You should carefully consider all of the information set out in this prospectus before making an investment in the Offer Shares, including the risks and uncertainties described below. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that a substantial portion of our operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from those that prevail in other countries. Our business, financial condition or results of operations could be affected materially and adversely by any of these risks.

RISKS RELATING TO OUR BUSINESS

Fluctuations in the prices of aluminium raw materials could adversely affect our profitability

Aluminium is the principal raw materials for the production of our products. Aluminium is also a major raw material for producing automobile HVAC components such as evaporators, condensers, heater cores, radiators, intercoolers, oil coolers and HVAC hoses. We also source compressors from compressor manufacturers in the PRC. The price of aluminium affects the price of compressors. Our profitability is to a certain extent dependent on our ability to secure a sufficient and constant supply of such aluminium raw materials at acceptable price level. Aluminium represents our largest raw material cost. The price of aluminium is determined principally by supply and demand in the domestic commodity market and fluctuates with market conditions. During the Track Record Period, the daily weighted average aluminium price as quoted on the Shanghai Futures Exchange (上海期貨交易所) was RMB13,608 per tonne, RMB16,416 per tonne and RMB17,195 per tonne, respectively. Aluminium prices have experienced and may further experience significant price fluctuations.

Since the price of aluminium products is highly correlated to the price of aluminium, which is volatile, the price of aluminium processed parts may also experience significant price fluctuations in the future. Unexpected increase in aluminium price will result in increase in our production cost, and we may not be able to increase the prices of our products to offset the increased cost and therefore our profitability, financial condition and results of operations could be materially and adversely affected.

We rely heavily on our major customers

We focus on the PRC domestic market for sales of our products. We rely heavily on several automakers in the PRC for the sales of our products and we have not entered into any long-term sales agreement with our customers. For the Track Record Period, turnover attributable to our five largest customers represented approximately 82.5%, 66.5% and 65.2% of our total turnover, respectively. For the same periods, turnover attributable to our largest customer represented approximately 44.7%, 20.4% and 29.2%, respectively, of our total turnover.

There can be no assurance that we will be able to maintain our relationships with our customers. If the business relationship between our Company and our major customers were to deteriorate or if any of those customers were to substantially reduce its purchases from our Company or terminate its business relationship with our Company entirely, our business and results of operations may be adversely affected.

We are subject to credit risk in respect of high turnover days of trade debtors and bills receivable

Our trade debtors and bills receivable amounted to RMB210.7 million, RMB306.6 million and RMB380.9 million as at 31 December 2009, 2010 and 2011, respectively. During the Track Record Period, some of our customers were affected by the macro-control and tightening monetary policies implemented by the PRC government and they had to temporarily slow down their settlement schedule. Although we generally offer a credit of 90 days to our customers, for the three years ended 31 December 2009, 2010 and 2011, our turnover days of trade debtors and bills receivable were 202 days, 173 days and 202 days, respectively.

Given the substantial amount of our trade debtors and bills receivable and the high turnover days of trade debtors and bills receivable, should the credit worthiness of our customers deteriorate or should a significant number of our customers fail to settle their trade debts and bills in full for any reason, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected.

We rely on a limited number of third party suppliers for the supply of raw materials for our production

We purchase raw materials, such as aluminium, compressors and other automotive HVAC components for our production use from a limited number of third party suppliers. For the Track Record Period, our five largest suppliers accounted for approximately 33.4%, 30.4% and 25.6%, respectively, of our total purchase of raw materials, and our largest supplier accounted for approximately 11.0%, 9.7% and 8.0%, respectively, of our total purchase of raw materials. The ability to obtain quality raw materials, such as aluminium, compressor and other automotive HVAC components for our production use at competitive prices in a timely manner is crucial to our production. We have no long-term fixed price supply contract with our suppliers. If we are unable to maintain a business relationship with our major suppliers or if they are unable or unwilling to continue their supplies to us, or if the quality of their supplies deteriorate or prices increase substantially, we may have to locate alternative supply at higher cost, which in turn will have a material and adverse effect on our financial condition and results of operations.

We rely on the quality of compressors and other automotive HVAC components sourced from third party suppliers for our production

We source various types of compressors and other automotive HVAC components which we do not manufacture (such as HVAC control units, receiver driers and expansion valves) for our production of HVAC systems from third party suppliers in the PRC. Although these compressors and other automotive HVAC components are subject to onsite inspection on a sampling basis and substandard compressors or other automotive HVAC components will be returned to suppliers, we are inherently not able to monitor or manage our suppliers' performance as directly and efficiently as compared with our own production and hence there is no assurance that such sourced goods will meet our customers' or end-users' expectations or the regulatory requirements of the markets to which such sourced goods are sold. To the extent that such sourced goods are substandard or violate relevant regulatory requirements, we are susceptible to claims and lawsuits filed by our customers and/or end-users and/or criminal sanctions and thus exposed to associated risks in terms of reputation, business and financial liabilities as well as loss of our customers. There is no assurance that we could be completely and adequately indemnified by the third party suppliers nor claim them for any loss so incurred.

