

STRATEGIC INVESTOR AND OTHER INVESTORS

Strategic Investor

In December 2006, the Vaillant group (a leading European heating technology group), through its wholly-owned subsidiary, Saunier, invested in the Company. The Directors believe that this strategic relationship will enable the Group to leverage on the Vaillant group's network and business relationships to develop the European market. Saunier was one of the top five customers of the Group during the Track Record Period and save as aforesaid, Saunier is independent of the Group.

On 26 December 2006, Saunier entered into a share purchase agreement with Chigo Group Holding and Mr. XH Li pursuant to which Chigo Group Holding agreed to sell and Saunier agreed to purchase 1,400 Shares, representing approximately 1.4% of the issued share capital immediately prior to the Global Offering and the Capitalisation Issue at a consideration in US dollars equivalent to the amount of RMB40.6 million which was paid by Saunier in cash in March 2007. The consideration was determined on the basis of the net asset value of the Group and with reference to the price earnings ratio of companies in the same industry. The purchase consideration per Share paid by Saunier in cash was higher than the subscription price per Share paid by the Investors (as defined below) because the investment made by the Investors were negotiated around 2004 and 2005 and the subscription price was determined at the then operating conditions of the Company, whilst the share purchase by Saunier was only negotiated and concluded at the end of 2006. In both cases, the subscription prices or purchase price per Share were negotiated on an arms length basis.

On the basis of the consideration of RMB40.6 million (equivalent to approximately HK\$40.5 million with the then exchange rate), the investment cost per Share which Saunier paid based on the total number of Shares immediately after the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised) is approximately HK\$6.75, representing an approximate premium to the bottom end of the stated price range of the Offer Price of 350.0%, and an approximate premium to the top end of the stated price range of the Offer Price of 197.3%.

Saunier, an independent third party, is an existing public Shareholder of the Company, will hold approximately 1.20% of the issued share capital of the Company upon the completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised).

The Group's Other Investors

The Group has four other investors, being High Surplus, Menlo Dynamics, Getchance and Raffles Partners (collectively the "Investors"). Each of the Investors is independent of the Group and each of them is an existing public Shareholders. The background of the Investors is as follows:

High Surplus

High Surplus, a company incorporated in the British Virgin Islands, is an investment holding company, and it is a wholly-owned subsidiary of New World Liberty, which is the vehicle of a joint venture between the New World group, The Liberty Mutual Group and Asian Development Bank. New World Liberty is owned as to 50% by New World China Enterprises and 50% by Liberty New World. Liberty New

STRATEGIC INVESTOR AND OTHER INVESTORS

World is a California limited partnership formed by Newport Private Equity LLC as general partner. New World China Enterprises is wholly-owned by New World China Industrial Limited, which is in turn wholly-owned by New World Enterprise Holdings Limited, which is in turn wholly-owned by New World Development Company Limited (“NWD”). NWD is a company listed on the Stock Exchange (Stock code: 17). NWD is owned as to 38.61%% by Chow Tai Fook Enterprises Limited which is in turn wholly-owned by Centennial Success Limited which is in turn owned as to 51% by Cheng Yu Tung Family (Holdings) Limited.

The investment objective of New World Liberty is to achieve medium to long-term capital appreciation by making investments in companies situated, or which conduct their business primarily, in China. New World Liberty intends to meet its investment objective by investing in companies that have excellent potential for growth, are likely to benefit from the anticipated reforms in China or are likely to benefit from improvements in management and technology.

Menlo Dynamics

Menlo Dynamics, a company incorporated in Hong Kong, is an investment holding company, and it is a wholly-owned subsidiary of Potter Industries Limited, which is in turn ultimately wholly owned by Mr. Zhang Wen Kai, an independent third party. The investment objective of Menlo Dynamics is to generate long-term capital appreciation by making investments in companies that have excellent potential for growth in China.

Getchance

Getchance, a company incorporated in the BVI, is an investment holding company, and it is owned as to 39% and 39.2% by Blessed Consultants Limited and Evanstein Assets Limited, respectively. Blessed Consultants Limited is a company incorporated in the BVI, which is wholly owned by Harrison Assets Limited, which is in turn majority owned by Mr. Kwong Chi Shing Savio, an independent third party. Evanstein Assets Limited is a company incorporated in BVI, which is wholly owned by Mr. Cheung Kang Tong, Bruce, an independent third party. Getchance intends to meet its investment objective by investing in companies that have excellent potential for growth and are likely to benefit from improvements in management and technology.

