a worldwide basis. Our revenue is primarily denominated in U.S. dollars, the Euro and the RMB. Our operating expenses are also predominantly denominated in U.S. dollars, Polish Zloty, Euros, Mexico Pesos, RMB and other currencies in relation to our foreign operations. Our Group bases its hedging policy on the exposure and risk that our Group is willing to incur based on its specific operations, business model and risk analysis. Our Group does not use any derivative contracts to hedge against our foreign exchange exposure. Instead, our Group conducts our operations in a manner that is intended to achieve natural hedging. In particular, although our Group operates in many different countries, in most cases our Group entities incur operating expenses to produce a product and receive the corresponding revenues from the sale of such product in the same currency, which reduces our Group's foreign exchange risk, as can be illustrated in the sensitivity analysis of the impact of changes in the foreign exchange rate on equity and post-tax results. However, we evaluate the costs and benefits of hedging from time to time and may engage in more active foreign currency hedging strategies in the future.

A sensitivity analysis to assess the impact on equity and post-tax results if the foreign exchange rate had been 10% higher (lower) than the prevailing rate is as follows:

|                                       | <u>Increase in<br/>Foreign<br/>Exchange Rates</u> | <u>Equity</u>    | <u>Post-tax results</u> |
|---------------------------------------|---|------------------|-------------------------|
|                                       |   | (US\$ thousands) |                         |
| <b>As of and for the period ended</b> |   |                  |                         |
| <b>December 31, 2010</b>              |   |                  |                         |
| Renminbi (10% strengthening) .....    | 10%   | 6,084            | 187                     |
| Euro (10% strengthening) .....        | 10%   | 13,826           | 43                      |
| <b>As of and for the year ended</b>   |   |                  |                         |
| <b>December 31, 2011</b>              |   |                  |                         |
| Renminbi (10% strengthening) .....    | 10%   | 6,594            | 474                     |
| Euro (10% strengthening) .....        | 10%   | 18,385           | 7,027                   |
| <b>As of and for the year ended</b>   |   |                  |                         |
| <b>December 31, 2012</b>              |   |                  |                         |
| Renminbi (10% strengthening) .....    | 10%   | 9,426            | 383                     |
| Euro (10% strengthening) .....        | 10%   | 22,213           | 2,118                   |

A weakening of the U.S. dollar against the above currencies would have had the equal but opposite effect on the above currencies to the amounts above, on the basis that all other variables remain consistent.



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## FINANCIAL INFORMATION

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In line with our international expansion plans, we may be required to convert a majority of the proceeds of the Global Offering denominated in Hong Kong dollars into U.S. dollars, Euros, RMB, or other foreign currencies. The potential depreciation of the Hong Kong dollar against certain currencies, including the RMB, could reduce the amount of currency available for our use upon the conversion of the proceeds.

### DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Subject to applicable laws and regulations, we currently intend to pay dividends of not less than 20% of our net profits available for distribution for the year ending December 31, 2013. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditures and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders. Any future declarations of dividends after the year ending December 31, 2013 may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. As of December 31, 2012, we had no reserve available for distribution to our shareholders.

### RECENT DEVELOPMENTS

The following is a summary of our selected unaudited financial data for the three months ended March 31, 2012 and 2013 that have been prepared in accordance with the accounting policies set forth in our audited combined financial information that are included in Appendix IA to this Prospectus. Our financial results for the three months ended March 31, 2013 may not be indicative of our financial results for the full year ending December 31, 2013 or for future interim periods.

|   | For the three months ended      |                 |
|---|---------------------------------|-----------------|
|   | March 31, 2012                  | March 31, 2013  |
|   | (US\$ thousands)<br>(unaudited) |                 |
| Revenue .....                                   | 587,895                         | 576,465         |
| Cost of sales .....                             | (506,002)                       | (497,289)       |
| Engineering and product development costs ..... | <u>(20,430)</u>                 | <u>(19,888)</u> |

For the three months ended March 31, 2013, our revenue decreased by approximately 2% to US\$576.5 million from US\$587.9 million for the three months ended March 31, 2012, primarily due to a decrease in sales volume caused by the end of certain customer programs, which has not yet been offset by an expected increase in revenue from booked customer programs that are expected to begin production later in 2013. For the three months ended March 31, 2013, our cost of sales decreased by approximately 2% to US\$497.3 million from US\$506.0 million for the three months ended March 31, 2012, primarily due to the decrease in sales volume mentioned above. Our engineering and product development costs decreased by approximately 3% to US\$19.9 million for the three months ended March 31, 2013 from US\$20.4 million for the three months ended March 31, 2012.

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## FINANCIAL INFORMATION

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According to our unaudited management accounts, our Group's gross profit and gross profit margins for the second half of 2012 decreased by approximately US\$38.9 million and 2.3%, respectively compared to the first half of 2012, mainly due to pricing pressure from customers and seasonality. In addition, our Group also incurred listing expenses of approximately US\$6.6 million and employee restructuring costs of approximately US\$7.4 million in the second half of 2012. As of the Latest Practicable Date, our Group does not expect to incur similar non-recurring expenses in the second half of 2013, except for costs associated with public company reporting and related requirements. Moreover, our Group will launch three new EPS programs in the second half of 2013. As EPS products usually have a higher price than other products, we expect our EPS programs to mitigate the adverse impact of overall pricing pressure from customers.

There has been no material change to our business model and cost and revenue structures that may have a material adverse effect on our business, financial condition and results of operations since December 31, 2012.

### **PROFIT FORECAST FOR THE SIX MONTHS ENDING JUNE 30, 2013**

On the bases and assumptions set out in "Appendix III — Profit Forecast" and, in the absence of unforeseen circumstances, certain profit forecast data of our Group for the six months ending June 30, 2013 is set out below:

Forecast consolidated profit attributable  
to the equity holders of the Company<sup>(1)</sup> . . . . . Not less than US\$52.5 million  
(approximately HK\$407.4 million)

Notes:

- (1) The bases and assumptions on which the above profit forecast for the six months ending June 30, 2013 have been prepared are summarized in "Appendix III — Profit Forecast" in this Prospectus.
- (2) For the purpose of this forecast consolidated profit attributable to equity holders, the balance stated in United States Dollars is converted into Hong Kong dollars at the rate of US\$1 to HK\$7.76. No representation is made that the United States Dollars amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (3) The financial results for the six months ending June 30, 2013 will be audited pursuant to Rule 11.18 of the Listing Rules.

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Our unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as of December 31, 2012 or any future date. It is prepared based on our audited combined net assets of our Group attributable to the equity holders of our Company as of December 31, 2012 as set forth in the Accountant’s Report on the Financial Information of our Group in Appendix IA to this Prospectus, and adjusted as described below. Our unaudited pro forma adjusted combined net tangible assets does not form part of the Accountant’s Report in Appendix IA to this Prospectus.

|  | Unadjusted<br>Audited<br>Combined<br>Net Tangible<br>Liabilities<br>Attributable to<br>the Equity<br>Holders of our<br>Company as of<br>December 31,<br>2012 <sup>(1)</sup> | Estimated Net<br>Proceeds from<br>the Global<br>Offering <sup>(2)</sup> | Unaudited Pro<br>Forma Adjusted<br>Net Tangible<br>Assets of our<br>Group<br>Attributable to<br>the Equity<br>Holders of the<br>Company | Unaudited Pro Forma Adjusted<br>Net Tangible Assets<br>per Share <sup>(3)</sup> |        |
|--|---|---|---|---|--------|
|  | (US\$ thousands)  | (US\$ thousands)  | (US\$ thousands)  | (US\$)  | (HK\$) |
| Based on an offer price of<br>HK\$2.54 per Share . . . . . | (8,151)   | 224,213   | 216,062   | 0.09  | 0.70   |
| Based on an offer price of<br>HK\$3.50 per Share . . . . . | (8,151)   | 311,058   | 302,907   | 0.13  | 1.01   |

Notes:

- (1) Our combined net tangible liabilities attributable to the equity holders of our Company as of December 31, 2012 is extracted from the Accountant’s Report on the financial information of the Group in Appendix IA to this Prospectus, which is based on our audited combined net assets attributable to the equity holders of our Company as of December 31, 2012 of US\$170,931,000 less intangible assets as of December 31, 2012 of US\$179,082,000.
- (2) The estimated net proceeds from the Global Offering are based on indicative offer prices of HK\$2.54 or HK\$3.50 per Share after deduction of the underwriting fees and other related expenses payable by our Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) Our unaudited pro forma adjusted combined net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 2,400,000,000 Shares were in issue assuming that the Global Offering had been completed on December 31, 2012, taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) No adjustment has been made to reflect any of our trading results or other transactions entered into subsequent to December 31, 2012.

### RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. See Notes 32 and 32 of Appendices IA and IB, respectively, to this Prospectus for more information on the related party transactions entered between us and our related parties. Among other things, we obtained long-term bank loans from the EXIM Bank totaling US\$426.0 million in November 2012, which are guaranteed by AVIC and Beijing E-Town, and bear interest at LIBOR+3.5% per annum and are due in semi-annual installments of US\$30.5 million. The term of these loans commence in June 2014 and mature in October 2020, with the last repayment to be made then (the “EXIM Guaranteed Bank Loans”). We do not intend to repay the EXIM Guaranteed Bank Loans prior to maturity, or seek release of the guarantees given by AVIC or Beijing E-Town. See “Relationship

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## **FINANCIAL INFORMATION**

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with Our Controlling Shareholders — Independence from the Controlling Shareholders — Financial Independence.” In addition, as of December 31, 2012, our Group had bank loans in the amounts of US\$15,817,000 and US\$16,917,000, both of which are guaranteed by PCM China, and such loans have been partly repaid, with the balance expected to be repaid before Listing. Our Group had a payable to Beijing E-Town in the amount of US\$10.5 million as of December 31, 2012, which represented outstanding Acquisition related costs incurred by PCM China and paid by Beijing E-Town, which has been settled as of the Latest Practicable Date. Our Group also had certain payables due to PCM China by our Group, in an amount of US\$3.8 million as of December 31, 2012, which represents finance costs paid by PCM China on behalf of PCM (US) Steering and PCM (Singapore) Steering. Our Group estimates that such amount will be fully settled prior to the Listing.

### **LISTING EXPENSES**

The estimated total listing expenses (excluding underwriting commissions) incurred in relation to this Global Offering are approximately US\$12.2 million. For the year ended December 31, 2012, we incurred US\$7.7 million of listing expenses of which US\$1.1 million was recognized as prepayments. The remaining US\$6.6 million was charged to the income statement for the year ended December 31, 2012. We estimate that an additional listing expenses (excluding underwriting commission) of US\$4.5 million will be incurred by December 2013, of which US\$1.8 million will be recognized as prepayments, which is expected to be charged against equity upon successful listing. The remaining US\$2.7 million will be charged to the income statement. These listing expenses are mainly comprised of professional fees paid to legal advisors and the reporting accountant for their services rendered in relation to the Listing and the Global Offering.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rule 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Hong Kong Stock Exchange on that date.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed that, since December 31, 2012 and up to the date of this Prospectus, there had been no material adverse change in our financial or trading position or prospects and no event had occurred that would materially and adversely affect the information shown in our Group’s combined financial statements Accountant’s Report in Appendix IA to this Prospectus.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Please see the section headed “Business — Our Strategies” in this Prospectus for a detailed description of our future plans.

### USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and estimated total expenses paid and payable by us in connection thereto, are estimated to be approximately HK\$2,025.37 million (equivalent to approximately US\$261.00 million) before any exercise of the Over-allotment Option, assuming an Offer Price of HK\$3.02 per Share, being the mid-point of the proposed Offer Price range of HK\$2.54 to HK\$3.50 per Share. We intend to use such net proceeds as follows:

- Approximately HK\$1,458.26 million (equivalent of approximately US\$187.92 million, or approximately 72% of our total estimated net proceeds) for capital expenditure on new product programs secured from OEM customers or expects to be secured and expansion of manufacturing capacity and facilities.
  - Approximately HK\$1,377.25 million (equivalent of approximately US\$177.48 million, or approximately 68% of our total estimated net proceeds) for capital expenditure on machinery and equipment to increase production capacity including expansion of machinery capacity and assembly-line capacity, to launch new product programs that have been secured or are expected to be secured from OEM customers. The key new product programs and the respective capital expenditure are as follows:
    - expansion of capacity in the PRC, including (i) new production capacity for new generation models of REPS and single pinion EPS; and (ii) increasing production capacity for CEPS and new generation models of steering columns and halfshafts;
    - expansion of capacity in North America, including increasing production capacity for new generation models of REPS, steering columns and halfshafts;
    - expansion of capacity in Poland, including (i) new production capacity for single pinion EPS; and (ii) increasing production capacity for CEPS; and
    - expansion of capacity in other emerging markets, including (i) new production capacity for single pinion EPS; and (ii) increasing production capacity for CEPS.
  - Approximately HK\$81.01 million (equivalent of approximately US\$10.44 million, or approximately 4% of our total estimated net proceeds) for expansion and construction of manufacturing plants. In particular, we are planning to expand existing plants and build new plants in the PRC and India to manufacture CEPS and halfshafts.

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## FUTURE PLANS AND USE OF PROCEEDS

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- Approximately HK\$425.33 million (equivalent of approximately US\$54.81 million, or approximately 21% of our total estimated net proceeds) to strengthen our research and development capabilities, develop new technologies and products, and enhance key component manufacturing capabilities. We intend to focus our research and development efforts on the following areas:
  - developing and implementing modular power packs for brushless steering products, including developing competency for the manufacture of motors and controllers and the related assembly lines; and
  - establishing a technical center in the PRC for the purposes of product application, product development, durability testing, reliability testing and regional prototyping.
  - improvement in our I.T. and engineering laboratories in our plants globally.
- Approximately HK\$141.78 million (equivalent of approximately US\$18.27 million, or approximately 7% of our total estimated net proceeds) to supplement our working capital.

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised, will increase to approximately HK\$2,362.33 million or decrease to approximately HK\$1,688.41 million, respectively. In such event, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$2,343.37 million, assuming an Offer Price of HK\$3.02 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering, including the proceeds from the exercise of the Over-allotment Option, will increase or decrease by approximately HK\$387.50 million. In such event, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions.

The Company is not aware of any legal or regulatory restrictions with respect to the use of proceeds for the projects and plans detailed above.

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## CORNERSTONE INVESTOR

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### THE CORNERSTONE PLACING

As part of the International Offering, we, BOCI Asia Limited and J.P. Morgan Securities (Asia Pacific) Limited have entered into a cornerstone investment agreement (the “Cornerstone Investment Agreement”) with Dongfeng Asset Management Co. Ltd. (“Dongfeng Asset Management”, the “Cornerstone Investor”), which has offered to, as described in detail below, purchase at the Offer Price the number of Offer Shares that may be purchased in the amount of HK\$194 million. The transaction under the Cornerstone Investment Agreement is subject to approval by the relevant PRC government authorities.

Assuming an Offer Price of HK\$3.02, being the mid-point of the stated Offer Price range set forth in this Prospectus, the maximum number of International Offer Shares to be subscribed for by the Cornerstone Investor would be 64,238,000 Offer Shares, representing approximately 2.68% of the Shares in issue immediately upon the Capitalization Issue and completion of the Global Offering (assuming the Over-allotment Option is not exercised), or approximately 2.56% of the Shares in issue immediately upon the Capitalization Issue and completion of the Global Offering (assuming the Over-allotment Option is fully exercised). It also represents approximately 8.92% of the Offer Shares (assuming the Over-allotment Option is not exercised), or approximately 7.76% of the Offer Shares (assuming the Over-allotment Option is fully exercised). The Cornerstone Investor and its ultimate beneficial owners are Independent Third Parties and are not connected persons of our Company. The Cornerstone Investor will not be and is not expected to be a substantial shareholder of our Company upon the Listing. The Cornerstone Investor will not subscribe for any Offer Shares under the Global Offering other than pursuant to the Cornerstone Investment Agreement for the cornerstone placing. Immediately upon the Capitalization Issue and completion of the Global Offering, the Cornerstone Investor will not have any board representation in our Company.

The International Offer Shares to be subscribed for by the Cornerstone Investor will rank *pari passu* in all respects with the Shares in issue and will be counted towards the public float of our Company under Rule 8.24 of the Listing Rules. The International Offer Shares to be subscribed for by the Cornerstone Investor will not be affected by any reallocation of the Offer Shares to the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering — Basis of Allocation of the Offer Shares” nor by any exercise of the Over-allotment Option.

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## CORNERSTONE INVESTOR

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### OUR CORNERSTONE INVESTOR

We set forth below a brief description of our Cornerstone Investor:

#### **Dongfeng Asset Management Co. Ltd.**

Dongfeng Asset Management has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 Offer Shares) which may be purchased with an aggregate amount of HK\$194 million at the Offer Price. Assuming the Offer Price of HK\$2.54, being the low-end of the Offer Price range set out in this Prospectus, the total number of Offer Shares that Dongfeng Asset Management would subscribe for would be 76,377,000, representing approximately 3.18% of the Shares in issue immediately following the Capitalization Issue and completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.02, being the mid-point of the Offer Price range set out in this Prospectus, the total number of Offer Shares that Dongfeng Asset Management would subscribe for would be 64,238,000, representing approximately 2.68% of the Shares in issue immediately following the Capitalization Issue and completion of the Global Offering assuming the Over-allotment Option is not exercised. Assuming the Offer Price of HK\$3.50, being the high-end of the Offer Price range set out in this Prospectus, the total number of Offer Shares that Dongfeng Asset Management would subscribe for would be 55,428,000, representing approximately 2.31% of the Shares in issue immediately following the Capitalization Issue and completion of the Global Offering assuming the Over-allotment Option is not exercised.

| <u>Offer Price</u>  | <u>Total number of Shares that would be subscribed</u> | <u>Approximate percentage of shareholding in the total issued share capital of our Company immediately after the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised)</u> | <u>Approximate percentage of shareholding in the total issued share capital of our Company immediately after the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is fully exercised)</u> |
|---|--|---|---|
| Low-end of the stated Offer Price range at HK\$2.54 . . . . .   | 76,377,000   | 3.18%   | 3.05%   |
| Mid-point of the stated Offer Price range at HK\$3.02 . . . . . | 64,238,000   | 2.68%   | 2.56%   |
| High-end of the stated Offer Price range at HK\$3.50 . . . . .  | 55,428,000   | 2.31%   | 2.21%   |

Dongfeng Asset Management is a company incorporated in the PRC whose businesses include asset management, industrial investment, venture capital investment, investment management and consultancy, land and real estate development, international economic and technological cooperation, and related technical consulting, technical services, information services and after-sales services. Dongfeng Asset Management is a wholly-owned subsidiary of Dongfeng Motor Corporation, a large state-owned enterprise engaged in the manufacturing of commercial vehicles, passenger vehicles, auto parts, components and equipment as well as other auto-related business.

The announcement of results of allotment which is expected to be published on Tuesday, July 2, 2013 will disclose the shareholding of Dongfeng Asset Management immediately upon the Capitalization Issue and completion of the Global Offering (assuming the Over-allotment Option is not exercised).



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## **CORNERSTONE INVESTOR**

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### **CONDITIONS PRECEDENT**

The subscription obligation of the Cornerstone Investor is subject to, among other things, the following conditions precedent being satisfied or waived in accordance with the terms of the Cornerstone Investment Agreement:

- (1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional (in accordance with their respective original terms, as subsequently varied or waived by agreement of the parties thereto) by no later than the time and date as specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement;
- (2) neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated in accordance with its terms;
- (3) no laws shall have been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or the Cornerstone Investment Agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions;
- (4) the Listing Committee having granted approval for the listing of, and permission to deal in, our Shares and that such approval or permission have not been revoked;
- (5) the respective representations, warranties, undertakings, confirmations, agreements and acknowledgements of the Cornerstone Investor and the Company in the Cornerstone Investment Agreement are accurate and true in all respects and that there is no breach of the Cornerstone Investment Agreement on the part of the Company or the Cornerstone Investor; and
- (6) the Cornerstone Investor having obtained the approval from the relevant PRC government authorities for performing its obligation under the Cornerstone Investment Agreement by no later than the date as specified in the Cornerstone Investment Agreement.

### **RESTRICTIONS ON THE CORNERSTONE INVESTOR'S INVESTMENT**

The Cornerstone Investor has agreed that, among other things, without the prior written consent of each of the Company and the Joint Global Coordinators, it will not, whether directly or indirectly, at any time during the period of six (6) months following the Listing Date, offer, pledge, charge, sell, lend, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any legal or beneficial interest in the Offer Shares subscribed for by it pursuant to the Cornerstone Investment Agreement or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive any such Shares, other than transfers to any wholly owned subsidiary of the Cornerstone Investor provided that such wholly owned subsidiary undertakes in writing to, and the Cornerstone Investor undertakes to procure such wholly owned subsidiary will, abide by the restrictions on disposals of Shares imposed on the Cornerstone Investor.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

#### Joint Lead Managers

BOCI Asia Limited  
J.P. Morgan Securities (Asia Pacific) Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Offer Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this Prospectus and the Application Forms at the Offer Price. One of the conditions is that the Offer Price must be agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters). For applicants applying under the Hong Kong Public Offering, this Prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed.

Subject to the listing of and permission to deal in our Shares in issue and to be issued as mentioned in this Prospectus being granted by the Listing Committee and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to subscribe or procure subscribers to subscribe for their respective applicable portions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on, and subject to, the terms and conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the obligations of the International Underwriters under the International Underwriting Agreement having been signed, becoming unconditional and not having been terminated.

#### *Grounds for Termination*

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to the termination with immediate effect by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) by notice in writing to our Company prior to 8:00 a.m. (Hong Kong time) on the Listing Date if any of the following events shall occur prior to such time:

- (a) there develops, occurs, exists or comes into effect:
  - (i) any event, or series of events, in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency, calamity, crisis, epidemics, pandemics, outbreaks of diseases, economic sanction, strikes, lock-outs, fire, explosion, flooding, civil commotion, riot, public disorder, acts of war, outbreak or escalation of

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## UNDERWRITING

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hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Mexico or any other jurisdiction in which any member of our Group conducts business (each a “Relevant Jurisdiction”); or

- (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, any conditions affecting stock and bond markets, money and foreign exchange markets, investment markets and credit markets) in or affecting any Relevant Jurisdiction; or
- (iii) any moratorium, suspension or restriction on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ National Market, or a devaluation of the Hong Kong dollar or the United States dollar or the Renminbi against any foreign currencies; or
- (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the European Union, the PRC, Japan, the Cayman Islands or any Relevant Jurisdiction, or there is a disruption in commercial banking, foreign exchange trading or securities settlement or clearance services in those places; or
- (v) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (vi) a change or development involving a prospective change in taxes or exchange control, currency exchange rates or foreign investment regulations or the implementation of any exchange control in any Relevant Jurisdiction, in each case adversely affecting an investment in the Shares; or
- (vii) any litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against any member of our Group which is not disclosed or referred to in the section headed “Business — Regulatory Compliance and Legal Proceedings” in this Prospectus; or
- (viii) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (ix) the chairman or chief executive officer of the Company vacating his or her office; or
- (x) a contravention by any member of our Group of the Listing Rules or applicable laws which is not disclosed or referred to in the section headed “Business — Regulatory Compliance and Legal Proceedings” in this Prospectus; or

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## UNDERWRITING

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- (xi) a prohibition on the Company for whatever reason from allotting or selling any of the Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or
- (xii) a non-compliance of this Prospectus or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (xiii) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group;

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (1) has or will or may have a material adverse effect on the business, results of operations, financial or other condition or prospects of our Group as a whole, or (2) has or will have or may have a material adverse effect on the completion of the Global Offering or the level of applications under the Hong Kong Public Offering and the level of interest under the International Offering, or (3) makes it or will or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering, or (4) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Joint Global Coordinators:
  - (i) that any statement contained in this Prospectus and the Application Forms and/or any announcement or advertisement issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation expressed in the web proof information pack of our Company, this Prospectus and the Application Forms and/or any announcements or advertisements issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was made, not made in good faith in any respect; or
  - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, constitute a material omission therefrom; or
  - (iii) any material breach of any of the obligations of the Company, AVIC Auto, PCM China or Nexteer Hong Kong under the Hong Kong Underwriting Agreement; or

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## UNDERWRITING

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- (iv) any event, act or omission which gives or is likely to give rise to any material liability of the Company, AVIC Auto, PCM China or Nexteer Hong Kong pursuant to the indemnification provisions in the Hong Kong Underwriting Agreement; or
- (v) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, conditions, business affairs, prospects, profits, losses, results of operations or financial or trading position or performance of our Group as a whole; or
- (vi) any breach of, or any event rendering untrue or incorrect or misleading, any of the warranties in the Hong Kong Underwriting Agreement; or
- (vii) that the Company withdraws this Prospectus (or any other documents used in connection with the contemplated offer of the Shares) or the Global Offering; or
- (viii) any expert whose consent is required for the issue of this Prospectus with inclusion of its reports and/or letters (as the case may be) and references to its name in the form and context in which they appear has withdrawn its consent to the issue of this Prospectus (other than the withdrawal of consent by any Joint Sponsor without a reason).

### *Undertakings*

#### *Undertaking by our Company to the Hong Kong Stock Exchange Pursuant to the Listing Rules*

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that we will not issue any further shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which our Shares commence dealing on the Hong Kong Stock Exchange (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing) except:

- (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or
- (b) pursuant to the Global Offering (including the Over-allotment Option).

#### *Undertaking by the Controlling Shareholders to the Hong Kong Stock Exchange Pursuant to the Listing Rules*

Pursuant to Rule 10.07(1) of the Listing Rules, each Controlling Shareholder has undertaken to each of the Hong Kong Stock Exchange and our Company that, except pursuant to the Global Offering (including the Over-allotment Option) or the Stock Borrowing Agreement, it shall not and shall procure that the relevant registered holder(s) (if any) shall not, without the prior written consent of the Hong Kong Stock Exchange or unless otherwise in compliance with the Listing Rules:

- (i) in the period commencing on the date of this Prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in

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## UNDERWRITING

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respect of, any of our Shares in respect of which it is shown by this Prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “Relevant Securities”); and

- (ii) in the period of six months commencing from the expiry of the period referred to in paragraph (i) above, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be the controlling shareholder (as defined in the Listing Rules) of the Company.

In addition, in accordance with Note 3 to Rule 10.07 of the Listing Rules, each Controlling Shareholder has undertaken to the Hong Kong Stock Exchange and our Company that, during the period commencing on the date of this Prospectus and ending on the date which is 12 months from the Listing Date, it will:

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

### ***Undertakings by our Company Pursuant to the Hong Kong Underwriting Agreement***

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Capitalization Issue, the Global Offering (including pursuant to the Over-allotment Option) or pursuant to any transaction or arrangement contemplated in this Prospectus, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date that is six months after the Listing Date (the “First Six-Month Period”), we will not, and will procure that the members of our Group will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or any other securities of other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other securities of our Company or any shares or any other securities of other members of our Group, as applicable); or

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## UNDERWRITING

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- (ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or any other securities of our Company or any shares or any other securities of other members of our Group, as applicable);
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree to do any of the foregoing or announce any intention of our Company to enter into the transaction described in (i), (ii) or (iii) above;

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of the Shares or such other securities of our Company or shares or any other securities of other members of our Group, as applicable, or in cash or otherwise (whether or not such allotment or issue of the Shares or securities will be completed within the First Six-Month Period).

In the event that, at any time during the period of six months immediately following the expiry of the First Six-Month Period (“Second Six-Month Period”), our Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in our Shares or any other securities of our Company.

### ***Undertakings by certain Controlling Shareholders pursuant to the Hong Kong Underwriting Agreement***

Each of AVIC Auto, PCM China and Nexteer Hong Kong has undertaken to each of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, save as pursuant to the Capitalization Issue, the Global Offering, and the Stock Borrowing Agreement without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) it will not and, will procure that none of its affiliates will (save as pursuant to the Global Offering, including pursuant to the Stock Borrowing Agreement), at any time during the First Six-Month Period, (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge (other than any mortgage, pledge or charge in favor of an authorized institution (as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong)) not involving a change of legal ownership of such Shares other than on enforcement) for a bona fide commercial loan in compliance with the Listing Rules), hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly,

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## UNDERWRITING

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conditionally or unconditionally, any Shares or any other securities of our Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of our Company, as applicable), or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other securities of our Company), or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the foregoing transactions is to be settled by delivery of the Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the First Six-Month Period);

- (ii) it will not, and shall procure that none of its affiliates will, at any time during the Second Six-Month Period, enter into any of the transactions specified in paragraphs (i)(a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a Controlling Shareholder of the Company; and
- (iii) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraphs (i)(a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the Shares or any other securities of our Company.

Without limiting the above, each of AVIC Auto, PCM China and Nexteer Hong Kong has further undertaken to each of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, it will, at any time during the Second Six-Month Period:

- (i) if it intends to create in favor of any third party any pledge or charge over any Shares or securities or interests in our Shares or securities of our Company beneficially owned by it, immediately inform our Company, the Joint Sponsors and the Joint Global Coordinators in writing of such pledge or charge together with the number of Shares or securities so pledged or charged prior to entering into such arrangement; and
- (ii) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or securities of our Company will be disposed of, immediately inform our Company, the Joint Sponsors and the Joint Global Coordinators in writing of such indications.



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## UNDERWRITING

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### *The International Offering*

In connection with the International Offering, it is expected that our Company, AVIC Auto, PCM China and Nexteer Hong Kong will enter into the International Underwriting Agreement with the International Underwriters and other parties named therein. Under the International Underwriting Agreement, our Company will offer the International Offer Shares to the International Underwriters, or to certain professional, institutional and other investors procured by the International Underwriters, at the Offer Price, on and subject to the terms and conditions set out in the International Underwriting Agreement. The International Underwriters will agree to severally underwrite the International Offer Shares.

Our Company intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until the 30th day after the last date for lodging applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 108,000,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, at the Offer Price in connection with over-allocations in the International Offering, if any.

### *Commission and Expenses*

The Hong Kong Underwriters will receive a commission of 2.5% of the aggregate Offer Price of the Hong Kong Offer Shares underwritten by the Hong Kong Underwriters and the International Underwriters will receive an underwriting commission of 2.5% of the aggregate of the Offer Price of the International Offer Shares underwritten by the International Underwriters, out of which they will pay any sub-underwriting commissions.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$3.02 (being the mid-point of Offer Price range between HK\$2.54 per Offer Share and HK\$3.50 per Offer Share), the underwriting commission, financial advisory fees, listing fees, the Hong Kong Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$149 million in total.

### *Hong Kong Underwriters' Interests in our Company*

Save as disclosed in this Prospectus and other than pursuant to the Underwriting Agreements, as of the Latest Practicable Date, none of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Underwriters was interested beneficially or non-beneficially in any shares in any member of our Group or had any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

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## UNDERWRITING

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### *Stamp Taxes*

Buyers of Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Offer Price.

### *Indemnity*

Our Company, AVIC Auto, PCM China and Nexteer Hong Kong have agreed to indemnify, among others, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us, AVIC Auto, PCM China and Nexteer Hong Kong of the Hong Kong Underwriting Agreement, as the case may be.

### *The Joint Sponsors' Independence*

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

On December 11, 2012, Bank of China, Los Angeles Branch (“BOCLA”) issued a letter of intent pursuant to which BOCLA agreed to provide a loan of up to US\$426 million to our Company for a term of up to five year, the availability of which shall be conditional upon the compliance with applicable laws and regulations and compliance requirements, BOCLA’s internal approval procedure and finalization of loan covenants that are acceptable to BOCLA. For more information, please refer to the section headed “Relationship with Our Controlling Shareholders — Ability to Obtain Independent Financing.” BOCLA is regarded as a member of the sponsor group of BOCI Asia Limited as defined under Rule 3A.01(9) of the Listing Rules. As at the Latest Practicable Date, our Company has not entered into any definitive agreement with BOCLA in relation to the aforesaid letter of intent and there is no amount due from our Company to BOCLA.

BOCI Asia Limited, despite the issue of the aforesaid letter of intent, satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

### *Minimum Public Float*

Our Directors will ensure that there will be a minimum of 25% of the total issued share capital of our Company in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises the International Offering and the Hong Kong Public Offering. A total of 720,000,000 Offer Shares will be initially available under the Global Offering, of which 648,000,000 International Offer Shares (subject to adjustment and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with QIBs in the United States in reliance on Rule 144A, as well as selected professional and institutional investors in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The remaining 72,000,000 Hong Kong Offer Shares (subject to adjustment), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Hong Kong Public Offering.

The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters are expected to severally underwrite the International Offer Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this Prospectus.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both.

### International Offering

Our Company is expected to offer initially 648,000,000 International Offer Shares (subject to adjustment and the Over-allotment Option) at the Offer Price under the International Offering. The number of International Offer Shares expected to be initially available for application under the International Offering represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Offering is expected to be fully underwritten by the International Underwriters, subject to our Company and the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) agreeing on the Offer Price. Investors subscribing for the International Offer Shares are also required to pay the maximum Offer Price of HK\$3.50 per Share plus a 1% brokerage, a 0.005% Hong Kong Stock Exchange trading fee and a 0.003% SFC transaction levy of the Offer Price.

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of our Company, will conditionally place the International Offer Shares at the Offer Price with QIBs in the United States in reliance on Rule 144A, as well as selected professional and institutional investors in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Offer Shares in the International Offering may also be allocated the International Offer Shares.

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## STRUCTURE OF THE GLOBAL OFFERING

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Allocation of the International Offer Shares will be effected in accordance with the “book-building” process and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole. Investors to whom International Offer Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offering.

Our Company, our Directors, the Joint Sponsors and the Joint Global Coordinators are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who receive Shares under the International Offering, and to identify and reject indications of interest in the International Offering from investors who receive Shares under the Hong Kong Public Offering.

The International Offering is expected to be subject to the conditions set forth in “— Conditions of the Global Offering.”

### **Hong Kong Public Offering**

Our Company is initially offering 72,000,000 Hong Kong Offer Shares for subscription (subject to adjustment) by members of the public in Hong Kong under the Hong Kong Public Offering, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters, subject to our Company and the Joint Global Coordinators agreeing on the Offer Price. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$3.50 per Share plus a 1% brokerage, a 0.005% Hong Kong Stock Exchange trading fee and a 0.003% SFC transaction levy.

The Hong Kong Public Offering is open to all members of the public in Hong Kong. An applicant for Offer Shares under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Offer Shares under the International Offering nor otherwise participated in the International Offering. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Hong Kong Public Offering is liable to be rejected.

For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 36,000,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5 million (excluding the brokerage, the Hong Kong Stock Exchange trading fee and the SFC transaction levy thereon) or less. The Hong Kong Offer Shares available in pool B will consist of 36,000,000 Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares in the value of more than HK\$5 million (excluding the brokerage, the Hong Kong Stock Exchange trading fee and the SFC transaction levy) and up to the value of pool B.

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## STRUCTURE OF THE GLOBAL OFFERING

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Investors should be aware that the allocation ratios for applications in the two pools are likely to be different. Where one of the pools is under-subscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and will be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Multiple or suspected multiple applications or any application made for more than 100% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of the Hong Kong Offer Shares validly applied for by each applicant. Such allocation could, where appropriate, consist of balloting, which could result in some applicants being allotted more Hong Kong Offer Shares than others who have applied for the same number of Hong Kong Offer Shares, and applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on Wednesday, June 26, 2013 (Hong Kong time), and in any event, no later than Thursday, June 27, 2013.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range as stated in this Prospectus. The Offer Price will not be more than HK\$3.50 per Offer Share and is expected to be not less than HK\$2.54 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this Prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The Joint Global Coordinators may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of our Company, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the website of our Company at [www.nexteer.com](http://www.nexteer.com) and the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) an announcement or a supplemental prospectus (as appropriate) in connection with the reduction. Upon issue of such an announcement or supplemental prospectus (as appropriate), the revised number of the Offer Shares and the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such an announcement or supplemental prospectus (as appropriate) will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics, and any other financial information set out in this Prospectus which may change as a result of any such reduction.

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## STRUCTURE OF THE GLOBAL OFFERING

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**If, for any reason, the Joint Global Coordinators (on behalf of the Underwriters) and our Company are unable to reach agreement on the Offer Price on or before Thursday, June 27, 2013, the Global Offering will not proceed and lapse.** Notice of the lapse of the Global Offering (including the Hong Kong Public Offering) will cause to be published by us in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the Hong Kong Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.nexteer.com](http://www.nexteer.com) on the next Business Day following such lapse.

Announcement of (i) the Offer Price; (ii) the indication of the level of interest in the International Offering; (iii) the level of applications in the Hong Kong Public Offering; (iv) the basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering and (v) the number of Offer Shares reallocated, if any, between the Hong Kong Public Offering and the International Offering is expected to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the website of our Company at [www.nexteer.com](http://www.nexteer.com) and the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on Tuesday, July 2, 2013.

### PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$3.50 per Offer Share and is expected to be not less than HK\$2.54 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$3.50 per Offer Share and 1% brokerage, 0.005% Hong Kong Stock Exchange trading fee and 0.003% SFC transaction levy. That means a total of HK\$3,535.29 is payable for one board lot of 1,000 Shares. The Application Forms have tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$3.50 per Offer Share, appropriate refund payments (including the related brokerage, the Hong Kong Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to the applicants, without interest. Further details are set out in "How to Apply for the Hong Kong Offer Shares" in this Prospectus.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of the application for the Offer Shares is conditional upon (among others):

#### 1. Listing

The Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this Prospectus (including the Offer Shares which may be made available pursuant to the Over-allotment Option) on the Main Board, and such listing and permission not having been subsequently revoked prior to the commencement of dealings in Shares on the Hong Kong Stock Exchange.

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## STRUCTURE OF THE GLOBAL OFFERING

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### 2. Underwriting Agreements

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Bookrunners, on behalf of the Underwriters), and not being terminated, prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Details of the Hong Kong Underwriting Agreement, its conditions and grounds for termination are set out in the section headed “Underwriting” of this Prospectus; and
- (ii) the execution and delivery of the International Underwriting Agreement in accordance with its terms, prior to or on the Price Determination Date.

### 3. Price Determination

The Offer Price having been duly determined and the execution and delivery of the Price Determination Agreement on the Price Determination Date.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If any of the conditions is not fulfilled or waived on or before the dates and times (where applicable) specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares — Refund of Application Monies.” Notice of the lapse of the Global Offering (including the Hong Kong Public Offering) will cause to be published by us in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the Hong Kong Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.nexteer.com](http://www.nexteer.com) on the next Business Day following such lapse.

In the meantime, the application money will be held in one or more separate bank accounts with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

We expect to despatch share certificates for the Offer Shares on Tuesday, July 2, 2013. However, these share certificates will only become valid certificates of title at 8:00 a.m. on Wednesday, July 3, 2013 provided that (i) the Global Offering has become unconditional in all aspects; and (ii) the right of termination as described in the section headed “Underwriting” in this Prospectus has not been exercised.

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## STRUCTURE OF THE GLOBAL OFFERING

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### BASIS OF ALLOCATION OF THE OFFER SHARES

The allocation of the Offer Shares between the International Offering and the Hong Kong Public Offering is subject to reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Shares available for subscription under the Hong Kong Public Offering will be increased to 216,000,000 Shares, representing 30% of the Offer Shares available under the Global Offering;
- (b) if the number of Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of Shares available for subscription under the Hong Kong Public Offering will be increased to 288,000,000 Shares, representing 40% of the Offer Shares available under the Global Offering; and
- (c) if the number of Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of Shares available for subscription under the Hong Kong Public Offering will be increased to 360,000,000 Shares, representing 50% of the Offer Shares available under the Global Offering.

