
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account Shares that may be issued and allotted pursuant to the exercise of the Over-allotment Option or the Pre-IPO Share Options or options which may be granted under the Share Option Scheme or Shares that may be taken by a person under the Global Offering that would affect disclosure in this section), CITIC Capital China Fund I, through its wholly-owned subsidiary, CITIC Capital China, will own 36.64% of the enlarged issued share capital of the Company and accordingly, both CITIC Capital China Fund I and CITIC Capital China will become the Controlling Shareholders of our Company upon Listing. Mr. Zhang Yichen and Mr. Liu Xiaoping are nominated by CITIC Capital China as our Directors; they also hold positions and interests in CITIC Capital China and its affiliated companies. Save for CITIC Capital China's shareholding in our Company and its interest in CUAS which owns a majority interest in Xiezhong International, we do not have any other past or current business relationship with our Controlling Shareholders.

CITIC Capital China is engaged in investment holding and is a wholly-owned subsidiary of CITIC Capital China Fund I. The general partner of CITIC Capital China Fund I is CCP GP Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability on 30 June 2005 wholly-owned by CCP Ltd., which is an indirect subsidiary of CITIC Capital Holdings Limited, and is principally engaged in acting as a general partner of private equity investment fund entities. The investment manager of CITIC Capital China Fund I is CCP Advisory Ltd., an exempted company incorporated under the laws of the Cayman Islands with limited liability on 30 June 2005, an indirect subsidiary of CITIC Capital Holdings Limited, and is principally engaged in the provision of investment advisory and management services. CITIC Capital China Fund I focuses on private equity investments in China with 34 limited partners mainly comprised of institutional investors, such as pension funds, endowment funds, funds of funds and financial institutions.

Pursuant to the Reorganisation, our Controlling Shareholders, through their investee CUAS, transferred all their compressor operations to our Company. The transfer did not affect the respective lines of business originally undertaken by our Group, but to vest our core businesses and assets in our Company and to delineate our businesses from those of our Controlling Shareholders. Our Controlling Shareholders retained the automobile air-conditioning systems business through their shareholding in Xiezhong Nanjing. Apart from their investment in Xiezhong Nanjing, our Controlling Shareholders do not have any other businesses which compete or are likely to compete with our Group.

XIEZHONG NANJING

Xiezhong Nanjing is a wholly-owned subsidiary of Xiezhong Hong Kong. Xiezhong Hong Kong is a wholly-owned subsidiary of Xiezhong International. Xiezhong International is an investment holding company and is owned as to 60% by CUAS and 40% by Sunrise International Investment Management Inc., an investment holding company incorporated in the BVI wholly-owned by Mr. Chen Hao. Mr. Chen Hao is the son of Mr. Chen Cunyou, one of the directors of Xiezhong International, Xiezhong Hong Kong and Xiezhong Nanjing. CUAS is an investment holding company and is owned as to 10% by Fang Brothers, 51.43% by CITIC Capital China, 12.43% by CDH Cool and 26.14% by CDH Auto. As CITIC Capital China is the immediate Controlling Shareholder of the Company, Xiezhong Nanjing, being an associate of our Controlling Shareholder, will become a connected person of our Company upon Listing.

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Business of Xiezhong Nanjing

Xiezhong Nanjing is principally engaged in the manufacture and sale of automobile air-conditioning systems and accessories in the PRC. It does not manufacture nor sell air-conditioning compressors.

Depending on the design and layout of the air-conditioning system of a particular car model, an automobile manufacturer will either buy the entire air-conditioning system directly from an air-conditioning system provider such as Xiezhong Nanjing, or individual parts and components, including compressors, from different suppliers and providers such as our Group for its own assembly and production. In the former case, it is an industry practice that the automobile manufacturer has the sole and absolute discretion to determine the types and brands of compressors used and to require the air-conditioning system providers to source the compressors from its designated compressor providers.