We may fail to pass the new products approval process as supplier to an automaker

We, as an automotive HVAC systems and HVAC components supplier, have to go through the approval processes prescribed by each automaker before we can become a supplier of a new product to such automaker. We cannot assure you that we will always succeed in passing the assessment for new products from such automaker. If we fail to pass the assessment process for new products as supplier to such automaker as originally planned, our customer base, market share, profitability and financial condition could be materially and adversely affected.

We may not be able to extend our preferential tax treatment

Xiezhong Nanjing was recognised as a High and New Technology Enterprise in 2009 under the EIT Law and was subject to corporate income tax at a reduced rate of 15% for 2011.

This preferential tax treatment has ended in 2011. In the event that we cannot extend our recognition as a High and New Technology Enterprise, Xiezhong Nanjing's effective tax rate in 2012 will be substantially increased from 15% in 2011 to 25% in 2012 and the profit after taxation and financial position of the Group may be materially and adversely affected as a result.

The results of the Group's operations are subject to seasonal fluctuations

Based on our experience in the automotive HVAC industry, our sales are subject to seasonal fluctuation. As our sales are affected by the sales in the automotive market, our seasonal fluctuation period is similar to the automotive industry's period. From our experience, sales of automobiles are higher during January to February as some consumers may have more disposable income from year-end bonus. Sales of automobiles are also higher in May and October during the public holidays in the PRC. In addition, vehicles dealers tend to offer sales promotions to stimulate sales during the year-end time. Generally, our sales are higher during the months of March to May and October to December each year while our sales are lower during the months of June to September of each year. As a result, the Group's operating results and cash flows may vary substantially between each period.

Failure to meet our customers' demands in a timely manner may cause us to lose customers and market share

As the technical specifications and requirements of an automotive HVAC system differs depending on the model of vehicle which the HVAC system is to be used, automotive HVAC systems have to be designed, developed and manufactured based on the technical requirements and specifications of each different model of vehicles. If we fail to design or market new models of HVAC systems and HVAC components and adapt to meet our customers' demands in a timely manner, our customer base, market share, profitability and financial condition could be materially and adversely affected.

We may not be able to remain competitive in terms of manufacturing techniques and processes

Our competitiveness in the automotive HVAC systems and HVAC components market depends in large part on our ability to develop new manufacturing processes and techniques so that we are able to continuously tailor our products to meet our customers' needs. These techniques and processes are subject to continuous evolution and changes.

Our production techniques and processes may be critical to the continuous improvement of our product quality and performance, as well as our ability to gain market share through launching new products. If we are unable to further develop our own manufacturing techniques and processes, or technical know-hows that would enable us to remain competitive in the automotive HVAC systems and HVAC components market, our business, results of operations and financial condition could be materially and adversely affected.

We rely on third-party logistics providers to manage logistics and transportation of our products to some of our customers. If our third-party logistics providers fail to deliver our products on a timely basis or fail to deliver our products in good condition, our business could be materially and adversely affected

We generally outsource the delivery of our products to third-party logistics providers. During the Track Record Period, our transportation costs represented approximately 24.9%, 27.5% and 29.8% of our distribution costs, respectively. Title to our products do not pass to such customers until such third-party logistics providers have delivered our products to them, and therefore, we bear the risk of loss until the products have been delivered. If our third-party logistics providers fail to timely deliver our products within the timeframe expected by such customers, regardless of the reason, or if our third-party logistics providers fail to deliver our products in good condition, our customers may reject such products and may become dissatisfied with us and decide not to purchase additional products from us, and our business could be materially and adversely affected.

We may be subject to warranty and recall claims, which may increase our overhead costs and adversely affect our financial condition and liquidity

As a manufacturer of automotive HVAC systems and HVAC components, we face an inherent business risk of exposure to warranty claims if our products actually or allegedly fail to perform as expected. We cannot assure you that we will not incur significant costs to defend any such claims. Generally we provide warranty coverage for our products. During the warranty period, we will be responsible for repairing, exchanging and returning our defective products for our customers. During the Track Record Period, provision for product warranties utilised amounted to RMB2.3 million, RMB1.6 million and RMB3.6 million, respectively. In addition, if any of our designed products are or are alleged to be defective, we may be required to participate in a recall of such products. We cannot assure you that the future costs associated with providing product warranties and/or bearing the cost of repair, replacement or recall of our products will not have a material adverse effect on our financial condition and liquidity.