In all cases, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Joint Global Coordinators deem appropriate.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.



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## STRUCTURE OF THE GLOBAL OFFERING

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### OVER-ALLOTMENT AND STABILIZATION

#### The Over-allotment Option

In connection with the Global Offering, our Company intends to grant to the International Underwriters the Over-allotment Option, which will be exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) starting from the Listing Date and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. The additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option will be able to satisfy the Joint Global Coordinators' obligation to return Shares borrowed under the Stock Borrowing Agreement. Pursuant to the Over-allotment Option, the Company may be required to allot and issue at the Offer Price up to an aggregate of 108,000,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the International Offering, if any. All Shares to be issued pursuant to the Over-allotment Option (if any) will be issued on the same terms and conditions as the Shares that are subject to the Global Offering. The Joint Global Coordinators may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. In the event that the Over-allotment Option is exercised, an announcement will be made in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), the website of our Company at [www.nexteer.com](http://www.nexteer.com) and the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

#### Stabilizing Action

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to curb and, if possible, prevent, any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or maintaining the market price of the Offer Shares at a level higher than the otherwise prevailing price in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Offer Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional Offer Shares or purchasing Offer Shares in the open market. In determining the source of the Offer Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Offer Shares in the open market as compared to the price at which they may purchase additional Offer Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or curbing a decline in the market price of the Offer Shares. Any market purchases of the Offer Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time.

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## STRUCTURE OF THE GLOBAL OFFERING

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Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Offer Shares that may be over-allocated will not exceed the number of the Shares that may be sold under the Over-allotment Option, namely, 108,000,000 Offer Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Offer Shares;
- (b) selling or agreeing to sell the Offer Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Offer Shares;
- (c) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the Offer Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Offer Shares;
- (e) selling or agreeing to sell the Offer Shares to liquidate any position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the Offer Shares, the Stabilizing Manager may maintain a long position in the Offer Shares. The size of the long position, and the period for which the Stabilizing Manager will maintain the long position is at the sole discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Offer Shares.

Stabilizing action by the Stabilizing Manager is not permitted to support the price of the Offer Shares for longer than the stabilizing period, which begins on the day on which trading of the Offer Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on July 25, 2013. As a result, demand for the Offer Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the Offer Shares. As a result, the price of the Offer Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager may not

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## STRUCTURE OF THE GLOBAL OFFERING

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necessarily result in the market share of the Offer Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the Offer Shares by the Stabilizing Manager may be made at a price at or below the Offer Price and therefore at or below the price paid for the Offer Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

### STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Joint Global Coordinators (or its affiliate(s)) may choose to borrow Shares from shareholders of our Company under stock borrowing arrangements, or acquire Shares from other sources, including the exercise of the Over-allotment Option.

The Stabilizing Manager will enter into the Stock Borrowing Agreement with Nexteer Hong Kong, one of the Controlling Shareholders, whereby the Stabilizing Manager may borrow Shares from Nexteer Hong Kong on the following conditions:

- (a) the stock borrowing will only be effected by the Stabilizing Manager for the settlement of over-allocations in connection with the International Offering;
- (b) the maximum number of Shares borrowed from Nexteer Hong Kong will be limited to 108,000,000 Shares, being the maximum number of Shares which may be allotted and issued by the Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from Nexteer Hong Kong must be returned to it or its nominees (as the case may be) no later than the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be allotted and issued upon exercise of the Over-allotment Option have been allotted and issued; or (iii) such earlier time as may be agreed in writing between Nexteer Hong Kong and the Stabilizing Manager.
- (d) the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and
- (e) no payments will be made to Nexteer Hong Kong by the Stabilizing Manager in relation to such stock borrowing arrangement.

The Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements. The Stock Borrowing Arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that it complies with the requirements set forth in Rule 10.07(3) of the Listing Rules. No payment will be made to Nexteer Hong Kong by the Stabilizing Manager or its agent in relation to such stock.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### CHANNELS TO APPLY FOR HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form; or
- apply online through the designated website of the **White Form eIPO** Service Provider, referred to in this Prospectus as the “**White Form eIPO** Service”; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** Service or by giving **electronic application instructions** to HKSCC.

### WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- outside the United States;
- are not a U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors or those who have obtained approval from competent regulatory authorities).

If you wish to apply for Hong Kong Offer Shares online through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) under the **White Form eIPO** Service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** Service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO** Service.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name.

If the applicant is a body corporate, the application form must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, who must state his or her representative capacity.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If an application is made by a person duly authorized under a valid power of attorney, the Joint Global Coordinators (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

Our Company, the Joint Global Coordinators or the designated **White Form eIPO** Service Provider or our or their respective agents, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Unless permitted by the Listing Rules, the Hong Kong Offer Shares are not available to existing beneficial owners of the Shares, or directors or chief executive of the Company or its subsidiaries, or their respective associates or any other connected persons of our Company or persons who will become connected persons of our Company immediately upon completion of the Global Offering.

### WHICH APPLICATION CHANNEL YOU SHOULD USE

- Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of **White Form eIPO** Service by submitting applications online through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). Use **White Form eIPO** if you want the Hong Kong Offer Shares to be registered in your own name.
- Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.
- Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

### WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Thursday, June 20, 2013 until 12:00 noon on Tuesday, June 25, 2013 from:

the following address of the Hong Kong Underwriters

|                   |   |
|-------------------|---|
| BOCI Asia Limited | 26/F, Bank of China Tower, 1 Garden Road, Central,<br>Hong Kong |
|-------------------|---|

|  |   |
|--|---|
| J.P. Morgan Securities (Asia<br>Pacific) Limited | 28/F, Chater House, 8 Connaught Road, Central,<br>Hong Kong |
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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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or any of the following branches of Bank of China (Hong Kong) Limited, the receiving bank for the Hong Kong Public Offering:

|                   | <u>Branch Name</u>                      | <u>Address</u>   |
|-------------------|---|--|
| Hong Kong Island: | Bank of China Tower Branch              | 3/F, 1 Garden Road   |
|                   | Central District (Wing On House) Branch | 71 Des Voeux Road Central                                      |
|                   | Shek Tong Tsui Branch                   | 534 Queen's Road West,<br>Shek Tong Tsui                       |
|                   | United Centre Branch                    | Shop 1021, United Centre,<br>95 Queensway                      |
|                   | 409 Hennessy Road Branch                | 409–415 Hennessy Road, Wan Chai                                |
|                   | North Point (King's Centre) Branch      | 193–209 King's Road, North Point                               |
| Kowloon:          | Prince Edward Branch                    | 774 Nathan Road, Kowloon                                       |
|                   | Mong Kok Branch                         | 589 Nathan Road, Mong Kok                                      |
|                   | Telford Gardens Branch                  | Shop P2 Telford Gardens,<br>Kowloon Bay                        |
|                   | Hoi Yuen Road Branch                    | 55 Hoi Yuen Road, Kwun Tong                                    |
|                   | East Point City Branch                  | Shop 101, East Point City,<br>Tseung Kwan O                    |
|                   | Kowloon Plaza Branch                    | Unit 1, Kowloon Plaza, 485 Castle Peak Road                    |
| New Territories:  | Castle Peak Road (Tsuen Wan) Branch     | 201–207 Castle Peak Road,<br>Tsuen Wan                         |
|                   | Ma On Shan Plaza Branch                 | Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan |
|                   | Castle Peak Road (Yuen Long) Branch     | 162 Castle Peak Road, Yuen Long                                |

(b) You can collect a **YELLOW** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Thursday, June 20, 2013 to 12:00 noon on Tuesday, June 25, 2013 from:

- the depository counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and this Prospectus available.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### WHEN TO APPLY FOR THE HONG KONG OFFER SHARES

#### WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Tuesday, June 25, 2013, or, if the application lists are not open on that day, by the time and date stated in “Effect of bad weather conditions on the opening of the application lists” below.

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed in “Where to collect the Application Forms” above, at the following times:

**Thursday, June 20, 2013 — 9:00 a.m. to 5:00 p.m.**  
**Friday, June 21, 2013 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, June 22, 2013 — 9:00 a.m. to 1:00 p.m.**  
**Monday, June 24, 2013 — 9:00 a.m. to 5:00 p.m.**  
**Tuesday, June 25, 2013 — 9:00 a.m. to 12:00 noon**

#### Electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants should input **electronic application instructions** via CCASS at the following times:

**Thursday, June 20, 2013 — 9:00 a.m. to 8:30 p.m.\***  
**Friday, June 21, 2013 — 8:00 a.m. to 8:30 p.m.\***  
**Saturday, June 22, 2013 — 8:00 a.m. to 1:00 p.m.\***  
**Monday, June 24, 2013 — 8:00 a.m. to 8:30 p.m.\***  
**Tuesday, June 25, 2013 — 8:00 a.m.\* to 12:00 noon**

\*These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, June 20, 2013 until 12:00 noon on Tuesday, June 25, 2013 (24 hours daily, except the last application day). The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Tuesday, June 25, 2013 or if the application lists are not open on that day, by the time and date stated in “Effect of bad weather conditions on the opening of the application lists” below.

#### White Form eIPO

You may submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) from 9:00 a.m. on Thursday, June 20, 2013 until 11:30 a.m. on Tuesday, June 25, 2013 or such later time as described in “Effect of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, June 25, 2013, the last application day, or, if the application lists are not open on that day, then by the time and date stated in “Effect of bad weather conditions on the opening of the application lists” below.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

### **Application lists**

The application lists will be opened from 11:45 a.m. to 12:00 noon on Tuesday, June 25, 2013, except as provided in “Effect of bad weather conditions on the opening of the application lists” below. No proceedings will be taken on applications for the Hong Kong Offer Shares and no allocation of any such Shares will be made until the closing of the application lists.

### **Effect of bad weather conditions on the opening of the application lists**

The application lists will be opened between 11:45 a.m. and 12:00 noon on Tuesday, June 25, 2013, subject only to weather conditions. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, June 25, 2013, the application lists will not open or close on that day. Instead, they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

## **HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM**

### **Obtain a WHITE or YELLOW Application Form**

You should read the instructions in this Prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying check(s) or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

Decide how many Hong Kong Offer Shares you want to subscribe. Calculate the amount you must pay on the basis of the maximum Offer Price as stated in the Application Forms, plus brokerage fee of 1%, the SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%. The Application Forms have tables showing the exact amount payable for certain numbers of shares up to 36,000,000 Shares (as indicated on the **WHITE** and **YELLOW** Application Forms). Your application must be for a minimum of 1,000 Shares. Application for more than 1,000 Shares must be in one of the number of Shares set out in the table in the respective Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorized attorney, our Company and the Joint Global Coordinators (or their respective agents or nominees), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

Each Application Form must be accompanied by either one check or one banker's cashier order.

If you pay by check, the check must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the check, or be endorsed on the back by a person authorized by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;
- be made payable to "Bank of China (Hong Kong) Nominees Limited — Nexteer Public Offer"; and
- be crossed "Account Payee Only."

Your application is liable to be rejected if your check does not meet all these requirements or is dishonored on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorized by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- not be post-dated;
- be made payable to "Bank of China (Hong Kong) Nominees Limited — Nexteer Public Offer"; and
- be crossed "Account Payee Only."

Your application is liable to be rejected if your banker's cashier order does not meet all these requirements.

Lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to above. Multiple or suspected multiple applications are liable to be rejected. Please refer to "How many applications you can make" below.

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You should note that by completing and submitting the Application Form, you (and if you are joint applicants, each of you jointly and severally), for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee, among other things:

- (i) **instruct** and **authorize** our Company, the Joint Bookrunners and/or the Joint Global Coordinators as agents for our Company (or their respective agents or nominees) to do on your behalf all things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this Prospectus and the Application Forms;
- (ii) **undertake** to sign all documents and to do all things necessary to enable the applicant(s) or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to the applicant(s), and as required by the Articles;
- (iii) **agree** with our Company and each Shareholder, and our Company agrees with each of its Shareholders, to observe and comply with the Companies Ordinance, the Cayman Companies Law, the Articles and all applicable laws;
- (iv) **agree** with our Company and each Shareholder that our Shares in our Company are freely transferable by the holders thereof;
- (v) **authorize** our Company to enter into a contract on your behalf with each of our Directors and officers of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to Shareholders as stipulated in the Articles;
- (vi) **confirm** that you have only relied on the information and representations in this Prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this Prospectus;
- (vii) **agree** that our Company, the Joint Global Coordinator, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, agents, advisors and any other parties involved in the Global Offering are not liable for any information and representations not contained in this Prospectus and any supplement thereto;
- (viii) **undertake** and **confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offering Shares under the International Offering;
- (ix) **agree** to disclose to our Company, Hong Kong Share Registrar, receiving bank, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- (x) **represent, warrant** and **undertake** that (a) you are not restricted by any applicable laws of Hong Kong or elsewhere from making this application, paying any application money for, or being allotted or taking up, any Hong Kong Offer Shares and that you are not within the United States (as defined in Regulation S) and you will acquire the Hong Kong Offer Shares in an offshore transaction (within the meaning of Regulation S), or (b) that you are a qualified institutional buyer (within the meaning of Rule 144A);

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- (xi) **represent, warrant and undertake** that you are not, and none of the other(s) for whose benefit you are applying is, a U.S. person (as defined in Regulation S);
- (xii) **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xiii) (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (xiv) (if the application is made for your own benefit) **warrant** that it is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or by applying via the **White Form eIPO** Service;
- (xv) (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that it is the only application which has been and will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or by applying via the **White Form eIPO** Service and that you are duly authorized to sign the Application Form or to give **electronic application instructions** as that other person's agent;
- (xvi) **warrant** the truth and accuracy of the information contained in your application;
- (xvii) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong;
- (xviii) **confirm** that you have read the terms and conditions and application procedures set out in this Prospectus and the Application Form and agree to be bound by them;
- (xix) **undertake and agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xx) if the laws of any place outside Hong Kong are applicable to your application, **agree and warrant** that you have complied with all such laws and none of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective directors, officers or advisors and agents will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this Prospectus;
- (xxi) (for application made under **WHITE** Application Form) **authorize** the Company to place your name(s) on the register of members of the Company as the holder(s) of any Hong Kong Offer Shares allocated to you and the Company and/or its agents to despatch any Share certificate(s) by registered post and/or send any refund check(s) to you by ordinary post at your own risk to the address stated on the application, except that if you have applied for 1,000,000 or more Hong Kong Offer Shares, and have indicated in the application that you will collect your Share certificate(s)/refund check(s) in person between 9:00 a.m. and 1:00 p.m. on Tuesday, July 2, 2013 or such other date as notified by our Company in the newspaper as the date of despatch/collection of Share certificate/e-Refund payment instructions/refund checks from Computershare Hong Kong Investor Services Limited;

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- (xxii) (for application made under **YELLOW** Application Form) **authorize** the Company to place the name of the HKSCC Nominees on the register of members of the Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to deposit any Share certificate(s) into CCASS and/or to send any refund check(s) to you by ordinary post at your own risk to the address stated on the application, except that if you have applied for 1,000,000 or more Hong Kong Offer Shares, and have indicated in the application that you will collect refund check(s) in person between 9:00 a.m. and 1:00 p.m. on Tuesday, July 2, 2013 or such other date as notified by our Company in the newspaper as the date of despatch/collection of Share certificate/e-Refund payment instructions/refund checks from our Share Registrar, Computershare Hong Kong Investor Services Limited; and
- (xxiii) **understand** that these declarations and representations will be relied upon by the Company, the Joint Global Coordinators and their respective agents or nominees in deciding whether or not to make any allotment of the Hong Kong Offer Shares in response to the application.

Our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and their respective directors, officers, advisors and agents and other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in the application. In the event that the application is made by joint applicants, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given and assumed by and imposed on the applicants jointly and severally.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signatures will be accepted.

- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
  - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- If you are applying as an individual CCASS Investor Participant:
  - you must fill in your full name and your Hong Kong identity card number; and
  - you must insert your CCASS Participant I.D. in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:
  - you must insert all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all the joint CCASS Investor Participants; and
  - you must insert your CCASS Participant I.D. in the appropriate box.

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- If you are applying as a corporate CCASS Investor Participant:
  - you must insert your company name and your company's Hong Kong business registration number; and
  - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company name) in the appropriate box.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, we and the Joint Global Coordinators, as our agent, may accept it at their discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Joint Global Coordinators, in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

### Personal Data

The section of the Application Form headed "Personal data" applies to any personal data held by the Joint Bookrunners, the Company, the Hong Kong Share Registrar, the receiving bank, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective directors, officers, advisors, and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### APPLY THROUGH WHITE FORM eIPO

- (i) If you are an individual and meet the criteria set out in "— Who Can Apply for The Hong Kong Offer Shares" above, you may apply through **White Form eIPO** Service by submitting an application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). If you apply through **White Form eIPO** Service, the Hong Kong Offer Shares will be issued in your own name.
- (ii) Detailed instructions for application through the **White Form eIPO** Service are set out on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to the Company.
- (iii) In addition to the terms and conditions set out in this Prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** Service. Such terms and conditions are set out on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

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- (iv) By submitting an application through the **White Form eIPO** Service, you will have authorized the designated **White Form eIPO** Service Provider to apply on the terms and conditions set out in this Prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** Service.
- (v) By submitting an application through the **White Form eIPO** Service, you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.
- (vi) You may submit an application through the **White Form eIPO** Service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).
- (vii) You should give **electronic application instructions** through **White Form eIPO** Service at the times set out in “— When to apply for the Hong Kong Offer Shares — **White Form eIPO**” above. You should make payment for your application made by **White Form eIPO** Service in accordance with the methods and instructions set out in the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Tuesday, June 25, 2013, or such later time as described in “— When to Apply for the Hong Kong Offer Shares — Effect of bad weather conditions on the opening of the application lists” above, the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).
- (viii) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for the Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** Service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.
- (ix) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** Service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our Company, our Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunner, the Joint Lead Managers, the Underwriter and their respective advisors and agents, and the **White Form eIPO** Service Provider take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** Service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “Nexteer Automotive Group Limited” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

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Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** Service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** Service, you should submit a **WHITE** Application Form.

However, once you have submitted the application instruction and completed payment in full using the payment reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit another application.

### **Additional Information**

For the purposes of allocating the Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** Service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

### **HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC**

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you come to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center  
2/F, Infinitus Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

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If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to our Company and the Hong Kong Share Registrar.

### Minimum Subscription Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form.

### Application for Hong Kong Offer Shares by HKSCC Nominees on Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus;
- (ii) HKSCC Nominees does all the things on behalf of each of such persons who:
  - **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
  - **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
  - **undertakes** and **confirms** that that person has not indicated an interest for, applied for or taken up any Shares under the International Offering nor otherwise participated in the International Offering;
  - (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
  - (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;



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- **understands** that the above declaration will be relied upon by our Company, the Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- **authorizes** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this Prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this Prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations and that person agrees that neither our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- **agrees** that our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective Directors, officers, employees, partners, agents, advisors or any other parties involved in the Global Offering are liable only for the information and representations contained in this Prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to our Company and the Hong Kong Share Registrar, the receiving bank, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective advisors and agents, the personal data and any information which they require about that person or the person(s) for whose benefit the application is made;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before the expiration of the fifth day after the opening of the application lists under the Hong Kong Public Offering, and such agreement is to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any public offer shares to any person before the expiration of the fifth day after the opening of

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the application lists under the Hong Kong Public Offering (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus;

- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares;
- **agrees** with our Company (for our Company itself and for the benefit of each Shareholder of our Company) that Shares in our Company are freely transferable by the holders thereof;
- **agrees** with our Company, for itself and for the benefit of each of the Shareholders of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders of our Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance and the Articles;
- **authorizes** our Company to enter into a contract on its behalf with each of the Directors and executive officers of our Company whereby each such Director and executive officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles; and
- **agrees** that such person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

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- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies, in each case including brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

### Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Allocation of Hong Kong Offer Shares

For the purpose of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

### Deposit of Share Certificates into CCASS and Refund of Application Monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Tuesday, July 2, 2013 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) on our own website [www.nexteer.com](http://www.nexteer.com) and our designated results of allocation website [www.iporesults.com.hk](http://www.iporesults.com.hk) on a 24-hour basis from 8:00 a.m. Tuesday, July 2, 2013 to 12:00 midnight Monday, July 8, 2013, and in special

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allocation results booklets which are available for inspection during opening hours of the branches or sub-branches of the receiving bank from Tuesday, July 2, 2013 to Thursday, July 4, 2013.

The basis of allotment of the Hong Kong Public Offering will be published on the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Tuesday, July 2, 2013. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 2, 2013 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, July 2, 2013. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of any refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, July 2, 2013. No interest will be paid thereon.

### Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

### Warning

Application for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit **electronic application instructions**, they should either:

- (i) submit the **WHITE** or **YELLOW** Application Form or **electronic application instructions** through **White Form eIPO** Service (as appropriate); or
- (ii) go to HKSCC's Customer Service Center to complete an application instruction input request form for **electronic application instructions** before 12:00 noon on Tuesday, June 25, 2013 or such later time as described in “— Effect of bad weather conditions on the opening of the application lists” above.

### HOW MANY APPLICATIONS YOU CAN MAKE

- (i) You may make more than one application for the Hong Kong Offer Shares only if you are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- another identification number; or

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed. It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or by applying through the **White Form eIPO** Service; or
  - (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or by applying through the **White Form eIPO** Service, and that you are duly authorized to sign the Application Form as that other person's agent.
- (ii) All of your applications under the Hong Kong Public Offering are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:
    - make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or by applying through the **White Form eIPO** Service ([www.eipo.com.hk](http://www.eipo.com.hk));

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS or by applying through the **White Form eIPO** Service ([www.eipo.com.hk](http://www.eipo.com.hk));
  - apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC via CCASS or by applying through the **White Form eIPO** Service ([www.eipo.com.hk](http://www.eipo.com.hk)) to apply for more than 36,000,000 Hong Kong Offer Shares (being 50% of the Hong Kong Offer Shares initially being offered for subscription by the public); or
  - apply for or take up any Offer Shares under the International Offering or otherwise participate in the International Offering or indicate an interest for any International Offer Shares.
- (iii) All of your applications are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and: (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. Unlisted company means a company with no equity securities listed on the Hong Kong Stock Exchange. Statutory control in relation to a company means you: (i) control the composition of the board of Directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### RESULTS OF ALLOCATIONS

The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC or by applying through **White Form eIPO** Service which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Hong Kong Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from the website of our Company at [www.nexteer.com](http://www.nexteer.com) and the Hong Kong Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Tuesday, July 2, 2013;
- Results of allocations will also be available from the results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) on a 24-hour basis from 8:00 a.m. Tuesday, July 2, 2013 to 12:00 midnight Monday, July 8, 2013. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, July 2, 2013 to Friday, July 5, 2013 (excluding Saturday, Sunday and public holidays);
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and subbranches from Tuesday, July 2, 2013 to Thursday, July 4, 2013 at all the receiving bank's branches and sub-branches at the addresses set out in "— Where to Collect the Application Forms."

### PRICE OF THE OFFER SHARES

The maximum Offer Price is set out in the Application Forms. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%.

The Application Forms have tables showing the exact amount payable for certain numbers of Shares up to 36,000,000 Shares. Your application must be for a minimum of 1,000 Shares. Applications must be in one of the numbers set out in the table. No application for any other number of Shares will be considered and any such application is liable to be rejected.

You must pay the maximum Offer Price, brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% in full when you apply for the Shares. You must pay the amount payable upon application for Shares by a check or a banker's cashier order in accordance with the terms set out in the Application Form if you apply for the Hong Kong Offer Shares using Application Forms.

If your application is successful, brokerage is paid to the participants of the Hong Kong Stock Exchange or the Hong Kong Stock Exchange (as the case may be), the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, such levy is collected on behalf of the SFC).

If the Offer Price, as finally determined, is lower than the maximum Offer Price, the Company will refund the specific difference, including the brokerage, Hong Kong Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. The Company will not pay interest on any refunded amounts. Further details for refund are set out in "— Despatch/Collection of Share Certificates and Refund Monies" below.

### DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (i) for applicants on **WHITE** Application Forms or by **White Form eIPO** Service, (A) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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application is wholly successful; or (B) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose Share certificates will be deposited into CCASS as described below);

- (ii) for applicants on **WHITE** and **YELLOW** Application Forms, refund check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (A) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (B) all the application monies, if the application is wholly unsuccessful; and/or (C) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% but without interest;
- (iii) for applicants who apply through **White Form eIPO** Service by paying the application monies through a single bank account and whose application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on the application, e-Refund payment instructions (if any) will be despatched to the application payment bank account; and
- (iv) for applicants who apply through the **White Form eIPO** Service by paying the application monies through multiple bank accounts and whose application is wholly or partially unsuccessful and/or the Final Offer Price being different from the Offer Price initially paid on the application, refund checks will be sent to the address as specified on the **White Form eIPO** application by ordinary post and at the applicant’s own risk.

Subject as mentioned below, refund checks for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under the **WHITE** or **YELLOW** Application Forms and Share certificates for successful applicants under the **WHITE** Application Form or via **White Form eIPO** Service are expected to be posted on Tuesday, July 2, 2013. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of checks.

**(i) If you apply using a WHITE Application Form:**

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund check(s) (where applicable) and/or Share certificate(s) (where applicable) in person, you may collect your refund check(s) (where applicable) and/or Share certificate(s) (where applicable) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, July 2, 2013. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Services Limited. If you do not collect your refund check(s) and Share certificate(s) within the time period specified for collection, they will be despatched promptly thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or, if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund check(s) (where applicable) and your Share certificates (where applicable) in person, your Share certificate(s) (where applicable) and/or refund check(s) (where applicable) will be despatched to the address on your Application Form on Tuesday, July 2, 2013 by ordinary post and at your own risk.

**(ii) If you apply using a YELLOW Application Form:**

If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Tuesday, July 2, 2013, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for the Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on our own website and in special allocation results booklets which are available for inspection during opening hours of the branches or sub-branches of the receiving bank on Tuesday, July 2, 2013. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 2, 2013 or such other date as will be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund check (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund check(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on Tuesday, July 2, 2013, by ordinary post and at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**(iii) If you apply through White Form eIPO service:**

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO Service** and your application is wholly or partially successful, you may collect your Share certificate(s) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Tuesday, July 2, 2013, or such other date as notified by our Company in the newspapers as the date of despatch of e-Refund payment instructions/refund check(s)/Share certificate(s). If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions through the designated **White Form eIPO Service** promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or, if you apply for 1,000,000 or more Hong Kong Offer Shares but have not indicated on your application that you will collect your Share certificates in person, your Share certificate(s) will be sent to the address specified in your application instructions through the designated **White Form eIPO Service** on Tuesday, July 2, 2013 by ordinary post and at your own risk.

If you apply through the **White Form eIPO Service** by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, e-Refund payment instructions (if any) will be despatched to your application payment bank account on Tuesday, July 2, 2013.

If you apply through the **White Form eIPO Service** by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, refund check(s) will be sent to the address specified in your application instructions through the designated **White Form eIPO Service** on Tuesday, July 2, 2013, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO Service Provider** set out in the section headed “— Apply through **White Form eIPO** — Additional Information” of this Prospectus.

You will receive one share certificate for all the Offer Shares issued to you (except pursuant to applications made on **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC where the share certificates will be deposited into CCASS).

### **CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES**

Full details of the circumstances in which you will not be allotted Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or through **White Form eIPO** or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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note the following situations in which the Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

- ***If your application is revoked:***

By completing and submitting an Application Form or giving an **electronic application instruction** to HKSCC, you agree that your application is irrevocable until after the fifth day after the time of the opening of the application lists. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your electronic application instructions to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the expiration of the fifth day after the opening of the application lists under the Hong Kong Public Offering except by means of one of the procedures referred to in this Prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked before the expiration of the fifth day after the opening of the application lists under the Hong Kong Public Offering if a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus.

If any supplement to this Prospectus is issued, applicant(s) who have already submitted an application may withdraw their applications.

If your application or the application made by HKSCC Nominee on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- ***If the allotment of Hong Kong Offer Shares is void:***

The allotment of the Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing of the application lists.

- ***If you make applications under the Hong Kong Public Offering as well as the International Offering:***

You or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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and/or provisionally) Shares in the International Offering. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or by applying via the **White Form eIPO** Service electronically, you agree not to apply for International Offer Shares under the International Offering.

Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received International Offer Shares, and to identify and reject indications of interest in the International Offering from investors who have received the Hong Kong Offer Shares in the Hong Kong Public Offering.

- ***If our Company, the Joint Global Coordinators or their respective agents exercise their discretion:***

Our Company, the Joint Global Coordinators and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

- ***Your application will be rejected or not be accepted if:***
  - your application is a multiple or a suspected multiple applications;
  - your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
  - your **electronic application instructions** through the **White Form eIPO** Service are not completed in accordance with the instructions, terms and conditions set out in the designated website at [www.eipo.com.hk](http://www.eipo.com.hk);
  - your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored on its first presentation;
  - you or the person for whose benefit you are applying have applied for and/or received or will receive Offer Shares under the International Offering;
  - we believe that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address is located;
  - if you apply for more than the Shares available for allocation in either Pool A or Pool B Hong Kong Offer Shares; or
  - any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with their respective terms thereof.

### REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any of, but not limited to, the above reasons, our Company will refund your application monies, including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) without interest.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If the Offer Price as finally determined is less than the initial price per Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) paid on application, our Company will refund to you the surplus application monies, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee without interest.

All such interest accrued prior to the date of despatch of refund monies will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Global Coordinators, checks for applications made on Application Forms for certain small denominations of the Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Tuesday, July 2, 2013 in accordance with the various arrangements as described above.

### COMMENCEMENT OF DEALINGS IN THE SHARES

- Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Wednesday, July 3, 2013.
- The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 01316.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

- If the Hong Kong Stock Exchange grants the listing of, and permission to deal in the Shares and our Company comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses.
- Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

*The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

June 20, 2013

The Directors  
Nexteer Automotive Group Limited

BOCI Asia Limited  
J.P. Morgan Securities (Far East) Limited

Dear Sirs,

We report on the financial information of Nexteer Automotive Group Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the combined balance sheets as at December 31, 2010, 2011 and 2012, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to IV below for inclusion in Appendix IA to the prospectus of the Company dated June 20, 2013 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on August 21, 2012 as an exempted company with limited liability under Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1.1 of Section II headed "Reorganization" below, which was completed on January 30, 2013, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganization").

.....  
*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.1 of Section II below. All of these companies are private companies or if incorporated or established outside Hong Kong, have substantially the same characteristics of a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganization. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1.1 of Section II below.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods, in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the “ISA”) issued by the International Auditing and Assurance Standards Board (“IAASB”) pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1.2 of Section II below.

### **Directors’ Responsibility for the Financial Information**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1.2 of Section II below and in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

### **Reporting Accountant’s Responsibility**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.

### **Opinion**

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1.2 of Section II below, a true and fair view of the combined state of affairs of the Group as at December 31, 2010, 2011 and 2012 and of the Group’s combined results and cash flows for the Relevant Periods then ended.

**I. FINANCIAL INFORMATION OF THE GROUP**

The following is the financial information of the Group prepared by the directors of the Company as at December 31, 2010, 2011 and 2012 and for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 (the "Financial Information"), presented on the basis set out in Note 1.2 of Section II below.

The financial information is presented in US dollars and all amounts are rounded to the nearest thousand (US\$'000) except when otherwise indicated.

**COMBINED BALANCE SHEETS**

|  | Note | December 31,   |                |                  |
|--|------|----------------|----------------|------------------|
|  |      | 2010           | 2011           | 2012             |
|  |      | US\$'000       | US\$'000       | US\$'000         |
| <b>ASSETS</b>  |      |                |                |                  |
| <b>Non-current assets</b>                                  |      |                |                |                  |
| Property, plant and equipment.....                         | 6    | 270,704        | 290,146        | 434,103          |
| Land use rights.....                                       | 7    | 742            | 754            | 737              |
| Intangible assets.....                                     | 8    | 4,846          | 74,942         | 179,082          |
| Deferred income tax assets.....                            | 9    | 10,426         | 10,735         | 14,595           |
| Other receivables and prepayments.....                     | 12   | 1,563          | 1,395          | 2,483            |
|  |      | <u>288,281</u> | <u>377,972</u> | <u>631,000</u>   |
| <b>Current assets</b>                                      |      |                |                |                  |
| Inventories.....   | 10   | 152,313        | 156,788        | 174,433          |
| Trade receivables.....                                     | 11   | 308,180        | 315,882        | 324,317          |
| Other receivables and prepayments.....                     | 12   | 48,851         | 44,395         | 64,790           |
| Restricted bank deposits.....                              | 13   | 822            | 220            | 251              |
| Cash and cash equivalents.....                             | 14   | 113,466        | 78,233         | 64,080           |
|  |      | <u>623,632</u> | <u>595,518</u> | <u>627,871</u>   |
| <b>Total assets</b> .....                                  |      | <u>911,913</u> | <u>973,490</u> | <u>1,258,871</u> |
| <b>EQUITY</b>  |      |                |                |                  |
| <b>Capital and reserves attributable to equity holders</b> |      |                |                |                  |
| Combined capital.....                                      | 15   | 110,000        | 113,000        | 113,000          |
| Exchange reserve.....                                      | 16   | 2,760          | (9,508)        | (5,107)          |
| (Accumulated losses)/retained earnings.....                |      | (58,421)       | 7,336          | 63,038           |
|  |      | <u>54,339</u>  | <u>110,828</u> | <u>170,931</u>   |
| <b>Non-controlling interests</b> .....                     |      | <u>20,615</u>  | <u>12,190</u>  | <u>20,878</u>    |
| <b>Total equity</b> .....                                  |      | <u>74,954</u>  | <u>123,018</u> | <u>191,809</u>   |



## I. FINANCIAL INFORMATION OF THE GROUP (continued)

## COMBINED BALANCE SHEETS (continued)

|  | Note | December 31,     |                  |                  |
|--|------|------------------|------------------|------------------|
|  |      | 2010             | 2011             | 2012             |
|  |      | US\$'000         | US\$'000         | US\$'000         |
| <b>LIABILITIES</b>                                     |      |                  |                  |                  |
| <b>Non-current liabilities</b>                         |      |                  |                  |                  |
| Borrowings . . . . .                                   | 17   | 25,555           | 2,065            | 441,531          |
| Retirement benefits and compensations . . . . .        | 18   | 16,825           | 20,296           | 25,077           |
| Deferred income tax liabilities . . . . .              | 9    | 3,150            | 2,600            | 2,866            |
| Provisions . . . . .                                   | 19   | 30,475           | 33,228           | 40,730           |
| Deferred revenue . . . . .                             | 20   | 2,005            | 24,024           | 46,034           |
| Other payables and accruals . . . . .                  | 22   | 626              | 1,414            | 3,527            |
|  |      | <u>78,636</u>    | <u>83,627</u>    | <u>559,765</u>   |
| <b>Current liabilities</b>                             |      |                  |                  |                  |
| Trade payables . . . . .                               | 21   | 254,667          | 259,687          | 295,741          |
| Other payables and accruals . . . . .                  | 22   | 90,813           | 87,489           | 85,549           |
| Current income tax liabilities . . . . .               |      | 2,458            | 872              | 2,219            |
| Retirement benefits and compensations . . . . .        | 18   | 954              | 1,141            | 1,721            |
| Provisions . . . . .                                   | 19   | 44,495           | 11,511           | 16,043           |
| Deferred revenue . . . . .                             | 20   | 48               | 1,574            | 6,907            |
| Borrowings . . . . .                                   | 17   | 364,888          | 404,571          | 99,117           |
|  |      | <u>758,323</u>   | <u>766,845</u>   | <u>507,297</u>   |
| <b>Total liabilities . . . . .</b>                     |      | <u>836,959</u>   | <u>850,472</u>   | <u>1,067,062</u> |
| <b>Total equity and liabilities . . . . .</b>          |      | <u>911,913</u>   | <u>973,490</u>   | <u>1,258,871</u> |
| <b>Net current (liabilities)/assets . . . . .</b>      |      | <u>(134,691)</u> | <u>(171,327)</u> | <u>120,574</u>   |
| <b>Total assets less current liabilities . . . . .</b> |      | <u>153,590</u>   | <u>206,645</u>   | <u>751,574</u>   |

## I. FINANCIAL INFORMATION OF THE GROUP (continued)

## COMBINED INCOME STATEMENTS

|  | Note | For the<br>period from<br>November 4,<br>to<br>December 31, | For the year ended<br>December 31, |             |
|--|------|---|------------------------------------|-------------|
|  |      | 2010  | 2011                               | 2012        |
|  |      | US\$'000  | US\$'000                           | US\$'000    |
| <b>Revenue</b> .....                           | 5    | 156,688   | 2,247,752                          | 2,167,802   |
| Cost of sales .....                            | 24   | (182,033)   | (1,970,477)                        | (1,900,989) |
| <b>Gross (loss)/profit</b> .....               |      | (25,345)  | 277,275                            | 266,813     |
| Engineering and product development costs....  | 24   | (8,470)   | (108,376)                          | (81,623)    |
| Selling and distribution expenses .....        | 24   | (994)   | (10,547)                           | (9,343)     |
| Administrative expenses .....                  | 24   | (21,841)  | (78,089)                           | (88,563)    |
| Other (losses)/gains, net .....                | 23   | (638)   | 8,938                              | (3,361)     |
| <b>Operating (loss)/profit</b> .....           |      | (57,288)  | 89,201                             | 83,923      |
| Finance income .....                           | 26   | 72  | 838                                | 562         |
| Finance costs .....                            | 26   | (1,744)   | (16,602)                           | (22,291)    |
| Finance costs, net .....                       |      | (1,672)   | (15,764)                           | (21,729)    |
| <b>(Loss)/profit before income tax</b> .....   |      | (58,960)  | 73,437                             | 62,194      |
| Income tax credit/(expense) .....              | 27   | 293   | (5,404)                            | (3,567)     |
| <b>(Loss)/profit for the period/year</b> ..... |      | (58,667)  | 68,033                             | 58,627      |
| <b>Attributable to:</b>                        |      |   |                                    |             |
| Equity holders of the Company .....            |      | (58,539)  | 66,686                             | 57,096      |
| Non-controlling interests .....                |      | (128)   | 1,347                              | 1,531       |
|  |      | (58,667)  | 68,033                             | 58,627      |

## I. FINANCIAL INFORMATION OF THE GROUP (continued)

## COMBINED STATEMENTS OF COMPREHENSIVE INCOME

|  | For the period<br>from                 | For the year ended December 31, |          |
|--|--|---------------------------------|----------|
|  | November 4, to<br>December 31,<br>2010 | 2011                            | 2012     |
|  | US\$'000                               | US\$'000                        | US\$'000 |
| <b>(Loss)/profit for the period/year</b> .....   | (58,667)                               | 68,033                          | 58,627   |
| <b>Other comprehensive income/(loss)</b>   |  |                                 |          |
| Exchange differences .....   | 2,865                                  | (11,851)                        | 4,607    |
| Actuarial gains/(losses) on defined benefit<br>plans, net of tax of US\$(20,000),<br>US\$296,000 and US\$622,000<br>respectively ..... | 118                                    | (929)                           | (1,394)  |
|  | 2,983                                  | (12,780)                        | 3,213    |
| <b>Total comprehensive (loss)/income for<br/>the period/year</b> .....   | (55,684)                               | 55,253                          | 61,840   |
| <b>Attributable to:</b>  |  |                                 |          |
| Equity holders of the Company .....  | (55,661)                               | 53,489                          | 60,103   |
| Non-controlling interests .....  | (23)                                   | 1,764                           | 1,737    |
|  | (55,684)                               | 55,253                          | 61,840   |