Common customers of the Group and Xiezhong Nanjing

There are a number of automobile manufacturers who are customers of both Xiezhong Nanjing and our Group. These common customers purchase automobile air-conditioning systems from Xiezhong Nanjing and concurrently purchase automobile air-conditioning compressors from us. Of all such automobile manufacturers, Foton is the only one which purchases automobile air-conditioning compressors and assembly parts from us directly and at the same time purchases automobile air-conditioning systems from Xiezhong Nanjing which incorporate our compressors and assembly parts. The other automobile manufacturers who are common customers of both our Group and Xiezhong Nanjing purchase automobile air-conditioning systems from Xiezhong Nanjing which do not incorporate our compressors and assembly parts, but rather, compressors and assembly parts from other suppliers. In respect of Foton and such customers, our Group and Xiezhong Nanjing conduct sales and marketing activities separately, independently and without reference to each other.

Sales by our Group to the common customers of the Group and Xiezhong Nanjing

During the Track Record Period, our sales of compressors and assembly parts directly to Foton amounted to RMB12.6 million, RMB19.4 million, RMB24.8 million and RMB15.6 million respectively, representing 4.1%, 5.1%, 3.1% and 2.4% respectively of our Group's total sales; while our aggregate sales of compressors and assembly parts to Xiezhong Nanjing amounted to RMB3.7 million, RMB9.8 million, RMB31.9 million and RMB21.4 million respectively, representing 1.2%, 2.6%, 4.0% and 3.3% respectively of our Group's total turnover.

During the Track Record Period, there were respectively 13, 15, 8 and 4 common customers of both our Group and Xiezhong Nanjing who purchased automobile air-conditioning compressors and assembly parts from us directly and at the same time purchased automobile air-conditioning systems from Xiezhong Nanjing which did not incorporate our compressors and assembly parts. During the Track Record Period, our aggregate sales to such common customers amounted to RMB51.5 million, RMB104.5 million, RMB188.5 million and RMB77.7 million respectively, representing 16.7%, 27.6%, 23.7% and 1.2% respectively of our Group's total sales.

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Sales by Xiezhong Nanjing to the common customers of the Group and Xiezhong Nanjing

During the Track Record Period, the turnover of Xiezhong Nanjing amounted to RMB267.6 million, RMB294.0 million, RMB346.7 million and RMB252.5 million (unaudited), respectively.

During the Track Record Period, the aggregate sales of air-conditioning systems from Xiezhong Nanjing to Foton and other common customers amounted to RMB79.7 million, RMB124.8 million, RMB185.5 million and RMB104.3 million (unaudited) respectively, representing 29.8%, 42.5%, 53.5% and 41.3% respectively of Xiezhong Nanjing's total sales, respectively.

Our Directors believe that there is unlikely to be competition between our Group and Xiezhong Nanjing for the following reasons:-

- The products of Xiezhong Nanjing are different from those of our Group. Xiezhong Nanjing mainly provides automobile air-conditioning systems and accessories whereas we provide automobile air-conditioning compressors which are one of the important components of the automobile air-conditioning systems. From the perspective of the automobile manufacturers, they are two distinct products which are incapable of substituting each other. Accordingly, Xiezhong Nanjing and our Group operate in two different markets, the former in the market for the supply of automobile air-conditioning systems and accessories and our Group in the market for the supply of compressors. In the market of compressors in which our Group operates, both automobile manufacturers and air-conditioning system providers, including Xiezhong Nanjing, are target customers.
- Apart from Foton, currently, there are four other common customers of Xiezhong Nanjing and Aotecar Nanjing. Xiezhong Nanjing has no discretion in selecting the suppliers of the automobile air-conditioning compressors in all cases. It is at the sole and absolute discretion of the automobile manufacturers in selecting the suppliers of the automobile air-conditioning compressors. Xiezhong Nanjing has not referred its customers to our Group.