Raffles Partners

Raffle Partners, a company incorporated in the BVI, is an investment holding company. The interest in Raffles Partners is held on trust for Raffles Partners Asset Management (Hong Kong) Limited, an independent third party. The investment objective of Raffles Partners is to enhance the existing value of the shareholder on a long term basis.

In 2004, Menlo Dynamics, Getchance and Raffles Partners began to have an interest in investing in the Group. Based upon their perceived impression that Hong Kong has a more advanced legal system, Menlo Dynamics, Getchance and Raffles Partners invested in amounts of HK\$30.0 million, HK\$50.0 million and HK\$2.0 million, respectively, in the form of loans advanced from Menlo Dynamics, Getchance and Raffles Partners, respectively, to

STRATEGIC INVESTOR AND OTHER INVESTORS

Chigo Electric in 2005, which were utilised by the Group as general working capital. Such loans were intended to be assigned by the relevant Investors to the proposed listing vehicle of the Group in satisfaction of the subscription consideration of such proposed listing vehicle, at or around the time of completion of the Reorganisation. The Reorganisation was substantially completed when Guangdong Chigo was converted from a limited liability company into a wholly foreign-owned enterprise under Chigo Development Holding on 1 September 2006, and the above outstanding loans were assigned by Menlo Dynamics, Getchance and Raffles Partners to the Company on 17 November 2006.

On 30 March 2005, the Group entered into a number of loan agreements with Menlo Dynamics, Getchance and Raffles Partners, respectively. Pursuant to the loan agreements, Menlo Dynamics, Getchance and Raffles Partners provided a loan in the aggregate amount of HK\$82.0 million (approximately RMB86.1 million) to the Group, denominated in Hong Kong dollars and repayable within one year. The loans were unsecured, guaranteed by Mr. XH Li, and carried interest at the prime lending rate plus 1.5% per annum offered by Hong Kong Bank quoted at the maturity date. On the same date, Mr. Li and other shareholders of Guangdong Chigo JSC also entered into a capital contribution agreement (the “Capital Contribution Agreement”) with Menlo Dynamics, Getchance and Raffles Partners. Pursuant to the Capital Contribution Agreement, Menlo Dynamics, Getchance and Raffles Partners would contribute capital to Guangdong Chigo JSC in an amount equivalent to the loan amount and subscribe for a defined percentage of the enlarged paid-in capital of Guangdong Chigo JSC in accordance with a conversion formula and specific conditions that Guangdong Chigo JSC was required to fulfill. The loans were deemed to be renewed at their maturity date of 30 March 2006 and were extended until 17 November 2006 as the Group continued to retain the funds from the original loan agreement and pay interest until 17 November 2006.

The Company has entered into four subscription agreements pursuant to which High Surplus, Menlo Dynamics, Getchance and Raffles Partners subscribed for newly issued Shares of the Company. As at the Latest Practicable Date, High Surplus, Menlo Dynamics, Getchance and Raffles Partners owned 10,000, 3,110, 5,180, 210 Shares, representing approximately 10%, 3.11%, 5.18% and 0.21%, respectively of the issued and outstanding share capital immediately prior to the Global Offering and the Capitalisation Issue (which represent approximately 8.55%, 2.66%, 4.43% and 0.18%, respectively of all Shares outstanding upon the completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised)). Details of the subscription agreements are as follows:

- On 17 November 2006, High Surplus entered into a subscription agreement with the Company, Chigo Group Holding and Mr. XH Li pursuant to which High Surplus subscribed for 10,000 Shares, representing approximately 10% of the issued share capital immediately prior to the Global Offering and the Capitalisation Issue at a consideration of HK\$96.4 million. The consideration was determined on the basis of the net asset value of the Group and with references to the price earnings ratio of companies in the same industry. The subscription consideration was paid by High Surplus in cash, and was applied by the Company solely for part payment of an equivalent amount of the consideration for the acquisition of the entire registered capital of Guangdong Chigo payable by Chigo Development Holding to Mr. XH Li and Mr. LY Li. On the basis of this consideration, the investment cost per Share for High Surplus represents a discount of approximately 0.7% to the Offer Price, assuming

STRATEGIC INVESTOR AND OTHER INVESTORS

that it is determined at the high end of the price range, being HK\$2.27 per Offer Share, or a premium of approximately 50.3% to the Offer Price, assuming that it is determined at the low end of the price range, being HK\$1.50 per Offer Share.