## I. FINANCIAL INFORMATION OF THE GROUP (continued)

## COMBINED STATEMENTS OF CHANGES IN EQUITY

|   | Attributable to equity holders of the Company |   |  |                       |  | Total<br>US\$'000 |
|---|---|---|--|-----------------------|--|-------------------|
|   | Combined<br>capital<br>US\$'000<br>(Note15)   | Exchange<br>reserve<br>US\$'000<br>(Note16) | (Accumulated<br>losses)/<br>retained<br>earnings | Sub-total<br>US\$'000 | Non-<br>controlling<br>interests<br>US\$'000 |                   |
|   |   |   | US\$'000   |                       |  |                   |
| <b>Balance at November 4, 2010</b> . . . . .  | —   | —   | —  | —                     | —  | —                 |
| <b>Comprehensive income</b>   |   |   |  |                       |  |                   |
| Loss for the period . . . . .   | —   | —   | (58,539)   | (58,539)              | (128)  | (58,667)          |
| <b>Other comprehensive income</b>   |   |   |  |                       |  |                   |
| Exchange differences . . . . .  | —   | 2,760                                       | —  | 2,760                 | 105  | 2,865             |
| Actuarial gains on defined benefit plans . . . . .  | —   | —   | 118  | 118                   | —  | 118               |
| <b>Total other comprehensive income</b> . . . . .   | —   | 2,760                                       | 118  | 2,878                 | 105  | 2,983             |
| <b>Total comprehensive income/(loss)</b> . . . . .  | —   | 2,760                                       | (58,421)   | (55,661)              | (23)   | (55,684)          |
| <b>Transactions with owners</b>   |   |   |  |                       |  |                   |
| Capital injection . . . . .   | 110,000                                       | —   | —  | 110,000               | —  | 110,000           |
| Acquisition of business (Note 31) . . . . .   | —   | —   | —  | —                     | 20,638                                       | 20,638            |
|   | 110,000                                       | —   | —  | 110,000               | 20,638                                       | 130,638           |
| <b>Balance at December 31, 2010</b> . . . . .   | 110,000                                       | 2,760                                       | (58,421)   | 54,339                | 20,615                                       | 74,954            |
| <b>Comprehensive income</b>   |   |   |  |                       |  |                   |
| Profit for the year . . . . .   | —   | —   | 66,686   | 66,686                | 1,347  | 68,033            |
| <b>Other comprehensive (loss)/income</b>  |   |   |  |                       |  |                   |
| Exchange differences . . . . .  | —   | (12,268)                                    | —  | (12,268)              | 417  | (11,851)          |
| Actuarial losses on defined benefit plans . . . . .   | —   | —   | (929)  | (929)                 | —  | (929)             |
| <b>Total other comprehensive (loss)/income</b> . . . . .                                      | —   | (12,268)                                    | (929)  | (13,197)              | 417  | (12,780)          |
| <b>Total comprehensive (loss)/income</b> . . . . .  | —   | (12,268)                                    | 65,757   | 53,489                | 1,764  | 55,253            |
| <b>Transactions with owners</b>   |   |   |  |                       |  |                   |
| Capital injection . . . . .   | 3,000   | —   | —  | 3,000                 | —  | 3,000             |
| Dividends to non-controlling shareholders of<br>subsidiaries . . . . .                        | —   | —   | —  | —                     | (10,189)                                     | (10,189)          |
|   | 3,000   | —   | —  | 3,000                 | (10,189)                                     | (7,189)           |
| <b>Balance at December 31, 2011</b> . . . . .   | 113,000                                       | (9,508)                                     | 7,336  | 110,828               | 12,190                                       | 123,018           |
| <b>Comprehensive income</b>   |   |   |  |                       |  |                   |
| Profit for the year . . . . .   | —   | —   | 57,096   | 57,096                | 1,531  | 58,627            |
| <b>Other comprehensive income/(loss)</b>  |   |   |  |                       |  |                   |
| Exchange differences . . . . .  | —   | 4,401                                       | —  | 4,401                 | 206  | 4,607             |
| Actuarial losses on defined benefit plans . . . . .   | —   | —   | (1,394)  | (1,394)               | —  | (1,394)           |
| <b>Total other comprehensive income/(loss)</b> . . . . .                                      | —   | 4,401                                       | (1,394)  | 3,007                 | 206  | 3,213             |
| <b>Total comprehensive income</b> . . . . .   | —   | 4,401                                       | 55,702   | 60,103                | 1,737  | 61,840            |
| <b>Transactions with owners</b>   |   |   |  |                       |  |                   |
| Contributions from non-controlling shareholders of<br>subsidiaries (Note 29(b)(ii)) . . . . . | —   | —   | —  | —                     | 6,951  | 6,951             |
| <b>Balance at December 31, 2012</b> . . . . .   | 113,000                                       | (5,107)                                     | 63,038   | 170,931               | 20,878                                       | 191,809           |

## I. FINANCIAL INFORMATION OF THE GROUP (continued)

## COMBINED STATEMENTS OF CASH FLOWS

|   | Note  | For the                                   | For the year ended |           |
|---|-------|---|--------------------|-----------|
|   |       | period from                               | December 31,       |           |
|   |       | November 4,<br>to<br>December 31,<br>2010 | 2011               | 2012      |
|   |       | US\$'000                                  | US\$'000           | US\$'000  |
| <b>Cash flows from operating activities</b>                                 |       |   |                    |           |
| Cash generated from operations . . . . .                                    | 29(a) | 49,165                                    | 104,645            | 162,109   |
| Income tax paid . . . . .   |       | (226)                                     | (7,767)            | (5,844)   |
| Net cash generated from operating activities . . .                          |       | 48,939                                    | 96,878             | 156,265   |
| <b>Cash flows from investing activities</b>                                 |       |   |                    |           |
| Purchase of property, plant and equipment . . . . .                         |       | (8,614)                                   | (67,071)           | (172,381) |
| Addition of intangible assets . . . . .                                     |       | (4,846)                                   | (69,585)           | (104,091) |
| Proceeds from sale of property, plant and<br>equipment . . . . .            |       | —   | 3,790              | 5,320     |
| Changes in restricted bank deposits . . . . .                               |       | (62)                                      | 602                | (499)     |
| Acquisition of business, net of cash acquired . . .                         | 31    | (317,781)                                 | —                  | —         |
| Net cash used in investing activities . . . . .                             |       | (331,303)                                 | (132,264)          | (271,651) |
| <b>Cash flows from financing activities</b>                                 |       |   |                    |           |
| Capital injection . . . . .   |       | 100,000                                   | 3,000              | —         |
| Proceeds from borrowings . . . . .  |       | 319,000                                   | 88,836             | 567,185   |
| Repayments of borrowings . . . . .  |       | (20,749)                                  | (74,027)           | (434,071) |
| Finance costs paid . . . . .  |       | (3,211)                                   | (17,400)           | (27,925)  |
| Payment of listing expenses . . . . .                                       |       | —   | —                  | (2,910)   |
| Dividends paid to non-controlling shareholders<br>of subsidiaries . . . . . |       | —   | (344)              | (3,129)   |
| Net cash generated from financing activities . . .                          |       | 395,040                                   | 65                 | 99,150    |
| <b>Net increase/(decrease) in cash and cash<br/>equivalents . . . . .</b>   |       |   |                    |           |
| Cash and cash equivalents at beginning of<br>period/year . . . . .          |       | —   | 113,466            | 78,233    |
| Exchange gains on cash and cash equivalents . .                             |       | 790                                       | 88                 | 2,083     |
| <b>Cash and cash equivalents at end of<br/>period/year . . . . .</b>        |       |   |                    |           |
|   |       | 113,466                                   | 78,233             | 64,080    |

**II. NOTES ON THE FINANCIAL INFORMATION****1 GENERAL INFORMATION**

Nexteer Automotive Group Limited (the "Company") was incorporated in the Cayman Islands on August 21, 2012 as an exempted company with limited liability under Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company, together with its subsidiaries listed in Note 1.1 (collectively referred to as the "Group"), are principally engaged in the design and manufacture of steering and driveline systems and components for automobile manufacturers and other automotive-related companies ("the Listing Business"). The Group's primary operations are in the United States of America ("USA" or "US"), Mexico, Poland and the People's Republic of China (the "PRC") and it is structured to supply its customers globally. The principal markets for the Group's products are North America, Europe and the PRC.

The Company is a wholly-owned subsidiary of Pacific Century Motors, Inc. ("PCM China"). PCM China is 51% owned by AVIC Automobile Industry Holding Co., Ltd. ("AVIC Auto," a direct wholly-owned subsidiary of Aviation Industry Corporation of China ("AVIC") which is a state-owned enterprise established in the PRC), 24% owned by Beijing E-Town International Investment & Development Co., Ltd. ("Beijing E-Town," a company controlled by the Municipal Government of Beijing, the PRC) and 25% owned by PCM Systems Co., Ltd. ("PCM Systems," a private company incorporated in the PRC on January 8, 2003 unrelated to AVIC or the Municipal Government of Beijing).

The Company's directors consider AVIC as being the ultimate holding company of the Company.

***1.1 Reorganization***

(a) Prior to the incorporation of the Company, the following transactions relating to the shareholding of the Listing Business took place:

**(i) Acquisition of the Listing Business by PCM China (the "acquisition of business")**

Upon incorporation on September 10, 2010, PCM China was owned by Beijing E-Town (75%) and PCM Systems (25%).

Prior to December 1, 2010, the Listing Business had historically been conducted and owned by GM Global Steering Holdings, LLC ("GM Global Steering"). GM Global Steering was wholly-owned by General Motors Company ("General Motors") which was established in the US and unrelated to AVIC.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****1 GENERAL INFORMATION (continued)***1.1 Reorganization (continued)***(i) Acquisition of the Listing Business by PCM China (the “acquisition of business”) (continued)**

On November 30, 2010 (“acquisition date”), PCM China acquired the entire equity interests in GM Global Steering and thereby the operations of the Listing Business (refer to Note 31 for details) from General Motors. In connection with this acquisition, PCM China transferred the Listing Business to its two direct wholly-owned subsidiaries, PCM (US) Steering Holding Inc. (“PCM US”) and PCM (Singapore) Steering Holding Pte. Limited (“PCM Singapore”) which were established on November 8, 2010 and November 4, 2010 respectively. Thereafter GM Global Steering became inactive without any operations.

**(ii) Disposal of 51% equity interests in PCM China by Beijing E-Town**

On March 24, 2011, Beijing E-Town disposed of 51% of its interests in PCM China to AVIC Auto, and thereafter AVIC became the ultimate holding company of PCM China and the Listing Business.

(b) In preparation for the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the following transactions to transfer the Listing Business to the Company (the “Reorganization”):

- (i) On August 21, 2012, the Company was incorporated in the Cayman Islands by Nexteer Automotive (Hong Kong) Holdings Limited (“Nexteer Hong Kong”), which is a wholly-owned subsidiary of PCM China, with an authorized share capital of US\$50,000 divided into 50,000 shares of par value of US\$1.00. On the same day, one ordinary share was issued and allotted by the Company to Nexteer Hong Kong.
- (ii) On January 30, 2013, the Company acquired the entire equity interests in PCM US and PCM Singapore respectively from PCM China. The considerations were settled through the issuance of two new ordinary shares by Nexteer Hong Kong at par to PCM China.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 1 GENERAL INFORMATION (continued)

1.1 *Reorganization (continued)*

Upon completion of the above reorganization steps and as at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

| Name  | Place and date of incorporation/ establishment | Issued and paid-up capital | Attributable equity interest in 2010-2012 | Principal activities                 |
|---|--|----------------------------|---|--------------------------------------|
| <u>Directly held:</u>   |  |                            |   |                                      |
| PCM (US) Steering Holding Inc.<br>(note (a)) . . . . .  | Delaware, US<br>November 8, 2010               | US\$10,000                 | 100%                                      | Investment holding                   |
| PCM (Singapore) Steering Holding Pte. Limited (note (b)) . . . . .                                | Singapore<br>November 4, 2010                  | US\$37,999,980             | 100%                                      | Investment holding                   |
| <u>Indirectly held:</u>   |  |                            |   |                                      |
| Steering Holding Pte. Ltd. (note (b)) . . . . .   | Singapore<br>February 15, 2008                 | EUR 6,100,000              | 100%                                      | Investment holding                   |
| Project Rhodes Holding Corporation<br>(note (a)) . . . . .  | Delaware, US<br>May 18, 2007                   | US\$1                      | 100%                                      | Investment holding                   |
| Global Steering Holdings, LLC<br>(formally GM Global Steering Holdings, LLC) (note (a)) . . . . . | Delaware, US<br>March 9, 2009                  | —                          | 100%                                      | Investment holding                   |
| Steering Solutions Corporation<br>(note (a)) . . . . .  | Delaware, US<br>October 29, 2007               | US\$1                      | 100%                                      | Investment holding                   |
| Nexteer Automotive Corporation<br>(note (a)) . . . . .  | Delaware, US<br>January 2, 2008                | US\$1                      | 100%                                      | Manufacturing of steering components |
| Steering Solutions Expat Holding Corporation (note (a)) . . . . .                                 | Delaware, US<br>January 2, 2008                | US\$1                      | 100%                                      | Investment holding                   |
| Steering Solutions IP Holding Corporation (note (a)) . . . . .                                    | Delaware, US<br>January 2, 2008                | US\$1                      | 100%                                      | Investment holding                   |
| Rhodes Holding I S.a.r.l. (note (a)) . . . . .  | Luxembourg<br>January 15, 2008                 | EUR 4,344,880              | 100%                                      | Investment holding                   |
| Rhodes Holding II S.a.r.l. (note (a)) . . . . .   | Luxembourg<br>January 15, 2008                 | EUR 433,150                | 100%                                      | Investment holding                   |
| Nexteer Otomotiv Sanayi ve Ticaret Limited Sirketi (note (a)) . . . . .                           | Turkey<br>March 28, 2008                       | LIRA 1,105,000             | 100%                                      | Manufacturing of steering components |
| Nexteer Automotive India Private Limited (note (c)) . . . . .                                     | India<br>February 25, 2008                     | RS 142,960,000             | 100%                                      | Manufacturing of steering components |
| Rhodes Japan LLC (note (a)) . . . . .   | Japan<br>February 21, 2008                     | JPY 1                      | 100%                                      | Customer support/ engineering centre |
| Nexteer Automotive Australia Pty Ltd (note (d)) . . . . .   | Australia<br>January 23, 2008                  | AU\$2,849,108              | 100%                                      | Manufacturing of steering components |
| Nexteer Automotive Italy Srl<br>(note (a)) . . . . .  | Italy<br>January 30, 2008                      | EUR 10,000                 | 100%                                      | Customer support/ engineering centre |
| Nexteer Automotive Germany GmbH<br>(note (a)) . . . . .   | Germany<br>January 2, 2008                     | EUR 25,000                 | 100%                                      | Customer support/ engineering centre |



**II. NOTES ON THE FINANCIAL INFORMATION (continued)****1 GENERAL INFORMATION (continued)***1.1 Reorganization (continued)*

| Name  | Place and date of incorporation/ establishment | Issued and paid-up capital | Attributable equity interest in 2010-2012 | Principal activities                       |
|---|--|----------------------------|---|--|
| Nexteer Automotive France S.A.S.<br>(note (e)) . . . . .                              | France<br>March 25, 2008                       | EUR 1,287,000              | 100%                                      | Customer support/<br>engineering centre    |
| Nexteer Automotive Korea Limited<br>(note (a)) . . . . .                              | Korea<br>February 28, 2008                     | KRW<br>1,200,000,000       | 100%                                      | Manufacturing of<br>steering<br>components |
| Fidass II B.V. (note (a)) . . . . .   | Netherlands<br>February 6, 2007                | EUR 18,002                 | 100%                                      | Investment holding                         |
| Nexteer Automotive Poland Sp. z o.o.<br>(note (f)) . . . . .                          | Poland<br>January 2, 1997                      | ZLOTY 20,923,650           | 100%                                      | Manufacturing of<br>steering<br>components |
| Nexteer Automotive (Suzhou) Co., Ltd.<br>(note (g)) . . . . .                         | The PRC<br>January 24, 2007                    | US\$21,000,000             | 100%                                      | Manufacturing of<br>steering<br>components |
| Nexteer Lingyun Driveline (Zhuozhou)<br>Co., Ltd. (note (g)) . . . . .                | The PRC<br>October 6, 1995                     | US\$22,000,000             | 60%                                       | Manufacturing of<br>steering<br>components |
| Nexteer Lingyun Driveline (Wuhu)<br>Co., Ltd. (note (g)) . . . . .                    | The PRC<br>December 22, 2006                   | US\$22,400,000             | 60%                                       | Manufacturing of<br>steering<br>components |
| Nexteer Industria e Comercio de<br>Sistemas Automotivos Ltda.<br>(note (h)) . . . . . | Brazil<br>March 6, 2007                        | REAL 54,639,116            | 100%                                      | Manufacturing of<br>steering<br>components |
| Rhodes I LLC (note (a)) . . . . .   | Michigan, US<br>November 7, 2007               | —                          | 100%                                      | Investment holding                         |
| Rhodes II LLC (note (a)) . . . . .  | Michigan, US<br>November 7, 2007               | —                          | 100%                                      | Investment holding                         |
| SteeringMex S. de R.L. de C.V.<br>(note (i)) . . . . .                                | Mexico<br>December 14, 2007                    | PESO 100,292,917           | 100%                                      | Manufacturing of<br>steering<br>components |

## Note:

Statutory auditor for each of the years ended December 31, 2010, 2011 and 2012 is as follows:

- (a) There is no statutory audit requirement under the applicable laws in the respective place of incorporation.
- (b) PricewaterhouseCoopers LLP, Singapore
- (c) Price Waterhouse & Co., India
- (d) PricewaterhouseCoopers, Australia
- (e) PricewaterhouseCoopers Audit, France
- (f) PricewaterhouseCoopers Sp. z o.o.
- (g) PricewaterhouseCoopers Zhong Tian CPAs Limited Company
- (h) PricewaterhouseCoopers, Brazil
- (i) PricewaterhouseCoopers, S.C., Mexico

All of the Group's subsidiaries incorporated outside the PRC that are subject to statutory audits have not yet filed, by the date of this report, the audited financial statements for the year ended December 31, 2012 in accordance with the relevant local statutory requirements.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****1 GENERAL INFORMATION (continued)***1.2 Basis of presentation*

After the acquisition of business from General Motors, the Listing Business was under common control of PCM China before and after the Reorganization. For the purpose of this report, the Financial Information has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants as if the current group structure had been in existence throughout the Relevant Periods or since the date when the combining companies first came under the control of PCM China, whichever is a shorter period.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the financial information are in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The financial information has been prepared under the historical cost convention.

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the combined financial information are disclosed in Note 4.

*2.1 Consolidation***(a) Subsidiaries**

Subsidiaries are all entities over which the Company controls by being exposed to, or has rights to, variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.1 Consolidation (continued)****(a) Subsidiaries (continued)**

The Group uses the acquisition method of accounting to account for business combinations except for business combination under common control for the Reorganization as described in Note 1.1 which are accounted for using the principles of merger accounting. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated.

**(b) Non-controlling interests**

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.2 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker who has been identified as the Chief Executive Officer ("CEO"). The CEO is responsible for resource allocation and assessing the performance of the operating segments.

**2.3 Foreign currency translation****(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial information is presented in US dollars, which is the Company's functional currency and the Group's presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

**(c) Group companies**

The results of operations and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the related transactions); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.4 Property, plant and equipment*

Items of property, plant and equipment (including tools but excluding construction-in-progress) are measured at cost less accumulated depreciation and accumulated impairment losses. Improvements that materially extend the useful life of these assets are capitalized. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over all their estimated useful lives as follows:

|                                       |   |
|---------------------------------------|---|
| Leasehold improvements .....          | 10-20 years or over lease term,<br>whichever is shorter |
| Buildings .....                       | 10-40 years   |
| Machinery, equipment and tooling..... | 3-27 years  |
| Furniture and office equipment.....   | 3-10 years  |

Tooling represents tools, dies, jigs and other items used in the manufacturing of customer specific parts. Tools owned by the Group are capitalized as property, plant and equipment and depreciated to cost of sales over their useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within "Other (losses)/gains, net" in the income statement.

Construction-in-progress represents buildings, machinery and equipment under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.5 Land use rights*

Land use rights represent prepayment for operating leases and are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortization of land use rights is calculated on a straight-line basis over the period of the land use rights.

*2.6 Intangible assets*

The Group incurs significant costs and efforts on research and development activities, which include expenditures on customer-specific applications, prototypes and testing. Research expenditures are charged to the income statement as an expense in the period the expenditure is incurred. Development costs are recognized as assets if they can be clearly assigned to a newly developed product or process and all the following can be demonstrated:

- (i) The technical feasibility to complete the development project so that it will be available for use or sale;
- (ii) The intention to complete the development project to use or sell it;
- (iii) The ability to use the output of the development project;
- (iv) The manner in which the development project will generate probable future economic benefits for the Group;
- (v) The availability of adequate technical, financial and other resources to complete the development project and use or sell the intangible asset; and
- (vi) The expenditure attributable to the asset during its development can be reliably measured.

The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

Capitalized development costs are amortized using the straight-line method over the life of the related program, usually four to seven years.

Development expenditures not satisfying the above criteria are recognized in the income statement as incurred.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.7 *Impairment of non-financial assets***

Assets that have an indefinite useful life and intangible development assets not ready to use are not subject to amortization and are tested annually for impairment and whenever there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.8 *Financial assets*****(a) Classification**

The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group's financial assets primarily comprise loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.10 and 2.11).

**(b) Recognition and measurement**

Regular way purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.8 Financial assets (continued)***(c) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

**(d) Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

*2.9 Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out ("FIFO") method. Inventory cost includes direct material, direct labor and related manufacturing overhead costs (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.



**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.10 Trade and other receivables*

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

*2.11 Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

*2.12 Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

*2.13 Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement as finance cost over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

*2.14 Borrowing costs*

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings outstanding during the period up to the amount of actual borrowing costs incurred during that period.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.15 Retirement obligations*

The Group has both defined contribution and defined benefit plans. Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

**(a) Defined contribution plans**

A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to prior or current employee services.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(b) Defined benefit plans**

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the career development of employees within the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. A company specific default risk is not taken into account.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in the income statement.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.16 Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

**(a) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**(b) Deferred income tax***(i) Inside basis differences*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

*(ii) Outside basis differences*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**(c) Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.17 Provision*

Provisions for restructuring, legal disputes, environmental liabilities, warranties and decommissioning are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions primarily comprise employee payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

*2.18 Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

*2.19 Revenue recognition*

Revenue is measured at the fair value of the consideration received, or receivable, less any trade discounts, sales returns and allowances allowed by the Group or any commercial incentives linked to sales. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group contracts with customers, which are generally OEMs in the automotive industry, to sell driveline and steering products. In connection with these contracts the Group also contracts to provide tooling and prototype and engineering services. The revenue recognition policies applied by the Group for each of these activities are as follows:

**(i) Product**

Revenues are recognized when finished products are shipped to customers, both title and the risks and rewards of ownership are transferred, and collectability is reasonably assured.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.19 Revenue recognition (continued)***(ii) Prototype and engineering**

Prototype and engineering activities are only performed in connection with the development of product that will be produced for the customers. Consideration received from customers for engineering and prototyping is deferred and recognized over the product life cycles of the related products.

**(iii) Tooling**

The Group's development and sale of tooling for customers is performed in connection with the preparations to produce and sell product to its customers. Therefore, consideration received from customers for tooling used in the production of the finished product is recognized as revenue at the time the tool is accepted by the customers.

Deferred revenue relates to customer deposits or cash advances and is deferred in the balance sheet until revenue recognition criteria are met.

*2.20 Leases*

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. The Group's operating leases cover principally real estate, office and other equipment. Depending on the nature of the leased asset, the Group records lease expense associated with operating leases within cost of sales, selling or administrative expenses on the income statement as appropriate.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.20 Leases (continued)*

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

*2.21 Share-based payment*

The Group offers a deferred incentives compensation plan to its employees, pursuant to which the plan participants are awarded incentive compensation that is derived from the appreciation in the combined value of certain subsidiaries of the Group during certain period as set out in Note 25(a). The related plan is accounted for as a liability plan as management's assumption is that future settlements will be made in the form of cash or stock. The fair value of the awards is measured at grant date using Black-Scholes model, taking into account the terms and conditions upon which the awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the awards, the total estimated fair value of the awards is spread over the vesting period, taking into account the probability that the awards will vest.

During the vesting period, the awards that are expected to vest is revalued. Any adjustment to the cumulative fair value recognized in prior years is charged or credited to the combined income statement for the year of the review. On the vesting date, the amount recognized as an expense is adjusted to reflect the actual amount of awards that vest.

*2.22 Government grants*

The Group periodically receives government grants in support of various business initiatives. Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants used to purchase, construct or otherwise acquire property, plant and equipment or tooling are deducted from the cost of the related asset. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized as income of the period in which they become receivable.

*2.23 Interest income*

Interest income is recognized using the effective interest method.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.24 Dividend distribution*

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

*2.25 New/revised standards, amendments to standards and interpretations*

The Group has chosen to early adopt the following revised/new standards:

- IAS 19 (Revised 2011) . . . . . "Employee Benefits"
- IAS 27 (Revised 2011) . . . . . "Separate Financial Statements"
- IAS 28 (Revised 2011) . . . . . "Investments in Associates and Joint Ventures"
- IFRS 10 . . . . . "Consolidated Financial Statements"
- IFRS 11 . . . . . "Joint Arrangements"
- IFRS 12 . . . . . "Disclosures of Interest in Other Entities"
- IFRS 13 . . . . . "Fair Value Measurement"

New standards and interpretations not yet adopted:

Certain new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012 and have not been applied in this financial information. They are not expected to have significant impacts on the financial information of the Group except for the following which the Group is yet to assess their full impacts:

- Amendment to IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after July 1, 2012) regarding other comprehensive income. It requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in other comprehensive income.
- Amendment to IFRS 7 "Financial instruments: Disclosures on asset and liability offsetting" (effective for annual periods beginning on or after January 1, 2013) requires new disclosure requirements which focus on quantitative information about recognized financial instruments that are offset in the balance sheet, as well as those recognized financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.
- Amendment to IAS 32 "Financial instruments: Presentation on asset and liability offsetting" (effective for annual periods beginning on or after January 1, 2014) is to the application guidance in IAS 32 "Financial instruments: Presentation," and clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***2.25 New/revised standards, amendments to standards and interpretations (continued)*

- IFRS 9 “Financial instruments” (effective for annual periods beginning on or after January 1, 2015) addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the in the income statement, unless this creates an accounting mismatch.

**3 FINANCIAL RISK MANAGEMENT***3.1 Financial risk factors*

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance.

The Group’s risk management and treasury department focuses on minimising potential adverse affects on the Group’s financial performance. The Group currently does not use derivative financial instruments to hedge risk exposures, however, the need is continually assessed.

**(a) Market risk**

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.



**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 FINANCIAL RISK MANAGEMENT (continued)***3.1 Financial risk factors (continued)***(a) Market risk (continued)***(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and Chinese Renminbi ("RMB").

Management monitors and analyses expected exchange rate developments and considers hedging significant foreign currency exposure should the need arise.

As at each period/year end, if US\$ strengthened by 10% against Euro/RMB with all other variables held constant, the equity and post-tax result for each period/year would have decreased mainly as a result of foreign exchange differences on translation of Euro/RMB denominated assets and liabilities:

|   | <u>Equity</u> | <u>Post-tax result</u> |
|---|---------------|------------------------|
|   | US\$'000      | US\$'000               |
| <b>As at and for the period ended December 31, 2010</b> |               |                        |
| Euro.....   | 13,826        | 43                     |
| RMB .....   | 6,084         | 187                    |
| <b>As at and for the year ended December 31, 2011</b>   |               |                        |
| Euro.....   | 18,385        | 7,027                  |
| RMB .....   | 6,594         | 474                    |
| <b>As at and for the year ended December 31, 2012</b>   |               |                        |
| Euro.....   | 22,213        | 2,118                  |
| RMB .....   | 9,426         | 383                    |

A weakening of the US\$ against the above currencies would have had equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

*(ii) Cash flow interest rate risk*

The Group's interest rate risk primarily arises from current and non-current borrowings. Changes in interest rates on borrowings issued at variable rates potentially expose the Group to cash flow interest rate risk. As at each period/year end, the Group did not have any outstanding interest rate swaps. In the event there is a change in market conditions the Group will assess moving from variable to fixed rate borrowings.

As at December 31, 2010, 2011 and 2012, if the interest rates had been 100 basis points higher/(lower) than the prevailing rate, with all other variables held constant, net results for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 would have been US\$263,000, US\$3,589,000, US\$4,765,000 lower/(higher) respectively.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 FINANCIAL RISK MANAGEMENT (continued)***3.1 Financial risk factors (continued)***(a) Market risk (continued)****(iii) Price risk**

Price risk relates to changes in the price of raw materials purchased for production from time of price quotation to customers and production of saleable parts. The Group manages this risk primarily by negotiating recoveries from customers.

**(b) Credit risk**

The Group sells to automotive manufacturers throughout the world. Credit risk arises from deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables. The central treasury department is responsible for managing and analysing the credit risk for each new customer before standard payment and delivery terms and conditions are offered. The customer's creditworthiness is assessed at the local level through analysing past due receivables.

The Group's largest customer is General Motors and its subsidiaries ("General Motors Group") and its affiliates which comprised 50%, 51% and 52% of net sales during the period ended December 31, 2010 and each of the years ended December 31, 2011 and 2012, respectively. Trade receivables from General Motors Group and its affiliates was 43%, 43% and 49% of total trade receivables as at December 31, 2010, 2011 and 2012 respectively.

The Group monitors the credit ratings of its banks and financial institutions. As at December 31, 2010, 2011 and 2012 respectively, the Group holds approximately 95%, 95% and 72% of its cash in financial institutions with credit ratings of A or higher meaning the institutions have a very strong to extremely strong capacity to meet financial commitments.

**(c) Liquidity risk**

The Group monitors forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining sufficient availability on its undrawn committed borrowing facilities at all times as to not breach borrowing limits or covenants (where applicable) on any of its facilities. The Group's forecasting takes into consideration debt financing plans, covenant compliance, and if applicable, external regulatory or legal requirements.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 3 FINANCIAL RISK MANAGEMENT (continued)

3.1 *Financial risk factors (continued)*(c) **Liquidity risk (continued)**

The tables below analyse the Group's non-derivative financial liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

|   | 6 months<br>or less | 6-12 months   | 1-2 years     | 2-5 years      | Over 5 years   |
|---|---------------------|---------------|---------------|----------------|----------------|
|   | US\$'000            | US\$'000      | US\$'000      | US\$'000       | US\$'000       |
| <b>At December 31, 2010</b>                         |                     |               |               |                |                |
| Borrowings for acquisition of<br>business . . . . . | 346,569             | —             | —             | —              | —              |
| Short-term borrowings . . . . .                     | 19,500              | 22,500        | —             | —              | —              |
| Long-term borrowings . . . . .                      | 2,999               | 6,278         | 5,913         | 24,358         | —              |
| Finance lease obligations . . . . .                 | 8                   | 9             | 17            | 3              | —              |
|   | <u>369,076</u>      | <u>28,787</u> | <u>5,930</u>  | <u>24,361</u>  | <u>—</u>       |
| Trade payables . . . . .                            | 254,667             | —             | —             | —              | —              |
| Other payables and accruals . .                     | 90,813              | —             | 626           | —              | —              |
|   | <u>254,667</u>      | <u>—</u>      | <u>626</u>    | <u>—</u>       | <u>—</u>       |
| <b>At December 31, 2011</b>                         |                     |               |               |                |                |
| Borrowings for acquisition of<br>business . . . . . | 338,704             | —             | —             | —              | —              |
| Short-term borrowings . . . . .                     | 48,878              | 41,219        | —             | —              | —              |
| Long-term borrowings . . . . .                      | 124                 | 258           | 481           | 965            | —              |
| Finance lease obligations . . . . .                 | 108                 | 159           | 304           | 778            | —              |
|   | <u>387,814</u>      | <u>41,636</u> | <u>785</u>    | <u>1,743</u>   | <u>—</u>       |
| Trade payables . . . . .                            | 259,687             | —             | —             | —              | —              |
| Other payables and accruals . .                     | 87,489              | —             | 1,414         | —              | —              |
|   | <u>259,687</u>      | <u>—</u>      | <u>1,414</u>  | <u>—</u>       | <u>—</u>       |
| <b>At December 31, 2012</b>                         |                     |               |               |                |                |
| Short-term borrowings . . . . .                     | 83,396              | 15,561        | —             | —              | —              |
| Long-term borrowings . . . . .                      | 9,336               | 9,977         | 79,535        | 237,207        | 194,499        |
| Finance lease obligations . . . . .                 | 203                 | 227           | 430           | 652            | —              |
|   | <u>92,935</u>       | <u>25,765</u> | <u>79,965</u> | <u>237,859</u> | <u>194,499</u> |
| Trade payables . . . . .                            | 295,741             | —             | —             | —              | —              |
| Other payables and accruals . .                     | 85,549              | —             | 3,527         | —              | —              |
|   | <u>295,741</u>      | <u>—</u>      | <u>3,527</u>  | <u>—</u>       | <u>—</u>       |

The borrowings for acquisition of business are recorded on the balance sheet at December 31, 2010 and 2011 as current liabilities as they were payable on demand by the lenders at any time in accordance with the contractual payment terms.

The Group is required to maintain an excess availability of facilities of not less than US\$20 million at all times and a minimum required amount of operating income before interest, taxes, depreciation and amortization ("EBITDA") for the end of each monthly period as set forth in a bank credit agreement.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 FINANCIAL RISK MANAGEMENT (continued)***3.2 Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital. The Group monitors net debt to evaluate capital efficiency, as defined below:

|   | As at December 31, |               |                |
|---|--------------------|---------------|----------------|
|   | 2010               | 2011          | 2012           |
|   | US\$'000           | US\$'000      | US\$'000       |
| Total borrowings (Note 17) .....                                | 390,443            | 406,636       | 540,648        |
| Less: Borrowings for acquisition of<br>business (Note 17) ..... | (316,000)          | (316,000)     | —              |
| Cash and cash equivalents .....                                 | (113,466)          | (78,233)      | (64,080)       |
| Restricted bank deposits (Note 13) .....                        | (822)              | (220)         | (251)          |
| Net (surplus)/debt .....  | <u>(39,845)</u>    | <u>12,183</u> | <u>476,317</u> |

The increase of net debt as at December 31, 2012 was primarily due to the full repayment of borrowings for acquisition of business in November 2012 by the proceeds obtained from the new long-term bank loans of US\$426,000,000 (refer to Note 17 (a) and (b) for details).

*3.3 Fair value estimation*

The carrying amounts of the Group's current financial assets and liabilities, including cash and cash equivalents, restricted bank deposits, trade and other receivables, trade and other payables and current borrowings approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

(a) Assets acquired/liabilities assumed in business combination

The Group's assets/liabilities were recognized at fair value in connection with PCM China's acquisition of the Group's operations. The fair values of the acquired assets/assumed liabilities were determined based on valuation methodologies and techniques that involved the use of a third-party valuation firm's expertise. The judgements and assumptions used in that valuation of assets and liabilities along with the assumptions on the useful lives of acquired assets have a significant effect on the Group's combined financial information.

(b) Intangible assets not available for use

**(i) Capitalization**

Costs incurred on development projects are recognized as intangible assets when it is probable that the projects will be successful considering the criteria set out in Note 2.6. The Group's development activities are tracked by its engineering department and documented to support the basis of determining if and when the criteria were met.

**(ii) Impairment**

The Group is required to test intangible development assets not available for use on an annual basis. Other non-financial assets are tested whenever events or changes in circumstances indicate that the carrying amount of those assets exceeds its recoverable amount. The recoverable amount is determined based on the higher of fair value less cost to sell and value in use.

Determination of the value in use is an area involving management judgement in order to assess whether the carrying value of the intangible development assets not available for use can be supported by the net present value of future cash flows. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of (i) future unlevered free cash flows; (ii) long-term growth rates; and (iii) the selection of discount rates to reflect the risks involved.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)***(b) Intangible assets not available for use (continued)***(ii) Impairment (continued)**

The Group prepares and approves formal five-year management plans for its operations, which are used in estimating the value in use of the assets or cash generating units being tested. Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the outcome of the Group's impairment evaluation.

*(c) Retirement benefits*

The costs, assets and liabilities of the defined benefit plans operated by the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions and the sensitivity analysis of such assumptions are set out in Note 18. Changes in the assumptions used may have a significant effect on the statement of comprehensive income and the balance sheet.

*(d) Provisions*

The Group recognizes a provision when there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where these criteria are not met, a contingent liability may be disclosed in the notes to the financial information. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the financial information could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control.

**(i) Litigation**

From time to time the Group is subject to various legal actions and claims incidental to its business, including those arising out of alleged defects, breach of contracts, intellectual property matters, and employment related matters.

The Group believes its established reserves are adequate to cover such items. However, the final amounts required to resolve these matters could differ materially from recorded estimates.

Litigation is subject to many uncertainties and the outcome of the individual litigated matters is not predictable with assurance. Based on currently available information, it is the opinion of management that the outcome of such matters will not have a material adverse impact on the Group.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)***(d) Provisions (continued)***(ii) Environmental liabilities**

The Group records environmental liabilities based upon estimates of financial exposure with respect to environmental sites. Environmental requirements may become more stringent over time or eventual environmental cleanup costs and liabilities may ultimately exceed current estimates. Moreover, future facilities sales could trigger additional, perhaps material, environmental remediation costs, as previously unknown conditions may be identified.

**(iii) Warranties**

The Group recognizes expected warranty costs for products sold principally at the time of sale of the product or when it is determined that such obligations are probable and can be reasonably estimated. Amounts recorded are based on the Group's estimates of the amount that will eventually be required to settle such obligations. These accruals are based on factors such as specific customer arrangements, past experience, production changes, industry developments and various other considerations. The Group's estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims.

**(iv) Decommissioning**

The Group identified conditional asset retirement obligations primarily related to asbestos abatement and removal and disposal of storage tanks at certain of its sites. Amounts recorded are based on the Group's estimate of future obligations to leave or close a facility. Sites are continually monitored for changes that may impact future obligations for decommissioning. The Group records accretion expense monthly to account for discounting of the obligation.

*(e) Income taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)***(e) Income taxes (continued)*

Deferred tax assets are recognized only if it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. This determination requires significant judgement regarding the realisability of deferred tax assets. For entities with a recent history of losses, there would need to be convincing other evidence that sufficient taxable profits would be available in the future. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

**5 SEGMENT INFORMATION**

The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's CEO, in order to allocate resources to the segments and assess their performance. For each of the Group's reportable segments, the Group's CEO reviews internal management reports on a quarterly basis, at a minimum.

The Group classifies its businesses into four reportable segments; North America, Europe, the PRC and Rest of world. All of the Group's operating segments typically offer the same driveline and steering products. The "Others" category represents parent company activities of PCM US, PCM Singapore and Nexteer Automotive Corporation.

The key performance indicators that the Group monitors to run segment operations are:

- EBITDAR, which represents operating income/(loss) before interest, taxes, depreciation and amortization and restructuring/acquisition costs.
- Net working capital ("NWC"), which represents inventory and trade receivables net of trade payables. This measures the Group's net investment in operating assets for each segment.



## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 5 SEGMENT INFORMATION (continued)

Information about reportable segments and reconciliations of reportable segment revenues is as follows:

|  | North<br>America | The PRC  | Europe   | Rest of world | Others   | Total     |
|--|------------------|----------|----------|---------------|----------|-----------|
|  | US\$'000         | US\$'000 | US\$'000 | US\$'000      | US\$'000 | US\$'000  |
| <b>For the period from November 4,<br/>2010 to December 31, 2010</b> |                  |          |          |               |          |           |
| Total revenue . . . . .  | 101,986          | 19,701   | 32,559   | 11,833        | —        | 166,079   |
| Inter-segment revenue . . . . .                                      | (5,128)          | (1,576)  | (844)    | (1,843)       | —        | (9,391)   |
| Revenue from external customers . . . . .                            | 96,858           | 18,125   | 31,715   | 9,990         | —        | 156,688   |
| EBITDAR . . . . .  | (13,628)         | 1,538    | 1,856    | 15            | 1,756    | (8,463)   |
| NWC . . . . .  | 124,462          | 31,920   | 29,861   | 19,775        | (192)    | 205,826   |
| <b>For the year ended December 31, 2011</b>                          |                  |          |          |               |          |           |
| Total revenue . . . . .  | 1,513,468        | 178,079  | 460,609  | 172,926       | —        | 2,325,082 |
| Inter-segment revenue . . . . .                                      | (43,076)         | (9,602)  | (4,250)  | (20,402)      | —        | (77,330)  |
| Revenue from external customers . . . . .                            | 1,470,392        | 168,477  | 456,359  | 152,524       | —        | 2,247,752 |
| EBITDAR . . . . .  | 67,714           | (4,175)  | 55,319   | 11,109        | 14,983   | 144,950   |
| NWC . . . . .  | 134,550          | 15,369   | 42,781   | 16,695        | 3,588    | 212,983   |
| <b>For the year ended December 31, 2012</b>                          |                  |          |          |               |          |           |
| Total revenue . . . . .  | 1,563,850        | 195,778  | 335,729  | 130,780       | —        | 2,226,137 |
| Inter-segment revenue . . . . .                                      | (27,499)         | (13,452) | (7,285)  | (10,099)      | —        | (58,335)  |
| Revenue from external customers . . . . .                            | 1,536,351        | 182,326  | 328,444  | 120,681       | —        | 2,167,802 |
| EBITDAR . . . . .  | 110,817          | 16,964   | 27,026   | (9,167)       | 3,599    | 149,239   |
| NWC . . . . .  | 161,779          | 36,693   | 25,722   | (9,376)       | (11,809) | 203,009   |

Revenue between segments are carried out at arm's length. The revenue from external parties reported to the Group's CEO is measured in a manner consistent with that in the income statement.

Reconciliations of reportable segment net income to those as determined under IFRS are as follows:

|   | <b>For the period<br/>from<br/>November 4,<br/>to December 31,<br/>2010</b> | <b>For the year ended December 31,</b> |                 |
|---|---|--|-----------------|
|   | <b>US\$'000</b>   | <b>2011</b>                            | <b>2012</b>     |
|   | <b>US\$'000</b>   | <b>US\$'000</b>                        | <b>US\$'000</b> |
| EBITDAR from reportable segments . . . . .    | (8,463)   | 144,950                                | 149,239         |
| Depreciation and amortization expenses . .    | (3,742)   | (53,973)                               | (57,870)        |
| Restructuring costs (Note 19) . . . . .       | (32,763)  | (1,776)                                | (7,446)         |
| Acquisition-related costs (Note 31) . . . . . | (12,320)  | —                                      | —               |
| Finance costs, net. . . . .                   | (1,672)   | (15,764)                               | (21,729)        |
| (Loss)/profit before income tax . . . . .     | (58,960)  | 73,437                                 | 62,194          |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 5 SEGMENT INFORMATION (continued)

In presenting information on the basis of geography, segment revenue is based on the geographical location of subsidiaries and segment assets are based on geographical location of the assets.

The geographic distribution of revenue for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 is as follows:

|                      | For the period<br>from<br>November 4, to<br>December 31,<br>2010 | For the year ended December 31, |                  |
|----------------------|--|---------------------------------|------------------|
|                      | US\$'000   | 2011                            | 2012             |
| North America .....  | 96,858   | 1,470,392                       | 1,536,351        |
| Europe:              |  |                                 |                  |
| Poland .....         | 31,240   | 450,304                         | 323,701          |
| Rest of Europe ..... | 475  | 6,055                           | 4,743            |
| The PRC .....        | 18,125   | 168,477                         | 182,326          |
| Rest of world .....  | 9,990  | 152,524                         | 120,681          |
|                      | <u>156,688</u>   | <u>2,247,752</u>                | <u>2,167,802</u> |

The geographic distribution of non-current assets excluding deferred income tax assets as at December 31, 2010, 2011 and 2012 respectively is as follows:

|                      | As at December 31, |                |                |
|----------------------|--------------------|----------------|----------------|
|                      | 2010               | 2011           | 2012           |
| North America .....  | 117,051            | 204,854        | 402,606        |
| Europe:              |                    |                |                |
| Poland .....         | 82,811             | 66,977         | 99,124         |
| Rest of Europe ..... | 572                | 7,505          | 3,008          |
| The PRC .....        | 62,549             | 72,642         | 94,920         |
| Rest of world .....  | 14,872             | 15,259         | 16,747         |
|                      | <u>277,855</u>     | <u>367,237</u> | <u>616,405</u> |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 5 SEGMENT INFORMATION (continued)

Distribution of revenue between product lines for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 is as follows:

|                     | For the period<br>from<br>November 4, to<br>December 31,<br>2010 | For the year ended December 31, |                  |
|---------------------|--|---------------------------------|------------------|
|                     | US\$'000   | 2011<br>US\$'000                | 2012<br>US\$'000 |
| Steering . . . . .  | 125,607  | 1,803,556                       | 1,694,078        |
| Driveline . . . . . | 31,081   | 444,196                         | 473,724          |
|                     | <u>156,688</u>   | <u>2,247,752</u>                | <u>2,167,802</u> |

Revenues from customers amounting to 10 per cent or more of the Group's revenue are as follows and reported in all segments:

|   | For the period<br>from<br>November 4, to<br>December 31,<br>2010 | For the year ended December 31, |                  |
|---|--|---------------------------------|------------------|
|   | US\$'000   | 2011<br>US\$'000                | 2012<br>US\$'000 |
| General Motors Group and its affiliates . . . | 78,912   | 1,137,732                       | 1,133,370        |
| Customer A . . . . .                          | 18,665   | 284,567                         | 275,245          |
| Customer B . . . . .                          | 13,776   | 224,700                         | 156,990          |
|   | <u>111,353</u>   | <u>1,646,999</u>                | <u>1,565,605</u> |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 6 PROPERTY, PLANT AND EQUIPMENT

|                                    | Freehold<br>land | Leasehold<br>improvement | Buildings     | Machinery,<br>equipment<br>and tooling | Furniture<br>and office<br>equipment | Construction<br>in progress | Total          |
|------------------------------------|------------------|--------------------------|---------------|--|--------------------------------------|-----------------------------|----------------|
|                                    | US\$'000         | US\$'000                 | US\$'000      | US\$'000                               | US\$'000                             | US\$'000                    | US\$'000       |
| <b>Net book amount at</b>          |                  |                          |               |  |                                      |                             |                |
| <b>November 4, 2010</b> . . . . .  | —                | —                        | —             | —                                      | —                                    | —                           | —              |
| Acquisition of business            |                  |                          |               |  |                                      |                             |                |
| (Note 31) . . . . .                | 8,052            | 3,583                    | 24,166        | 206,826                                | 2,550                                | 20,667                      | 265,844        |
| Additions . . . . .                | —                | 147                      | 77            | 6,159                                  | 87                                   | 1,089                       | 7,559          |
| Depreciation . . . . .             | —                | (16)                     | (115)         | (3,579)                                | (30)                                 | —                           | (3,740)        |
| Exchange differences . . . . .     | 32               | 14                       | 95            | 808                                    | 10                                   | 82                          | 1,041          |
| <b>Net book amount at</b>          |                  |                          |               |  |                                      |                             |                |
| <b>December 31, 2010</b> . . . . . | <u>8,084</u>     | <u>3,728</u>             | <u>24,223</u> | <u>210,214</u>                         | <u>2,617</u>                         | <u>21,838</u>               | <u>270,704</u> |
| <b>At December 31, 2010</b>        |                  |                          |               |  |                                      |                             |                |
| Cost . . . . .                     | 8,084            | 3,744                    | 24,338        | 213,793                                | 2,647                                | 21,838                      | 274,444        |
| Accumulated depreciation . .       | —                | (16)                     | (115)         | (3,579)                                | (30)                                 | —                           | (3,740)        |
| Net book amount . . . . .          | <u>8,084</u>     | <u>3,728</u>             | <u>24,223</u> | <u>210,214</u>                         | <u>2,617</u>                         | <u>21,838</u>               | <u>270,704</u> |
| <b>Net book amount at</b>          |                  |                          |               |  |                                      |                             |                |
| <b>January 1, 2011</b> . . . . .   | 8,084            | 3,728                    | 24,223        | 210,214                                | 2,617                                | 21,838                      | 270,704        |
| Additions . . . . .                | 9                | 1,230                    | 940           | 47,035                                 | 852                                  | 28,010                      | 78,076         |
| Disposals . . . . .                | —                | (1)                      | (7)           | (3,455)                                | (15)                                 | —                           | (3,478)        |
| Depreciation . . . . .             | —                | (809)                    | (4,006)       | (47,730)                               | (728)                                | —                           | (53,273)       |
| Exchange differences . . . . .     | (56)             | (26)                     | (169)         | (1,462)                                | (18)                                 | (152)                       | (1,883)        |
| <b>Net book amount at</b>          |                  |                          |               |  |                                      |                             |                |
| <b>December 31, 2011</b> . . . . . | <u>8,037</u>     | <u>4,122</u>             | <u>20,981</u> | <u>204,602</u>                         | <u>2,708</u>                         | <u>49,696</u>               | <u>290,146</u> |
| <b>At December 31, 2011</b>        |                  |                          |               |  |                                      |                             |                |
| Cost . . . . .                     | 8,037            | 4,947                    | 25,102        | 255,911                                | 3,466                                | 49,696                      | 347,159        |
| Accumulated depreciation . .       | —                | (825)                    | (4,121)       | (51,309)                               | (758)                                | —                           | (57,013)       |
| Net book amount . . . . .          | <u>8,037</u>     | <u>4,122</u>             | <u>20,981</u> | <u>204,602</u>                         | <u>2,708</u>                         | <u>49,696</u>               | <u>290,146</u> |
| <b>Net book amount at</b>          |                  |                          |               |  |                                      |                             |                |
| <b>January 1, 2012</b> . . . . .   | 8,037            | 4,122                    | 20,981        | 204,602                                | 2,708                                | 49,696                      | 290,146        |
| Additions . . . . .                | —                | 533                      | 1,242         | 86,664                                 | 2,212                                | 110,828                     | 201,479        |
| Disposals . . . . .                | —                | (5)                      | (40)          | (8,163)                                | (60)                                 | —                           | (8,268)        |
| Depreciation . . . . .             | —                | (166)                    | (3,899)       | (48,235)                               | (983)                                | —                           | (53,283)       |
| Exchange differences . . . . .     | (270)            | 151                      | 888           | 2,968                                  | 226                                  | 66                          | 4,029          |
| <b>Net book amount at</b>          |                  |                          |               |  |                                      |                             |                |
| <b>December 31, 2012</b> . . . . . | <u>7,767</u>     | <u>4,635</u>             | <u>19,172</u> | <u>237,836</u>                         | <u>4,103</u>                         | <u>160,590</u>              | <u>434,103</u> |
| <b>At December 31, 2012</b>        |                  |                          |               |  |                                      |                             |                |
| Cost . . . . .                     | 7,767            | 5,626                    | 27,192        | 337,380                                | 5,844                                | 160,590                     | 544,399        |
| Accumulated depreciation . .       | —                | (991)                    | (8,020)       | (99,544)                               | (1,741)                              | —                           | (110,296)      |
| Net book amount . . . . .          | <u>7,767</u>     | <u>4,635</u>             | <u>19,172</u> | <u>237,836</u>                         | <u>4,103</u>                         | <u>160,590</u>              | <u>434,103</u> |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****6 PROPERTY, PLANT AND EQUIPMENT (continued)**

Certain of the Group's property, plant and equipment have been pledged as collateral under the Group's borrowing arrangements. The carrying amounts of property, plant and equipment pledged as collateral were US\$110,321,000, US\$129,239,000 and US\$320,840,000 as at December 31, 2010, 2011 and 2012 respectively.

Property, plant and equipment at December 31, 2010, 2011 and 2012 included office equipment under finance lease of US\$35,000, US\$1,229,000 and US\$1,387,000, net of accumulated depreciation of US\$7,000, US\$94,000 and US\$386,000 respectively.

Depreciation has been charged to the following function of expenses:

|  | For the period<br>from<br>November 4, to<br>December 31,<br>2010 | For the year ended December 31, |                  |
|--|--|---------------------------------|------------------|
|  | US\$'000   | 2011<br>US\$'000                | 2012<br>US\$'000 |
| Cost of sales .....                                | 3,589  | 50,988                          | 50,171           |
| Engineering and product development<br>costs ..... | 79   | 1,311                           | 1,987            |
| Administrative expenses .....                      | 72   | 974                             | 1,125            |
|  | <u>3,740</u>   | <u>53,273</u>                   | <u>53,283</u>    |

The Group has capitalized borrowing costs amounting to US\$287,000 and US\$447,000 on qualifying assets of property, plant and equipment for each of the years ended December 31, 2011 and 2012 respectively. Borrowing costs were capitalized at the weighted average of its borrowing rate of 2.9% and 4.1% during the respective year.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 7 LAND USE RIGHTS

|   | US\$'000    |
|---|-------------|
| <b>Cost</b>                             |             |
| As at November 4, 2010 .....            | —           |
| Acquisition of business (Note 31) ..... | 949         |
| Exchange differences .....              | 8           |
|   | <hr/>       |
| As at December 31, 2010 .....           | 957         |
| Exchange differences .....              | 48          |
|   | <hr/>       |
| As at December 31, 2011 .....           | 1,005       |
| Exchange differences .....              | 2           |
|   | <hr/>       |
| As at December 31, 2012 .....           | 1,007       |
|   | <hr/> <hr/> |
| <b>Accumulated amortization</b>         |             |
| As at November 4, 2010 .....            | —           |
| Acquisition of business (Note 31) ..... | 211         |
| Amortization .....                      | 2           |
| Exchange differences .....              | 2           |
|   | <hr/>       |
| As at December 31, 2010 .....           | 215         |
| Amortization .....                      | 25          |
| Exchange differences .....              | 11          |
|   | <hr/>       |
| As at December 31, 2011 .....           | 251         |
| Amortization .....                      | 25          |
| Exchange differences .....              | (6)         |
|   | <hr/>       |
| As at December 31, 2012 .....           | 270         |
|   | <hr/> <hr/> |
| <b>Net book amount</b>                  |             |
| As at December 31, 2010 .....           | 742         |
|   | <hr/> <hr/> |
| As at December 31, 2011 .....           | 754         |
|   | <hr/> <hr/> |
| As at December 31, 2012 .....           | 737         |
|   | <hr/> <hr/> |

The Group's land use rights are located in the PRC and are held under leases for periods of 50 years.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 8 INTANGIBLE ASSETS

|                                 | <b>Product<br/>development costs</b> |
|---------------------------------|--------------------------------------|
|                                 | <b>US\$'000</b>                      |
| <b>Cost</b>                     |                                      |
| As at November 4, 2010 .....    | —                                    |
| Additions .....                 | 4,846                                |
| As at December 31, 2010 .....   | 4,846                                |
| Additions .....                 | 70,771                               |
| As at December 31, 2011 .....   | 75,617                               |
| Additions .....                 | 108,702                              |
| As at December 31, 2012 .....   | 184,319                              |
| <b>Accumulated amortization</b> |                                      |
| As at November 4, 2010 .....    | —                                    |
| Amortization .....              | —                                    |
| As at December 31, 2010 .....   | —                                    |
| Amortization .....              | 675                                  |
| As at December 31, 2011 .....   | 675                                  |
| Amortization .....              | 4,562                                |
| As at December 31, 2012 .....   | 5,237                                |
| <b>Net book amount</b>          |                                      |
| As at December 31, 2010 .....   | 4,846                                |
| As at December 31, 2011 .....   | 74,942                               |
| As at December 31, 2012 .....   | 179,082                              |

The additions for each of the years ended December 31, 2011 and 2012 include US\$1,186,000 and US\$4,611,000 respectively of capitalized interest related to the borrowings associated with developmental costs.

*Impairment tests*

Capitalized product development costs not yet available for use are tested annually based on the recoverable amount of the cash generating unit to which the intangible asset is related. As these development costs support each of the operating segments, their appropriate cash-generating unit is at the Group's level.

The recoverable amount of the Group was determined based upon value in use. The value in use was estimated using the discounted cash flow approach. The pre-tax discount rates used to discount the estimated future cash flows were 14.5% and 14% in 2011 and 2012 respectively which were based on an estimated weighted average cost of capital and include estimates of industry sector risk premium. If the pre-tax discount rate had been 2% higher/(lower), there was still sufficient headroom with no impairment required.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****8 INTANGIBLE ASSETS (continued)***Impairment tests (continued)*

In determining value in use it is necessary to make a series of assumptions to estimate future cash flows. There is risk in future profitability such as customer volumes and commodity pricing. The assumptions for customer volumes and commodity pricing are reviewed annually as part of the management's budgeting and strategic planning cycles.

The assumptions related to customer volume and timing of sales to customers may vary due to a number of factors, including variation in demand for customers' products, customers' attempts to manage their inventories, design changes, changes in customers' manufacturing strategy, etc. Accordingly, many of the Group's customers do not commit to long term production schedules.

The assumptions related to commodity pricing may vary as raw material costs are influenced by several commodities and the volatility of these prices may have an adverse impact on the Group's business. However, to mitigate the risk the Group continues its efforts to pass material, component, and supply cost increases to the Group's customers.

Estimated cash flows are based on management forecasts over a five year horizon and a terminal value, which assumes a 3.0% long-term growth rate. The growth rate is consistent with similar global enterprises and consistent with expected long-term inflation. Management believes that there are long term prospects for growth due to the Group's market position and established platform of products. If the growth rate had been 1% higher/(lower), there was still sufficient headroom with no impairment required.

**9 DEFERRED INCOME TAXES**

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

|  | As at December 31, |                |                |
|--|--------------------|----------------|----------------|
|  | 2010               | 2011           | 2012           |
|  | US\$'000           | US\$'000       | US\$'000       |
| <b>Deferred income tax assets:</b>                       |                    |                |                |
| — to be recovered after more than<br>12 months . . . . . | 8,598              | 8,646          | —              |
| — to be recovered within 12 months . . . . .             | 1,828              | 2,089          | 14,595         |
|  | <u>10,426</u>      | <u>10,735</u>  | <u>14,595</u>  |
| <b>Deferred income tax liabilities:</b>                  |                    |                |                |
| — to be settled after more than<br>12 months . . . . .   | (3,150)            | (2,124)        | (2,762)        |
| — to be settled within 12 months . . . . .               | —                  | (476)          | (104)          |
|  | <u>(3,150)</u>     | <u>(2,600)</u> | <u>(2,866)</u> |
| <b>Deferred income tax assets, net . . . . .</b>         | <u>7,276</u>       | <u>8,135</u>   | <u>11,729</u>  |



## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 9 DEFERRED INCOME TAXES (continued)

The movement in deferred income tax assets and liabilities during the period/year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

|   | Property,<br>plant and<br>equipment | Retirement<br>benefits and<br>compensations | Provisions and<br>accruals | Tax losses and<br>credits | Intangible<br>assets | Others   | Total    |
|---|-------------------------------------|---|----------------------------|---------------------------|----------------------|----------|----------|
|   | US\$'000                            | US\$'000                                    | US\$'000                   | US\$'000                  | US\$'000             | US\$'000 | US\$'000 |
| <b>Deferred income tax assets</b>           |                                     |   |                            |                           |                      |          |          |
| As at November 4, 2010 . . . . .            | —                                   | —   | —                          | —                         | —                    | —        | —        |
| Acquisition of business (Note 31) . . . . . | 6,995                               | 1,669                                       | 6,610                      | —                         | —                    | 684      | 15,958   |
| (Charged)/credited to income statement . .  | (37)                                | 138   | 1,704                      | —                         | —                    | 206      | 2,011    |
| Charged to other comprehensive income . .   | —                                   | (6)   | —                          | —                         | —                    | —        | (6)      |
| Exchange differences . . . . .              | (14)                                | (3)   | (2)                        | —                         | —                    | (2)      | (21)     |
| As at December 31, 2010 . . . . .           | 6,944                               | 1,798                                       | 8,312                      | —                         | —                    | 888      | 17,942   |
| Credited/(charged) to income statement . .  | 1,091                               | 1,998                                       | 18,332                     | 1,169                     | —                    | (318)    | 22,272   |
| Credited to other comprehensive income . .  | —                                   | 279   | —                          | —                         | —                    | —        | 279      |
| Exchange differences . . . . .              | (168)                               | (57)  | (46)                       | (29)                      | —                    | (16)     | (316)    |
| At December 31, 2011 . . . . .              | 7,867                               | 4,018                                       | 26,598                     | 1,140                     | —                    | 554      | 40,177   |
| (Charged)/credited to income statement . .  | (3,752)                             | 3,716                                       | 17,189                     | 19,654                    | —                    | 9,714    | 46,521   |
| Credited to other comprehensive income . .  | —                                   | 622   | —                          | —                         | —                    | —        | 622      |
| Exchange differences . . . . .              | 19                                  | 10  | 24                         | 36                        | —                    | 247      | 336      |
| At December 31, 2012 . . . . .              | 4,134                               | 8,366                                       | 43,811                     | 20,830                    | —                    | 10,515   | 87,656   |
| <b>Deferred income tax liabilities</b>      |                                     |   |                            |                           |                      |          |          |
| As at 4 November 2010 . . . . .             | —                                   | —   | —                          | —                         | —                    | —        | —        |
| Acquisition of business (Note 31) . . . . . | (8,226)                             | (85)  | (466)                      | —                         | —                    | (753)    | (9,530)  |
| Credited/(charged) to income statement . .  | 49                                  | (10)  | 438                        | —                         | (1,823)              | 216      | (1,130)  |
| Charged to other comprehensive income . .   | —                                   | (14)  | —                          | —                         | —                    | —        | (14)     |
| Exchange differences . . . . .              | 8                                   | —   | —                          | —                         | —                    | —        | 8        |
| As at December 31, 2010 . . . . .           | (8,169)                             | (109)                                       | (28)                       | —                         | (1,823)              | (537)    | (10,666) |
| Credited/(charged) to income statement . .  | 5,890                               | (70)  | (171)                      | —                         | (25,876)             | (1,272)  | (21,499) |
| Credited to other comprehensive income . .  | —                                   | 17  | —                          | —                         | —                    | —        | 17       |
| Exchange differences . . . . .              | 56                                  | 2   | 5                          | —                         | —                    | 43       | 106      |
| At December 31, 2011 . . . . .              | (2,223)                             | (160)                                       | (194)                      | —                         | (27,699)             | (1,766)  | (32,042) |
| (Charged)/credited to income statement . .  | (5,360)                             | 64  | (170)                      | —                         | (38,668)             | 282      | (43,852) |
| Exchange differences . . . . .              | (25)                                | —   | —                          | —                         | —                    | (8)      | (33)     |
| At December 31, 2012 . . . . .              | (7,608)                             | (96)  | (364)                      | —                         | (66,367)             | (1,492)  | (75,927) |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****9 DEFERRED INCOME TAXES (continued)**

Deferred income tax assets are recognized for tax loss carry-forwards and deductible temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deferred income tax assets being calculated at applicable tax rates have not been recognized in respect of the following as management believes it is more likely than not that they would not be utilised before expiration:

|  | As at December 31, |               |               |
|--|--------------------|---------------|---------------|
|  | 2010               | 2011          | 2012          |
|  | US\$'000           | US\$'000      | US\$'000      |
| Tax losses .....                       | 10,422             | 14,625        | 7,249         |
| Deductible temporary differences ..... | 37,249             | 21,583        | 4,765         |
|  | <u>47,671</u>      | <u>36,208</u> | <u>12,014</u> |

- (i) As at December 31, 2010, 2011 and 2012, the Group has US\$26,510,000, US\$34,613,000 and US\$29,722,000 respectively, of gross net operating loss (“NOL”) carryforwards in US which will begin to expire in 2032. As at December 31, 2010, 2011 and 2012, the Group has US\$1,647,000, US\$8,814,000 and US\$26,347,000 respectively, of non-U.S. gross NOL carryforwards which have various expiration dates of which a significant amount are unlimited.
- (ii) As at December 31, 2011 and 2012, the Group has US\$6,267,000 and US\$9,035,000 respectively of various tax credits which begin to expire in 2022. With the exception of these credits, the remaining deductible temporary differences do not expire under current tax legislation.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries because the Company is able to control the timing of reversal of the temporary differences and no material amounts of such unremitted earnings are currently intended to be distributed. Unremitted earnings totalled US\$67,323,000, US\$94,579,000 and US\$100,700,000 as at December 31, 2010, 2011 and 2012 respectively.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****10 INVENTORIES**

|  | As at December 31, |          |          |
|--|--------------------|----------|----------|
|  | 2010               | 2011     | 2012     |
|  | US\$'000           | US\$'000 | US\$'000 |
| Raw materials.....                         | 104,026            | 95,683   | 107,148  |
| Work in progress .....                     | 31,488             | 36,611   | 40,764   |
| Finished goods.....                        | 17,126             | 27,916   | 34,787   |
|  | 152,640            | 160,210  | 182,699  |
| Less: provision for impairment losses .... | (327)              | (3,422)  | (8,266)  |
|  | 152,313            | 156,788  | 174,433  |

The cost of inventories recognized as an expense and included in cost of sales for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 amounted to US\$152,278,000, US\$1,926,585,000 and US\$1,851,941,000 respectively.

The carrying amounts of inventories pledged as collateral were US\$92,490,000, US\$110,906,000 and US\$126,855,000 as at December 31, 2010, 2011 and 2012 respectively.

**11 TRADE RECEIVABLES**

|                                      | As at December 31, |          |          |
|--------------------------------------|--------------------|----------|----------|
|                                      | 2010               | 2011     | 2012     |
|                                      | US\$'000           | US\$'000 | US\$'000 |
| Trade receivables, gross .....       | 308,219            | 317,167  | 327,261  |
| Less: provision for impairment ..... | (39)               | (1,285)  | (2,944)  |
|                                      | 308,180            | 315,882  | 324,317  |

Credit terms range from 30-90 days after the invoice date depending on the customer and the geographical region. Ageing analysis of trade receivables based on credit terms is as follows:

|                             | As at December 31, |          |          |
|-----------------------------|--------------------|----------|----------|
|                             | 2010               | 2011     | 2012     |
|                             | US\$'000           | US\$'000 | US\$'000 |
| Not overdue .....           | 298,393            | 300,851  | 311,364  |
| Overdue up to 30 days ..... | 5,298              | 8,811    | 11,409   |
| Overdue 30 to 60 days ..... | 1,379              | 3,542    | 1,569    |
| Overdue 60 to 90 days ..... | 906                | 469      | 272      |
| Overdue over 90 days .....  | 2,243              | 3,494    | 2,647    |
|                             | 308,219            | 317,167  | 327,261  |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****11 TRADE RECEIVABLES (continued)**

Trade receivables of US\$9,787,000, US\$15,031,000 and US\$12,953,000 were past due but not impaired as at December 31, 2010, 2011 and 2012 respectively. These relate mainly to a number of customers for whom there is no history of default. The ageing analysis of these past due but not impaired receivables is as follows:

|                             | As at December 31, |               |               |
|-----------------------------|--------------------|---------------|---------------|
|                             | 2010               | 2011          | 2012          |
|                             | US\$'000           | US\$'000      | US\$'000      |
| Overdue up to 30 days ..... | 5,298              | 8,811         | 11,409        |
| Overdue 30 to 60 days ..... | 1,379              | 3,542         | 1,544         |
| Overdue 60 to 90 days ..... | 906                | 469           | —             |
| Overdue over 90 days .....  | 2,204              | 2,209         | —             |
|                             | <u>9,787</u>       | <u>15,031</u> | <u>12,953</u> |

The provision for impairment of receivables includes estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments, and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on their payment history and ability to make repayments and customer credit rating from third-party rating agencies.

Trade receivables of US\$39,000, US\$1,285,000 and US\$2,944,000 were impaired as at December 31, 2010, 2011 and 2012 respectively, on which full provision was made as at respective year-ends. These individually impaired receivables are relatively long overdue.

Movement on the provision for impairment of trade receivables is as follows:

|   | US\$'000     |
|---|--------------|
| <b>As at November 4, 2010</b> .....                 | —            |
| Provision for impairment of trade receivables ..... | 35           |
| Exchange differences .....                          | 4            |
| <b>As at December 31, 2010</b> .....                | <u>39</u>    |
| Provision for impairment of trade receivables ..... | 1,141        |
| Written-off as uncollectible .....                  | (116)        |
| Exchange differences .....                          | 221          |
| <b>As at December 31, 2011</b> .....                | <u>1,285</u> |
| Provision for impairment of trade receivables ..... | 1,570        |
| Exchange differences .....                          | 89           |
| <b>As at December 31, 2012</b> .....                | <u>2,944</u> |

A subsidiary of the Group participates in a factoring program in Europe where proceeds of US\$32,000,000 and US\$21,203,000 received were accounted for as short-term borrowings as at December 31, 2011 and 2012 respectively. The risks and rewards of the related trade receivables remain with the Group, thus these assets have not been derecognized.

The carrying amounts of trade receivables pledged as collateral were US\$196,913,000, US\$207,210,000 and US\$261,002,000 as at December 31, 2010, 2011 and 2012 respectively.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****12 OTHER RECEIVABLES AND PREPAYMENTS**

|  | As at December 31, |          |          |
|--|--------------------|----------|----------|
|  | 2010               | 2011     | 2012     |
|  | US\$'000           | US\$'000 | US\$'000 |
| Amounts reimbursable from customers          |                    |          |          |
| on tools . . . . .                           | 15,712             | 12,268   | 30,525   |
| Other taxes recoverable (note (a)) . . . . . | 11,199             | 18,104   | 17,963   |
| Prepaid assets (note (b)) . . . . .          | 9,000              | 10,246   | 12,333   |
| Deposits to vendors . . . . .                | 3,489              | 4,087    | 5,662    |
| Others (note (c)) . . . . .                  | 11,014             | 1,085    | 790      |
|  | 50,414             | 45,790   | 67,273   |
| Less: non-current portion . . . . .          | (1,563)            | (1,395)  | (2,483)  |
| Current portion . . . . .                    | 48,851             | 44,395   | 64,790   |

## Notes:

- (a) Balance mainly represents value-added tax recoverable and certain incentives granted to the Group for investing capital and maintaining jobs in the State of Michigan, USA.
- (b) As at December 31, 2012, balance includes prepayments of listing expenses of US\$1,047,000.
- (c) Balance at December 31, 2010 includes receivable due from a related party disclosed in Note 32(c).

**13 RESTRICTED BANK DEPOSITS**

Restricted bank deposits are maintained with banks for issuance of letters of credit.

**14 CASH AND CASH EQUIVALENTS**

The Group's RMB balances are placed with banks in the PRC. The RMB is not a freely convertible currency. The conversion of these RMB denominated balances into foreign currencies in the PRC is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Cash balances denominated in RMB will be used as part of the normal operating activities in the PRC and are classified as unrestricted cash on this basis. Other cash balances are unrestricted.

**15 COMBINED CAPITAL**

As mentioned in Note 1.2 in Section II, the Financial Information has been prepared as if the current group structure had been in existence throughout the Relevant Periods or since the date when the combining companies first came under the control of PCM China, whichever is a shorter period. The combined capital during the Relevant Periods represents the combined share capital of PCM US and PCM Singapore.

**16 EXCHANGE RESERVE**

Exchange reserve arises from currency translations of all group entities that have a functional currency different from the US\$ being translated into the Group's presentation currency of US\$.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 17 BORROWINGS

|   | As at December 31, |          |          |
|---|--------------------|----------|----------|
|   | 2010               | 2011     | 2012     |
|   | US\$'000           | US\$'000 | US\$'000 |
| <b>Non-current</b>  |                    |          |          |
| Borrowings from banks   |                    |          |          |
| — secured . . . . .   | —                  | —        | 571      |
| — unsecured (note (b)) . . . . .  | —                  | 1,153    | 439,961  |
| Borrowings from a subsidiary of<br>Delphi Corporation (former owner,<br>a third party) — unsecured (note (c)) . . . | 25,536             | —        | —        |
| Finance lease obligations (note (f)) . . . . .  | 19                 | 912      | 999      |
|   | 25,555             | 2,065    | 441,531  |
|   | 25,555             | 2,065    | 441,531  |
| <b>Current</b>  |                    |          |          |
| Borrowings from banks   |                    |          |          |
| — secured, for acquisition of business<br>(note (a)) . . . . .  | 316,000            | 316,000  | —        |
| — secured, others (note (d)) . . . . .  | 3,000              | 49,550   | 47,055   |
| — unsecured (note (e)) . . . . .  | —                  | 38,553   | 50,045   |
| Borrowings from General Motors —<br>unsecured . . . . .   | 37,985             | —        | —        |
| Add: current portion of:  |                    |          |          |
| — non-current secured borrowings<br>from banks . . . . .  | —                  | —        | 285      |
| — non-current unsecured borrowings<br>from banks . . . . .  | 3,414              | 208      | 1,388    |
| — non-current unsecured borrowings<br>from a subsidiary of Delphi<br>Corporation (note (c)) . . . . .               | 4,474              | —        | —        |
| — finance lease obligations (note (f)) . .  | 15                 | 260      | 344      |
|   | 364,888            | 404,571  | 99,117   |
|   | 364,888            | 404,571  | 99,117   |
| <b>Total borrowings</b> . . . . .   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 540,648  |
|   | 390,443            | 406,636  | 54       |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 17 BORROWINGS (continued)

|   | As at 31 December |          |          |
|---|-------------------|----------|----------|
|   | 2010              | 2011     | 2012     |
| <b>Weighted average annual interest rates</b> |                   |          |          |
| Bank borrowings .....                         | 2.5%              | 2.9%     | 4.1%     |
| Other borrowings .....                        | 0%–6%             | —        | —        |
| <b>Currency denomination</b>                  |                   |          |          |
|   | 2010              | 2011     | 2012     |
|   | US\$'000          | US\$'000 | US\$'000 |
| US\$ .....                                    | 357,103           | 331,843  | 476,476  |
| Euro .....                                    | 34                | 32,017   | 21,232   |
| RMB .....                                     | 33,306            | 39,359   | 32,350   |
| Others .....                                  | —                 | 3,417    | 10,590   |
|   | 390,443           | 406,636  | 540,648  |
| <b>Undrawn facilities at floating rates</b>   |                   |          |          |
|   | 2010              | 2011     | 2012     |
|   | US\$'000          | US\$'000 | US\$'000 |
| Within 1 year .....                           | 79,000            | 75,298   | 178,154  |
| Over 1 year .....                             | —                 | —        | 57,040   |
|   | 79,000            | 75,298   | 235,194  |

Note:

- (a) This includes a debt of US\$190,000,000 due in annual installments of 5.0% of the outstanding balance which commences in November 2012 and matures in October 2014 with a final repayment. It bears interest at LIBOR+1.4% per annum and is due on demand. It is guaranteed by AVIC and Beijing Economic Technological Investment and Development Corporation (a former shareholder of Beijing E-Town) and secured by all of the properties owned by PCM US and two standby letters of credit in the amount of US\$195,000,000 each.  
Another debt of US\$126,000,000 due in semi-annual installments of US\$21,000,000 which commences in May 2013 and matures in October 2015. It bears interest at LIBOR+3.0% per annum and is subject to review by the bank and can be called at any time. It is guaranteed by AVIC and Beijing E-Town, and secured by a standby letter of credit in the amount of US\$140,000,000 and the inventories of certain subsidiaries of the Group.  
These two debts were repaid in November 2012 with proceeds from long-term bank loans detailed in note (b)(i) below.
- (b) As at December 31, 2012 this includes
- bank loans totalling US\$426,000,000, which are guaranteed by AVIC and Beijing E-Town, bear interest at LIBOR+3.5% per annum and due in semi-annual installments of US\$30,500,000 which commence in June 2014 and mature in October 2020 with the last repayment to be made then. In the opinion of the Directors of the Company, these loans are not intended to be repaid and the guarantee by AVIC and Beijing E-Town is not to be released prior to the Company's listing.
  - bank loans of US\$15,817,000 borrowed by a certain subsidiary of the Group which are guaranteed by PCM China and bear interest at LIBOR plus floating basis points for USD denominated amounts and 10% above the People's Bank of China (the "PBOC") benchmark rate for RMB denominated amounts. These loans are expected to be repaid prior to the Company's Listing.
- (c) This represents a loan payable to a subsidiary of Delphi Corporation which was repaid in 2011.
- (d) This includes the short-term borrowings from a factoring program in Europe (Note 11).
- (e) As at December 31, 2012 this includes bank loans of US\$16,917,000 borrowed by a certain subsidiary of the Group which are guaranteed by PCM China and bear interest at 4.78% for USD denominated amounts and 6.6%–6.9% on RMB denominated amounts. These loans are expected to be repaid prior to the Company's Listing.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 17 BORROWINGS (continued)

Note:

(f) Finance lease obligations

(i) Gross finance leases liabilities — minimum lease payments:

|  | As at December 31, |          |          |
|--|--------------------|----------|----------|
|  | 2010               | 2011     | 2012     |
|  | US\$'000           | US\$'000 | US\$'000 |
| Within 1 year . . . . .                | 17                 | 267      | 430      |
| Between 1 and 2 years . . . . .        | 17                 | 304      | 430      |
| Between 2 and 5 years . . . . .        | 3                  | 778      | 652      |
|  | 37                 | 1,349    | 1,512    |
| Less: future finance charges . . . . . | (3)                | (177)    | (169)    |
|  | 34                 | 1,172    | 1,343    |

(ii) Present value of finance lease obligations:

|                                 | As at December 31, |          |          |
|---------------------------------|--------------------|----------|----------|
|                                 | 2010               | 2011     | 2012     |
|                                 | US\$'000           | US\$'000 | US\$'000 |
| Within 1 year . . . . .         | 15                 | 260      | 344      |
| Between 1 and 2 years . . . . . | 16                 | 224      | 382      |
| Between 2 and 5 years . . . . . | 3                  | 688      | 617      |
|                                 | 34                 | 1,172    | 1,343    |

## 18 RETIREMENT BENEFITS AND COMPENSATIONS

|   | As at December 31, |          |          |
|---|--------------------|----------|----------|
|   | 2010               | 2011     | 2012     |
|   | US\$'000           | US\$'000 | US\$'000 |
| Pension defined benefit plans (note (a)) . .    | 9,039              | 10,507   | 13,557   |
| Extended disability benefits (note (b)) . . . . | 7,444              | 8,103    | 9,732    |
| Workers compensation (note (c)) . . . . .       | 1,296              | 2,827    | 3,509    |
|   | 17,779             | 21,437   | 26,798   |
| Less: non-current portion . . . . .             | (16,825)           | (20,296) | (25,077) |
| Current portion . . . . .                       | 954                | 1,141    | 1,721    |

(a) *Pension — defined benefit plans*

The Group sponsors various defined benefit plans that generally provide benefits based on negotiated amounts for each year of eligible service. The Group's most significant plans are under regulatory frameworks in Mexico, Germany, France and US. The US Executive Retirement Plan ("US ERP") is a frozen plan established on December 1, 2010 as part of the acquisition of business. The plans had no amendments, curtailments or settlements affecting the defined benefit obligation.



## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

(a) *Pension — defined benefit plans (continued)*

The Group employs Mercer (U.S.) Inc., an independent qualified actuary, to measure pension costs using the projected unit credit method. The amounts recognized in balance sheets are determined as follows:

|  | December 31, 2010 |              |              | December 31, 2011 |              |               | December 31, 2012 |              |               |
|--|-------------------|--------------|--------------|-------------------|--------------|---------------|-------------------|--------------|---------------|
|  | Non-U.S.<br>plans | U.S. ERP     | Total        | Non-U.S.<br>plans | US ERP       | Total         | Non-U.S.<br>plans | US ERP       | Total         |
|  | US\$'000          | US\$'000     | US\$'000     | US\$'000          | US\$'000     | US\$'000      | US\$'000          | US\$'000     | US\$'000      |
| Present value of funded obligations (note (i)) . . . . . | 8,445             | 1,397        | 9,842        | 9,654             | 1,586        | 11,240        | 12,764            | 1,663        | 14,427        |
| Fair value of plan assets (note (ii)) . . . . .          | (803)             | —            | (803)        | (733)             | —            | (733)         | (870)             | —            | (870)         |
| Deficit of funded plans . . . . .                        | <u>7,642</u>      | <u>1,397</u> | <u>9,039</u> | <u>8,921</u>      | <u>1,586</u> | <u>10,507</u> | <u>11,894</u>     | <u>1,663</u> | <u>13,557</u> |

## (i) Movement in the present value of defined benefit obligations:

|  | For the period from<br>November 4, 2010 to<br>December 31, 2010 |              |              | For the year ended<br>December 31, 2011 |              |               | For the year ended<br>December 31, 2012 |              |               |
|--|---|--------------|--------------|---|--------------|---------------|---|--------------|---------------|
|  | Non-U.S.<br>plans   | US ERP       | Total        | Non-U.S.<br>plans                       | US ERP       | Total         | Non-U.S.<br>plans                       | US ERP       | Total         |
|  | US\$'000  | US\$'000     | US\$'000     | US\$'000                                | US\$'000     | US\$'000      | US\$'000                                | US\$'000     | US\$'000      |
| Opening balance . . . . .                                      | —   | —            | —            | 8,445                                   | 1,397        | 9,842         | 9,654                                   | 1,586        | 11,240        |
| Acquisition of business  | 8,436   | 1,420        | 9,856        | —                                       | —            | —             | —                                       | —            | —             |
| Current service cost . . . . .                                 | 60  | —            | 60           | 732                                     | —            | 732           | 863                                     | —            | 863           |
| Interest cost . . . . .  | 48  | 5            | 53           | 591                                     | 71           | 662           | 664                                     | 67           | 731           |
| (Gains)/losses from changes in financial assumptions . . . . . | (99)  | (28)         | (127)        | 484                                     | 118          | 602           | 1,221                                   | 179          | 1,400         |
| Experience losses/(gains) . . . . .                            | —   | —            | —            | 575                                     | —            | 575           | 810                                     | (169)        | 641           |
| Exchange differences . . . . .                                 | —   | —            | —            | (898)                                   | —            | (898)         | 605                                     | —            | 605           |
| Benefits paid . . . . .  | —   | —            | —            | (275)                                   | —            | (275)         | (1,053)                                 | —            | (1,053)       |
| Ending balance . . . . .                                       | <u>8,445</u>  | <u>1,397</u> | <u>9,842</u> | <u>9,654</u>                            | <u>1,586</u> | <u>11,240</u> | <u>12,764</u>                           | <u>1,663</u> | <u>14,427</u> |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

(a) *Pension — defined benefit plans (continued)*

(ii) Movement in the fair value of plan assets:

|   | For the period from<br>November 4, 2010 to<br>December 31, 2010 |          |          | For the year ended<br>December 31, 2011 |          |          | For the year ended<br>December 31, 2012 |          |          |
|---|---|----------|----------|---|----------|----------|---|----------|----------|
|   | Non-U.S.<br>plans   | US ERP   | Total    | Non-U.S.<br>plans                       | US ERP   | Total    | Non-U.S.<br>plans                       | US ERP   | Total    |
|   | US\$'000  | US\$'000 | US\$'000 | US\$'000                                | US\$'000 | US\$'000 | US\$'000                                | US\$'000 | US\$'000 |
| Opening balance . . . . .   | —   | —        | —        | 803                                     | —        | 803      | 733                                     | —        | 733      |
| Acquisition of business   | 787   | —        | 787      | —                                       | —        | —        | —                                       | —        | —        |
| Interest income . . . . .   | 5   | —        | 5        | 63                                      | —        | 63       | 57                                      | —        | 57       |
| Return on plan assets,<br>excluding amounts<br>included in interest<br>income . . . . . | 11  | —        | 11       | (48)                                    | —        | (48)     | 25                                      | —        | 25       |
| Employer contributions  | —   | —        | —        | 275                                     | —        | 275      | 1,053                                   | —        | 1,053    |
| Exchange differences . .  | —   | —        | —        | (85)                                    | —        | (85)     | 55                                      | —        | 55       |
| Benefits paid . . . . .   | —   | —        | —        | (275)                                   | —        | (275)    | (1,053)                                 | —        | (1,053)  |
| Ending balance . . . . .  | 803   | —        | 803      | 733                                     | —        | 733      | 870                                     | —        | 870      |

Plan assets comprise as follows:

|                    | As at December 31, |      |      |
|--------------------|--------------------|------|------|
|                    | 2010               | 2011 | 2012 |
| Equities . . . . . | 35%                | 33%  | 36%  |
| Bonds . . . . .    | 40%                | 38%  | 31%  |
| Cash . . . . .     | 25%                | 29%  | 33%  |
|                    | 100%               | 100% | 100% |

Amounts recognized in other comprehensive income:

|  | For the period from<br>November 4, 2010 to<br>December 31, 2010 |          | For the year ended<br>December 31, 2011 |          | For the year ended<br>December 31, 2012 |          |
|--|---|----------|---|----------|---|----------|
|  | Non-US<br>plans   | US ERP   | Non-US<br>plans                         | US ERP   | Non-US<br>plans                         | US ERP   |
|  | US\$'000  | US\$'000 | US\$'000                                | US\$'000 | US\$'000                                | US\$'000 |
| Gains/(losses) from changes in<br>financial assumptions . . . . .                    | 99  | 28       | (484)                                   | (118)    | (1,221)                                 | (179)    |
| Experience (losses)/gains . . . . .  | —   | —        | (575)                                   | —        | (810)                                   | 169      |
| Return on plan assets, excluding<br>amounts included in interest<br>income . . . . . | 11  | —        | (48)                                    | —        | 25                                      | —        |
| Total . . . . .  | 110   | 28       | (1,107)                                 | (118)    | (2,006)                                 | (10)     |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

(a) *Pension — defined benefit plans (continued)*

Amount recognized in income statement:

|   | For the period from<br>November 4, 2010 to<br>December 31, 2010 |          | For the year ended<br>December 31, 2011 |           | For the year ended<br>December 31, 2012 |           |
|---|---|----------|---|-----------|---|-----------|
|   | Non-US<br>plans   | US ERP   | Non-US<br>plans                         | US ERP    | Non-US<br>plans                         | US ERP    |
|   | US\$'000  | US\$'000 | US\$'000                                | US\$'000  | US\$'000                                | US\$'000  |
| Current service cost . . . . .                            | 60  | —        | 732                                     | —         | 863                                     | —         |
| Interest cost . . . . .                                   | 43  | 5        | 528                                     | 71        | 607                                     | 67        |
| <b>Total . . . . .</b>                                    | <b>103</b>  | <b>5</b> | <b>1,260</b>                            | <b>71</b> | <b>1,470</b>                            | <b>67</b> |
| Included in:  |   |          |   |           |   |           |
| Cost of sales . . . . .                                   | 37  | —        | 928                                     | —         | 863                                     | —         |
| Engineering and<br>product development<br>costs . . . . . | 34  | —        | 86                                      | —         | 359                                     | —         |
| Selling and distribution<br>costs . . . . .               | 4   | —        | 4                                       | —         | 7                                       | —         |
| Administrative<br>expenses . . . . .                      | 28  | 5        | 242                                     | 71        | 241                                     | 67        |

Principal actuarial assumptions used were as follows:

|                                 | December 31, 2010 |        | December 31, 2011 |        | December 31, 2012 |        |
|---------------------------------|-------------------|--------|-------------------|--------|-------------------|--------|
|                                 | Non-US<br>plans   | US ERP | Non-US<br>plans   | US ERP | Non-US<br>plans   | US ERP |
| Discount rate . . . . .         | 7.08%             | 5.10%  | 6.74%             | 4.25%  | 5.58%             | 2.83%  |
| Salary increase rate . . . . .  | 4.40%             | NA     | 4.43%             | NA     | 3.71%             | NA     |
| Price inflation rate . . . . .  | 3.40%             | NA     | 3.43%             | NA     | 3.41%             | NA     |
| Pension increase rate . . . . . | 2.00%             | NA     | 2.00%             | NA     | 2.00%             | NA     |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

(a) *Pension — defined benefit plans (continued)*

Sensitivity analysis on (decrease)/increase of pension obligations:

|  | December 31, 2010 |          | December 31, 2011 |          | December 31, 2012 |          |
|--|-------------------|----------|-------------------|----------|-------------------|----------|
|  | Non-US<br>plans   | US ERP   | Non-US<br>plans   | US ERP   | Non-US<br>plans   | US ERP   |
|  | US\$'000          | US\$'000 | US\$'000          | US\$'000 | US\$'000          | US\$'000 |
| 1% increase in<br>discount rate . . . . .        | (7,326)           | (1,271)  | (8,412)           | (1,454)  | (11,022)          | (1,534)  |
| 1% decrease in<br>discount rate . . . . .        | 9,817             | 1,539    | 11,196            | 1,733    | 14,969            | 1,806    |
| 1% increase in salary<br>increase rate . . . . . | 9,414             | NA       | 10,624            | NA       | 14,217            | NA       |
| 1% decrease in salary<br>increase rate . . . . . | (7,683)           | NA       | (8,823)           | NA       | (11,638)          | NA       |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation the same actuarial method has been applied in arriving at the pension liability recognized in the balance sheet.

(b) *Extended disability benefits*

Costs associated with extended disability benefits provided to injured employees in US are accrued throughout the duration of active employment. Workforce demographic data and historical experience are utilised to develop projections of time frames and related expenses for these post-employment benefits.

(c) *Workers compensation*

The Group is self-insured for certain levels of workers' compensation for hourly workforce and accrues estimated costs for filed claims based upon an actuarially determined estimate. Workers' compensation liability includes benefits related to medical, dental and vision benefits.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 19 PROVISIONS

|                             | As at December 31, |               |               |               |               |               |               |               |               |
|-----------------------------|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                             | 2010               |               |               | 2011          |               |               | 2012          |               |               |
|                             | Current            | Non-current   | Total         | Current       | Non-current   | Total         | Current       | Non-current   | Total         |
|                             | US\$'000           | US\$'000      | US\$'000      | US\$'000      | US\$'000      | US\$'000      | US\$'000      | US\$'000      | US\$'000      |
| Restructuring               |                    |               |               |               |               |               |               |               |               |
| (note (a)) . . . . .        | 32,763             | —             | 32,763        | 1,589         | —             | 1,589         | 5,715         | —             | 5,715         |
| Litigation (note (b)) . . . | 266                | —             | 266           | 316           | —             | 316           | 442           | —             | 442           |
| Environmental               |                    |               |               |               |               |               |               |               |               |
| liabilities (note (c)) . .  | 115                | 12,604        | 12,719        | 226           | 12,315        | 12,541        | 220           | 12,284        | 12,504        |
| Warranties . . . . .        | 11,351             | 13,214        | 24,565        | 9,380         | 15,735        | 25,115        | 9,666         | 22,732        | 32,398        |
| Decommissioning             |                    |               |               |               |               |               |               |               |               |
| (note (d)) . . . . .        | —                  | 4,657         | 4,657         | —             | 5,178         | 5,178         | —             | 5,714         | 5,714         |
|                             | <u>44,495</u>      | <u>30,475</u> | <u>74,970</u> | <u>11,511</u> | <u>33,228</u> | <u>44,739</u> | <u>16,043</u> | <u>40,730</u> | <u>56,773</u> |

Movement of provisions for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 is as follows:

|                                       | Restructuring | Litigation | Environmental liabilities | Warranties    | Decommissioning | Total         |
|---------------------------------------|---------------|------------|---------------------------|---------------|-----------------|---------------|
|                                       | US\$'000      | US\$'000   | US\$'000                  | US\$'000      | US\$'000        | US\$'000      |
| <b>At November 4, 2010 . . . . .</b>  | —             | —          | —                         | —             | —               | —             |
| Acquisition of business               |               |            |                           |               |                 |               |
| (Note 31) . . . . .                   | —             | 380        | 12,719                    | 24,020        | 4,609           | 41,728        |
| Additions . . . . .                   | 32,763        | —          | —                         | 1,237         | 48              | 34,048        |
| Payments . . . . .                    | —             | (114)      | —                         | (747)         | —               | (861)         |
| Exchange differences . . . . .        | —             | —          | —                         | 55            | —               | 55            |
| <b>At December 31, 2010 . . . . .</b> | <u>32,763</u> | <u>266</u> | <u>12,719</u>             | <u>24,565</u> | <u>4,657</u>    | <u>74,970</u> |
| Additions . . . . .                   | 1,776         | 80         | —                         | 11,525        | 578             | 13,959        |
| Payments . . . . .                    | (32,950)      | —          | (154)                     | (10,853)      | —               | (43,957)      |
| Exchange differences . . . . .        | —             | (30)       | (24)                      | (122)         | (57)            | (233)         |
| <b>At December 31, 2011 . . . . .</b> | <u>1,589</u>  | <u>316</u> | <u>12,541</u>             | <u>25,115</u> | <u>5,178</u>    | <u>44,739</u> |
| Additions . . . . .                   | 7,446         | 241        | —                         | 16,740        | 484             | 24,911        |
| Payments . . . . .                    | (3,320)       | (142)      | (24)                      | (9,502)       | —               | (12,988)      |
| Exchange differences . . . . .        | —             | 27         | (13)                      | 45            | 52              | 111           |
| <b>At December 31, 2012 . . . . .</b> | <u>5,715</u>  | <u>442</u> | <u>12,504</u>             | <u>32,398</u> | <u>5,714</u>    | <u>56,773</u> |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****19 PROVISIONS (continued)**

Note:

## (a) Restructuring

- (i) In 2010, the Listing Business and the United Automobile, Aerospace and Agricultural Implement Workers of America ratified the Nexteer Automotive Memorandum of Understanding ("MOU"). The MOU includes wage and separation provisions to achieve a reduced ongoing wage rate. Effective at the acquisition date, hourly employees were offered a (i) wage level buy-down (mandatory for skilled trade employees and voluntary for other employees), (ii) voluntary retirement incentives, or (iii) buy-out severance option. There is no requirement on subsequent completion of a certain period of service. The amounts recorded for restructuring are related to this program and included in cost of sales in the combined income statement.
- (ii) Restructuring costs in 2012 relate to certain layer of management headcount reductions and exit costs in Brazil, Australia and the US.

## (b) Litigation

The balance represents a provision primarily for certain labour claims brought against the Group. Management is of the view that, after taking appropriate legal advice, the outcome of these legal claims will not give rise to significant losses beyond the amounts provided at each reporting date.

## (c) Environmental liabilities

A provision is recognized for the present value of remediation costs to be incurred for the restoration of the manufacturing sites upon the initial recognition of the related assets.

## (d) Decommissioning

This represents asset retirement obligations at certain of the Group's manufacturing sites.

**20 DEFERRED REVENUE**

The Group periodically receives upfront consideration from customers in connection with engineering and prototyping pre-production, program-specific activities. These revenue amounts are deferred and recognized over the life of the related program, which typically ranges between four and seven years. The carrying amount of deferred revenue is as follows:

|                                    | As at December 31, |             |          |          |             |          |          |             |          |
|------------------------------------|--------------------|-------------|----------|----------|-------------|----------|----------|-------------|----------|
|                                    | 2010               |             |          | 2011     |             |          | 2012     |             |          |
|                                    | Current            | Non-current | Total    | Current  | Non-current | Total    | Current  | Non-current | Total    |
| US\$'000                           | US\$'000           | US\$'000    | US\$'000 | US\$'000 | US\$'000    | US\$'000 | US\$'000 | US\$'000    | US\$'000 |
| Prototype and engineering. . . . . | 48                 | 2,005       | 2,053    | 1,574    | 24,024      | 25,598   | 6,907    | 46,034      | 52,941   |

Movement of deferred revenue for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 are as follows:

|  | US\$'000 |
|--|----------|
| <b>At November 4, 2010.</b> . . . . .  | —        |
| Additions . . . . .                    | 2,053    |
| <b>At December 31, 2010.</b> . . . . . | 2,053    |
| Additions . . . . .                    | 24,016   |
| Amortization . . . . .                 | (471)    |
| <b>At December 31, 2011.</b> . . . . . | 25,598   |
| Additions . . . . .                    | 30,321   |
| Amortization . . . . .                 | (2,978)  |
| <b>At December 31, 2012.</b> . . . . . | 52,941   |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****21 TRADE PAYABLES**

Aging analysis of trade payables based on credit terms is as follows:

|                             | As at December 31, |                |                |
|-----------------------------|--------------------|----------------|----------------|
|                             | 2010               | 2011           | 2012           |
|                             | US\$'000           | US\$'000       | US\$'000       |
| Not overdue .....           | 217,352            | 229,829        | 260,576        |
| Overdue up to 30 days ..... | 21,776             | 17,597         | 15,588         |
| Overdue 30 to 60 days ..... | 10,336             | 8,645          | 10,148         |
| Overdue 60 to 90 days ..... | 2,035              | 636            | 3,000          |
| Overdue over 90 days .....  | 3,168              | 2,980          | 6,429          |
|                             | <u>254,667</u>     | <u>259,687</u> | <u>295,741</u> |

**22 OTHER PAYABLES AND ACCRUALS**

|  | As at December 31, |                |                |
|--|--------------------|----------------|----------------|
|  | 2010               | 2011           | 2012           |
|  | US\$'000           | US\$'000       | US\$'000       |
| Accrued expenses .....   | 54,970             | 47,294         | 63,415         |
| Deposits from customers .....  | 8,996              | 8,764          | 6,761          |
| Other taxes payable .....  | 4,709              | 5,778          | 1,568          |
| Payables to Beijing E-Town<br>(Note 32(c)(i)) .....                        | 20,458             | 10,458         | 10,458         |
| Payables to PCM China (Note 32(c)(ii)) ..                                  | 975                | 3,764          | 3,764          |
| Dividends payable to non-controlling<br>shareholders of subsidiaries ..... | —                  | 10,120         | —              |
| Others .....   | 1,331              | 2,725          | 3,110          |
|  | <u>91,439</u>      | <u>88,903</u>  | <u>89,076</u>  |
| Less: non-current portion .....  | <u>(626)</u>       | <u>(1,414)</u> | <u>(3,527)</u> |
| Current portion .....  | <u>90,813</u>      | <u>87,489</u>  | <u>85,549</u>  |

**23 OTHER (LOSSES)/GAINS, NET**

|                                       | For the<br>period from<br>November 4, to<br>December 31,<br>2010 | For the year ended<br>December 31, |                |
|---------------------------------------|--|------------------------------------|----------------|
|                                       | US\$'000   | 2011                               | 2012           |
|                                       | US\$'000   | US\$'000                           | US\$'000       |
| Foreign exchange (losses)/gains ..... | (393)  | 11,036                             | (3,349)        |
| Others .....                          | (245)  | (2,098)                            | (12)           |
|                                       | <u>(638)</u>   | <u>8,938</u>                       | <u>(3,361)</u> |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 24 EXPENSE BY NATURE

|  | For the<br>period from<br>November 4, to<br>December 31,<br>2010 | For the year ended<br>December 31, |                  |
|--|--|------------------------------------|------------------|
|  | US\$'000   | 2011<br>US\$'000                   | 2012<br>US\$'000 |
| Raw materials used .....   | 89,145   | 1,320,418                          | 1,264,615        |
| Changes in inventories of finished goods<br>and work-in-progress .....   | (13,336)   | (13,404)                           | (12,243)         |
| Employee benefit costs (Note 25) .....   | 32,039   | 386,625                            | 341,868          |
| Temporary labour costs .....   | 13,559   | 41,972                             | 31,472           |
| Restructuring costs (Note 19) .....  | 32,763   | 1,776                              | 7,446            |
| Supplies and tools .....   | 10,389   | 142,815                            | 119,207          |
| Depreciation on property, plant and<br>equipment (Note 6) .....  | 3,740  | 53,273                             | 53,283           |
| Amortization on  |  |                                    |                  |
| — land use rights (Note 7) .....   | 2  | 25                                 | 25               |
| — intangible assets (Note 8) .....   | —  | 675                                | 4,562            |
| Impairment charges on  |  |                                    |                  |
| — inventories .....  | 327  | 3,095                              | 4,844            |
| — receivables (Note 11) .....  | 35   | 1,141                              | 1,570            |
| Utilities .....  | 3,190  | 39,548                             | 39,128           |
| Transportation expenses .....  | 1,045  | 27,214                             | 11,328           |
| Operating lease expenses .....   | 830  | 10,380                             | 10,690           |
| Warranty expenses (Note 19) .....  | 1,237  | 11,525                             | 16,740           |
| Auditors' remuneration .....   | 128  | 1,292                              | 3,528            |
| Acquisition-related costs (Note 31) .....  | 12,320   | —                                  | —                |
| Listing expenses .....   | —  | —                                  | 6,634            |
| Others .....   | 25,925   | 139,119                            | 175,821          |
| Total cost of sales, engineering and<br>product development costs, selling and<br>distribution, and administrative<br>expenses ..... | <u>213,338</u>   | <u>2,167,489</u>                   | <u>2,080,518</u> |



## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 25 EMPLOYEE BENEFIT COSTS

|   | For the<br>period from<br>November 4, to<br>December 31,<br>2010 | For the year ended<br>December 31, |                  |
|---|--|------------------------------------|------------------|
|   | US\$'000   | 2011<br>US\$'000                   | 2012<br>US\$'000 |
| Salary expenses .....                                   | 27,593   | 310,055                            | 299,275          |
| Pension costs — defined contribution<br>plans.....      | 1,058  | 16,508                             | 19,777           |
| Pension costs — defined benefit plans<br>(Note 18)..... | 108  | 1,331                              | 1,537            |
| Other employee costs .....                              | 3,280  | 58,731                             | 21,279           |
|   | <u>32,039</u>  | <u>386,625</u>                     | <u>341,868</u>   |

(a) *Share-based compensation*

On December 11, 2012, the Group adopted a deferred incentive compensation plan, pursuant to which the plan participants are awarded incentive compensation that is derived from the appreciation in the combined value of certain subsidiaries of the Group between December 31, 2010 and the earlier of December 31, 2015 (the “continuous employment payment event”) and the completion of an initial public offering of the Company (the “IPO payment event”). The compensation will be paid to the participants who complete a period of service up to January 15, 2016 under the continuous employment payment event or, in case of IPO payment event, the completion of the initial public offering of the Company, whichever is earlier.

The fair value of the liability of the above-mentioned incentive compensation granted on December 11, 2012 determined using the Black-Scholes Model with inputs including the risk-free interest rate of 0.36%, expected dividend yield of 0%, and expected volatility of the value of comparable companies of 35%, was US\$15,600,000, of which US\$433,000 of the benefit was earned during the year ended December 31, 2012.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 25 EMPLOYEE BENEFIT COSTS (continued)

(b) *Directors' emoluments*

The remuneration of each director for the period from November 4, to December 31, 2010 is set out below:

| Name                        | Fees     | Salary   | Discretionary<br>bonus<br>(note (i)) | Other<br>benefits<br>(note (ii)) | Employer's<br>contribution<br>to retirement<br>plan | Total    |
|-----------------------------|----------|----------|--------------------------------------|----------------------------------|---|----------|
|                             | US\$'000 | US\$'000 | US\$'000                             | US\$'000                         | US\$'000  | US\$'000 |
| Mr. Guibin Zhao*            | —        | —        | —                                    | —                                | —   | —        |
| Mr. Yi Fan                  | —        | —        | —                                    | —                                | —   | —        |
| Mr. Jian Zhu                | —        | —        | —                                    | —                                | —   | —        |
| Mr. Michael Paul Richardson | —        | 32       | 54                                   | —                                | —   | 86       |
| Mr. Qunhui Luo              | —        | —        | —                                    | —                                | —   | —        |
| Mr. Hing Lun Tsang          | —        | —        | —                                    | —                                | —   | —        |
| Mr. Kevin Cheng Wei         | —        | —        | —                                    | —                                | —   | —        |
| Mr. Jianjun Liu             | —        | —        | —                                    | —                                | —   | —        |
|                             | —        | 32       | 54                                   | —                                | —   | 86       |

The remuneration of each director for the year ended December 31, 2011 is set out below:

| Name                        | Fees     | Salary   | Discretionary<br>bonus<br>(note (i)) | Other<br>benefits<br>(note (ii)) | Employer's<br>contribution<br>to retirement<br>plan | Total    |
|-----------------------------|----------|----------|--------------------------------------|----------------------------------|---|----------|
|                             | US\$'000 | US\$'000 | US\$'000                             | US\$'000                         | US\$'000  | US\$'000 |
| Mr. Guibin Zhao*            | 60       | —        | 40                                   | —                                | —   | 100      |
| Mr. Yi Fan                  | 50       | —        | 13                                   | —                                | —   | 63       |
| Mr. Jian Zhu                | —        | 150      | 13                                   | —                                | —   | 163      |
| Mr. Michael Paul Richardson | —        | 380      | 274                                  | 57                               | 18  | 729      |
| Mr. Qunhui Luo              | —        | —        | —                                    | —                                | —   | —        |
| Mr. Hing Lun Tsang          | —        | —        | —                                    | —                                | —   | —        |
| Mr. Kevin Cheng Wei         | —        | —        | —                                    | —                                | —   | —        |
| Mr. Jianjun Liu             | —        | —        | —                                    | —                                | —   | —        |
|                             | 110      | 530      | 340                                  | 57                               | 18  | 1,055    |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 25 EMPLOYEE BENEFIT COSTS (continued)

(b) *Directors' emoluments (continued)*

The remuneration of each director for the year ended December 31, 2012 is set out below:

| Name                        | Fees     | Salary   | Discretionary<br>bonus<br>(note (i)) | Other<br>benefits<br>(note (ii)) | Employer's<br>contribution<br>to retirement<br>plan | Total    |
|-----------------------------|----------|----------|--------------------------------------|----------------------------------|---|----------|
|                             | US\$'000 | US\$'000 | US\$'000                             | US\$'000                         | US\$'000  | US\$'000 |
| Mr. Guibin Zhao*            | 150      | —        | 101                                  | —                                | —   | 251      |
| Mr. Yi Fan                  | 70       | —        | 34                                   | —                                | —   | 104      |
| Mr. Jian Zhu                | —        | 120      | 59                                   | 17                               | —   | 196      |
| Mr. Michael Paul Richardson | —        | 412      | 363                                  | 81                               | 18  | 874      |
| Mr. Qunhui Luo              | —        | —        | —                                    | —                                | —   | —        |
| Mr. Hing Lun Tsang          | —        | —        | —                                    | —                                | —   | —        |
| Mr. Kevin Cheng Wei         | —        | —        | —                                    | —                                | —   | —        |
| Mr. Jianjun Liu             | —        | —        | —                                    | —                                | —   | —        |
|                             | 220      | 532      | 557                                  | 98                               | 18  | 1,425    |

\* *Chief executive of the Company*

Notes:

- (i) Discretionary bonus comprises annual incentive compensation plan which is payable within one year from the year-end; and deferred compensation plans to be settled when all the conditions are met and with approval by the board of directors (certain of which with estimates based upon the extent of meeting certain performance targets).
- (ii) Other benefits include payments made for dental, disability and healthcare covers; and contributions to social security, health-saving and 401K accounts.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 25 EMPLOYEE BENEFIT COSTS (continued)

(c) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the period from November 4, to December 31, 2010 and each of the years ended December 31, 2011 and 2012 include one, one and one director respectively whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals are as follows:

|                                | For the<br>period from<br>November 4, to<br>December 31,<br>2010 | For the year ended<br>December 31, |                  |
|--------------------------------|--|------------------------------------|------------------|
|                                | US\$'000   | 2011<br>US\$'000                   | 2012<br>US\$'000 |
| Salaries and allowances .....  | 187  | 1,902                              | 1,614            |
| Discretionary bonuses.....     | 379  | 1,194                              | 872              |
| Other benefits.....            | 6  | 417                                | 1,731            |
| Post-employment benefits ..... | —  | 48                                 | 71               |
|                                | 572  | 3,561                              | 4,288            |

The emoluments of the remaining individuals fell within the following bands:

|   | Number of individuals |   |   |
|---|-----------------------|---|---|
| Nil-HK\$500,000 (Nil-US\$65,000).....                               | 1                     | — | — |
| HK\$1,000,000–HK\$1,500,000<br>(US\$128,000–US\$193,000) .....      | 2                     | — | — |
| HK\$1,500,000–HK\$2,000,000<br>(US\$193,000–US\$257,000) .....      | 1                     | — | — |
| HK\$5,000,000–HK\$5,500,000<br>(US\$643,000–US\$707,000) .....      | —                     | 3 | — |
| HK\$6,000,000–HK\$6,500,000<br>(US\$774,000–US\$839,000) .....      | —                     | — | 1 |
| HK\$7,500,000–HK\$8,000,000<br>(US\$967,000–US\$1,031,000) .....    | —                     | — | 1 |
| HK\$8,500,000–HK\$9,000,000<br>(US\$1,097,000–US\$1,161,000).....   | —                     | — | 1 |
| HK\$10,000,001–HK\$10,500,000<br>(US\$1,282,000–US\$1,346,000)..... | —                     | — | 1 |
| HK\$12,000,000–HK\$12,500,000<br>(US\$1,542,000–US\$1,606,000)..... | —                     | 1 | — |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 26 FINANCE COSTS, NET

|   | For the<br>period from<br>November 4, to<br>December 31,<br>2010 | For the year ended<br>December 31, |               |
|---|--|------------------------------------|---------------|
|   |  | 2011                               | 2012          |
|   | US\$'000   | US\$'000                           | US\$'000      |
| <b>Finance income</b>   |  |                                    |               |
| Interest on bank deposits .....                                       | 72   | 838                                | 562           |
| <b>Finance costs</b>  |  |                                    |               |
| Interest expense on bank borrowings                                   |  |                                    |               |
| — Wholly repayable within 5 years . . . .                             | 934  | 10,001                             | 16,274        |
| — Not wholly repayable within 5 years.                                | —  | —                                  | 2,048         |
| Interest expense on other borrowings                                  |  |                                    |               |
| — Wholly repayable within 5 years . . . .                             | 15   | 170                                | —             |
|   | 949  | 10,171                             | 18,322        |
| Interest on finance leases .....                                      | —  | 64                                 | 69            |
| Guarantee fees .....  | 737  | 7,472                              | 7,818         |
| Other finance costs .....   | 58   | 368                                | 1,140         |
|   | 1,744  | 18,075                             | 27,349        |
| Less: amount capitalized in qualifying<br>assets (Notes 6 and 8)..... | —  | (1,473)                            | (5,058)       |
|   | 1,744  | 16,602                             | 22,291        |
| <b>Finance costs, net</b> .....                                       | <b>1,672</b>   | <b>15,764</b>                      | <b>21,729</b> |

## 27 INCOME TAX (CREDIT)/EXPENSE

|  | For the<br>period from<br>November 4, to<br>December 31,<br>2010 | For the year ended<br>December 31, |          |
|--|--|------------------------------------|----------|
|  |  | 2011                               | 2012     |
|  | US\$'000   | US\$'000                           | US\$'000 |
| Current income tax .....                 | 588  | 6,177                              | 6,236    |
| Deferred income tax credit (Note 9)..... | (881)  | (773)                              | (2,669)  |
|  | (293)  | 5,404                              | 3,567    |

Taxation on the Group's profits has been calculated on the estimated assessable profits for the period/year at the statutory rates of 25%, 19% and 35% in the PRC, Poland and U.S. respectively from where the Group's profits were mainly generated.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****27 INCOME TAX (CREDIT)/EXPENSE (continued)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined entities as follows:

|  | For the<br>period from<br>November 4, to<br>December 31,<br>2010 | For the year ended<br>December 31, |                  |
|--|--|------------------------------------|------------------|
|  | US\$'000   | 2011<br>US\$'000                   | 2012<br>US\$'000 |
| (Loss)/profit before income tax . . . . .  | (58,960)   | 73,437                             | 62,194           |
| Tax calculated at rates applicable to<br>profits in respective countries . . . . .                       | (19,707)   | 17,277                             | 20,507           |
| Expenses not deductible<br>for tax purposes . . . . .  | 428  | 13,014                             | 8,025            |
| Tax credits (note (i)) . . . . .   | —  | (4,636)                            | (1,331)          |
| Preferential rates due to tax holidays<br>(note (ii)) . . . . .  | (785)  | (10,100)                           | (4,470)          |
| Tax losses and deductible temporary<br>differences for which no deferred tax<br>was recognized . . . . . | 19,734   | —                                  | —                |
| Recognition of previously unrecognized<br>tax losses and deductible temporary<br>differences . . . . .   | —  | (12,429)                           | (24,075)         |
| Others . . . . .   | 37   | 2,278                              | 4,911            |
| Tax (credit)/charge . . . . .  | (293)  | 5,404                              | 3,567            |

## Notes:

- (i) Mainly represents tax benefits granted to research and development activities in US.
- (ii) Derived mainly from profits subject to income tax exemption up to 2020 for the Group's investment in Special Economic Zones in Poland according to the relevant Polish tax rules.

**28 (LOSS)/EARNINGS PER SHARE**

No (loss)/earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Group reorganization and the preparation of the results for the Relevant Periods on a combined basis as disclosed in Note 1.2.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 29 COMBINED STATEMENT OF CASH FLOWS

(a) *Cash generated from operations*

|  | For the   | For the year ended |          |
|--|---|--------------------|----------|
|  | period from<br>November 4, to<br>December 31,<br>2010 | 2011               | 2012     |
|  | US\$'000  | US\$'000           | US\$'000 |
| (Loss)/profit before income tax . . . . .                          | (58,960)  | 73,437             | 62,194   |
| Adjustments for:   |   |                    |          |
| Finance costs . . . . .  | 1,744   | 16,602             | 22,291   |
| Depreciation on property, plant and<br>equipment . . . . .         | 3,740   | 53,273             | 53,283   |
| Amortization on land use rights and<br>intangible assets . . . . . | 2   | 700                | 4,587    |
| Impairment charges on inventories and<br>receivables . . . . .     | 362   | 4,236              | 6,414    |
| Exchange differences . . . . .                                     | —   | (8,117)            | 2,022    |
| Others . . . . .   | —   | (312)              | 2,948    |
|  | (53,112)  | 139,819            | 153,739  |
| Changes in working capital:  |   |                    |          |
| — Decrease/(increase) in receivables . . .                         | 21,466  | (15,746)           | (32,926) |
| — Decrease/(increase) in inventories . . .                         | 9,255   | (8,413)            | (22,102) |
| — Increase/(decrease) in payables and<br>accruals . . . . .        | 36,074  | (7,041)            | 20,675   |
| — Increase/(decrease) in provisions . . .                          | 33,242  | (30,231)           | 12,034   |
| — Increase in retirement benefits and<br>compensations . . . . .   | 187   | 2,712              | 3,346    |
| — Increase in deferred revenue . . . . .                           | 2,053   | 23,545             | 27,343   |
| Net cash generated from operations . . . . .                       | 49,165  | 104,645            | 162,109  |

(b) *Major non-cash transactions*

- (i) During the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012, the Group purchased property, plant and equipment which were recorded in payables in the amounts of US\$8,379,000, US\$9,774,000 and US\$38,422,000 respectively.
- (ii) During the year ended December 31, 2011, certain subsidiaries declared dividends of US\$10,189,000 to their non-controlling shareholders of which US\$344,000 and US\$3,129,000 were paid in 2011 and 2012 respectively and the remaining US\$6,951,000, which was reinvested in the subsidiaries in 2012, was excluded from financing activities in the combined statement of cash flows.
- (iii) The capital contribution into PCM US and PCM Singapore was US\$110,000,000 of which US\$10,000,000 was a non-cash transaction during the period from November 4, 2010 to December 31, 2010. This US\$10,000,000 related to a deposit for the acquisition of business and was paid directly to General Motors by Beijing E-Town and thus recorded as a related party payable of the Group as at December 31, 2010.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****30 COMMITMENTS***(a) Capital commitments*

The Group has capital commitments of US\$43,394,000, US\$191,710,000 and US\$201,617,000 as at December 31, 2010, 2011 and 2012 respectively to purchase property, plant and equipment which are contracted but not provided for.

*(b) Purchase commitments*

The Group entered into a purchase agreement with a supplier to purchase an annual volume amounting to US\$10,434,000 throughout 2014 representing a total outstanding purchase obligation of US\$41,736,000, US\$31,302,000 and US\$20,867,000 as at December 31, 2010, 2011 and 2012 respectively. The Group expects to meet these commitments through normal purchases to be used in production through the commitment date.

*(c) Operating lease commitments*

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|                    | As at December 31, |               |               |
|--------------------|--------------------|---------------|---------------|
|                    | 2010               | 2011          | 2012          |
|                    | US\$'000           | US\$'000      | US\$'000      |
| Up to 1 year ..... | 7,950              | 8,825         | 9,924         |
| 1 to 5 years ..... | 18,569             | 24,891        | 26,314        |
| Over 5 years ..... | 6,012              | 5,747         | 3,600         |
|                    | <u>32,531</u>      | <u>39,463</u> | <u>39,838</u> |

**31 BUSINESS COMBINATION**

As mentioned in Section II. Note 1.1(a)(i), on November 30, 2010, PCM China acquired the entire equity interests in GM Global Steering and thereby the operations of the Listing Business.

Details of the total purchase price of US\$465,000,000 are as below:

|   |                |
|---|----------------|
|   | US\$'000       |
| — Bank borrowings by PCM US (Note 17(a)) .....                  | 190,000        |
| — Bank borrowings by PCM Singapore (Note 17(a)) .....           | 126,000        |
| — Cash of PCM China .....                                       | 110,000        |
| — Consideration payable by installments to General Motors ..... | 39,000         |
|   | <u>465,000</u> |



**II. NOTES ON THE FINANCIAL INFORMATION (continued)****31 BUSINESS COMBINATION (continued)**

The following table summarises the consideration paid, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date:

|  | US\$'000              |
|--|-----------------------|
| Property, plant and equipment .....          | 265,844               |
| Land use right .....                         | 738                   |
| Deferred tax assets .....                    | 15,958                |
| Inventories .....                            | 160,865               |
| Receivables and prepayments .....            | 369,237               |
| Cash and cash equivalents .....              | 108,219               |
| Restricted bank deposits .....               | 760                   |
| Total identifiable assets acquired .....     | <u>921,621</u>        |
| Borrowings .....                             | (52,867)              |
| Deferred tax liabilities .....               | (9,530)               |
| Payables and accruals .....                  | (331,858)             |
| Provisions .....                             | (41,728)              |
| Total identifiable liabilities assumed ..... | <u>(435,983)</u>      |
| Non-controlling interests .....              | <u>(20,638)</u>       |
| Total consideration .....                    | <u><u>465,000</u></u> |

The acquisition resulted in the recognition of non-controlling interests for two subsidiaries that were not wholly owned by the Group. Non-controlling interests related to the acquisition have been recognized at their fair value at the acquisition date.

