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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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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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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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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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### *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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### 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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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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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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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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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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- (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.

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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.