- On 17 November 2006, Menlo Dynamics entered into a subscription agreement with the Company, Chigo Group Holding and Mr. XH Li pursuant to which Menlo Dynamics subscribed for 3,110 Shares, representing approximately 3.11% of the issued share capital immediately prior to the Global Offering and the Capitalisation Issue at a consideration of HK\$30.0 million. The consideration was determined on the basis of the net asset value of the Group and with reference to the price earnings ratio of companies in the same industry. The subscription consideration was satisfied by the assignment by Menlo Dynamics to the Company of an outstanding loans of an equivalent amount due from Chigo Electric to Menlo Dynamics, and was applied by the Company solely for part payment of an equivalent amount of the consideration for the acquisition of the entire registered capital of Guangdong Chigo payable by Chigo Development Holding to Mr. XH Li and Mr. LY Li. On the basis of this consideration, the investment cost per Share for Menlo Dynamics represents a discount of approximately 0.6% to the Offer Price, assuming that it is determined at the high end of the price range, being HK\$2.27 per Offer Share, or a premium of approximately 50.4% to the Offer Price, assuming that it is determined at the low end of the price range, being HK\$1.50 per Offer Share.
- On 17 November 2006, Getchance entered into a subscription agreement with the Company, Chigo Group Holding and Mr. XH Li pursuant to which Getchance subscribed for 5,180 Shares, representing approximately 5.18% of the issued share capital immediately prior to the Global Offering and the Capitalisation Issue at a consideration of HK\$50.0 million. The consideration was determined on the basis of the net asset value of the Group and with reference to the price earnings ratio of companies in the same industry. The subscription consideration was satisfied by the assignment by Getchance to the Company of an outstanding loans of an equivalent amount due from Chigo Electric to Getchance, and was applied by the Company solely for part payment of an equivalent amount of the consideration for the acquisition of the entire registered capital of Guangdong Chigo payable by Chigo Development Holding to Mr. XH Li and Mr. LY Li. On the basis of this consideration, the investment cost per Share for Getchance represents a discount of approximately 0.6% to the Offer Price, assuming that it is determined at the high end of the price range, being HK\$2.27 per Offer Share, or a premium of approximately 50.5% to the Offer Price, assuming that it is determined at the low end of the price range, being HK\$1.50 per Offer Share.
- On 17 November 2006, Raffles Partners entered into a subscription agreement with the Company, Chigo Group Holding and Mr. XH Li pursuant to which Raffles Partners subscribed for 210 Shares, representing approximately 0.21% of the issued share capital immediately prior to the Global Offering and the Capitalisation Issue at a consideration of HK\$2.0 million. The consideration was determined on the basis of the net asset value of the Group and with reference to the price earnings ratio of companies in the same industry. The subscription consideration was satisfied by the assignment by Raffles Partners to the Company of an outstanding loans of an equivalent amount due from Chigo Electric to Raffles Partners, and was applied by the Company solely for part payment of an equivalent amount of the consideration for the acquisition of the entire registered capital of Guangdong Chigo payable by Chigo

STRATEGIC INVESTOR AND OTHER INVESTORS

Development Holding to Mr. XH Li and Mr. LY Li. On the basis of this consideration, the investment cost per Share for Raffles Partners represents a discount of approximately 2.1% to the Offer Price, assuming that it is determined at the high end of the price range, being HK\$2.27 per Offer Share, or a premium of approximately 48.1% to the Offer Price, assuming that it is determined at the low end of the price range, being HK\$1.50 per Offer Share.