Xiezhong Nanjing has not been transferred to our Group and does not form part of our Group. Our Group positions itself as a leading manufacturer of automobile air-conditioning compressors while Xiezhong Nanjing does not manufacture or sell air-conditioning compressors. There is a clear delineation of business between our Group and Xiezhong Nanjing. Our Group is financially and operationally independent from Xiezhong Nanjing. We have a separate core management group, sales and marketing channels and independent access to sources of raw materials.

As at the Latest Practicable Date, neither our Controlling Shareholders nor our Directors carried on, was engaged or had any interest in, any business which competed or was likely to compete, either directly or indirectly, with our business which would be discloseable under Rule 8.10 of the Listing Rules.

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INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective associates after the Listing.

Management Independence

Our Board comprises one executive Director, five non-executive Directors and three independent non-executive Directors. Mr. Zhang Yichen is our chairman and a non-executive Director. Mr. Qian is our executive Director. Mr. Kenneth Fang, Mr. Gao Chunhe, Mr. Liu Xiaoping and Mr. Wang Zhenyu are our non-executive Directors. Mr. Cheung Man Sang, Mr. Lai Ni Hium and Mr. Zhao Chunming are our independent non-executive Directors.

Our chairman and non-executive Director Mr. Zhang Yichen is a member of the investment committee of CCP GP Ltd., the general partner of our Controlling Shareholder, CITIC Capital China Fund I.

All our non-executive Directors (except Mr. Gao Chunhe and the independent non-executive Directors) also hold directorships in Xiezhong Nanjing, and all our non-executive Directors (except the independent non-executive Directors) hold directorships in one or more intermediate holding companies of Xiezhong Nanjing.

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Set out below is a summary of overlapping directorships held by the Directors within our Group and in our Controlling Shareholders and Xiezhong Nanjing and its intermediate holding companies (the “**Relevant Entities**”) as at the Latest Practicable Date.

Name	Roles within our Group	Roles in the Relevant Entities	Time devoted to our Group and the Relevant Entities
Mr. Kenneth Fang	Non-executive Director	<ul style="list-style-type: none"> • Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong • Director of Xiezhong Nanjing 	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time
Mr. Gao Chunhe	Non-executive Director	<ul style="list-style-type: none"> • Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong 	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time
Mr. Liu Xiaoping	Non-executive Director	<ul style="list-style-type: none"> • Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong • Director of Xiezhong Nanjing 	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time
Mr. Wang Zhenyu	Non-executive Director	<ul style="list-style-type: none"> • Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong • Director of Xiezhong Nanjing 	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time
Mr. Zhang Yichen	Non-executive Director	<ul style="list-style-type: none"> • Director of CUAS • Director of Xiezhong International • Director of Xiezhong Hong Kong • Director of Xiezhong Nanjing 	Our Group: less than 10% of his time Relevant Entities: less than 10% of his time

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Messrs. Fang, Gao, Liu, Wang and Zhang, our non-executive Directors, provide advice and guidance at the strategic level over the business and operation to both our Group and CUAS Group. Each of them will not be involved in the daily management of our Group and CUAS Group. Each of them will devote less than 10% of his time to each of our Group and CUAS Group.

Save as disclosed above, none of our Directors has any directorship, other positions or equity interests in any of our Controlling Shareholders or Xiezhong Nanjing and its intermediate holding companies.

Despite the concurrent directorships or offices as mentioned above, our Directors are of the view that our Board will function effectively and independently from our Controlling Shareholders and their respective associates (including Xiezhong Nanjing) for the following reasons:

- (a) Similar to our other non-executive Directors, Mr. Zhang Yichen, although our chairman, is not involved in the daily management of our Group.
- (b) The day-to-day management of our Group is carried out by Mr. Qian and various members of the core management group of our Group. Mr. Qian oversees the performance and operation of our Group. Mr. Qian and the six members of the core management group of our Company namely, Mr. Tian Shichao, Mr. Yi Fengshou, Mr. Zhao Chengzhou, Mr. Wang Jianmin, Mr. Liu Shantong and Mr. Yu Heyuan, are responsible for the daily management of our Company, including assisting the Board in deriving sound management decisions, carrying out the decisions of the Board, performing overall strategic financial planning and analysis of our Group, overseeing the business development, sales, production, research and development as well as financial performance of the business and other essential operations of our Company.
- (c) None of our non-executive Directors who also hold directorships in Xiezhong Nanjing is involved in the day-to-day management of Xiezhong Nanjing or any of its intermediate holding companies. The production, sales and marketing departments of Xiezhong Nanjing are independent from our Group.
- (d) To avoid any potential conflicts of interests between our Group and our Controlling Shareholders and their respective associates (including Xiezhong Nanjing), we have adopted the corporate governance measures described in “Corporate Governance” below.
- (e) Each Director is aware of his fiduciary duties as a Director of our Company, which require, among other things, that he acts for the benefit and in the interests of our Company and does not allow any conflict between his duties as a Director and his personal interests.
- (f) Our Board comprises nine Directors, three of whom are independent non-executive Directors, which represent one-third of our Board. This is in line with the recommended best practice of the Model Code on Corporate Governance Practices, Appendix 14 of the Listing Rules and will be able to strike a balance between the number of interested and independent Directors with a view to promoting the best interests of the Company and our Shareholders as a whole.

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Having considered the aforesaid, our Directors are satisfied that they are able to discharge their duties to our Company independently and to manage our business independently from our Controlling Shareholders after the Global Offering.

Operational Independence

We have our own organisational structure with independent business and administrative departments and units, each with specific areas of responsibilities. Our Group holds all relevant licences that are material to our business operations and has sufficient operating capacity in terms of capital, equipment and employees to operate our business independently from our Controlling Shareholders. We do not share production facilities with our Controlling Shareholders or their respective associates and none of our major suppliers or major customers has any relationship with our Controlling Shareholders or their respective associates (other than business contacts in the ordinary and usual course of business).

There are continuing connected transactions between our Group and Xiezhong Nanjing, namely, our sales of compressors and assembly parts to Xiezhong Nanjing, the aggregate amounts of sales of which during the Track Record Period were only RMB3.7 million, RMB9.8 million, RMB31.9 million and RMB21.4 million respectively, representing 1.2%, 2.6%, 4.0% and 3.3% of our Group's total turnover. Even though the amount of sales is expected to increase in the three years ending 31 December 2012, the estimated maximum amount of sales of compressors and assembly parts for each of the three financial years ending 31 December 2012 of RMB44.0 million, RMB53.0 million and RMB64.0 million respectively, would still only account for 5.5%, 6.6% and 8.0% respectively of the consolidated turnover of our Group for the year ended 31 December 2009.

Based on the aforesaid, our Directors are of the view that our Company operates independently from our Controlling Shareholders and their respective associates.

Financial Independence

We have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources, a strong credit profile to support our daily operations and independent access to third party financing. Please refer to "Financial Information – Liquidity and capital resources" in this prospectus.

We have our own finance department and have established our own internal control and accounting systems, and independent treasury function for cash receipts and payments. We have independent bank accounts and tax registrations as well as a sufficient number of dedicated financial accounting personnel.

During the Track Record Period:

- (a) On 20 March 2008, CUAS assumed the obligation of Aotecar Hong Kong to pay the cash consideration of US\$30,673,735.70 to Fang Brothers for the transfer by Fang Brothers to Aotecar Hong Kong of 100% equity interest in Aotecar Nanjing. As a result of such assumption by CUAS, CUAS became indebted to Fang Brothers in the amount

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of US\$30,673,735.70 and Aotecar Hong Kong became indebted to CUAS in the same amount. The US\$30,673,735.70 owed by Aotecar Hong Kong had been fully settled as at 30 June 2010; and

