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## CONNECTED TRANSACTIONS

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### CONTINUING CONNECTED TRANSACTIONS

Upon Listing, we will carry out the following connected transactions which constitute continuing connected transactions of our Company under the Listing Rules. Our Directors (including the independent non-executive Directors) have confirmed that these continuing connected transactions have been and will be conducted on normal commercial terms and on arm's length basis.

#### 1. Exempt Continuing Connected Transactions

##### Nature and Terms of the Transactions

By an agreement made in December 2008 (the “**Sublease Agreement**”), Changheng Casting subleased to Aotecar Casting the following lands and buildings located at No. 11 Ningyang Street, Danyang Community, Hengxi Street, Jiangning District, Nanjing, Jiangsu Province, PRC:

- (i) a piece of land with a total area of 4,840 sq.m. at an annual rental of RMB5 per sq.m. i.e. RMB24,200 per year, for a term commencing from 1 December 2008 and ending on 30 July 2036. Such land was originally leased by the People's Government of Hengxi Town of Jiangning District of Nanjing (南京市江寧區橫溪鎮人民政府) (the “**Hengxi Town Government**”) to Changheng Casting for a term from 1 August 2006 to 30 July 2036 at an annual rental of RMB5 per sq.m., i.e. RMB24,200; and
- (ii) another piece of land with a total area of 1,992 sq.m. (including a construction area of 1,377.6 sq.m.) at a monthly rental of RMB2,000 for a term commencing from 1 December 2008 and expiring on 30 March 2012. Such land was originally leased by the Nanjing Municipality Jiangning County Danyang Town Collective Assets Operating Co., Ltd. (南京市江寧縣丹陽鎮集體資產經營有限公司) (the “**Danyang Operating Company**”) to Changheng Casting for a term from 1 April 2002 to 31 March 2012 at a monthly rental of RMB2,000.

Prior to the establishment of Aotecar Casting, Changheng Casting had been the supplier of assembly parts including front end covers, brake discs and static plates to Aotecar Nanjing. When Aotecar Casting was established in late 2008, Changheng Casting ceased such supplier relationship with Aotecar Nanjing and subleased the said properties to Aotecar Casting for production and sales of the same assembly parts to Aotecar Nanjing. Such sublease arrangement was approved by the Hengxi Town Government and the Danyang Operating Company.

##### Transaction Values

The historical aggregate rent paid by Aotecar Casting to the Hengxi Town Government and the Danyang Operating Company (at the direction of Changheng Casting) for the year ended 31 December 2009 was RMB48,200. No rent was paid for the first month of the term in December 2008.

Savills Valuation and Professional Services Limited has confirmed that the rent payable under the Sublease Agreement is fair and reasonable and reflects the prevailing market rates in the vicinity of the leased premises in Hengxi Street, Jiangning District, Jiangsu Province.

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The Directors (including the independent non-executive Directors) consider that the Sublease Agreement was entered into in the ordinary and usual course of business of Aotecar Casting, on terms no less favourable to Aotecar Casting than terms available to third parties, and was fair and reasonable and in the interests of the Company and its shareholders taken as a whole.

### **Listing Rules Implications**

Changheng Casting is a company established in the PRC. Aotecar Casting is owned as to 51 % by Aotecar Nanjing and 49% by Changheng Casting. On and after the Listing Date, Changheng Casting, as a substantial shareholder of Aotecar Casting, will become a connected person of the Company and the transactions under the Sublease Agreement will constitute continuing connected transactions of the Company.

Based on the annual rental of the sublease, the total assets of the Group as at 30 June 2010, the revenue of the Group for the year ended 31 December 2009 and the Company's expected initial total market capitalisation (based on the low end of the Offer Price range) as at the Listing Date (the **"Expected Capitalisation"**), the assets, revenue and consideration percentage ratios for the transactions contemplated under the Sublease Agreement calculated pursuant to Rule 14.07 of the Listing Rules are expected to be less than 0.1% for the three years ending 31 December 2012. The transactions contemplated under the Sublease Agreement constitute exempt continuing connected transactions under Rule 14A.33(3) of the Listing Rules which will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **2. Non-exempt Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements – Transactions under Master Sales Agreement**

#### **Nature and Terms of the Transactions**

For each financial year during the Track Record Period, Aotecar Nanjing and Xiezhong Nanjing entered into a master sales agreement for the supply of various models of automobile air-conditioning compressors and assembly parts by Aotecar Nanjing to Xiezhong Nanjing. The prices at which such sales were made were determined with reference to the prices at which the automobile air-conditioning systems (of which our compressors are a component) were sold by Xiezhong Nanjing to the car manufacturers and the prices at which our compressors were sold to other air-conditioning system providers. The aggregate sales of compressors and assembly parts to Xiezhong Nanjing during the Track Record Period and for the nine months ended 30 September 2010 amounted to RMB3.7 million, RMB9.8 million, RMB31.9 million, RMB21.4 million and RMB30.1 million, respectively. The increase in sales to Xiezhong Nanjing during the Track Record Period was primarily due to increased demand for compressors from Xiezhong Nanjing which demand was, in turn, driven by the increased demand for automobile air-conditioning systems from Foton. The increase in demand for our compressors from Foton was mainly the result of the significant increase in automobile sales by Foton and the increased use of our compressors in Foton's automobiles during the same period.