Special Rights

Under the above share purchase agreement and four subscription agreements, Saunier and the Investors were granted the following special rights, which shall (save for the rights granted to Saunier by Chigo Group Holding and Mr. XH Li as more particularly set out in the paragraphs under “Board observer” and “Non-competition and non-solicitation” below) cease to have any effect immediately before completion of the Listing:

Shareholder Structure:	Each of the Chigo Group Holding, Mr. XH Li and, in the case of the Investors, the Company has jointly and severally undertaken to and covenanted with Saunier and the Investors that so long as Saunier and the Investors hold or beneficially own the Shares purchased/subscribed above or any part thereof or any other security in the Company resulting from any capital restructuring thereof and until immediately before completion of the Listing, the Company shall not (or in the case of Saunier, Chigo Group Holding and Mr. XH Li shall procure that the Company shall not) issue or sell or agree to issue or sell any new Share or any other security or grant or agree to grant any right to subscribe for or right convertible into any new Share or any other security without the prior written consent of Saunier and the Investors (such consent of Saunier and the Investors shall not be unreasonably withheld) provided that this restriction shall not be applicable to any issue of new Shares: (i) pursuant to the subscription agreements, (ii) pursuant to any Capitalisation Issue; (iii) pursuant to the share option scheme (if any) to be adopted by the Company in connection with the Listing; and (iv) pursuant to the Listing. Each of Chigo Group Holding, Mr. XH Li and, in the case of the Investors, the Company has jointly and severally undertaken to and covenanted with Saunier and the Investors that none of the subsidiaries of the Company will (or in the case of Saunier, Chigo Group Holding and Mr. XH Li shall procure that none of the subsidiaries of the Company will) issue or sell or agree to issue or sell any new share or other security or grant or agree to grant any right to subscribe for or right convertible into any new share or other security to any party other than the Company without the prior written consent of Saunier and the Investors.
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STRATEGIC INVESTOR AND OTHER INVESTORS

Share Transfer Restrictions: (a) so long as Saunier and the Investors hold or beneficially own the Shares purchased/subscribed above or any part thereof or any other security in the Company resulting from any capital restructuring thereof and until immediately before completion of the Listing, Chigo Group Holding and Mr. XH Li and each of them shall be bound by and shall comply with all the restrictions and limitations on any transfer of any Share held or controlled by Chigo Group Holding and on any transfer of any equity interest held by Mr. XH Li in Chigo Group Holding; and (b) so long as Saunier and the Investors hold or beneficially own the Shares purchased/subscribed above or any other security in the Company resulting from any capital restructuring thereof and until immediately before completion of the Listing, Saunier and the Investors shall be bound by and shall comply with the restrictions and limitations on any transfer of any Share held or controlled by Saunier and the Investors and on any transfer of any equity interest held by the ultimate beneficial owner in Saunier and the Investors, as follows:

(i) Right of First Refusal

Before any Shares may be sold or otherwise transferred or disposed of by Chigo Group Holding or Saunier and the Investors (as the case may be) (the “**Transferor**”) (including transfer by gift, operation of law or other involuntary transfer) to a third party, the other relevant Shareholders (the “**Remaining Shareholders**”) shall have a right of first refusal (the “**Right of First Refusal**”) to purchase such Shares (the “**Pre-emptive Securities**”). The Transferor shall deliver to the Company and the Remaining Shareholders a written notice (the “**Transfer Notice**”) stating, (a) the Transferor’s intention to sell or otherwise transfer or dispose of such Pre-emptive Securities, (b) the name of each proposed purchaser or other transferee (a “**Proposed Transferee**”), (c) the number of Pre-emptive Securities to be transferred to each Proposed

STRATEGIC INVESTOR AND OTHER INVESTORS

Transferee; and (d) the cash price and/or other consideration for which the Transferor proposes to transfer the Pre-emptive Securities (the “**Offered Price**”). Each Remaining Shareholder shall have the right (but not any obligation), upon notice to the Transferor at any time within fourteen (14) business days after receipt of the Transfer Notice (the “**Purchase Right Period**”), to purchase its respective pro rata share of the Pre-emptive Securities at the Offered Price and upon the same terms (or terms as similar as reasonably possible) upon which the Transferor is proposing or is to dispose of such Pre-emptive Securities. If any of the Pre-emptive Securities proposed in the Transfer Notice to be transferred are not purchased by any of the Remaining Shareholders, then after the expiration of the Purchase Right Period and subject to the co-sale rights set forth in paragraph (ii) below, the Transferor may sell or otherwise transfer or dispose of such Pre-emptive Securities which have not been purchased to the Proposed Transferee(s) at the Offered Price or at a higher price.