In conjunction with the acquisition, the Group incurred a total of US\$12,320,000 acquisition-related costs for certain legal, financial and management consulting services which is charged to administrative expenses in the combined income statement.

The revenue and net loss included in the combined income statement from December 1, 2010 to December 31, 2010 contributed by the acquired business was US\$156,688,000 and US\$44,891,000 respectively.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 32 RELATED PARTY TRANSACTIONS

(a) Key management compensation

The remunerations of the chief executive officer, directors and other key management members were as follows:

|   | For the<br>period from<br>November 4, to<br>December 31,<br>2010 | For the year ended<br>December 31, |                  |
|---|--|------------------------------------|------------------|
|   | US\$'000   | 2011<br>US\$'000                   | 2012<br>US\$'000 |
| Basic salaries, other allowances and<br>benefits..... | 248  | 3,055                              | 3,878            |
| Bonuses.....  | 433  | 1,659                              | 2,215            |
| Others .....  | 6  | 510                                | 2,563            |
|   | <u>687</u>   | <u>5,224</u>                       | <u>8,656</u>     |

These remunerations are determined based on the performance of individuals and market trends.

(b) Transactions with Yubei Steering System Co., Ltd. ("Yubei Steering"), an associate of AVIC

|                         | For the<br>period from<br>November 4, to<br>December 31,<br>2010 | For the year ended<br>December 31, |                  |
|-------------------------|--|------------------------------------|------------------|
|                         | US\$'000   | 2011<br>US\$'000                   | 2012<br>US\$'000 |
| Purchase of goods ..... | —  | 10                                 | 10               |

In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms and will continue after listing.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****32 RELATED PARTY TRANSACTIONS (continued)***(c) Other transactions*

In addition to the related party transactions described in Note 17, the Group recorded the following balances with related parties which are unsecured, non-interest bearing and repayable on demand.

|  | As at December 31, |          |          |
|--|--------------------|----------|----------|
|  | 2010               | 2011     | 2012     |
|  | US\$'000           | US\$'000 | US\$'000 |
| Other receivables due from PCM China . . .                   | 10,000             | —        | —        |
| Other payables due to Beijing E-Town<br>(note (i)) . . . . . | 20,458             | 10,458   | 10,458   |
| Other payables due to PCM China<br>(note (ii)) . . . . .     | 975                | 3,764    | 3,764    |

## Notes:

- (i) At December 31, 2010, this balance mainly comprised:
- US\$10,458,000 of outstanding acquisition-related costs paid by Beijing E-Town on the Group's behalf. This balance was repaid in February 2013.
  - US\$10,000,000 related to an equity contribution by the Group in relation to the acquisition of business (refer to Note 29(b)(iii) for details) which was paid by Beijing E-Town on the Group's behalf. This balance was repaid in 2011.
- (ii) Balance represents finance costs paid by PCM China on behalf of PCM US and PCM Singapore which is expected to be settled prior to listing.

**33 SUBSEQUENT EVENTS**

- (a) Pursuant to the written resolution passed by the shareholder of the Company on June 15, 2013, the existing single share at nominal value of US\$1.00 was repurchased by the Company, and the unissued authorized share capital of US\$50,000 was cancelled. The authorized share capital of the Company was then increased to HK\$400,000,000 (equivalent to approximately US\$51,546,000) divided into 4,000,000,000 shares at nominal value of HK\$0.10 each, and the Company issued one share at nominal value of HK\$0.10 to Nexteer Hong Kong.
- (b) Pursuant to the written resolution passed by the shareholder of the Company on June 15, 2013, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the proposed share offer as described in the prospectus, the Company will capitalize an amount of HK\$167,999,999.90 (equivalent to approximately US\$21,649,000), standing to the credit of its share premium account by applying such sum to pay up in full at par a total of 1,679,999,999 shares for allotment and issue to the shareholder as at July 2, 2013.
- (c) The Group entered into an asset sale and purchase agreement on April 26, 2013 related to the disposal of, among other assets, a plant in Mexico within the North America operating segment. Management expects minimal net gain or loss on its disposal. The sale of the plant is expected to be completed by June 30, 2013.

**III. FINANCIAL INFORMATION OF THE COMPANY**

The Company was incorporated on August 21, 2012. As at December 31, 2012, the Company had cash balance of US\$1.00 representing share capital of US\$1.00. Except for this, it had no other assets, liabilities or distributable reserves as at that date.

**IV. SUBSEQUENT FINANCIAL INFORMATION**

No audited financial statements have been prepared for the Company and its subsidiaries in respect to any period subsequent to December 31, 2012. Save as disclosed in this report, no dividend or distribution has been declared or paid by the Company or any of its subsidiaries in respect of any period subsequent to December 31, 2012.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

*The following is the text of a report received from Nexteer Automotive Group Limited's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus. It is prepared and addressed to the directors of Nexteer Automotive Group Limited and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

June 20, 2013

The Directors  
Nexteer Automotive Group Limited

BOCI Asia Limited  
J.P. Morgan Securities (Far East) Limited

Dear Sirs,

We report on the financial information of GM Global Steering Holdings, LLC ("GM Global Steering") and its subsidiaries (together, "GM Global Steering Group"), which comprises the consolidated balance sheet as at November 30, 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the eleven months then ended (the "Relevant Period"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Nexteer Automotive Group Limited and is set out in Sections I to II below for inclusion in Appendix IB to the prospectus of Nexteer Automotive Group Limited dated June 20, 2013 (the "Prospectus") in connection with the initial listing of shares of Nexteer Automotive Group Limited on the Main Board of The Stock Exchange of Hong Kong Limited.

GM Global Steering was incorporated in the United States of America on March 9, 2009 as a private limited liability company. As described in Note 1 of Section II below, GM Global Steering was acquired by Pacific Century Motors, Inc. on November 30, 2010. Immediately following the acquisition, GM Global Steering ceased to be the holding company of its then subsidiaries which were contributed to certain other wholly-owned subsidiaries of Pacific Century Motors, Inc by GM Global Steering.

.....  
*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

During the Relevant Period, GM Global Steering had direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics of a Hong Kong incorporated private company.

No audited financial statements have been prepared by GM Global Steering as there is no statutory audit requirement under the applicable laws in its place of incorporation. The audited financial statements of the other companies comprising GM Global Steering Group during the Relevant Period for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1 of Section II.

The directors of Nexteer Automotive Group Limited have prepared the consolidated financial statements of GM Global Steering for the Relevant Period, in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). The directors of Nexteer Automotive Group Limited are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the “ISA”) issued by the International Auditing and Assurance Standards Board (“IAASB”) pursuant to separate terms of engagement with Nexteer Automotive Group Limited.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 2 of Section II below.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION**

The directors of Nexteer Automotive Group Limited are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 2 of Section II below and in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

### **REPORTING ACCOUNTANT'S RESPONSIBILITY**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.

### **OPINION**

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 2 of Section II below, a true and fair view of the state of affairs of GM Global Steering Group as at November 30, 2010 and of GM Global Steering Group's results and cash flows for the Relevant Period then ended.

**I. FINANCIAL INFORMATION OF GM GLOBAL STEERING GROUP**

The following is the financial information of GM Global Steering Group prepared by the directors of Nexteer Automotive Group Limited as at November 30, 2010 and for the eleven months then ended (the "Financial Information"), presented on the basis set out in Note 2 of Section II below.

The financial information is presented in U.S. dollars and all amounts are rounded to the nearest thousand (US\$'000) except when otherwise indicated.

**CONSOLIDATED BALANCE SHEET**

|   | <u>Note</u> | <u>November 30, 2010</u> |
|---|-------------|--------------------------|
|   |             | US\$'000                 |
| <b>ASSETS</b>                           |             |                          |
| <b>Non-current assets</b>               |             |                          |
| Property, plant and equipment .....     | 7           | 141,740                  |
| Land use rights .....                   | 8           | 738                      |
| Deferred income tax assets .....        | 9           | 22,519                   |
| Other receivables and prepayments ..... | 12          | 1,603                    |
|   |             | <u>166,600</u>           |
| <b>Current assets</b>                   |             |                          |
| Inventories .....                       | 10          | 151,517                  |
| Trade receivables .....                 | 11          | 331,406                  |
| Other receivables and prepayments ..... | 12          | 37,544                   |
| Restricted bank deposits .....          | 13          | 760                      |
| Cash and cash equivalents .....         | 14          | 108,219                  |
|   |             | <u>629,446</u>           |
| <b>Total assets</b> .....               |             | <u><u>796,046</u></u>    |

**I. FINANCIAL INFORMATION OF GM GLOBAL STEERING GROUP (continued)**  
**CONSOLIDATED BALANCE SHEET (continued)**

|  | Note | November 30, 2010     |
|--|------|-----------------------|
|  |      | US\$'000              |
| <b>EQUITY</b>  |      |                       |
| <b>Capital and reserves attributable to equity holders of GM Global Steering</b> |      |                       |
| Paid-in capital . . . . .  | 15   | 301,317               |
| Exchange reserve . . . . .   | 16   | (8,736)               |
| Accumulated losses . . . . .   |      | (24,480)              |
|  |      | <u>268,101</u>        |
| <b>Non-controlling interests . . . . .</b>                                       |      | <u>17,738</u>         |
| <b>Total equity . . . . .</b>  |      | <u><u>285,839</u></u> |
| <b>LIABILITIES</b>   |      |                       |
| <b>Non-current liabilities</b>   |      |                       |
| Borrowings . . . . .   | 17   | 24,640                |
| Retirement benefits and compensations . . . . .                                  | 18   | 7,649                 |
| Deferred income tax liabilities . . . . .  | 9    | 38                    |
| Provisions . . . . .   | 19   | 29,910                |
| Deferred revenue . . . . .   | 20   | 65,234                |
| Other payables and accruals . . . . .  | 22   | 746                   |
|  |      | <u>128,217</u>        |
| <b>Current liabilities</b>   |      |                       |
| Trade payables . . . . .   | 21   | 235,341               |
| Other payables and accruals . . . . .  | 22   | 79,220                |
| Current income tax liabilities . . . . .   |      | 8,942                 |
| Provisions . . . . .   | 19   | 11,834                |
| Deferred revenue . . . . .   | 20   | 18,321                |
| Borrowings . . . . .   | 17   | 28,332                |
|  |      | <u>381,990</u>        |
| <b>Total liabilities . . . . .</b>   |      | <u><u>510,207</u></u> |
| <b>Total equity and liabilities . . . . .</b>                                    |      | <u><u>796,046</u></u> |
| <b>Net current assets . . . . .</b>  |      | <u><u>247,456</u></u> |
| <b>Total assets less current liabilities . . . . .</b>                           |      | <u><u>414,056</u></u> |



I. FINANCIAL INFORMATION OF GM GLOBAL STEERING GROUP (continued)  
CONSOLIDATED INCOME STATEMENT

|   | Note | For the eleven<br>months ended<br>November 30,<br>2010 |
|---|------|--|
|   |      | US\$'000   |
| <b>Revenue</b> .....                            | 6    | 1,895,195  |
| Cost of sales .....                             | 24   | (1,610,442)  |
| <b>Gross profit</b> .....                       |      | 284,753  |
| Engineering and product development costs ..... | 24   | (118,008)  |
| Selling and distribution expenses .....         | 24   | (17,018)   |
| Administrative expenses .....                   | 24   | (59,139)   |
| Other losses, net .....                         | 23   | (5,537)  |
| <b>Operating profit</b> .....                   |      | 85,051   |
| Finance income .....                            | 26   | 790  |
| Finance costs .....                             | 26   | (4,747)  |
| Finance costs, net .....                        |      | (3,957)  |
| <b>Profit before income tax</b> .....           |      | 81,094   |
| Income tax expense .....                        | 27   | (10,991)   |
| <b>Profit for the period</b> .....              |      | 70,103   |
| <b>Attributable to:</b>                         |      |  |
| Equity holders of GM Global Steering .....      |      | 67,955   |
| Non-controlling interests .....                 |      | 2,148  |
|   |      | 70,103   |
| <b>Dividend</b> .....                           | 29   | 33,631   |

**I. FINANCIAL INFORMATION OF GM GLOBAL STEERING GROUP (continued)**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|  | For the eleven<br>months ended<br>November 30,<br>2010 |
|--|--|
|  | US\$'000   |
| <b>Profit for the period</b> .....   | 70,103   |
| <b>Other comprehensive loss</b>  |  |
| Exchange differences .....   | (5,482)  |
| Actuarial losses on defined benefit plans, net of tax of US\$306,000 ..... | (854)  |
|  | <u>(6,336)</u>   |
|  | -----  |
| <b>Total comprehensive income for the period</b> .....                     | <u>63,767</u>  |
| <b>Attributable to:</b>  |  |
| Equity holders of GM Global Steering .....                                 | 61,157   |
| Non-controlling interests .....  | <u>2,610</u>   |
|  | <u>63,767</u>  |

**I. FINANCIAL INFORMATION OF GM GLOBAL STEERING GROUP (continued)**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

|  | Attributable to equity holders of<br>GM Global Steering |                       |                       | Sub-total | Non-<br>controlling<br>interests | Total    |
|--|---|-----------------------|-----------------------|-----------|----------------------------------|----------|
|  | Paid-in<br>capital                                      | Exchange<br>reserve   | Accumulated<br>losses |           |                                  |          |
|  | US\$'000<br>(Note 15)                                   | US\$'000<br>(Note 16) | US\$'000              | US\$'000  | US\$'000                         | US\$'000 |
| <b>Balance at January 1, 2010 . . . . .</b>                  | 301,317   | (2,792)               | (57,950)              | 240,575   | 15,128                           | 255,703  |
| <b>Comprehensive income</b>                                  |   |                       |                       |           |                                  |          |
| Profit for the period . . . . .                              | —   | —                     | 67,955                | 67,955    | 2,148                            | 70,103   |
| <b>Other comprehensive (loss)/income</b>                     |   |                       |                       |           |                                  |          |
| Exchange differences . . . . .                               | —   | (5,944)               | —                     | (5,944)   | 462                              | (5,482)  |
| Actuarial loss on defined benefit<br>plans . . . . .         | —   | —                     | (854)                 | (854)     | —                                | (854)    |
| <b>Total other comprehensive<br/>(loss)/income . . . . .</b> | —   | (5,944)               | (854)                 | (6,798)   | 462                              | (6,336)  |
| <b>Total comprehensive (loss)/income .</b>                   | —   | (5,944)               | 67,101                | 61,157    | 2,610                            | 63,767   |
| <b>Transactions with owners</b>                              |   |                       |                       |           |                                  |          |
| Dividend . . . . .   | —   | —                     | (33,631)              | (33,631)  | —                                | (33,631) |
| <b>Balance at November 30, 2010 . . . .</b>                  | 301,317   | (8,736)               | (24,480)              | 268,101   | 17,738                           | 285,839  |

I. FINANCIAL INFORMATION OF GM GLOBAL STEERING GROUP (continued)  
CONSOLIDATED STATEMENT OF CASH FLOWS

|  | Note  | For the eleven<br>months ended<br>November 30,<br>2010 |
|--|-------|--|
|  |       | US\$'000   |
| <b>Cash flows from operating activities</b>                  |       |  |
| Cash generated from operations .....                         | 30(a) | 33,081   |
| Income tax paid .....  |       | (7,708)  |
| Net cash generated from operating activities .....           |       | 25,373   |
| <b>Cash flows from investing activities</b>                  |       |  |
| Purchase of property, plant and equipment .....              |       | (47,451)   |
| Changes in restricted bank deposits .....                    |       | (421)  |
| Net cash used in investing activities .....                  |       | (47,872)   |
| <b>Cash flows from financing activities</b>                  |       |  |
| Proceeds from borrowings .....                               |       | 7,985  |
| Repayments of borrowings .....                               |       | (7,440)  |
| Finance costs paid .....                                     |       | (5,017)  |
| Dividends paid to equity holders of GM Global Steering ..... |       | (33,631)   |
| Net cash used in financing activities .....                  |       | (38,103)   |
| <b>Net decrease in cash and cash equivalents</b>             |       |  |
| Cash and cash equivalents at beginning of period .....       |       | 169,149  |
| Exchange losses on cash and cash equivalents .....           |       | (328)  |
| <b>Cash and cash equivalents at end of period</b> .....      |       | <b>108,219</b>   |

## II. NOTES ON THE FINANCIAL INFORMATION

## 1 GENERAL INFORMATION

GM Global Steering Holdings, LLC (“GM Global Steering”) was incorporated in Delaware, the United States of America (“USA” or “U.S.”), on March 9, 2009 as a limited liability company. The address of its registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, USA.

During the Relevant Period, GM Global Steering was a holding company. It, together with its subsidiaries listed below (“GM Global Steering Group”), were principally engaged in the design and manufacture of steering and driveline systems and components for vehicle manufacturers and other automotive-related companies. GM Global Steering Group’s primary operations were in the USA, Mexico, Poland and the People’s Republic of China (the “PRC”) and it was structured to supply its customers globally. The principal markets for its products were North America, Europe and the PRC.

GM Global Steering was a wholly-owned subsidiary of General Motors Company (“General Motors”) which was its ultimate holding company during the Relevant Period. It had been established by General Motors to acquire the above-mentioned operations from Delphi Corporation in October 2009.

GM Global Steering had direct and indirect interests in the following subsidiaries:

| Name  | Place and date of incorporation/ establishment | Issued and paid-up capital | Attributable equity interest in eleven months ended November 30, 2010 | Principal activities                 |
|---|--|----------------------------|---|--------------------------------------|
| <u>Directly held:</u>   |  |                            |   |                                      |
| Project Rhodes Holding Corporation<br>(note (a)) . . . . .              | Delaware, U.S.<br>May 18, 2007                 | US\$1                      | 100%  | Investment holding                   |
| Rhodes Holding I S.a.r.l. (note (a)) . . .                              | Luxembourg<br>January 15, 2008                 | EUR 4,344,880              | 100%  | Investment holding                   |
| <u>Indirectly held:</u>   |  |                            |   |                                      |
| Steering Solutions Corporation<br>(note (a)) . . . . .                  | Delaware, U.S.<br>October 29, 2007             | US\$1                      | 100%  | Investment holding                   |
| Nexteer Automotive Corporation<br>(note (a)) . . . . .                  | Delaware, U.S.<br>January 2, 2008              | US\$1                      | 100%  | Manufacturing of steering components |
| Steering Solutions Expat Holding Corporation (note (a)) . . . . .       | Delaware, U.S.<br>January 2, 2008              | US\$1                      | 100%  | Investment holding                   |
| Steering Solutions IP Holding Corporation (note (a)) . . . . .          | Delaware, U.S.<br>January 2, 2008              | US\$1                      | 100%  | Investment holding                   |
| Rhodes Holding II S.a.r.l. (note (a)) . . .                             | Luxembourg<br>January 15, 2008                 | EUR 433,150                | 100%  | Investment holding                   |
| Rholdes Holding Netherlands BV<br>(note (f)) . . . . .                  | Netherlands<br>March 20, 2008                  | EUR 18,002                 | 100%  | Investment holding                   |
| Nexteer Otomotiv Sanayi ve Ticaret Limited Sirketi (note (a)) . . . . . | Turkey<br>March 28, 2008                       | LIRA 1,105,000             | 100%  | Manufacturing of steering components |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 1 GENERAL INFORMATION (continued)

| Name   | Place and date of incorporation/ establishment | Issued and paid-up capital | Attributable equity interest in eleven months ended November 30, 2010 | Principal activities                 |
|--|--|----------------------------|---|--------------------------------------|
| Nexteer Automotive India Private Limited (note (c)) . . . . .                  | India<br>February 25, 2008                     | RS 142,960,000             | 100%  | Manufacturing of steering components |
| Rhodes Japan LLC (note (a)). . . . .   | Japan<br>February 21, 2008                     | JPY 1                      | 100%  | Customer support/ engineering center |
| Nexteer Automotive Australia Pty Ltd (note (d)). . . . .                       | Australia<br>January 23, 2008                  | AU\$2,849,108              | 100%  | Manufacturing of steering components |
| Nexteer Automotive Italy Srl (note (a)).                                       | Italy<br>January 30, 2008                      | EUR 10,000                 | 100%  | Customer support/ engineering center |
| Nexteer Automotive Germany GmbH (note (a)). . . . .                            | Germany<br>January 2, 2008                     | EUR 25,000                 | 100%  | Customer support/ engineering center |
| Nexteer Automotive France S.A.S. (note (e)). . . . .                           | France<br>March 25, 2008                       | EUR 1,287,000              | 100%  | Customer support/ engineering center |
| Nexteer Automotive Korea Limited (note (a)). . . . .                           | Korea<br>February 28, 2008                     | KRW<br>1,200,000,000       | 100%  | Manufacturing of steering components |
| Fidass II B.V. (note (a)) . . . . .  | Netherlands<br>February 6, 2007                | EUR 18,002                 | 100%  | Investment holding                   |
| Nexteer Automotive Poland Sp. z o.o. (note (f)) . . . . .                      | Poland<br>January 2, 1997                      | ZLOTY 20,923,650           | 100%  | Manufacturing of steering components |
| Steering Holding Pte. Ltd. (note (b)) . .                                      | Singapore<br>February 15, 2008                 | EUR 6,100,000              | 100%  | Investment holding                   |
| Nexteer Automotive (Suzhou) Co., Ltd. (note (g)). . . . .                      | The PRC<br>January 24, 2007                    | US\$21,000,000             | 100%  | Manufacturing of steering components |
| Nexteer Lingyun Driveline (Zhuozhou) Co., Ltd. (note (g)) . . . . .            | The PRC<br>October 6, 1995                     | US\$22,000,000             | 60%   | Manufacturing of steering components |
| Nexteer Lingyun Driveline (Wuhu) Co., Ltd. (note (g)) . . . . .                | The PRC<br>December 22, 2006                   | US\$22,400,000             | 60%   | Manufacturing of steering components |
| Nexteer Industria e Comercio de Sistemas Automotivos Ltda. (note (h)). . . . . | Brazil<br>March 6, 2007                        | REAL 54,639,116            | 100%  | Manufacturing of steering components |
| Rhodes I LLC (note (a)) . . . . .  | Michigan, U.S.<br>November 7, 2007             | —                          | 100%  | Investment holding                   |
| Rhodes II LLC (note (a)) . . . . .   | Michigan, U.S.<br>November 7, 2007             | —                          | 100%  | Investment holding                   |
| SteeringMex S. de R.L. de C.V. (note (i)) . . . . .                            | Mexico<br>December 14, 2007                    | PESO<br>100,292,917        | 100%  | Manufacturing of steering components |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****1 GENERAL INFORMATION (continued)**

Note:

Statutory auditor is as follows:

- (a) There is no statutory audit requirement under the applicable laws in the respective place of incorporation
- (b) PricewaterhouseCoopers LLP, Singapore
- (c) Price Waterhouse & Co., India
- (d) PricewaterhouseCoopers, Australia
- (e) PricewaterhouseCoopers Audit, France
- (f) PricewaterhouseCoopers Sp. z o.o.
- (g) PricewaterhouseCoopers Zhong Tian CPAs Limited Company
- (h) PricewaterhouseCoopers, Brazil
- (i) PricewaterhouseCoopers, S.C., Mexico

On November 30, 2010, Pacific Century Motors, Inc. ("PCM China") acquired the entire equity interests in GM Global Steering from General Motors. In connection with this acquisition, GM Global Steering Group was reorganized and subsidiaries of GM Global Steering were contributed to PCM (U.S.) Steering Holding Inc. and PCM (Singapore) Steering Holding Pte. Limited, which are direct wholly-owned subsidiaries of PCM China. On the same day GM Global Steering ceased its operations.

**2 BASIS OF PRESENTATION**

The Financial Information presents GM Global Steering Group's consolidated results of operations for the Relevant Period while it operated as a subsidiary of General Motors.

General Motors and its subsidiaries ("General Motors Group") provided certain services and functions for GM Global Steering Group. These services included tax filing, financing, legal, human resources, and executive management. While the costs for some of these services are included in the Financial Information (refer to Note 32 for details), those that were not charged or allocated to GM Global Steering Group and are therefore not reflected in the Financial Information mainly include:

- salaries for key management including the Chief Financial Officer, Chief Legal Counsel except for the Chief Executive Officer ("CEO");
- charges for payroll administration for employees in U.S., risk management insurance, external audit, tax consulting, banking fees for U.S., legal services and other corporate administration and governance costs;
- certain U.S. defined benefit plan obligations that were maintained at General Motors (Note 18); and
- other U.S. employee-related liabilities for disability benefits and workers compensation.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****2 BASIS OF PRESENTATION (continued)**

For the purpose of this accountant's report, the Financial Information only includes costs for services and functions performed by General Motors or its subsidiaries to the extent that those costs were charged to GM Global Steering Group. For all instances where costs were not charged to GM Global Steering Group, no expense has been included in the Financial Information. As such, the Financial Information does not include all costs that GM Global Steering Group would have incurred had it operated on a standalone basis.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the financial information are in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The financial information has been prepared under the historical cost convention.

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying GM Global Steering Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed in Note 5.

**3.1 Consolidation****(a) Subsidiaries**

Subsidiaries are all entities over which GM Global Steering controls by being exposed to, or has rights to, variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees. Subsidiaries are fully consolidated from the date on which control is transferred to GM Global Steering Group. They are de-consolidated from the date that control ceases.

GM Global Steering Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by GM Global Steering Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, GM Global Steering Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.



**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.1 Consolidation (continued)****(a) Subsidiaries (continued)**

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree, over the fair value of GM Global Steering Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated.

**(b) Non-controlling interests**

GM Global Steering Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. GM Global Steering Group treats transactions with non-controlling interests as transactions with equity owners of GM Global Steering Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**3.2 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker who has been identified as the CEO. The CEO is responsible for resource allocation and assessing the performance of the operating segments.

**3.3 Foreign currency translation****(a) Functional and presentation currency**

Items included in the financial statements of each of GM Global Steering Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial information is presented in U.S. dollars, which is GM Global Steering's functional currency and GM Global Steering Group's presentation currency.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.3 Foreign currency translation (continued)***(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

**(c) Group companies**

The results of operations and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the related transactions); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

*3.4 Property, plant and equipment*

Items of property, plant and equipment (including tools but excluding construction-in-progress) are measured at cost less accumulated depreciation and accumulated impairment losses. Improvements that materially extend the useful life of these assets are capitalized. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to GM Global Steering Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.4 Property, plant and equipment (continued)*

Freehold land is not depreciated. Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over all their estimated useful lives as follows:

|  |   |
|--|---|
| Leasehold improvements .....           | 10–20 years or over lease term,<br>whichever is shorter |
| Buildings .....                        | 10–40 years   |
| Machinery, equipment and tooling ..... | 3–27 years  |
| Furniture and office equipment .....   | 3–10 years  |

Tooling represents tools, dies, jigs and other items used in the manufacturing of customer specific parts. Special tools owned by GM Global Steering Group are capitalized as property, plant and equipment and depreciated to cost of sales over their useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.7).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within "Other gains/losses, net" in the income statement.

Construction-in-progress represents buildings, machinery and equipment under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

*3.5 Land use rights*

Land use rights represent prepayment for operating leases and are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortization of land use rights is calculated on a straight-line basis over the period of the land use rights.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.6 Intangible assets*

GM Global Steering Group incurs significant costs and efforts on research and development activities, which include expenditures on customer-specific applications, prototypes and testing. Research expenditures are charged to the income statement as an expense in the period the expenditure is incurred. Development costs are recognized as assets if they can be clearly assigned to a newly developed product or process and all the following can be demonstrated:

- (i) The technical feasibility to complete the development project so that it will be available for use or sale;
- (ii) The intention to complete the development project to use or sell it;
- (iii) The ability to use the output of the development project;
- (iv) The manner in which the development project will generate probable future economic benefits for GM Global Steering Group;
- (v) The availability of adequate technical, financial and other resources to complete the development project and use or sell the intangible asset; and
- (vi) The expenditure attributable to the asset during its development can be reliably measured.

The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

Capitalized development costs are amortized using the straight-line method over the life of the related program, usually four to seven years.

Development expenditures not satisfying the above criteria are recognized in the income statement as incurred. No development costs were capitalized by GM Global Steering Group as intangible assets during the Relevant Period as the above recognition criteria were not met.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.7 *Impairment of non-financial assets***

Assets that have an indefinite useful life and intangible development assets not ready to use are not subject to amortization and are tested annually for impairment and whenever there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**3.8 *Financial assets*****(a) Classification**

GM Global Steering Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

GM Global Steering Group's financial assets primarily comprise loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. GM Global Steering Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 3.10 and 3.11).

**(b) Recognition and measurement**

Regular way purchases and sales of financial assets are recognized on the trade-date — the date on which GM Global Steering Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and GM Global Steering Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****3.8 Financial assets (continued)****(c) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

**(d) Impairment of financial assets**

GM Global Steering Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, GM Global Steering Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.9 Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out ("FIFO") method. Inventory cost includes direct material, direct labor and related manufacturing overhead costs (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

*3.10 Trade and other receivables*

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

*3.11 Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

*3.12 Paid-in capital*

Paid-in capital is classified as equity. Incremental costs directly attributable are shown in equity as a deduction, net of tax, from the proceeds.

*3.13 Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless GM Global Steering Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.14 Borrowing costs*

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings outstanding during the period up to the amount of actual borrowing costs incurred during that period.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

*3.15 Retirement benefits obligations*

GM Global Steering Group has both defined contribution and defined benefit plans. Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

**(a) Defined contribution plans**

A defined contribution plan is a pension plan under which GM Global Steering Group pays fixed contributions into a separate entity. GM Global Steering Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to prior or current employee services.

GM Global Steering Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. GM Global Steering Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(b) Defined benefit plans**

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.



**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.15 Retirement benefits obligations (continued)***(b) Defined benefit plans (continued)**

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the career development of employees within GM Global Steering Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. A company specific default risk is not taken into account.

The US operations of GM Global Steering Group participated in a defined benefit plan for which General Motors was the plan sponsor. General Motors did not have a contractual agreement or stated policy of charging the net defined benefit costs to participating entities under its common control. As such it was GM Global Steering Group's policy to only recognize costs equal to its contribution paid during the period. The related defined benefit obligations therefore had not been recognized as GM Global Steering Group did not have available information related to the plan characteristics and associated risks.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in the income statement.

*3.16 Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

**(a) Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where GM Global Steering's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.16 Current and deferred income tax (continued)***(a) Current income tax (continued)**

General Motors historically filed a combined tax return of its US entities, which included the US entities of the GM Global Steering Group. Income taxes in this Financial Information are presented on a separate tax return basis as if GM Global Steering Group were a standalone entity in each country where its legal entities reside. As such, an allocation of tax basis attributes, such as net operating losses, of the consolidated General Motors US entities has not been included in this Financial Information as GM Global Steering Group was not legally entitled on an allocation of these attributes until it was separated from General Motors.

**(b) Deferred income tax***(i) Inside basis differences*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

*(ii) Outside basis differences*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by GM Global Steering Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**(c) Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

*3.17 Provision*

Provisions for restructuring, legal disputes, environmental liabilities, warranties and decommissioning are recognized when: GM Global Steering Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions primarily comprise employee payments. Provisions are not recognized for future operating losses.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.17 Provision (continued)*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

*3.18 Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

*3.19 Revenue recognition*

Revenue is measured at the fair value of the consideration received, or receivable, less any trade discounts, sales returns and allowances allowed by GM Global Steering Group or any commercial incentives linked to sales. GM Global Steering Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of GM Global Steering Group's activities, as described below. GM Global Steering Group contracts with customers, which are generally OEMs in the automotive industry, to sell driveline and steering products. In connection with these contracts GM Global Steering Group also contracts to provide tooling and prototype and engineering services. The revenue recognition policies applied by GM Global Steering Group for each of these activities are as follows:

**(i) Product**

Revenues are recognized when finished products are shipped to customers, both title and the risks and rewards of ownership are transferred, and collectability is reasonably assured.

**(ii) Prototype and engineering**

Prototype and engineering activities are only performed in connection with the development of product that will be produced for the customers. Consideration received from customers for engineering and prototyping is deferred and recognized over the product life cycles of the related products.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.19 Revenue recognition (continued)***(iii) Tooling**

GM Global Steering Group's development and sale of tooling for customers is performed in connection with the preparations to produce and sell product to its customers. Therefore, consideration received from customers for tooling used in the production of the finished product is recognized as revenue at the time the tool is accepted by the customers.

Deferred revenue relates to customer deposits or cash advances and is deferred in the balance sheet until revenue recognition criteria are met.

*3.20 Leases*

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. GM Global Steering Group's operating leases cover principally real estate, office and other equipment. Depending on the nature of the leased asset, GM Global Steering Group records lease expense associated with operating leases within cost of sales, selling or administrative expenses on the income statement as appropriate.

GM Global Steering Group leases certain property, plant and equipment. Leases of property, plant and equipment where GM Global Steering Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

*3.21 Government grants*

GM Global Steering Group periodically receives government grants in support of various business initiatives. Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and GM Global Steering Group will comply with all attached conditions. Government grants used to purchase, construct or otherwise acquire property, plant and equipment or tooling are deducted from the cost of the related asset. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to GM Global Steering Group with no future related costs are recognized as income of the period in which they become receivable.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***3.22 Interest income*

Interest income is recognized using the effective interest method.

*3.23 Dividend distribution*

Dividend distribution to GM Global Steering's investor is recognized as a liability in the financial information in the period in which the dividends are approved by GM Global Steering's investor or directors, where appropriate.

*3.24 New/revised standards, amendments to standards and interpretations*

GM Global Steering Group has chosen to early adopt the following revised/new standards:

- IAS 19 (Revised 2011) "Employee Benefits"
- IAS 27 (Revised 2011) "Separate Financial Statements"
- IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"
- IFRS 10 "Consolidated Financial Statements"
- IFRS 11 "Joint Arrangements"
- IFRS 12 "Disclosures of Interest in Other Entities"
- IFRS 13 "Fair Value Measurement"

Certain new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012 and have not been applied in this financial information. They are not expected to have significant impacts because GM Global Steering has already ceased operations.

**4 FINANCIAL RISK MANAGEMENT***4.1 Financial risk factors*

GM Global Steering Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. GM Global Steering Group's overall risk management program focused on the unpredictability of financial markets and sought to minimize potential adverse effects on its financial performance.

GM Global Steering Group's risk management and treasury department focused on minimizing potential adverse affects on its financial performance. GM Global Steering Group did not use derivative financial instruments to hedge certain risk exposures, however, the need was continually assessed.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****4 FINANCIAL RISK MANAGEMENT (continued)***4.1 Financial risk factors (continued)***(a) Market risk**

The objective of market risk management was to manage and control market risk exposures within acceptable parameters while optimizing the return.

**(i) Foreign exchange risk**

GM Global Steering Group operated internationally and was exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and Chinese Renminbi ("RMB").

Management monitored and analyzed expected exchange rate developments and considered hedging significant foreign currency exposure should the need arise.

As at November 30, 2010, if US\$ strengthened by 10% against Euro/RMB with all other variables held constant, the equity and post-tax result for the period would have decreased mainly as a result of foreign exchange differences on translation of Euro/RMB denominated assets and liabilities:

|  | <u>Equity</u> | <u>Post-tax result</u> |
|--|---------------|------------------------|
|  | US\$'000      | US\$'000               |
| <b>As at and for the eleven months ended</b> |               |                        |
| <b>November 30, 2010</b>                     |               |                        |
| Euro.....                                    | 6,285         | 3,602                  |
| RMB .....                                    | 3,191         | 1,102                  |

A weakening of the US\$ against the above currencies would have had equal but opposite effect to the amounts shown above, on the basis that all other variables remained constant.

**(ii) Cash flow interest rate risk**

GM Global Steering Group's interest rate risk primarily arose from current and non-current borrowings. Changes in interest rates on borrowings issued at variable rates potentially exposed GM Global Steering Group to cash flow interest rate risk. GM Global Steering Group's policy based upon assessment of interest rates in effect had determined not to utilize interest rate swaps.

As at November 30, 2010, if the interest rates had been 100 basis points higher/(lower) than the prevailing rate, with all other variables held constant, net results for the eleven months ended November 30, 2010 would have been US\$16,000 lower/(higher) respectively.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****4 FINANCIAL RISK MANAGEMENT (continued)***4.1 Financial risk factors (continued)***(a) Market risk (continued)****(iii) Price risk**

Price risk related to changes in the price of raw materials purchased for production from time of price quotation to customers and production of saleable parts. GM Global Steering Group managed by negotiating recovery from customers.

**(b) Credit risk**

GM Global Steering Group sold to automotive manufacturers throughout the world. Credit risk arose from deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables. GM Global Steering Group was responsible for managing and analyzing the credit risk for each new customer before standard payment and delivery terms and conditions were offered. The customer's creditworthiness was assessed at the local level through analyzing past due receivables.

GM Global Steering Group's largest customer was General Motors Group and its affiliates which comprised 53% of net sales during the eleven months ended November 30, 2010. Trade receivable from General Motors Group and its affiliates was 43% of total trade receivables as at November 30, 2010.

GM Global Steering Group monitored the credit ratings of its banks and financial institutions. As at November 30, 2010, GM Global Steering Group held approximately 91% of its cash in financial institutions with credit ratings of A or higher meaning the institutions had a very strong to extremely strong capacity to meet financial commitments.

**(c) Liquidity risk**

GM Global Steering Group monitored forecasts of liquidity requirements to ensure it had sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times as not to breach borrowing limits or covenants (where applicable) on any of its facilities. GM Global Steering Group's forecasting took into consideration debt financing plans, covenant compliance, and if applicable, external regulatory or legal requirements.

The table below analyzes GM Global Steering Group's non-derivative financial liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****4 FINANCIAL RISK MANAGEMENT (continued)***4.1 Financial risk factors (continued)***(c) Liquidity risk (continued)**

|                                       | <u>6 months<br/>or less</u> | <u>6–12 months</u> | <u>1–2 years</u> | <u>2–5 years</u> |
|---------------------------------------|-----------------------------|--------------------|------------------|------------------|
|                                       | US\$'000                    | US\$'000           | US\$'000         | US\$'000         |
| <b>At November 30, 2010</b>           |                             |                    |                  |                  |
| Total borrowings . . . . .            | 24,489                      | 7,443              | 5,833            | 23,010           |
| Trade payables . . . . .              | 235,341                     | —                  | —                | —                |
| Other payables and accruals . . . . . | 79,220                      | —                  | 746              | —                |

*4.2 Capital management*

GM Global Steering Group's capital was managed by General Motors for the eleven months ended November 30, 2010.

*4.3 Fair value estimation*

The carrying amounts of GM Global Steering Group's current financial assets and liabilities, including cash and cash equivalents, restricted bank deposits, trade and other receivables, trade and other payables and current borrowings approximated their fair values. The fair value of financial liabilities for disclosure purposes was estimated by discounting the future contractual cash flows at the current market interest rate available to GM Global Steering Group for similar financial instruments.