On 20 September 2010, Aotecar Nanjing and Xiezhong Nanjing entered into a master sales agreement (**"Master Sales Agreement"**), pursuant to which Aotecar Nanjing will, among other

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things, supply to Xiezhong Nanjing various models of compressors and assembly parts at prices to be determined with reference to the prevailing market prices. The Master Sales Agreement is for a term commencing on 20 September 2010 and expiring on 31 December 2012.

Our Directors (including the independent non-executive Directors) consider that the Master Sales Agreement was entered into in the ordinary and usual course of business of Aotecar Nanjing, is on normal commercial terms and in line with market practice and is fair and reasonable so far as our Company and the Shareholders taken as a whole are concerned.

### **Proposed Annual Caps**

Our Directors estimate that the maximum amount of sales of compressors and assembly parts by Aotecar Nanjing to Xiezhong Nanjing pursuant to the Master Sales Agreement for the period from 20 September 2010 to 31 December 2010 and for each of the two financial years ending 31 December 2012 will amount to RMB15.8 million, RMB53.0 million and RMB64.0 million, respectively. As disclosed in “Industry Overview – Major automobile air-conditioning compressor enterprises in the PRC” and “Relationship with Controlling Shareholders – Xiezhong Nanjing” in this prospectus, the automobile manufacturers have the absolute discretion in the selection of compressors suppliers, whether by means of direct purchase from the compressor manufacturers or from air-conditioning system suppliers. The proposed annual caps are based on the annualised sales of the compressors and assembly parts to Xiezhong Nanjing for the six months ended 30 June 2010 and projected with a 20% growth each year with reference to the budgeted sales growth of Foton. Such estimates have been made with reference to the historical sales of compressors and assembly parts supplied to Xiezhong Nanjing, the Directors’ estimation of the expected future growth in the business and the production capacity of Aotecar Nanjing.

### **Listing Rules Implications**

Since Xiezhong Nanjing is a connected person of our Company (please refer to “Relationship with Controlling Shareholders – Xiezhong Nanjing” in this prospectus), the supply of compressors and assembly parts by Aotecar Nanjing to Xiezhong Nanjing pursuant to the Master Sales Agreement will constitute continuing connected transactions of our Company.

Based on the estimated maximum annual amount of sales of compressors and assembly parts, the total assets of our Group as at 30 June 2010, the revenue of our Group for the year ended 31 December 2009 and the Expected Capitalisation, the assets, revenue and consideration percentage ratios for the supply of compressors and assembly parts contemplated under the Master Sales Agreement calculated pursuant to Rule 14.07 of the Listing Rules are expected to be between 5% and 25% and the annual consideration is expected to be more than HK\$10,000,000 for the three years ending 31 December 2012. The supply of compressors and assembly parts contemplated under the Master Sales Agreement constitutes non-exempt continuing connected transactions of our Company which will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Rule 14A.35 of the Listing Rules.

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### APPLICATION FOR WAIVERS

Under Rule 14A.33(3) of the Listing Rules, the continuing connected transactions under “Exempt Continuing Connected Transactions” above would be exempt from all the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Under Rule 14A.35 of the Listing Rules, the continuing connected transactions under “Non-exempt continuing connected transactions subject to the reporting, annual review, announcement and independent shareholders’ approval requirements – transactions under Master Sales Agreement” above would be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As the non-exempt continuing connected transactions described above will continue immediately or very soon after the Global Offering, our Directors (including the independent non-executive Directors) consider that strict compliance with the reporting, announcement and independent shareholders’ approval requirements, as set out in Chapter 14A of the Listing Rules immediately after the Global Offering would be unduly burdensome and impracticable. Accordingly, we have applied for and the Stock Exchange has granted us a waiver pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement and independent shareholders’ approval requirements in relation to the said non-exempt continuing connected transactions, subject to the following conditions:

- (a) the annual caps for the continuing connected transactions contemplated under the Master Sales Agreement for the period from 20 September 2010 to 31 December 2010 and for each of the two financial years ending 31 December 2012 as stated above will not be exceeded;
- (b) the Company will comply with the annual review and reporting requirements under Rules 14A.37 to 14A.41 and Rules 14A.45 to 14A.46 of the Listing Rules; and
- (c) upon expiry of the waiver granted for the period ending 31 December 2012, where necessary, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

In the event that any of the material terms of the Master Sales Agreement have been altered (unless as provided for under the terms of the relevant agreement or arrangement), or if the Group enters into any new agreement or arrangement in the future which will result in the annual caps referred to above being exceeded, the Company will re-comply with the provisions of Chapter 14A of the Listing Rules.

### CONFIRMATION FROM DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions described above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms that are fair and reasonable

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and in the interests of our Shareholders taken as a whole, and that the proposed annual caps for the period from 20 September 2010 to 31 December 2010 and for each of the two financial years ending 31 December 2012 set out above are fair and reasonable and in the interests of our Company and our shareholders taken as a whole.

### **CONFIRMATION FROM THE JOINT SPONSORS**

The Joint Sponsors are of the view that the continuing connected transactions described above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms that are fair and reasonable and in the interests of our Shareholders taken as a whole, and that the terms of the continuing connected transactions and the proposed annual caps set out above are fair and reasonable and in the interests of our Company and our Shareholders taken as a whole.