(ii) Co-Sale Rights

In the case of a transfer by Chigo Group Holding and to the extent that the Right of First Refusal referred to in paragraph (i) above is not exercised by the other Shareholders (the “**Co-Sale Shareholders**”), the Co-Sale Shareholders shall have the right to participate in any sale or disposal by Chigo Group Holding to the Proposed Transferee upon the same terms and conditions as set forth in the Transfer Notice. Each Co-Sale Shareholder shall exercise its right by delivering to Chigo Group Holding within five (5) business days after the expiration of the Purchase Right Period, written notice of its intention to participate, specifying the number of Shares the Co-Sale Shareholder desires to sell to the Proposed Transferee on the same terms and conditions specified in the Transfer Notice. To the extent one or more of the Co-Sale Shareholders exercise such right of participation, the number of Ordinary Shares that the Controlling Shareholder may sell shall be correspondingly reduced.

STRATEGIC INVESTOR AND OTHER INVESTORS

Restrictive actions: Chigo Group Holding, Mr. XH Li and, in the case of the Investors, the Company have jointly and severally and unconditionally and irrevocably covenanted with and warranted and undertaken to Saunier and the Investors that so long as Saunier and the Investors hold or beneficially own the Shares purchased/subscribed above or any part thereof or any other security in the Company resulting from any capital restructuring thereof and until immediately before completion of the Listing, no actions shall be taken (or in the case of Saunier, Chigo Group Holding and Mr. XH Li shall procure that no actions shall be taken), with respect to the Company and any other members of the Group, for, amongst others (a) any amendment to the memorandum or articles of association or (as the case may be) other form of constitutional document, (b) any merger, consolidation or reorganisation with or into any other entity any other transaction or series of related transactions involving or resulting in a change of control, (c) any liquidation, winding-up or dissolution, (d) any increase or reduction of its authorised, registered or issued capital, any sale or issuance of any shares of any class or series of capital stock or other equity interest, any sale or issuance of any security which is or may become convertible into shares of any class or series of capital stock or other equity interest; or any sale or issuance of any option, warrant or other right to acquire any the foregoing, (e) the declaration or payment of any dividend or other distribution on any class or series of capital stock or other equity interest, (f) any purchase or redemption of any shares of any class or series of capital stock or other equity interest, (g) any sale, conveyance, disposal or termination of any economic interest in any business or subsidiary or any material contract of the Company or any other members of the Group, with an aggregate transaction (or as the case may be contractual) value in excess of RMB5.0 million in the aggregate, (h) any borrowing or other incurrence of indebtedness (including indebtedness in the form of assumed or guaranteed borrowing or indebtedness of any other person) which (A) is not in the ordinary course of business and (B) cumulatively with all other borrowing or indebtedness of other members of the Group exceeds RMB5.0 million in the aggregate at any time, and (i) any agreement, commitment, or corporate resolution to do any of the foregoing, without the prior written approval of Saunier and the Investors, such approval not to be unreasonably delayed or withheld.