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

GM Global Steering Group made estimates and assumptions concerning the future. The resulting accounting estimates would, by definition, seldom equal the related actual results. The estimates and assumptions that had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

*(a) Retirement benefits*

The costs, assets and liabilities of the defined benefit plans outside U.S. operated by GM Global Steering Group were determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions and the sensitivity analysis of such assumptions are set out in Note 18. Changes in the assumptions used might have a significant effect on the statement of comprehensive income and the balance sheet.



**II. NOTES ON THE FINANCIAL INFORMATION (continued)****5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)***(b) Provisions*

GM Global Steering Group recognized a provision when there was a present obligation from a past event, a transfer of economic benefits was probable and the amount of costs of the transfer could be estimated reliably. In instances where the criteria were not met, a contingent liability may be disclosed in the notes to the financial information. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the financial information could have a material effect on GM Global Steering Group's financial position. Application of these accounting principles to legal cases required GM Global Steering Group's management to make determinations about various factual and legal matters beyond its control.

**(i) Litigation**

From time to time GM Global Steering Group was subject to various legal actions and claims incidental to its business, including those arising out of alleged defects, breach of contracts, intellectual property matters, and employment related matters.

GM Global Steering Group believed its established reserves were adequate to cover such items. However, the final amounts required to resolve these matters could differ materially from recorded estimates.

Litigation was subject to many uncertainties and the outcome of the individual litigated matters was not predictable with assurance. Based on currently available information, it is the opinion of management that the outcome of such matters would not have a material adverse impact on GM Global Steering Group.

**(ii) Environmental liabilities**

GM Global Steering Group recorded environmental liabilities based upon estimates of financial exposure with respect to environmental sites. Environmental requirements may become more stringent over time or eventual environmental cleanup costs and liabilities may ultimately exceed current estimates. Moreover, future facilities sales could trigger additional, perhaps material, environmental remediation costs, as previously unknown conditions may be identified.

**(iii) Warranties**

GM Global Steering Group recognized expected warranty costs for products sold principally at the time of sale of the product or when it was determined that such obligations were probable and could be reasonably estimated. Amounts recorded were based on GM Global Steering Group's estimates of the amount that would eventually be required to settle such obligations. These accruals were based on factors such as specific customer arrangements, past experience, production changes, industry developments and various other considerations. GM Global Steering Group's estimates were adjusted from time to time based on facts and circumstances that impacted the status of existing claims.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)***(b) Provisions (continued)***(iv) Decommissioning**

GM Global Steering Group identified conditional asset retirement obligations primarily related to asbestos abatement and removal and disposal of storage tanks at certain of its sites. Amounts recorded are based on GM Global Steering Group's estimate of future obligations to leave or close a facility. Sites are continually monitored for changes that may impact future obligations for decommissioning. GM Global Steering Group records accretion expense monthly to account for discounting of the obligation.

*(c) Income taxes*

GM Global Steering Group was subject to income taxes in numerous jurisdictions. Significant judgment was required in determining the worldwide provision for income taxes. There were many transactions and calculations for which the ultimate tax determination was uncertain. GM Global Steering Group recognized liabilities for anticipated tax audit issues based on estimates of whether additional taxes would be due. GM Global Steering Group believed that its accruals for tax liabilities were adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relied on estimates and assumptions and might involve a series of complex judgments about future events. Where the final tax outcome of these matters was different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination was made.

Deferred tax assets are recognized only if it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. This determination requires significant judgment regarding the realizability of deferred tax assets. For entities with a recent history of losses, there would need to be convincing other evidence that sufficient taxable profits would be available in the future. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

**6 SEGMENT INFORMATION**

GM Global Steering Group's segment information is presented on the basis of internal reports that are regularly reviewed by GM Global Steering Group's CEO, in order to allocate resources to the segments and assess their performance. For each of GM Global Steering Group's reportable segments, GM Global Steering Group's CEO reviewed internal management reports on a quarterly basis, at a minimum.

GM Global Steering Group classified its businesses into four reportable segments; North America, Europe, the PRC and Rest of world. All of GM Global Steering Group's operating segments typically offered the same driveline and steering products. The "Others" category represents parent company activities of GM Global Steering and Nexteer Automotive Corporation.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 6 SEGMENT INFORMATION (continued)

The key performance indicators that GM Global Steering Group monitored to run segment operations are:

- EBITDAR, which represents operating income/(loss) before interest, taxes, depreciation and amortization and restructuring/acquisition costs.
- Net working capital ("NWC"), which represents inventory and trade receivables net of trade payables. This measures GM Global Steering Group's net investment in operating assets for each segment.

Information about reportable segments and reconciliations of reportable segment revenues is as follows:

|  | North America | The PRC  | Europe   | Rest of world | Others   | Total     |
|--|---------------|----------|----------|---------------|----------|-----------|
|  | US\$'000      | US\$'000 | US\$'000 | US\$'000      | US\$'000 | US\$'000  |
| <b>For the eleven months ended</b>           |               |          |          |               |          |           |
| <b>30 November 2010 . . . . .</b>            |               |          |          |               |          |           |
| Total revenue . . . . .                      | 1,239,492     | 134,909  | 434,066  | 156,956       | —        | 1,965,423 |
| Inter-segment revenue . . . . .              | (38,744)      | (5,669)  | (3,198)  | (22,617)      | —        | (70,228)  |
| Revenue from external<br>customers . . . . . | 1,200,748     | 129,240  | 430,868  | 134,339       | —        | 1,895,195 |
| EBITDAR . . . . .                            | 46,251        | 17,962   | 52,245   | 7,187         | (12,806) | 110,839   |
| NWC . . . . .                                | 155,704       | 30,103   | 55,006   | 45,718        | (38,949) | 247,582   |

Revenue between segments are carried out at arm's length. The revenue from external parties reported to the Group's CEO is measured in a manner consistent with that in the income statement.

Reconciliations of reportable segment net income to those as determined under IFRS are as follows:

|  |   |
|--|---|
|  | <b>For the eleven<br/>months ended 30<br/>November<br/>2010</b> |
|  | <b>US\$'000</b>   |
| EBITDAR from reportable segments . . . . .       | 110,839   |
| Depreciation and amortization expenses . . . . . | (25,788)  |
| Finance costs, net . . . . .                     | (3,957)   |
| Profit before income tax . . . . .               | <u>81,094</u>   |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****6 SEGMENT INFORMATION (continued)**

In presenting information on the basis of geography, segment revenue is based on the geographical location of subsidiaries and segment assets are based on geographical location of the assets.

The geographic distribution of revenue for the eleven months ended November 30, 2010 is as follows:

|                      | <b>For the eleven<br/>months ended<br/>November 30,<br/>2010</b> |
|----------------------|--|
|                      | <b>US\$'000</b>  |
| North America .....  | 1,200,748  |
| Europe:              |  |
| Poland .....         | 430,391  |
| Rest of Europe ..... | 477  |
| The PRC .....        | 129,240  |
| Rest of world .....  | 134,339  |
|                      | <u>1,895,195</u>   |

The geographic distribution of non-current assets excluding deferred income tax assets as at November 30, 2010 is as follows:

|                      | <b>As at<br/>November 30, 2010</b> |
|----------------------|------------------------------------|
|                      | <b>US\$'000</b>                    |
| North America .....  | 92,137                             |
| Europe:              |                                    |
| Poland .....         | 17,157                             |
| Rest of Europe ..... | 1,727                              |
| The PRC .....        | 22,461                             |
| Rest of world .....  | 10,599                             |
|                      | <u>144,081</u>                     |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 6 SEGMENT INFORMATION (continued)

Distribution of revenue between product lines for the eleven months ended November 30, 2010 is as follows:

|                 | For the eleven<br>months ended<br>November 30,<br>2010 |
|-----------------|--|
|                 | US\$'000   |
| Steering .....  | 1,527,625  |
| Driveline ..... | 367,570  |
|                 | <u>1,895,195</u>                                       |

Revenues from customers amounting to 10 percent or more of GM Global Steering Group's revenue are as follows and reported in all segments:

|   | For the eleven<br>months ended<br>November 30,<br>2010 |
|---|--|
|   | US\$'000   |
| General Motors Group and its affiliates ..... | 999,922  |
| Customer A .....                              | 207,998  |
|   | <u>1,207,920</u>                                       |

## 7 PROPERTY, PLANT AND EQUIPMENT

|                                   | Freehold<br>land | Leasehold<br>improvement | Buildings    | Machinery,<br>equipment<br>and tooling | Furniture<br>and office<br>equipment | Construction<br>in progress | Total          |
|-----------------------------------|------------------|--------------------------|--------------|--|--------------------------------------|-----------------------------|----------------|
|                                   | US\$'000         | US\$'000                 | US\$'000     | US\$'000                               | US\$'000                             | US\$'000                    | US\$'000       |
| <b>Net book amount at</b>         |                  |                          |              |  |                                      |                             |                |
| <b>January 1, 2010</b> .....      | 8,150            | 628                      | 11,056       | 83,428                                 | 64                                   | 5,558                       | 108,884        |
| Additions .....                   | —                | 33                       | 14           | 55,278                                 | 499                                  | 3,632                       | 59,456         |
| Disposals .....                   | —                | (7)                      | —            | (67)                                   | (43)                                 | —                           | (117)          |
| Depreciation .....                | —                | (237)                    | (1,309)      | (24,142)                               | (78)                                 | —                           | (25,766)       |
| Exchange differences .....        | 26               | 7                        | 80           | (748)                                  | (14)                                 | (68)                        | (717)          |
| <b>Net book amount at</b>         |                  |                          |              |  |                                      |                             |                |
| <b>November 30, 2010</b> ..       | <u>8,176</u>     | <u>424</u>               | <u>9,841</u> | <u>113,749</u>                         | <u>428</u>                           | <u>9,122</u>                | <u>141,740</u> |
| <b>At November 30, 2010</b>       |                  |                          |              |  |                                      |                             |                |
| Cost .....                        | 8,176            | 728                      | 11,514       | 142,764                                | 556                                  | 9,122                       | 172,860        |
| Accumulated<br>depreciation ..... | —                | (304)                    | (1,673)      | (29,015)                               | (128)                                | —                           | (31,120)       |
| <b>Net book amount</b> .....      | <u>8,176</u>     | <u>424</u>               | <u>9,841</u> | <u>113,749</u>                         | <u>428</u>                           | <u>9,122</u>                | <u>141,740</u> |

Property, plant and equipment at November 30, 2010 included office equipment under finance lease of US\$39,000, net of accumulated depreciation of US\$3,000.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****7 PROPERTY, PLANT AND EQUIPMENT (continued)**

Depreciation had been charged to the following function of expenses:

|   | <b>For the eleven<br/>months ended<br/>November 30,<br/>2010</b> |
|---|--|
|   | <b>US\$'000</b>  |
| Cost of sales .....                             | 24,504   |
| Engineering and product development costs ..... | 660  |
| Administrative expenses .....                   | 602  |
|   | <u>25,766</u>  |

**8 LAND USE RIGHTS**

|                                 | <b>US\$'000</b> |
|---------------------------------|-----------------|
| <b>Cost</b>                     |                 |
| As at January 1, 2010 .....     | 928             |
| Exchange differences .....      | 21              |
| As at November 30, 2010 .....   | <u>949</u>      |
| <b>Accumulated amortization</b> |                 |
| As at January 1, 2010 .....     | 206             |
| Amortization .....              | 22              |
| Exchange differences .....      | (17)            |
| As at November 30, 2010 .....   | <u>211</u>      |
| <b>Net book amount</b>          |                 |
| As at November 30, 2010 .....   | <u>738</u>      |

GM Global Steering Group's land use rights were located in the PRC and were held under leases for periods of 50 years.

**9 DEFERRED INCOME TAXES**

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

|   | <b>As at<br/>November 30, 2010</b> |
|---|------------------------------------|
|   | <b>US\$'000</b>                    |
| <b>Deferred income tax assets:</b>                |                                    |
| — to be recovered after more than 12 months ..... | 21,221                             |
| — to be recovered within 12 months .....          | 1,298                              |
|   | <u>22,519</u>                      |
| <b>Deferred income tax liabilities:</b>           |                                    |
| — to be settled after more than 12 months .....   | (38)                               |
| <b>Deferred income tax assets, net</b> .....      | <u>22,481</u>                      |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 9 DEFERRED INCOME TAXES (continued)

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

|  | Property,<br>plant and<br>equipment | Retirement<br>benefits and<br>compensations | Provisions<br>and accruals | Tax losses<br>and credits | Others       | Total          |
|--|-------------------------------------|---|----------------------------|---------------------------|--------------|----------------|
|  | US\$'000                            | US\$'000                                    | US\$'000                   | US\$'000                  | US\$'000     | US\$'000       |
| <b>Deferred income tax assets</b>      |                                     |   |                            |                           |              |                |
| As at January 1, 2010. . . . .         | 20,445                              | 163   | 4,152                      | 272                       | 621          | 25,653         |
| (Charged)/credited to                  |                                     |   |                            |                           |              |                |
| income statement . . . . .             | (1,279)                             | 1,388                                       | (2,234)                    | (272)                     | (57)         | (2,454)        |
| Credited to other                      |                                     |   |                            |                           |              |                |
| comprehensive income . . .             | —                                   | 332   | —                          | —                         | —            | 332            |
| Exchange differences . . . . .         | 68                                  | 11  | 5                          | —                         | 6            | 90             |
| As at November 30, 2010. . .           | <u>19,234</u>                       | <u>1,894</u>                                | <u>1,923</u>               | <u>—</u>                  | <u>570</u>   | <u>23,621</u>  |
| <b>Deferred income tax liabilities</b> |                                     |   |                            |                           |              |                |
| As at January 1, 2010. . . . .         | (930)                               | (186)                                       | (93)                       | —                         | (4,334)      | (5,543)        |
| Credited to income                     |                                     |   |                            |                           |              |                |
| statement . . . . .                    | 743                                 | 110   | 65                         | —                         | 3,549        | 4,467          |
| Charged to other                       |                                     |   |                            |                           |              |                |
| comprehensive income . . .             | —                                   | (26)  | —                          | —                         | —            | (26)           |
| Exchange differences . . . . .         | (21)                                | (7)   | —                          | —                         | (10)         | (38)           |
| As at November 30, 2010. . .           | <u>(208)</u>                        | <u>(109)</u>                                | <u>(28)</u>                | <u>—</u>                  | <u>(795)</u> | <u>(1,140)</u> |

Deferred income tax assets are recognized for tax loss carry forwards and deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. Deferred income tax assets being calculated at applicable tax rates have not been recognized in respect of the following as management believes it was more likely than not that they would not be utilized before expiration:

|   | As at<br>November 30, 2010 |
|---|----------------------------|
|   | US\$'000                   |
| Tax losses . . . . .                      | 481                        |
| Deductible temporary differences. . . . . | 23,337                     |
|   | <u>23,818</u>              |

As at November 30, 2010, GM Global Steering Group had US\$1,652,000 of non-U.S. gross net operating loss (“NOL”) carryforwards which had various expiration dates of which a significant amount are unlimited.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****9 DEFERRED INCOME TAXES (continued)**

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries as at November 30, 2010 because GM Global Steering was able to control the timing of reversal of the temporary differences and no material amounts of such unremitted earnings were then intended to be distributed. Unremitted earnings totalled US\$114,526,000 as at the period end.

**10 INVENTORIES**

|   | <b>As at<br/>November 30, 2010</b> |
|---|------------------------------------|
|   | <b>US\$'000</b>                    |
| Raw materials .....                         | 94,306                             |
| Work in progress .....                      | 33,708                             |
| Finished goods .....                        | 34,028                             |
|   | <u>162,042</u>                     |
| Less: provision for impairment losses ..... | (10,525)                           |
|   | <u>151,517</u>                     |

The cost of inventories recognized as an expense and included in cost of sales for the eleven months ended November 30, 2010 amounted to US\$1,566,160,000.

**11 TRADE RECEIVABLES**

|                                      | <b>As at<br/>November 30, 2010</b> |
|--------------------------------------|------------------------------------|
|                                      | <b>US\$'000</b>                    |
| Trade receivables, gross .....       | 332,180                            |
| Less: provision for impairment ..... | (774)                              |
|                                      | <u>331,406</u>                     |



**II. NOTES ON THE FINANCIAL INFORMATION (continued)****11 TRADE RECEIVABLES (continued)**

Credit terms ranged from 30–90 days after the invoice date depending on the customer and the geographical region. Aging analysis of trade receivables based on credit terms is as follows:

|                             | <b>As at<br/>November 30, 2010</b> |
|-----------------------------|------------------------------------|
|                             | <b>US\$'000</b>                    |
| Not overdue .....           | 323,529                            |
| Overdue up to 30 days ..... | 4,656                              |
| Overdue 30 to 60 days ..... | 836                                |
| Overdue 60 to 90 days ..... | 1,036                              |
| Overdue over 90 days .....  | 2,123                              |
|                             | <u>332,180</u>                     |

Trade receivables of US\$7,877,000 were past due but not impaired as at November 30, 2010. These related mainly to a number of customers for whom there was no recent history of default. The aging analysis of these past due but not impaired receivables is as follows:

|                             | <b>As at<br/>November 30, 2010</b> |
|-----------------------------|------------------------------------|
|                             | <b>US\$'000</b>                    |
| Overdue up to 30 days ..... | 4,656                              |
| Overdue 30 to 60 days ..... | 836                                |
| Overdue 60 to 90 days ..... | 1,036                              |
| Overdue over 90 days .....  | 1,349                              |
|                             | <u>7,877</u>                       |

The provision for impairment of receivables included estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments, and the analysis of historical losses on receivables. The creditworthiness of a customer was assessed on their payment history and ability to make repayments and customer credit rating from third-party rating agencies.

Trade receivables of US\$774,000 were impaired as at November 30, 2010, on which full provision was made at period end. These individually impaired receivables were relatively long overdue.

Movement on the provision for impairment of trade receivables is as follows:

|   | <b>US\$'000</b> |
|---|-----------------|
| <b>As at January 1, 2010</b> .....                  | 682             |
| Provision for impairment of trade receivables ..... | 292             |
| Written-off as uncollectible .....                  | (153)           |
| Exchange differences .....                          | (47)            |
| <b>As at November 30, 2010</b> .....                | <u>774</u>      |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****12 OTHER RECEIVABLES AND PREPAYMENTS**

|  | As at<br>November 30, 2010 |
|--|----------------------------|
|  | US\$'000                   |
| Amounts reimbursable from customers on tools ..... | 15,418                     |
| Other taxes recoverable (note) .....               | 8,222                      |
| Prepaid assets .....                               | 8,420                      |
| Deposits to vendors .....                          | 2,982                      |
| Others .....                                       | 4,105                      |
|  | <u>39,147</u>              |
| Less: non-current portion .....                    | (1,603)                    |
| Current portion .....                              | <u><u>37,544</u></u>       |

Note: Balance mainly represented value-added tax recoverable.

**13 RESTRICTED BANK DEPOSITS**

Restricted bank deposits were maintained with banks for issuance of letters of credit.

**14 CASH AND CASH EQUIVALENTS**

GM Global Steering Group's RMB balances were placed with banks in the PRC. The RMB is not a freely convertible currency. The conversion of these RMB denominated balances into foreign currencies in the PRC is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Cash balances denominated in RMB would be used as part of the normal operating activities in the PRC and are classified as unrestricted cash on this basis. Other cash balances were unrestricted.

**15 PAID-IN CAPITAL**

|   | Amount                |
|---|-----------------------|
|   | US\$'000              |
| As at January 1 and November 30, 2010 ..... | <u><u>301,317</u></u> |

**16 EXCHANGE RESERVE**

Exchange reserve arises from currency translation of all group entities that have a functional currency different from the US\$ being translated into GM Global Steering Group's presentation currency of US\$.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 17 BORROWINGS

|  | As at<br>November 30, 2010 |
|--|----------------------------|
|  | US\$'000                   |
| <b>Non-current</b>   |                            |
| Borrowings from a subsidiary of Delphi Corporation (former owner,<br>a third party) — unsecured<br>(note (a))..... | 24,623                     |
| Finance lease obligations (note (b)).....  | 17                         |
|  | <u>24,640</u>              |
|  | -----                      |
| <b>Current</b>   |                            |
| Borrowings from General Motors — unsecured.....  | 19,739                     |
| Add: current portion of: .....   |                            |
| — non-current borrowings from banks .....  | 4,494                      |
| — non-current borrowings from a subsidiary of Delphi Corporation (note<br>(a)).....                                | 4,083                      |
| — finance lease obligations (note (b)).....  | 16                         |
|  | <u>28,332</u>              |
|  | -----                      |
| <b>Total borrowings</b> .....  | <u>52,972</u>              |
|  | =====                      |
|  | -----                      |
|  | As at<br>November 30, 2010 |
|  | US\$'000                   |
| <b>Maturity of borrowings</b>  |                            |
| Within 1 year .....  | 28,332                     |
| Between 1 and 2 years .....  | 4,017                      |
| Between 2 and 5 years .....  | 20,623                     |
|  | <u>52,972</u>              |
|  | =====                      |
|  | -----                      |
|  | As at<br>November 30, 2010 |
| <b>Weighted average annual interest rates</b>  |                            |
| Bank borrowings .....  | 6.9%                       |
| Other borrowings.....  | 7.2%                       |
|  | <u>7.2%</u>                |
|  | =====                      |
|  | -----                      |
|  | As at<br>November 30, 2010 |
|  | US\$'000                   |
| <b>Currency denomination</b>   |                            |
| US\$ .....   | 19,739                     |
| RMB .....  | 33,200                     |
| Euro.....  | 33                         |
|  | <u>52,972</u>              |
|  | =====                      |
|  | -----                      |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****17 BORROWINGS (continued)**

|   | As at<br>November 30, 2010 |
|---|----------------------------|
|   | US\$'000                   |
| <b>Undrawn facilities at floating rates</b> |                            |
| Within 1 year . . . . .                     | 42,000                     |

Note:

(a) This represents a loan payable to a subsidiary of Delphi Corporation which was repaid in 2011.

(b) Finance lease obligations

(i) Gross finance leases liabilities — minimum lease payments:

|  | As at<br>November 30,<br>2010 |
|--|-------------------------------|
|  | US\$'000                      |
| Within 1 year . . . . .                | 17                            |
| Between 1 and 2 years . . . . .        | 20                            |
| Between 2 and 5 years . . . . .        | 3                             |
|  | 40                            |
| Less: future finance charges . . . . . | (7)                           |
|  | 33                            |

(ii) Present value of finance lease obligations:

|                                 | As at<br>November 30,<br>2010 |
|---------------------------------|-------------------------------|
|                                 | US\$'000                      |
| Within 1 year . . . . .         | 16                            |
| Between 1 and 2 years . . . . . | 14                            |
| Between 2 and 5 years . . . . . | 3                             |
|                                 | 33                            |

**18 RETIREMENT BENEFITS AND COMPENSATIONS**

|  | As at<br>November 30, 2010 |
|--|----------------------------|
|  | US\$'000                   |
| Pension — defined benefit plans (note) . . . . . | 7,649                      |

Note:

GM Global Steering Group sponsored various defined benefit plans that generally provided benefits based on negotiated amounts for each year of eligible service. Its most significant plans were under regulatory frameworks in Mexico, Germany and France.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

Save as the defined benefit plan for U.S. operations as detailed in Note 3.15(b), GM Global Steering Group employed Mercer (U.S.) Inc., an independent qualified actuary, to measure pension costs using the projected unit credit method. The amounts recognized in balance sheets are determined as follows:

|  | As at<br>November 30, 2010 |
|--|----------------------------|
|  | US\$'000                   |
| Present value of funded obligations (note (i)) ..... | 8,436                      |
| Fair value of plan assets (note (ii)).....           | (787)                      |
| Deficit of funded plans .....                        | <u>7,649</u>               |

## (i) Movement in the present value of defined benefit obligations:

|  | For the eleven<br>months ended<br>November 30,<br>2010 |
|--|--|
|  | US\$'000   |
| Opening balance .....                              | 6,520  |
| Current service cost .....                         | 441  |
| Interest cost .....                                | 408  |
| Losses from changes in financial assumptions ..... | 775  |
| Experience losses .....                            | 416  |
| Exchange differences .....                         | 42   |
| Benefits paid .....                                | (166)  |
| Ending balance.....                                | <u>8,436</u>   |

## (ii) Movement in the fair value of plan assets:

|  | For the eleven<br>months ended<br>November 30,<br>2010 |
|--|--|
|  | US\$'000   |
| Opening balance .....  | 678  |
| Interest income .....  | 54   |
| Return on plan assets, excluding amounts included in interest income ..... | 31   |
| Employer contributions .....   | 156  |
| Exchange differences .....   | 34   |
| Benefits paid .....  | (166)  |
| Ending balance.....  | <u>787</u>   |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

Plan assets comprised as follows:

|                | <b>As at<br/>November 30, 2010</b> |
|----------------|------------------------------------|
| Equities ..... | 35%                                |
| Bonds.....     | 40%                                |
| Cash.....      | 25%                                |
|                | <u>100%</u>                        |

Amounts recognized in other comprehensive income:

|  | <b>For the eleven<br/>months ended<br/>November 30,<br/>2010</b> |
|--|--|
|  | <b>US\$'000</b>  |
| Losses from changes in financial assumptions .....                         | (775)  |
| Experience losses .....  | (416)  |
| Return on plan assets, excluding amounts included in interest income ..... | 31   |
| Total.....   | <u>(1,160)</u>   |

Amount recognized in income statement:

|  | <b>For the eleven<br/>months ended<br/>November 30,<br/>2010</b> |
|--|--|
|  | <b>US\$'000</b>  |
| Current service cost .....                     | 441  |
| Interest cost .....                            | 354  |
| Total.....                                     | <u>795</u>   |
| <i>Included in:</i>                            |  |
| Cost of sales.....                             | 567  |
| Engineering and product development costs..... | 53   |
| Administrative expenses.....                   | <u>175</u>   |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)**

Principal actuarial assumptions used were as follows:

|                             | <b>For the eleven<br/>months ended<br/>November 30,<br/>2010</b> |
|-----------------------------|--|
| Discount rate .....         | 6.97%  |
| Salary increase rate .....  | 4.38%  |
| Price inflation rate .....  | 3.38%  |
| Pension increase rate ..... | 2.00%  |

Sensitivity analysis on (decrease)/increase of pension obligations:

|   | <b>As at<br/>November 30, 2010</b> |
|---|------------------------------------|
|   | <b>US\$'000</b>                    |
| 1% increase in discount rate .....        | (7,317)                            |
| 1% decrease in discount rate .....        | 9,809                              |
| 1% increase in salary increase rate ..... | 9,400                              |
| 1% decrease in salary increase rate ..... | (7,677)                            |

The above sensitivity analyzes are based on a change in an assumption while holding all other assumptions constant. In practice, this was unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation the same actuarial method has been applied in arriving at the pension liability recognized in the balance sheet.

**19 PROVISIONS**

|  | <b>As at November 30, 2010</b> |                    |                 |
|--|--------------------------------|--------------------|-----------------|
|  | <b>Current</b>                 | <b>Non-current</b> | <b>Total</b>    |
|  | <b>US\$'000</b>                | <b>US\$'000</b>    | <b>US\$'000</b> |
| Litigation (note (a)) .....                | 370                            | —                  | 370             |
| Environmental liabilities (note (b)) ..... | 113                            | 12,602             | 12,715          |
| Warranties .....                           | 11,351                         | 12,668             | 24,019          |
| Decommissioning (note (c)) .....           | —                              | 4,640              | 4,640           |
|  | <u>11,834</u>                  | <u>29,910</u>      | <u>41,744</u>   |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 19 PROVISIONS (continued)

Movement of provisions for the eleven months ended November 30, 2010 is as follows:

|                            | Litigation | Environmental<br>liabilities | Warranties    | Decom-<br>missioning | Total         |
|----------------------------|------------|------------------------------|---------------|----------------------|---------------|
|                            | US\$'000   | US\$'000                     | US\$'000      | US\$'000             | US\$'000      |
| At January 1, 2010 . . . . | 552        | 13,004                       | 19,070        | 4,059                | 36,685        |
| Additions . . . . .        | —          | 66                           | 20,903        | 528                  | 21,497        |
| Payments . . . . .         | (197)      | (358)                        | (13,896)      | —                    | (14,451)      |
| Exchange differences . . . | 15         | 3                            | (2,058)       | 53                   | (1,987)       |
| At November 30, 2010 . .   | <u>370</u> | <u>12,715</u>                | <u>24,019</u> | <u>4,640</u>         | <u>41,744</u> |

(a) Litigation

The balance represents a provision primarily for certain labor claims brought against GM Global Steering Group. Management were of the view that, after taking appropriate legal advice, the outcome of these legal claims would not give rise to significant losses beyond the amounts provided at reporting date.

(b) Environmental liabilities

A provision is recognized for the present value of remediation costs to be incurred for the restoration of the manufacturing sites upon the initial recognition of the related assets.

(c) Decommissioning

This represents asset retirement obligations at certain of GM Global Steering Group's manufacturing sites.



**II. NOTES ON THE FINANCIAL INFORMATION (continued)****20 DEFERRED REVENUE**

GM Global Steering Group periodically received upfront consideration from customers in connection with engineering and prototyping pre-production, program-specific activities. These revenue amounts were deferred until they can be recognized over the life of the related program, which typically ranges between 4 and 7 years. The carrying amount of deferred revenue is as follows:

|                                 | As at November 30, 2010 |             |          |
|---------------------------------|-------------------------|-------------|----------|
|                                 | Current                 | Non-current | Total    |
|                                 | US\$'000                | US\$'000    | US\$'000 |
| Prototype and engineering ..... | 18,321                  | 65,234      | 83,555   |

Movement of deferred revenue for the eleven months ended November 30, 2010 is as follows:

|                                   |          |
|-----------------------------------|----------|
|                                   | US\$'000 |
| <b>At January 1, 2010</b> .....   | 82,849   |
| Additions .....                   | 17,995   |
| Amortization .....                | (17,289) |
| <b>At November 30, 2010</b> ..... | 83,555   |

**21 TRADE PAYABLES**

Aging analysis of trade payables based on credit terms is as follows:

|                             | As at<br>November 30, 2010 |
|-----------------------------|----------------------------|
|                             | US\$'000                   |
| Not overdue .....           | 194,982                    |
| Overdue up to 30 days ..... | 24,454                     |
| Overdue 30 to 60 days ..... | 10,094                     |
| Overdue 60 to 90 days ..... | 1,949                      |
| Overdue over 90 days .....  | 3,862                      |
|                             | 235,341                    |

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****22 OTHER PAYABLES AND ACCRUALS**

|   | As at<br>November 30, 2010 |
|---|----------------------------|
|   | US\$'000                   |
| Accrued expenses .....                    | 56,786                     |
| Deposits from customers .....             | 7,318                      |
| Other taxes payable.....                  | 5,246                      |
| Payables to General Motors (Note 32)..... | 9,065                      |
| Others .....                              | 1,551                      |
|   | <u>79,966</u>              |
| Less: non-current portion.....            | (746)                      |
| Current portion .....                     | <u><u>79,220</u></u>       |

**23 OTHER LOSSES, NET**

|                              | For the eleven<br>months ended<br>November 30, 2010 |
|------------------------------|---|
|                              | US\$'000  |
| Foreign exchange losses..... | (6,160)   |
| Others .....                 | 623   |
|                              | <u>(5,537)</u>                                      |

**24 EXPENSE BY NATURE**

|  | For the eleven<br>months ended<br>November 30, 2010 |
|--|---|
|  | US\$'000  |
| Raw materials used .....   | 1,039,619   |
| Changes in inventories of finished goods and work-in-progress .....  | (16,114)  |
| Employee benefit costs (Note 25).....  | 358,258   |
| Temporary labor costs.....   | 33,440  |
| Supplies and tools .....   | 134,851   |
| Depreciation on property, plant and equipment (Note 7) .....   | 25,766  |
| Amortization on land use rights (Note 8) .....   | 22  |
| Impairment charges on  |   |
| — inventories.....   | 838   |
| — receivables (Note 11).....   | 292   |
| Utilities .....  | 34,392  |
| Transportation expenses .....  | 8,013   |
| Operating lease expenses .....   | 7,814   |
| Warranty expenses (Note 19).....   | 20,903  |
| Auditors' remuneration .....   | 216   |
| Others .....   | 156,297   |
|  | <u>1,804,607</u>                                    |
| Total cost of sales, engineering and product development costs, selling and<br>distribution, administrative expenses ..... | <u><u>1,804,607</u></u>                             |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 25 EMPLOYEE BENEFIT COSTS

|  | For the eleven<br>months ended<br>November 30, 2010 |
|--|---|
|  | US\$'000  |
| Salary expenses .....                                | 326,829   |
| Pension costs — defined contribution plans .....     | 2,451   |
| Pension costs — defined benefit plans (Note 18)..... | 795   |
| Other employee costs .....                           | 28,183  |
|  | <u>358,258</u>                                      |

(a) *Directors' emoluments*

For the eleven months ended November 30, 2010, the remuneration of individuals who did not have the director's responsibility of GM Global Steering but become directors of Nexteer Automotive Group Limited is set out below:

| Name                           | Fees     | Salary     | Discretionary<br>bonus<br>(note (i)) | Other<br>benefits<br>(note (ii)) | Employer's                               | Total      |
|--------------------------------|----------|------------|--------------------------------------|----------------------------------|--|------------|
|                                |          |            |                                      |                                  | contribution<br>to<br>retirement<br>plan |            |
|                                | US\$'000 | US\$'000   | US\$'000                             | US\$'000                         | US\$'000                                 | US\$'000   |
| Mr. Guibin Zhao .....          | —        | —          | —                                    | —                                | —  | —          |
| Mr. Yi Fan .....               | —        | —          | —                                    | —                                | —  | —          |
| Mr. Jian Zhu .....             | —        | —          | —                                    | —                                | —  | —          |
| Mr. Michael Paul Richardson .. | —        | 375        | —                                    | 12                               | —  | 387        |
| Mr. Qunhui Luo .....           | —        | —          | —                                    | —                                | —  | —          |
| Mr. Hing Lun Tsang .....       | —        | —          | —                                    | —                                | —  | —          |
| Mr. Kevin Cheng Wei .....      | —        | —          | —                                    | —                                | —  | —          |
| Mr. Jianjun Liu .....          | —        | —          | —                                    | —                                | —  | —          |
|                                | <u>—</u> | <u>375</u> | <u>—</u>                             | <u>12</u>                        | <u>—</u>                                 | <u>387</u> |

Note:

- (i) Discretionary bonus includes deferred compensation plans and annual incentive compensation plans.  
(ii) Other benefits include payments made for dental, disability and healthcare covers, and contributions to social security, health saving and 401K accounts.

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 25 EMPLOYEE BENEFIT COSTS (continued)

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in GM Global Steering Group for the period include one individual whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four individuals are as follows:

|                               | For the eleven<br>months ended<br>November 30, 2010 |
|-------------------------------|---|
|                               | US\$'000  |
| Salaries and allowances ..... | 2,070   |
| Other benefits .....          | 165   |
|                               | <u>2,235</u>  |

The emoluments of the remaining individuals fell within the following bands:

|   | Number of<br>individuals |
|---|--------------------------|
| HK\$3,000,000–HK\$3,500,000 (US\$386,000–US\$451,000) .....     | 3                        |
| HK\$8,000,000–HK\$8,500,000 (US\$1,030,000–US\$1,095,000) ..... | <u>1</u>                 |

## 26 FINANCE COSTS, NET

|   | For the eleven<br>months ended<br>November 30, 2010 |
|---|---|
|   | US\$'000  |
| <b>Finance income</b>                   |   |
| Interest on bank deposits .....         | 790   |
| <b>Finance costs</b>                    |   |
| Interest expense on bank borrowings     |   |
| — Wholly repayable within 5 years ..... | 317   |
| Interest expense on other borrowings    |   |
| — Wholly repayable within 5 years ..... | 3,740   |
|   | <u>4,057</u>  |
| Interest on finance leases .....        | 2   |
| Other finance costs .....               | 688   |
|   | <u>4,747</u>  |
| Finance costs, net .....                | <u>3,957</u>  |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 27 INCOME TAX EXPENSE

|   | For the eleven<br>months ended<br>November 30,<br>2010 |
|---|--|
|   | US\$'000   |
| Current income tax .....                  | 13,004   |
| Deferred income tax credit (Note 9) ..... | (2,013)  |
|   | <u>10,991</u>  |

Taxation on GM Global Steering Group's profits has been calculated on the estimated assessable profits for the period at the statutory rates of 25% and 19% in the PRC and Poland respectively from where GM Global Steering Group's profits were mainly generated.

The tax on GM Global Steering Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

|   | For the eleven<br>months ended<br>November 30,<br>2010 |
|---|--|
|   | US\$'000   |
| Profit before income tax .....  | 81,094   |
| Tax calculated at rates applicable to profits in respective countries .....                       | 19,238   |
| Expenses not deductible for tax purposes .....  | 2,740  |
| Preferential rates due to tax holidays (note) .....   | (10,401)   |
| Tax losses and deductible temporary differences for which no deferred tax<br>was recognized ..... | 434  |
| Others .....  | (1,020)  |
| Tax charge .....  | <u>10,991</u>  |

Note: Derived mainly from profits subject to income tax exemption up to 2020 for GM Global Steering Group's investment in Special Economic Zones in Poland according to relevant Polish tax rules.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****28 EARNINGS PER SHARE**

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to its presentation of consolidated results of GM Global Steering Group for the Relevant Period as disclosed in Note 2.

**29 DIVIDEND**

|                    | <b>For the eleven<br/>months ended<br/>November 30,<br/>2010</b> |
|--------------------|--|
|                    | <b>US\$'000</b>  |
| Dividend paid..... | 33,631   |

**30 CONSOLIDATED STATEMENT OF CASH FLOWS***(a) Cash generated from operations*

|  | <b>For the eleven<br/>months ended<br/>November 30,<br/>2010</b> |
|--|--|
|  | <b>US\$'000</b>  |
| Profit before income tax.....                            | 81,094   |
| Adjustments for:   |  |
| Finance costs.....                                       | 4,747  |
| Depreciation on property, plant and equipment.....       | 25,766   |
| Amortization on land use rights.....                     | 22   |
| Impairment charges on inventories and receivables.....   | 1,130  |
| Exchange differences.....                                | (2,450)  |
|  | <u>110,309</u>   |
| Changes in working capital:                              |  |
| — Increase in receivables.....                           | (33,410)   |
| — Increase in inventories.....                           | (17,747)   |
| — Decrease in payables and accruals.....                 | (33,082)   |
| — Increase in provisions.....                            | 5,059  |
| — Increase in retirement benefits and compensations..... | 1,246  |
| — Increase in deferred revenue.....                      | 706  |
| Net cash generated from operations.....                  | <u>33,081</u>  |

*(b) Major non-cash transactions*

During the eleven months ended November 30, 2010, GM Global Steering Group purchased property, plant and equipment which was recorded in payables in the amount of US\$12,004,000.

**II. NOTES ON THE FINANCIAL INFORMATION (continued)****31 COMMITMENTS***(a) Capital commitments*

GM Global Steering Group had capital commitments of US\$27,765,000 as at November 30, 2010 to purchase property, plant and equipment which were contracted but not provided for.

*(b) Purchase commitments*

GM Global Steering Group entered into a purchase agreement with a supplier to purchase an annual volume amounting to US\$10,434,000 annually throughout 2014 representing a total outstanding purchase obligation of US\$42,603,000 as at November 30, 2010. GM Global Steering Group expected to meet these commitments through normal purchases to be used in production through the commitment date.