- (b) on 30 June 2010, CUAS pledged in favour of BNP Paribas Hong Kong Branch a cash deposit in the sum of US\$31 million as security for a short term loan in the same amount granted by BNP Paribas Hong Kong Branch to Aotecar Hong Kong, which loan has a repayment date of the earlier of one month after the Listing and 31 December 2010. The short term loan from BNP Paribas Hong Kong Branch was used to settle the indebtedness owed by Aotecar Hong Kong to CUAS as mentioned in (a) above (5% of which had been assigned to Mr. Qian on 22 June 2010). The terms of such loan provide that the pledged deposit of US\$31 million will be released after the loan from BNP Paribas Hong Kong Branch is repaid within one month after Listing or by 31 December 2010, whichever is earlier. Our Group will, immediately after Listing, repay such loan in full with the proceeds of the Global Offering and procure BNP Paribas Hong Kong Branch to release the said pledged deposit as soon as practicable.

Save for the above, no guarantees or assurances have been provided by our Controlling Shareholders for the benefit of our Group or provided by our Group for the benefit of our Controlling Shareholders. We are capable of operating financially independent of the Controlling Shareholders based on the following:-

- We have been successful in obtaining financing independent of and without any support from the Controlling Shareholders. For instance, the term loan facilities of HK\$93 million granted by DBS Bank Ltd., Hong Kong Branch as referred to in “Financial Information – Liquidity and capital resources – Indebtedness” in this prospectus, a revolving credit facility in the amount of RMB50 million granted to Aotecar Nanjing by China Merchants Bank Co., Ltd., Nanjing Branch (“**CMB Nanjing Branch**”) and a loan facility in the amount of RMB5.0 million granted to Aotecar Xiangyun by CMB Nanjing Branch, both granted in July 2010. The agreement on the part of Hang Seng Bank (China) Limited to replace Mr. Qian’s personal guarantee with the Company’s guarantee as from Listing in respect of two general banking facilities to Aotecar Nanjing of up to RMB51 million and RMB10 million respectively also demonstrates our ability to independently obtain bank financing post-Listing.
- During the Track Record Period, we were able to generate profits with an increasing trend and positive net cash from operating activities to sustain our own operations through internally generated funds.
- The amount of US\$31 million was borrowed from BNP Paribas Hong Kong Branch not for operational purposes but for the purposes of effecting the transfer of all the compressor operations and assets from the Controlling Shareholders to the Company as part of the Reorganisation.

NON-COMPETITION UNDERTAKING

In order to manage any potential competing or conflict of interests between our Group and our Controlling Shareholders and Mr. Qian, each of our Controlling Shareholders, namely, CITIC

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Capital China and CITIC Capital China Fund I and Mr. Qian (each a “**Non-Compete Covenantor**”), has entered into a non-competition deed (the “**Non-competition Deed**”) dated 9 November 2010 in favour of our Company, pursuant to which each Non-Compete Covenantor has unconditionally and irrevocably undertaken to and covenanted with our Company (for itself and as trustee for each of the other members of our Group) that as long as (i) the securities of our Company are and remain listed on the Stock Exchange and (ii) in the case of a Controlling Shareholder, such Non-Compete Covenantor remains a Controlling Shareholder of our Company and in the case of Mr. Qian, he remains a Director of our Company:

- (a) each of our Controlling Shareholders agreed not to itself compete and would procure that none of the companies that it directly or indirectly controls the exercise of 30% or more of the voting power at general meetings will compete, and Mr. Qian agreed not to himself compete and would procure that none of his associates will compete, in each case with us, whether on its own or jointly with other entities, in the business of the operation and management of automobile air-conditioning compressors unless and until our Group ceases to carry on or be engaged in such business; and
- (b) he/it shall make an annual confirmation in the annual report of our Company on whether he/it and his/its associates (other than our Group) have complied with the undertakings under the Non-competition Deed.

CORPORATE GOVERNANCE

We are committed to the view that the Board should include a good number of non-executive Directors (including the independent non-executive Directors) so that there is a strong element on the Board which can effectively exercise independent judgment. We are also committed to the view that our independent non-executive Directors should be of sufficient calibre and number for their views to carry weight. Our independent non-executive Directors, details of whom are set forth in “Directors, Senior Management and Employees” in this prospectus, are free of any business or other relationships which could interfere in any material manner with the exercise of their independent judgment.