STRATEGIC INVESTOR AND OTHER INVESTORS

- Board Observer: Chigo Group Holding, Mr. XH Li and, in the case of the Investors, the Company have jointly and severally and unconditionally and irrevocably covenanted with and warranted and undertaken to Saunier and the Investors that (or in the case of Saunier, to procure that) Saunier and the Investors shall be entitled, at any time in its sole discretion, to appoint a representative to attend all meetings of the board of Directors and its committees, in a non-voting observer capacity. The right of Saunier to appoint board observer subsists whether before or after the completion of the Listing and subject to any applicable Listing Rule after the completion of the Listing. Such arrangement in favour of Saunier is only a private arrangement between Chigo Group Holding/Mr. XH Li and Saunier to procure the appointment of a board observer, and the Company was not a party.
- Information rights: Chigo Group Holding, Mr. XH Li and, in the case of the Investors, the Company have jointly and severally and unconditionally and irrevocably covenanted with and warranted and undertaken to Saunier and the Investors that (or in the case of Saunier, to procure that) the Company shall submit to Saunier and the Investors the business plan and financial information of the Group on an annual and quarterly basis, and Saunier and the Investors shall be entitled to inspect and take and keep a copy of the files and records of any members of the Group, including (without limitation) any business record, books and accounts and other documents as reasonably required.
- Non competition and non-solicitation: Chigo Group Holding and Mr. XH Li have jointly and severally warranted, undertaken and covenanted that so long as Chigo Group Holding holds or beneficially owns not less than 51% of the total number of issued Shares or otherwise holds or beneficially owns the single largest shareholding bloc in the Company and Saunier and the Investors hold or beneficially own any Shares, and until immediately before completion of the Listing (the “**Relevant Period**”), Chigo Group Holding and Mr. XH Li (so long as Mr. XH Li holds or beneficially owns any equity interest in Chigo Group Holding) shall not:
- (i) engage either directly or indirectly, individually or as an officer, director, employee, consultant, advisor, partner, co-venturer, shareholder, investor or otherwise, in business in competition with the business of the Group or any part thereof as conducted during the Relevant Period; and

STRATEGIC INVESTOR AND OTHER INVESTORS

- (ii) directly or indirectly and whether on its own behalf or on behalf of any other business concern persons, partnership, firm company or other body which is wholly or partly in competition with the business of the Group or any part thereof as conducted during the Relevant Period:
 - (aa) canvass, solicit or approach or cause to be canvassed or solicited or approached for orders in respect of any services provided or any goods manufactured or sold by any member of the Group during the Relevant Period from any person or persons who is or has been a client or customer of any member of the Group or is or has been in the habit of employing the services of or otherwise dealing with any member of the Group during the Relevant Period;
 - (bb) interfere or seek to interfere to take such steps as may interfere with the continuance of supplies to any member of the Group (or the terms relating to such supplies) from any suppliers who are or have been supplying goods or services to any member of the Group, at any time during the Relevant Period; and
 - (cc) solicit or entice or endeavour to solicit or entice away from any member of the Group any person employed by any member of the Group in an executive or sales or technical capacity at any time during the Relevant Period,

provided that nothing herein shall restrict either Chigo Group Holding or Mr. XH Li from holding less than five percent of the total issued shares in any corporation whose shares are quoted or listed on any stock exchange or holding any interest in any unit trust or investment funds.

Notwithstanding anything to contrary, in the case of Saunier, the definition of the “**Relevant Period**” above has been extended to mean the period for so long as Chigo Group Holding or Mr. XH Li holds or beneficially owns not less than 51% of the total number of issued Shares or otherwise holds or beneficially owns the single largest shareholding bloc in the Company, and the above “Non-competition and non-solicitation” undertaking shall subsist for a period of 18 months after the expiry of the Relevant Period. Such arrangement in favour of Saunier is only a private arrangement between Chigo Group Holding/Mr. XH Li and Saunier, and the Company was not a party.

Mr. XH Li joined as a warrantor to each of the share purchase agreement and four subscription agreements to give representations, warranties and undertakings to Saunier and the Investors.

STRATEGIC INVESTOR AND OTHER INVESTORS

Lock up

Saunier and the Investors have agreed in the above share purchase agreement and four subscription agreements to subject the Shares purchased/subscribed above to such lock-up arrangement after the Listing as may be requested by the underwriters in connection with the Listing for a period mutually agreed between the Underwriters and Saunier and the Investors. In anticipation of this Global Offering, Saunier and the Investors have voluntarily agreed and undertaken to the Company, the Sponsor and the Joint Global Coordinators that they will be subject to a lock-up period of six months commencing from the Listing Date with respect to their Shares.

Public float

Each of Saunier and the Investors will hold less than 10% of the total issued share capital of the Company immediately following the completion of the Global Offering and the Capitalisation Issue and will not be a connected person of the Company. Meanwhile, none of Saunier and the Investors will hold any directorship in the Board. Accordingly, each of Saunier and the Investors is regarded as a public Shareholder and is counted as part of the public float.

The Group believes the introduction of Saunier and the Investors to the Company will enhance its shareholder profile, bring in advanced management expertise and further strengthen the corporate governance of the Company.