We may be subject to product liability claims and we may not have sufficient insurance to cover such contingencies

We cannot assure you that we will not experience material losses arising from product liability claims in the future. We do not maintain any product liability insurance to cover such contingencies. If our products fail to meet the required specifications or quality standards, our business could be adversely affected. We may face liability claims due to possibly defective products which could result in significant costs. Such claims may be pursued by way of contractual remedy or by way of civil action if defects in our products result in damages or injuries suffered by third parties. In such event, our business reputation and our financial condition could be adversely affected.

We rely on constant and reliable supply of electricity to support our production activities

Our production requires significant and constant supply of electricity which is currently provided by state-run organisations. Our reliance on such supplies will further increase as we expand our production capacity. Any disruption to and shortage of electricity supply or increase in the cost of electricity may adversely affect our production, prevent us from meeting customer orders and/or increase our cost of production and therefore adversely affect our business and operation results.

Our operations, performance and profitability may be adversely affected by the loss of key management personnel

Our success in expanding our business and maintaining our growth is to a large extent attributable to the vision and strategy of our management. Our daily operation is heavily reliant on our executive Directors and senior management team as disclosed in the section headed "Directors and Senior Management" of this prospectus. These include our executive Directors, Mr. Chen Cunyou and Mr. Ge Hongbing, our senior management team consisting of Mr. Huang Yugang, Mr. Xin Fangwei, Mr. Lei Shenghua, Mr. Zhang Qingrong and Mr. Dai Zumian. Our operations, performance and profitability may be adversely affected if any of our current executive Directors and any current member of our senior management ceases to serve our Group for whatever reason and a suitable replacement cannot be located in a timely manner.

We may not be able to retain our skilled workers or obtain additional skilled workers to meet our demands

A large part of our operations is labor intensive, and we require a large number of skilled production workers. Our production department have approximately 491 employees as at 31 December 2011. Generally, newly recruited staff will go through various trainings, which generally include trainings on corporate culture, internal rules and regulations, product knowledge and production process. Given the skills involved in operating some of our equipments, any new hire has to go through certain training to attain the necessary skills. It generally takes around 3 months of training for a newly hired worker to be familiarised with the operation of our production equipments. Our employees of our production department have on average worked in our Group for approximately 3 years. In addition, skilled workers are not easily replaceable. There is no assurance that we will not experience constraints in this regard in the future. We may have to offer better salaries and other benefits to hire and retain sufficiently skilled production workers to sustain or enhance our business operations, which will increase our costs and may adversely affect our results of operations.

Further, if there is a shortage of labor or for any reason the labor cost in the PRC rises significantly, the cost of production of our products is likely to increase. This may in turn affect the selling prices of our products, which may then affect the demand of such products and thereby adversely affect our sales and financial condition.

There is no assurance that we will be able to successfully implement our business plans

Details of our business plans are set out in the section headed "Future Plans and Use of Proceeds" of this prospectus. The successful implementation of our business plans depends on a number of factors, including the growth of disposable income for consumers of automobiles, changes in consumer credit policy for automobile purchase financing, availability of funds, competition and government policy. There is no assurance that our business plans will be successfully implemented as scheduled or at all. Any failure or delay in the implementation of our business plans may have a material and adverse effect on our profitability and prospects.

Our measures to protect our intellectual property rights against infringement may not be adequate and we may be exposed to infringement claims. Any unauthorized use of our brand or trademark may materially and adversely affect our business

We believe our brand, trademarks and other intellectual property rights are important to our success. As at the Latest Practicable Date, we had registered 1 trademark, 9 patents and 1 domain name and had applied for the registration of 6 other patents and 2 other trademarks of "协众 XIEZHONG" in two different classes in China. We had applied for the registration of 3 trademarks and had registered 3 domain names in Hong Kong. Details of our registered intellectual property portfolio are provided in the section headed "B. Further Information about the Business — 2. Intellectual Property Rights" in Appendix VI to this prospectus.

We rely upon a combination of patent, copyright and trademark laws, trade secrets, confidentiality policies, nondisclosure and other contractual arrangements to protect our intellectual property rights. We cannot assure you that we will be able to detect unauthorized use or take appropriate, adequate and timely actions to enforce our intellectual property rights. Consequently, we may not be able to effectively prevent unauthorized use of our trademarks and patents in other countries where such trademarks and patents are not registered. The measures we take to protect our intellectual property rights may not be adequate and monitoring and preventing unauthorized use is difficult. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, our reputation may be harmed and our business may be materially and adversely affected.