In view of the overlapping directorships or offices of our Directors in Xiezhong Nanjing and the intermediate holding companies of Xiezhong Nanjing and CITIC Capital China Fund I and the relationship between our Group and Xiezhong Nanjing, the following measures have been adopted by us in respect of any transaction between our Group and Xiezhong Nanjing and its intermediate holding companies or other associates of our Controlling Shareholders as well as the enforceability of the Non-competition Deed and to strengthen our corporate governance practice to safeguard the interests of our Shareholders:

- (a) the Articles provide that any Director and his associates shall abstain from attending and voting at Board meetings in case of any issues of conflict of interests being put to be decided by members of the Board. In the event that any Director is required to abstain from participating in any relevant Board meetings as aforesaid, the other Directors together with all the independent non-executive Directors will maintain the effective functioning of the Board by leveraging on their collective expertise and business acumen;

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- (b) without affecting the generality of the foregoing principle in the Articles, matters relating to transactions between our Group and Xiezhong Nanjing and/or its holding companies and subsidiaries shall be decided by a committee (the “**Committee**”) which will meet regularly every six months and whenever any issue arises relating to the transactions with Xiezhong Nanjing.
- (i) The members of the Committee shall be appointed by the Board from time to time and shall consist of not less than three members. It is currently expected that Mr. Qian and all the independent non-executive directors will become members of the Committee. In order to avoid any conflict of interest, Mr. Qian resigned from his office as a director of CUAS on 31 August 2010. All our independent non-executive Directors have not held any directorships or positions in any of our Controlling Shareholders or their respective associates. Mr. Zhao Chunming has extensive experience in automobile technology research in the PRC and he is a chief engineer of Tianjin Qingyuan Electric Vehicle Co., Ltd.. Mr. Cheung Man Sang and Mr. Lai Ni Hium have substantial experience in running and managing successful businesses in Hong Kong and the PRC. In particular, Mr. Lai holds directorships with other Hong Kong listed companies. The Board considers that Mr. Qian and the three independent non-executive Directors have between them sufficient knowledge and experience to make decisions on transactions between the Group on the one hand and Xiezhong Nanjing or other associates of the Controlling Shareholders on the other hand.
- (ii) The duties of the Committee shall include the following:
- to review all transactions between our Group and Xiezhong Nanjing to ensure that they are conducted on normal commercial terms and in the ordinary and usual course of business of our Group and to recommend to the Board the corrective measures in such transactions if needed or not to proceed with such transactions;
 - to establish, where applicable, guidelines for our management to follow in ongoing transactions between our Group and Xiezhong Nanjing;
 - to review and assess ongoing relationships between our Group and Xiezhong Nanjing to ensure compliance with the Committee’s guidelines established as aforesaid and to ensure the continuation of such relationship remains fair to our Group; and
 - to analyse and assess any potential conflict of interests between our Group and Xiezhong Nanjing;
- (c) our independent non-executive Directors will hold an annual meeting to review the compliance of our Controlling Shareholders and Mr. Qian with the Non-competition Deed and to evaluate the effective implementation of the Non-competition Deed;

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- (d) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the enforcement of the Non-competition Deed (if any) in our annual report or, where the Board considers it appropriate, by way of an announcement;
- (e) our Controlling Shareholders and Mr. Qian will make an annual confirmation as to their compliance with the Non-competition Deed for inclusion in our annual report; and
- (f) our Controlling Shareholders and Mr. Qian will provide all information necessary for the review of their compliance with the Non-competition Deed to the Committee.

Further, any transaction that is proposed between us and our Controlling Shareholders or their respective associates will comply with the then requirements of the Listing Rules, including, where applicable, the reporting, annual review, announcement and independent shareholders' approval requirements.