*(c) Operating lease commitments*

GM Global Steering Group's future aggregate minimum lease payments under non-cancelable operating leases are as follows:

|                    | <u>As at<br/>November 30, 2010</u> |
|--------------------|------------------------------------|
|                    | <u>US\$'000</u>                    |
| Up to 1 year ..... | 7,950                              |
| 1 to 5 years ..... | 19,270                             |
| Over 5 years ..... | 6,012                              |
|                    | <u>33,232</u>                      |

## II. NOTES ON THE FINANCIAL INFORMATION (continued)

## 32 RELATED PARTY TRANSACTIONS

In addition to the related party transactions described elsewhere in Note 2 and 17, GM Global Steering Group recorded the following transactions and balances with General Motors Group and its affiliates which were unsecured, non-interest bearing and repayable on demand.

|   | For the eleven<br>months ended<br>November 30,<br>2010 |
|---|--|
|   | US\$'000   |
| <b>Revenue</b>                                  |  |
| Sales of goods .....                            | 999,922  |
| <b>Expenses</b>                                 |  |
| Purchase of goods .....                         | 219  |
| Purchase of services .....                      | 268,883  |
| Key management compensation (note (a))          |  |
| — Salaries, other allowances and benefits ..... | 2,163  |
| — Others .....                                  | 58   |
|   | As at<br>November 30, 2010                             |
|   | US\$'000   |
| <b>Assets</b>                                   |  |
| Trade receivables .....                         | 142,208  |
| <b>Liabilities</b>                              |  |
| Other payables and accruals (note (b)) .....    | 9,065  |
| Provisions (note (c)) .....                     | 6,665  |

## Note:

- (a) This includes the remunerations of the CEO and other key management members excluding the Chief Financial Officer and Chief Legal Counsel.
- (b) This relates to service fees payable and refundable sales deposits.
- (c) This represents warranty provisions on sale of goods to General Motors Group and its affiliates.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong



## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The information set forth in this appendix does not form part of the Accountant's Reports from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendices IA and IB in this Prospectus, and is included herein for information only.*

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the "Accountant's Report on the Financial Information of the Group" set forth in Appendix IA to this Prospectus.*

### A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as at December 31, 2012 as if the Global Offering had taken place on December 31, 2012.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group as at December 31, 2012 or at any future dates following the Global Offering.

|  | Unadjusted<br>audited<br>combined net<br>tangible<br>liabilities of<br>the Group<br>attributable to<br>the equity<br>holders of the<br>Company as at<br>December 31,<br>2012 <sup>(1)</sup> | Estimated net<br>proceeds from<br>the Global<br>Offering <sup>(2)</sup> | Unaudited pro<br>forma adjusted<br>net tangible<br>assets of the<br>Group<br>attributable to<br>the equity<br>holders of the<br>Company | Unaudited pro forma adjusted<br>net tangible assets per Share <sup>(3)</sup> |                     |
|--|---|---|---|--|---------------------|
|  | US\$'000  | US\$'000  | US\$'000  | US\$   | HK\$ <sup>(4)</sup> |
| Based on an Offer Price of<br>HK\$2.54 per share . . . . . | (8,151)   | 224,213   | 216,062   | 0.09   | 0.70                |
| Based on an Offer Price of<br>HK\$3.50 per share . . . . . | (8,151)   | 311,058   | 302,907   | 0.13   | 1.01                |

Notes:

- (1) The unadjusted audited combined net tangible liabilities attributable to the equity holders of the Company as at December 31, 2012 is extracted from the Accountant's Report on the financial information of the Group set out in Appendix IA to this Prospectus, which is based on the audited combined net assets of the Group attributable to the equity holders of the Company of US\$170,931,000 with adjustments for intangible assets of US\$179,082,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK\$2.54 per Share and HK\$3.50 per Share after deduction of the underwriting commission and other related expenses payable by the Company and takes no account of any share which may be issued upon exercise of the Over-allotment Option.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in note 2 above and on the basis that 2,400,000,000 Shares were in issue assuming the Global Offering had been completed on December 31, 2012 and takes no account of any share which may be issued upon exercise of the Over-allotment Option.
- (4) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in U.S. dollar are converted into Hong Kong dollars at the rate of HK\$7.76 to US\$1.00.
- (5) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2012.

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## APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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### B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The unaudited pro forma forecast earnings per share prepared in accordance with Rule 4.29 of the Listing Rules is set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2013. The unaudited pro forma forecast earnings per share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results of the Group for the six months ending June 30, 2013 or any future period.

|  |                                   |
|--|-----------------------------------|
| Forecast consolidated profit attributable to equity holders of the<br>Company for the six months ending June 30, 2013 <sup>(1)</sup> ..... | not less than<br>US\$52.5 million |
| Unaudited pro forma forecast earnings per share <sup>(2)</sup> .....   | not less than US\$0.02            |

Notes:

- (1) The forecast consolidated profit attributable to equity holders of the Company for the six months ending June 30, 2013 is extracted from the section headed “Financial information – Profit Forecast for the Six Months Ending June 30, 2013” in the prospectus. The bases on which the above profit forecast for the six months ending June 30, 2013 has been prepared are set out in Appendix III to this prospectus. The Directors have prepared the forecast consolidated profit attributed to equity holders of the Company for the six months ending June 30, 2013 based on the unaudited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to “the Group”) based on the unaudited management accounts for the four months ended April 30, 2013 and a forecast of the consolidated results of the Group for the remaining two months ending June 30, 2013. The profit forecast has been prepared on a basis consistent in all material respects with our accounting policies presently adopted by the Group as set out in Note 2 of Section II of the Accountant’s Report of the Group, the text of which is set out in Appendix IA to the prospectus.
- (2) The unaudited pro forma forecast earnings per share is calculated by dividing the forecast consolidated profit attributable to equity holders of the Company for the six months ending June 30, 2013 by 2,400,000,000 shares on the basis that these shares were in issue during the entire period and assuming that the Global Offering and the Capitalization Issue had been completed on January 1, 2013.

**C.    LETTER FROM REPORTING ACCOUNTANT**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



**羅兵咸永道**

**ACCOUNTANT’S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF NEXTEER AUTOMOTIVE GROUP LIMITED**

We report on the unaudited pro forma financial information of Nexteer Automotive Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages II-1 to II-2 under the headings of “Unaudited Pro Forma Adjusted Net Tangible Assets” and “Unaudited Pro Forma Forecast Earnings Per Share” (the “Unaudited Pro Forma Financial Information”) in Appendix II of the Company’s prospectus dated June 20, 2013 (the “Prospectus”), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

**Respective Responsibilities of Directors of the Company and the Reporting Accountant**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited combined net assets of the Group as at December 31, 2012 and unaudited forecast profit attributable to equity holders of the Company for the six months ending June 30, 2013 with the accountant’s report as set out in Appendix IA of the Prospectus and profit forecast as set out in the section headed “Financial Information” in the Prospectus respectively, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the adjusted net tangible assets of the Group as at December 31, 2012 or any future date, or
- the earnings per share of the Group for the six months ending June 30, 2013 or any future periods.

**Opinion**

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong, June 20, 2013

*Our forecast consolidated profit attributable to the equity holders of the Company for the six months ending June 30, 2013 is set out in the section headed “Financial Information — Profit Forecast for the Six Months Ending June 30, 2013” in this prospectus.*

#### **A. BASES AND ASSUMPTIONS**

The Directors have prepared the forecast consolidated profit attributable to the equity holders of the Company for the six months ending June 30, 2013 (the “Profit Forecast Period”) based on the consolidated actual results of our Group for the four months ended April 30, 2013 contained in our unaudited management accounts and a forecast of the results of our Group for the remaining two months ending June 30, 2013.

The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as set out in the accountant’s report on the financial information of our Group for the period from November 4 to December 31, 2010, and each of the years ended December 31, 2011 and 2012 as set out in Appendix IA to this prospectus and is based on the following principal assumptions:

1. There will be no material changes in existing government policies or political, legal including changes in legislations or rules, regulatory, fiscal, social, economic or market conditions in the United States of America (“U.S.”), Hong Kong, Poland, China, Brazil, India, Australia and other markets in which our Group operates.
2. There will be no material changes in the bases or rates of taxation or duties in the U.S., Hong Kong, Poland, China, Brazil, India, Australia nor any other material tax jurisdiction in which our Group operates.
3. There will be no government action, or any other unforeseen circumstances beyond the control of our Group, which will have material adverse effect on the operation and results of our Group.
4. Our Group’s operations will not be materially affected or interrupted by any events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors.
5. The forecast has been prepared taking into account the continual involvement of the Directors, key senior management and other necessary personnel in managing our Group’s operations. It is assumed that our Group will be able to retain such key management and personnel during the forecasted period.
6. Our Group’s third-party suppliers that produce a significant proportion of our Group’s products will continue to maintain financial liquidity, deliver products of sufficient quality, and produce the required quantities in a timely manner unless unforeseeable factors or events beyond the control of the Directors occur.
7. There will be no material change to the acquisition or disposal of assets and investment transactions.
8. There will be no material change in accounting standards or financial reporting requirements which will have significant impacts on the preparation of the forecast.

9. There will be no abnormal or extraordinary items during the Profit Forecast Period.
10. Our Group is not materially and adversely affected by any of the risk factors set out in the section headed “Risk factors” of the Prospectus.
11. Our Group will utilize the net proceeds from the global offering and existing cash to fund capital expenditures on new product programs and manufacturing capacity expansion, incur research and development expenditures, and fund working capital to support business growth.
12. There will be no material changes in inflation, interest rates or foreign currency exchange rates from those currently prevailing.
13. Our Group’s purchases of raw materials are made primarily in US\$. From time to time, certain of our global sites may purchase raw materials in their local currency.
14. Our Group will not incur material additional cost with respect to miscellaneous and administration expenses during the Profit Forecast Period.
15. Our Group will not impair tangible or intangible assets during the Profit Forecast Period.
16. Our Group’s net sales are subject to moderate seasonal fluctuations. Monthly net sales tend to be lowest during November and December of our Group’s fiscal year, reflecting the impact of traditional holiday periods.
17. Our Group can substantially maintain business relationships with all of our major customers, suppliers, and labor force during the Profit Forecast Period.
18. During the Profit Forecast Period, our labor rates are forecasted to remain flat in comparison to the first four months of 2013. Changes in total labor costs from period to period are driven by changes in headcount.
19. Trade receivables in the Profit Forecast Period take into account the general collection periods based on historical and cyclical trends. Similarly, payment patterns for trade payables to trade and other third party suppliers in the Profit Forecast Period would be similar to that for historical trends in 2012 and through April 30, 2013.
20. Our Group’s forecasts do not project any recalls or extraordinary warranty circumstances other than those that can be estimated from past experience in the Profit Forecast Period.
21. Subject to applicable laws and regulations, our Group currently intends to pay dividends of approximately 20% of our net profits available for distribution for the year ending December 31, 2013.

**B. LETTER FROM THE REPORTING ACCOUNTANT**

*The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

June 20, 2013

The Directors  
Nexteer Automotive Group Limited

BOCI Asia Limited  
J.P. Morgan Securities (Far East) Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the consolidated profit attributable to equity holders of Nexteer Automotive Group Limited (the “Company”) for the six months ending June 30, 2013 (the “Profit Forecast”) as set out in the subsection headed “Profit Forecast For The Six Months Ending June 30, 2013” in the section headed “Financial Information” in the prospectus of the Company dated June 20, 2013 (the “Prospectus”).

We conducted our work in accordance with Auditing Guideline 3.341 on “Accountants’ report on profit forecasts” issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the unaudited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as “the Group”) based on management accounts for the four months ended April 30, 2013 and a forecast of the consolidated results of the Group for the remaining two months ending June 30, 2013 on the basis that the current Group structure had been in existence throughout the whole six months ending June 30, 2013.

In our opinion, the Profit Forecast, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set out on pages III-1 to III-2 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in Note 2 of section II of the financial information section in Appendix IA of the Prospectus.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong

**C. LETTER FROM THE JOINT SPONSORS**

*The following is the text of a letter prepared by the Joint Sponsors for the purpose of incorporation in this prospectus, in connection with the forecast of the consolidated profit attributable to the equity holders of the Company for the six months ending June 30, 2013.*

**J.P.Morgan**

June 20, 2013

To: The Directors  
Nexteer Automotive Group Limited

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to the equity holders of Nexteer Automotive Group Limited (the “**Company**”) for the six months ending June 30, 2013 (the “**Profit Forecast**”) as set out in the prospectus issued by the Company dated June 20, 2013 (the “**Prospectus**”).

We have discussed with you the bases and assumptions made by the directors of the Company (the “**Directors**”) as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated June 20, 2013 addressed to yourselves and ourselves from PricewaterhouseCoopers, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of  
**BOCI Asia Limited**

For and on behalf of  
**J.P. Morgan Securities (Far East) Limited**

**Mak Chi Kin**  
*Executive Director*  
*Deputy Head of Corporate Finance*

**Pai, Szu Chia, Nelly**  
*Executive Director*



## **SUMMARY OF THE CONSTITUTION OF THE COMPANY**

### **1      Memorandum of Association**

The Memorandum of Association of the Company was conditionally adopted on June 15, 2013 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in “Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection.”

### **2      Articles of Association**

The Articles of Association of the Company were conditionally adopted on June 15, 2013 and include provisions to the following effect:

#### ***2.1 Classes of Shares***

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is HK\$400,000,000 divided into 4,000,000,000 shares of HK\$0.10 each.

#### ***2.2 Directors***

##### ***(a) Power to allot and issue Shares***

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

##### ***(b) Power to dispose of the assets of the Company or any subsidiary***

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman

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**APPENDIX IV    SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
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Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

*(c) Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

*(d) Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective associates which are equivalent to the restrictions imposed by the Companies Ordinance.

*(e) Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

*(f) Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

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**APPENDIX IV    SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
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A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
  - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit; or
  - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

*(g) Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

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**APPENDIX IV    SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
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The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

*(h) Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

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**APPENDIX IV    SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
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There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

*(i) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

*(j) Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

### ***2.3 Alteration to constitutional documents***

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

### ***2.4 Variation of rights of existing shares or classes of shares***

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### ***2.5 Alteration of capital***

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would

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otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled subject to the provisions of the Cayman Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Cayman Companies Law.

***2.6 Special resolution — majority required***

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

***2.7 Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.



***2.8 Annual general meetings***

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Hong Kong Stock Exchange may authorize) shall elapse between the date of one annual general meeting of the Company and that of the next.

***2.9 Accounts and audit***

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

***2.10 Notice of meetings and business to be conducted thereat***

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other

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extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

### ***2.11 Transfer of shares***

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Hong Kong Stock Exchange.

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The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be canceled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of the Company; and
- (f) a fee of such maximum as the Hong Kong Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published on the Hong Kong Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

***2.12 Power of the Company to purchase its own shares***

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase.

***2.13 Power of any subsidiary of the Company to own shares***

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

***2.14 Dividends and other methods of distribution***

Subject to the Cayman Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other moneys payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

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Any dividend, interest or other sum payable in cash to a holder of shares may be paid by check or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every check or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such check or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending checks for dividend entitlements or dividend warrants after the first occasion on which such a check or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

### ***2.15 Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

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The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

***2.16 Calls on shares and forfeiture of shares***

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

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The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

***2.17 Inspection of register of members***

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement published on the Hong Kong Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$1.00 (or such other amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

***2.18 Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

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Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

***2.19 Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

***2.20 Procedure on liquidation***

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.



***2.21 Untraceable members***

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all checks or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Hong Kong Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

**SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**

**1     Introduction**

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**2     Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 21, 2012 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

**3     Share Capital**

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

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The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “share premium account.” At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and Articles of Association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its Articles of Association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its Articles of Association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its Articles of Association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the Articles of Association or by an ordinary resolution of the company. The Articles of Association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

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## APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

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There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

### 4 Dividends and Distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and Articles of Association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

### 5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

### 6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and Articles of Association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

**7        Disposal of Assets**

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

**8        Accounting and Auditing Requirements**

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**9        Register of Members**

An exempted company may, subject to the provisions of its Articles of Association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**10       Inspection of Books and Records**

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's Articles of Association.

**11       Special Resolutions**

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the Articles of Association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the Articles of Association of the company.

## **12    Subsidiary Owning Shares in Parent**

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

## **13    Mergers and Consolidations**

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company’s Articles of Association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

## **14    Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

**15    Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**16    Indemnification**

Cayman Islands law does not limit the extent to which a company's Articles of Association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**17    Liquidation**

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

**18    Stamp Duty on Transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**19    Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

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**APPENDIX IV    SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND CAYMAN ISLANDS COMPANIES LAW**

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- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (i) on or in respect of the shares, debentures or other obligations of the Company;  
or
  - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking is for a period of twenty years from September 18, 2012.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

## **20    Exchange Control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

## **21    General**

Maples and Calder, the Company's legal advisors on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in "Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Available for Inspection." Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT THE COMPANY****1. Incorporation**

We were incorporated in the Cayman Islands as an exempted company with limited liability under Cayman Islands Law on August 21, 2012.

We have established a place of business in Hong Kong at 8/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong and have registered with the Registrar of Companies as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance. MOK, Ming Wai has been appointed as our agent for the acceptance of service of process and notices on behalf of us in Hong Kong at 8/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. As we are incorporated in the Cayman Islands, our corporate structure, as well as our Memorandum of Association and Articles of Association, are subject to the relevant laws of the Cayman Islands. A summary of relevant parts of Memorandum of Association and Articles of Association and certain relevant aspects of Cayman Islands company law is set out in "Appendix IV — Summary of the Constitution of our Company and Cayman Islands Companies Law" to this Prospectus.

No equity or debt securities of the Company are listed on any other stock exchange, nor is listing or permission to deal for such securities being sought.

**2. Changes in the share capital of the Company**

As of the date of our incorporation, our authorized share capital was US\$50,000, divided into 50,000 shares of nominal value of US\$1.00 each.

On August 21, 2012, a single share was allotted to the initial subscriber and then transferred to Nexteer Hong Kong.

In addition to the existing authorized share capital of US\$50,000 divided into 50,000 shares of nominal value of US\$1.00, on June 15, 2013, the authorized share capital was increased by HK\$400,000,000 divided into 4,000,000,000 shares of nominal value of HK\$0.10, and the Company issued one share of nominal value of HK\$0.10 to Nexteer Hong Kong. The existing single share of nominal value US\$1.00 was then repurchased by the Company, and the unissued authorized share capital of US\$50,000 was cancelled by the Company.

Immediately following completion of the Capitalization Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, the authorized share capital of our Company will be HK\$400,000,000 divided into 4,000,000,000 Shares, of which 2,400,000,000 Shares will be issued fully paid or credited as fully paid, and 1,600,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Resolutions of the Sole Shareholder of the Company passed on June 15, 2013" in this Appendix, we do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.



Save as disclosed in this Prospectus, there has been no alteration in our share capital within two years immediately preceding the date of this Prospectus.

### **3. Changes in the share capital of the Company's principal subsidiaries**

The following sets forth the changes in share capital of the principal operating subsidiaries of the Company which have taken place within the two years preceding the date of this Prospectus:

In September 2011, the registered capital and total amount of investment of Nexteer Zhuozhou were increased from US\$15,000,000 and US\$21,294,000 to US\$22,000,000 and US\$38,794,000, respectively.

In November 2011, the registered capital and total amount of investment of Nexteer Wuhu were increased from US\$12,000,000 and US\$29,980,000 to US\$22,400,000 and US\$55,980,000, respectively.

In 2010, the registered capital and total amount of investment of Nexteer Suzhou were increased from US\$15,000,000 and US\$45,000,000 to US\$21,000,000 and US\$63,000,000, respectively.

### **4. Particulars of principal subsidiaries**

For a summary of the corporate information of our principal subsidiaries, please refer to note 1 of the Accountant's Report in Appendix IA to this Prospectus.

### **5. Resolutions of the Sole Shareholder of the Company passed on June 15, 2013**

Pursuant to the written resolutions dated June 15, 2013 passed by the then sole shareholder of our Company, among other matters:

- (a) our authorized share capital increased to an aggregate of HK\$400,000,000 and US\$50,000 by the creation of an additional 4,000,000,000 shares of HK\$0.10 nominal value each;
- (b) our authorized share capital was reduced by the cancellation of all 50,000 authorized but unissued shares of US\$1.00 nominal value each, such that the authorized share capital of the Company is HK\$400,000,000 divided into 4,000,000,000 shares of HK\$0.10 nominal value each;
- (c) conditional on (aa) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus; and (bb) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise:
  - (i) the amended and restated Articles of Association were approved and adopted;
  - (ii) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;

- (d) conditional on our share premium account having sufficient balance, or otherwise being credited as a result of the Global Offering, our Directors were authorized to capitalize the sum of HK\$167,999,999.90 paying up in full at par 1,679,999,999 Shares for allotment and issue to holders of Shares whose names appear on the register of our members as at the close of business on July 2, 2013 in proportion to their then existing holdings in us and so that the Shares to be allotted and issued pursuant to this resolution should rank pari passu in all respects with the then existing issued Shares and our Directors were authorized to give effect to such capitalization;
- (e) the appointment or designation of Directors were approved with immediate effect;
- (f) a general unconditional mandate was given to our Directors to allot, issue and deal with Shares or securities convertible into Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which would or might require Shares to be allotted, issued or dealt with, with an aggregate nominal amount (otherwise than pursuant to, or in consequence of, the Capitalization Issue or the Global Offering, a rights issue or pursuant to the exercise of any subscription rights which may be granted under any share incentive scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by our shareholders or an issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association), not exceeding the sum of 20% of the aggregate nominal amount of our share capital in issue immediately following completion of the Capitalization Issue and the Global Offering but excluding any Shares, which may be issued pursuant to the exercise of the Over-allotment Option, until the conclusion of our next annual general meeting, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (g) a general unconditional mandate (the “Repurchase Mandate”) was given to our Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of our share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering but excluding any Shares, which may be issued pursuant to the exercise of the Over-allotment Option until the conclusion of our next annual general meeting, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (h) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares, which may be purchased or repurchased pursuant to paragraph (g) above.

## 6. Repurchase by the Company of its Own Shares

This section sets out information required by the Hong Kong Stock Exchange to be included in this Prospectus concerning the repurchase by the Company of its own securities.

### *(a) Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their own securities on the Hong Kong Stock Exchange subject to certain restrictions, the more important of which are summarized below:

#### *(i) Shareholders' approval*

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

#### *(ii) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum of Association and Articles of Association of the Company and the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange. Subject to the foregoing, any repurchases by the Company may be made out of the Company's funds, which would otherwise be available for dividend or distribution, or out of the proceeds of a new issue of shares made for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be out of the funds, which would otherwise be available for dividend or distribution, or from sums standing to the credit of the Company's share premium account.

On the basis of the current financial position of us as disclosed in this Prospectus and taking into account the current working capital position of us, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of us as compared with the position disclosed in this Prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in these circumstances, have a material adverse effect on our working capital requirements or the gearing levels, which in the opinion of our Directors, are from time to time appropriate for us.

The exercise in full of the Repurchase Mandate, on the basis of 2,400,000,000 Shares in issue immediately after the Listing (assuming the Over-allotment Option is not exercised), would result in up to 240,000,000 Shares being repurchased by us during the period in which the Repurchase Mandate remains in force.

*(iii) Trading restrictions*

The total number of shares which a listed company may repurchase on the Hong Kong Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities, which were outstanding prior to such repurchase) without the prior approval of the Hong Kong Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Hong Kong Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Hong Kong Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Hong Kong Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Hong Kong Stock Exchange such information with respect to the repurchase as the Hong Kong Stock Exchange may require.

*(iv) Status of repurchased Shares*

All repurchased securities (whether effected on the Hong Kong Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be canceled and destroyed.

*(v) Suspension of repurchase*

A listed company may not make any repurchase of securities after inside information has come to the knowledge of the Company until such time as the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Hong Kong Stock Exchange other than in exceptional circumstances. In addition, the Hong Kong Stock Exchange may prohibit a repurchase of securities on the Hong Kong Stock Exchange if a listed company has breached the Listing Rules.

*(vi) Reporting requirements*

Certain information relating to repurchases of securities on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

*(vii) Connected persons*

A listed company is prohibited from knowingly repurchasing securities on the Hong Kong Stock Exchange from a “connected person,” that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates and a connected person is prohibited from knowingly selling his securities to the company.

*(viii) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder’s proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

*(b) Reasons for Repurchases*

The Directors believe that it is in the best interest of the Company and the Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit the Company and the Shareholders.

**B. CORPORATE ORGANIZATION**

Please refer to the section headed “Our History and Reorganization” of this Prospectus.

**C. FURTHER INFORMATION ABOUT THE COMPANY'S BUSINESS****1. Summary of the Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or its subsidiaries within the two years preceding the date of this Prospectus and are or may be material:

- (a) an assignment and assumption agreement (the "Assignment and Assumption Agreement") dated January 24, 2012 entered into between Steering Solutions IP Holding Corporation ("Steering Solutions") and Nexteer (Beijing) Technology Co., Ltd. ("Nexteer Beijing"), pursuant to which (i) Nexteer Beijing agreed to assign, transfer and set over unto Steering Solutions all its right, title and interest in, under and to certain intellectual property rights agreements; and (ii) Steering Solutions accepted the assignment and agreed to perform all of the terms and conditions of such intellectual property rights agreements to be performed on the part of Nexteer Beijing and assume all of the liabilities and obligation of Beijing Nexteer under such intellectual property rights agreements, in consideration of the mutual covenants contained in the Assignment and Assumption Agreement and other valuable consideration;
- (b) an assignment agreement dated January 26, 2012 entered into between Steering Solutions and Nexteer Beijing, pursuant to which Nexteer Beijing agreed to sell, assign, transfer and set over unto Steering Solutions, its legal representatives, successors, and assigns the entire right, title and interest in and to certain patents, and in and to certain patents which may be issued for good and valuable consideration;
- (c) a contribution agreement dated January 30, 2013 entered into among the Company, Nexteer Hong Kong and PCM China, pursuant to which PCM China, agreed to transfer, assign and deliver 35,000,001 ordinary shares in the issued and paid-up share capital of PCM (Singapore) Steering and all of its rights, dividends, title and interest in, to and under such shares to the Company for a consideration of one share valued at RMB537,142,800 issued by Nexteer Hong Kong to PCM China;
- (d) a contribution agreement dated January 30, 2013 entered into among the Company, Nexteer Hong Kong and PCM China, pursuant to which PCM China agreed to transfer, assign and deliver the entire outstanding common stock of PCM (US) Steering to the Company for a consideration of one share valued at RMB75,922,100 issued by Nexteer Hong Kong to PCM China;
- (e) a deed of indemnity dated June 15, 2013 entered into between the Company and PCM China, pursuant to which PCM China will indemnify the Company and members of our Group in respect of certain matters stated therein, details of which are set forth in the section headed " — E. Other Information — 1. Tax and other indemnities";

- (f) the cornerstone investment agreement dated June 16, 2013 entered into between the Company, Dongfeng Asset Management Co. Ltd., BOCI Asia Limited and J.P. Morgan Securities (Asia Pacific) Limited, details of which are set forth in the section entitled “Cornerstone Investor — Our Cornerstone Investor — Dongfeng Asset Management Co. Ltd.”; and
- (g) the Hong Kong Underwriting Agreement.

## 2. Key Intellectual Property Rights of our Group


### *Trademarks*


As at the Latest Practicable Date, our key trademarks were as follows:

#### Trademark

Nexteer

Nexteer Automotive and design 

Nexteer Automotive and design with Chinese 

Nexteer in Chinese 

We have 43 trademark registrations and 26 applications for the above trademarks, and a number of trademark registrations and applications for other names and their respective logos, in various countries.

### *Patents*

As at the Latest Practicable Date, our key patents were approximately 300 granted patents and approximately 100 pending patent applications relating to our electric power steering technologies, and approximately 300 granted patents and approximately 100 pending patent applications relating to our steering columns and intermediate shaft technologies, in various countries.

### *Domain names*

As of the Latest Practicable Date, we had registered the following key domain names:

[www.nexteer.com](http://www.nexteer.com)

**D. FURTHER INFORMATION ABOUT THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS****1. Directors' service contracts and appointment letters***Executive Directors*

Each of the executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for a term of three years with effect from June 15, 2013, which shall be renewed as determined by the Board or the Shareholders of the Company. The office of a Director is liable to be vacated in certain circumstances pursuant to the Articles. The appointment of each of the executive Directors may be terminated by either party by giving at least three months' written notice to the other.

*Non-Executive Directors*

The non-executive Director has entered into a service contract with our Company pursuant to which he agreed to act as a non-executive Director for a term of three years with effect from June 15, 2013, which shall be renewed as determined by the Board or the Shareholders of the Company. The office of a Director is liable to be vacated in certain circumstances pursuant to the Articles. The appointment of the non-executive Director may be terminated by either party by giving at least three months' written notice to the other.

*Independent non-executive Directors*

Each of the independent non-executive Directors has been appointed for a term of three years commencing from June 15, 2013, which shall be renewed as determined by the Board or the Shareholders of the Company. The appointment of each of the independent non-executive Directors may be terminated by either party giving at least three months' written notice to the other. The appointments are subject to the provisions of the Articles of Association of the Company with regard to vacating the office of Directors, removal and retirement by rotation of Directors. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**2. Directors' remuneration**

The aggregate amount of remuneration (including salaries, housing and other allowances, discretionary bonuses, other benefits and contributions to pension schemes) which were paid to our Directors for the period from November 4, 2010 to December 31, 2010, and the years ended December 31, 2011 and 2012 were approximately US\$86,000, US\$1,055,000 and US\$1,425,000 respectively.



Under the arrangements currently in force, we estimate the aggregate compensation, excluding discretionary bonus, of the Directors payable for the year ending December 31, 2013 to be approximately US\$3,200,000.

None of our Directors or any past Directors has been paid any sum of money for each of the three years ended December 31, 2010, 2011 and 2012 (i) as an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended December 31, 2010, 2011 and 2012.

### 3. Disclosure of Interests of Substantial Shareholders of Other Members of Our Group

So far as our Directors are aware, as of the Latest Practicable Date, the persons other than our Directors and our chief executive who were directly interested in 10% or more of the issued and outstanding share capital of our subsidiaries then in issue carrying rights to vote in all circumstances at general meetings of each relevant subsidiary, were as follows:

| Member of our Group        | Person with 10% or more interest (other than us) | Capacity            | Percentage of the substantial shareholder's interest |
|----------------------------|--|---------------------|--|
| Nexteer Zhuozhou . . . . . | Lingyun<br>Industrial                            | Registered<br>owner | 40%  |
| Nexteer Wuhu . . . . .     | Lingyun<br>Industrial                            | Registered<br>owner | 40%  |

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and assuming that the Over-allotment Options is not exercised, have an interest or a short position in the Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other member of our Group.

### 4. Disclosure of interests of Directors and Chief Executive

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), none of the Directors will have the interests or short positions in the Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

**5. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK\$38,000 and are payable by our Company.

**6. Disclaimers**

Save as disclosed in this Prospectus and as at the Latest Practicable Date:

- (a) none of our Directors nor any of the parties listed in the section headed “— E. Other Information — 7. Consents of Experts” of this Appendix was interested, directly or indirectly, in the promotion of, or in any assets which have, within the two years immediately preceding the issue of this Prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;
- (b) none of our Directors nor any of the parties listed in the section headed “— E. Other Information — 7. Consents of Experts” of this Appendix was materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to our Company’s business;
- (c) none of the Directors or chief executive of the Company has any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange, in each case once the Shares are listed on the Hong Kong Stock Exchange;
- (d) so far as is known to any of the Directors or chief executive of the Company, no person has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (e) save in connection with Underwriting Agreements, none of the persons listed in the section headed “— E. Other Information — 6. Qualifications of Experts” below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) save for the Underwriting Agreements, none of the persons listed in the section headed “— E. Other Information — 6. Qualifications of Experts” below is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of our Group taken as a whole;

- (g) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (h) so far as is known to the Directors, none of the Directors or their associates or any Shareholder of the Company (which to the knowledge of the Directors owns 5% or more of the issued share capital of the Company) has any interest in any of the five largest customers or the five largest suppliers of our Group.

## E. OTHER INFORMATION

### 1. Tax and other indemnities

PCM China (the “Indemnifier”) has entered into the Deed of Indemnity with the Company in favor of each member of our Group (being the agreement referred to in paragraph (e) of the section headed “— C. Further Information about the Company’s Business — 1. Summary of the Material Contracts” above) to provide the following indemnities:

Under the Deed of Indemnity, the Indemnifier will indemnify in full and keep each of the members of our Group indemnified against:

- (a) any losses suffered or incurred by any member of our Group arising out of any non-tax claims against any member of our Group to the extent that such losses relate to acts or omission or transactions entered into by any member of our Group on or prior to the Listing Date;
- (b) any losses or liability including but not limited to, any diminution in value of assets or shares in any member of our Group suffered by any member of our Group or any payment made or required to be made by any member of our Group and any losses incurred, as a direct or indirect result of or in connection with any tax claim in any jurisdiction arising:
  - (i) in respect of or as a consequence of any act, omission or event which occurred or is deemed to have occurred on or before the Listing Date;
  - (ii) in respect of or with reference to any income, profits or gains which were earned, accrued or received on or before or in respect of a period ending on or before the Listing Date; or
  - (iii) as a result of any member of our Group receiving or being entitled to receive any payment under the Deed of Indemnity, whether alone or in conjunction with other circumstances and whether or not such taxation is chargeable against or attributable to any other person; and
- (c) any losses suffered by any member of our Group, directly or indirectly, arising out of or in connection with the claim brought by Landstar Express America, Inc., on March 19, 2013, against Nexteer Automotive Corporation as disclosed in the section headed “Business — Regulatory Compliance and Legal Proceedings — Landstar” in this Prospectus (the “**Landstar Lawsuit**”);

- (d) all costs (including all legal costs), expenses, interests, penalties or other liabilities which any member of our Group may properly incur in connection with:
  - (i) the investigation, assessment or the contesting of any tax claim or non-tax claim or Landstar Lawsuit;
  - (ii) the settlement of any tax claim or non-tax claim or Landstar Lawsuit;
  - (iii) any legal proceedings in which any member of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given in favor of any member of our Group; or
  - (iv) the enforcement of any such settlement or judgment.

For the purposes of this section, “non-tax claims” include, but are not limited to, any fine or penalty or other civil or administrative liabilities imposed by any government authorities in any jurisdictions as a result of (i) the sanctions administered or enforced by the United States Department of the Treasury’s Office of Foreign Assets Control, the United Nations Security Council, the European Union, Her Majesty’s Treasury, or other relevant sanctions authority or (ii) any projects and operations in a country or territory that is the subject of any sanctions referred to in (i), including, without limitation, Iran, Cuba, Burma/Myanmar, Libya, North Korea, Sudan and Syria.

The Indemnifier, however, shall be under no liability in respect of any claims against any member of our Group:

- (a) to the extent that specific provision or reserve has been made in full for such claim in the combined financial statements as shown in the Accountant’s Report in Appendix IA to this Prospectus;
- (b) to the extent that such claim would not have arisen but for any act or omission of, or transactions entered into by any member of our Group within or outside the ordinary course of business (other than pursuant to a legally binding commitment, agreement or arrangement created on or before the Listing Date) after the Listing Date; or
- (c) to the extent that such claim arises or is incurred as a consequence of any change in the law, rules or regulations, or the interpretation or practice thereof by any relevant authority in any part of the world having retrospective effect coming into force after the date hereof or in the case of tax claim, to the extent that such claim arises or is increased as a result only of any increase in rates of taxation or change in law made after the Listing Date with retrospective effect.

### ***Hong Kong***

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Dividends paid on shares will not be subject to tax in Hong Kong and no tax is imposed in Hong Kong in respect of capital gains. However, profits from dealings in the Shares derived by persons carrying on a business of trading or dealings in securities in Hong Kong arising in or derived from Hong Kong may be subject to Hong Kong profits tax.

*Consultation with professional tax advisors*

Potential investors in the Global Offering are urged to consult their professional tax advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

**2. Litigation**

Save as disclosed in this Prospectus, as at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of our Group, that would have a material adverse effect on its results of operations or financial condition.

**3. Application for Listing**

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares in issue pursuant to the Global Offering and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

**4. No Material Adverse Change**

The Directors confirm that there has been no material adverse change in our Group's financial or trading position or prospects since December 31, 2012 (being the date to which the Company's latest audited financial statements were made up).

**5. Binding Effect**

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance insofar as applicable.

**6. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice contained in this Prospectus:

| Name   | Qualification  |
|--|--|
| BOCI Asia Limited . . . . .                            | Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, acting as one of the Joint Sponsors of the Global Offering                                  |
| J.P. Morgan Securities<br>(Far East) Limited . . . . . | Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, acting as one of the Joint Sponsors of the Global Offering |
| Jia Yuan Law Offices . . . . .                         | PRC legal advisors   |
| PricewaterhouseCoopers . . . . .                       | Certified public accountants   |
| Maples and Calder . . . . .                            | Cayman Islands legal advisors  |
| Ipsos Hong Kong Limited . . . . .                      | Industry consultants   |

**7. Consents of experts**

Each of BOCI Asia Limited, J.P. Morgan Securities (Far East) Limited, Jia Yuan Law Offices, PricewaterhouseCoopers, Maples and Calder and Ipsos Hong Kong Limited has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

**8. Bilingual Prospectus**

The English language and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**9. Miscellaneous**

Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus:

- (a) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither the Company nor any of its subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in the Company;
- (f) there were no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
- (g) the Company has no outstanding convertible debt securities;
- (h) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement;
- (i) no company within our Group is presently listed on any stock exchange or traded in any trading system;
- (j) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (k) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this Prospectus.

**10. Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the **WHITE**, **YELLOW** and **GREEN** application forms; (ii) the written consents referred to in “Appendix V — Statutory and General Information — E. Other Information — 7. Consents of Experts;” (iii) copies of the material contracts referred to in “Appendix V — Statutory and General Information — C. Further Information about the Company’s Business — 1. Summary of the Material Contracts.”

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Davis Polk & Wardwell, at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

1. our Memorandum and the Articles;
2. the Accountant’s Report on the financial information of our Group and the Accountant’s Report on the financial information of our Predecessor from PricewaterhouseCoopers, the texts of which are set out in Appendices IA and IB to this Prospectus respectively;
3. the audited combined financial statements of our Group for the period from November 4, 2010 to December 31, 2010 and for the years ended December 31, 2011 and 2012;
4. the audited consolidated financial statements of our Predecessor for the period from January 1, 2010 to November 30, 2010;
5. the report from PricewaterhouseCoopers on the unaudited pro forma financial information, the text of which is set out in Appendix II to this Prospectus;
6. the letters prepared by PricewaterhouseCoopers and the Joint Sponsors relating to the profit forecast respectively, the texts of which are set out in Appendix III to this Prospectus;
7. the material contracts referred to in “Appendix V — Statutory and General Information — C. Further Information about the Company’s Business — 1. Summary of the Material Contracts”;
8. the service contracts with, and appointment letters of, Directors, referred to in “Appendix V — Statutory and General Information — D. Further Information about the Directors and Substantial Shareholders — 1. Directors’ service contracts and appointment letters”;
9. the written consents referred to in “Appendix V — Statutory and General Information — E. Other Information — 7. Consents of Experts”;
10. the legal opinions prepared by Jia Yuan Law Offices, our legal advisor as to the PRC law, in respect of certain aspects of our Group and the property interests;
11. the IPSOS Report;
12. the letter prepared by Maples and Calder summarizing certain aspects of Cayman Islands company law referred to in Appendix IV to this Prospectus; and
13. the Cayman Companies Law.





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