
CONNECTED TRANSACTIONS

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 (RMB)	2014 (RMB)	2015 (RMB)
Exempt continuing connected transactions					
Guarantees from AVIC	14A.65(4)	N/A	N/A	N/A	N/A
Non-exempt continuing connected transactions					
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
Total			<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.

CONNECTED TRANSACTIONS

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 |

CONNECTED TRANSACTIONS

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.

CONNECTED TRANSACTIONS

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.

CONNECTED TRANSACTIONS

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.