Our competitors may have independently developed technologies or designs of automotive HVAC systems and HVAC components that contain similarities to ours, and these competitors may have applied for registration of patents or other intellectual property rights in respect of their technologies or designs. There may be patents held by others of which we are unaware that contain claims that our products or operations may infringe. Any involvement in lawsuit or administrative proceedings resulting from allegations of infringement of intellectual property rights (regardless of their success, or whether the relevant allegation is meritless or made with improper motives) may result in substantial costs, reputational damage and diversion of resources and management attention. If we are barred from using certain material trademarks, technologies, designs or other intellectual properties and fail to develop non-infringing substitutes or replacements or to obtain licenses to such intellectual properties, our business operations may be interrupted and, should that continue, our results of operations and financial condition could be materially and adversely affected.

We may be subject to penalties under relevant PRC laws and regulations due to failure to make full social insurance fund contributions for our employees

During the Track Record Period, the amount of contributions made by the Group for the employees of Xiezhong Liaoning and Xiezhong Hubei and some of the employees of Xiezhong Nanjing were lower than the amount required under the PRC laws and regulations. We estimate that the aggregated amount of unpaid social insurance contributions will be approximately RMB7.9 million until 30 June 2012.

As advised by our PRC Legal Advisers, Xiezhong Nanjing, Xiezhong Liaoning and Xiezhong Hubei may be required by the relevant authorities to contribute all the unpaid social insurance contributions in the prescribed period plus a daily overdue fine calculated at 0.05% of any unpaid social insurance contributions will be imposed. If we fail to contribute within such prescribed period, the amount of maximum fine/penalty that may be imposed on our Group for the non-compliance with social insurance regulations is three times the amount equivalent of the amount of all the unpaid social insurance contributions which, as we estimate, amounts to approximately RMB23.7 million until 30 June 2012.

There is no assurance that the relevant government authorities will not levy these administrative penalties on us or when such administrative penalties will be levied on us. In the event that the administrative penalties were imposed on our Group in any particular financial year, our Group's profits and financial condition in that particular financial year would be materially and adversely affected.

Xiezhong Nanjing and Xiezhong Liaoning were involved in a number of Inter-enterprise Loans during the Track Record Period, which were in violation of 貸款通則 (Lending General Provision*)

During the Track Record Period, Xiezhong Nanjing had extended Inter-enterprise Loans. As at the Latest Practicable Date, the Inter-enterprise Loans have been fully settled. Details are disclosed under the paragraph headed "Legal Proceedings and Regulatory Compliance" in the "Business" section of this prospectus.

Our PRC Legal Advisers are of the view that the Inter-enterprise Loans were inter-enterprise lending that violate 貸款通則 (Lending General Provision*) promulgated by the PBOC which states that non-banking institutions are not permitted to engage in lending business in the PRC. A fine which amounts to 1 to 5 times of the lender's income resulted from these violation activities may be imposed by the PBOC for such inter-enterprise lending. Besides, according to 中華人民共和國行政處罰法 (the Law of the PRC on Administrative Penalty*), where an illegal act is not discovered within two years of its commission, administrative penalty shall no longer be imposed and the period of time shall be counted from the date the illegal act is committed. Since part of the Inter-enterprise Loans had been fully repaid two years ago, our PRC Legal advisers are of the view that our Group would only be penalized in respect of interest income, which, as we calculated, amounted to approximately RMB713,000 (out of the total interest income of RMB1.1 million gained by Xiezhong Nanjing from Inter-enterprise Loans). Therefore, we estimate that the fine payable by Xiezhong Nanjing as a result of violation of 貸款通則 (Lending General Provision*) would be approximately RMB713,000 to RMB3,565,000. In the event that the PBOC imposes such penalty on Xiezhong Nanjing, the Group's business operation and/or financial position may be adversely affected.

Our current dividend policy should not be taken as an indication of our future ability to pay dividends and we may not be able to pay any dividends in the future

Our Company may declare dividends in Hong Kong dollars to be paid to our Shareholders in general meetings but no dividends may be declared in excess of the amount recommended by our Board. Our Company may also make a distribution to our Shareholders out of share premium in general meetings. No dividend or distribution may be paid out of share premium unless immediately following the date on which the distribution or dividend is proposed to be paid, our Company will be able to pay its debts as they fall due in the ordinary course of business.

Our Directors may declare dividends after taking into account, among other things, our results of operations, financial condition and position, the amount of distributable profits based on IFRS, our Memorandum and Articles of Association, the Cayman Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. For further details of our dividend policy, please see the section headed "Financial Information — Dividend and Dividend Policy" in this prospectus. Our future payments of dividends will be at the absolute discretion of our Board. We cannot assure you when or whether we will pay dividends in the future.

RISKS RELATING TO OUR INDUSTRY

Our business operations depend on the automobile industry which is characterized by rapid changes in technology and industry standards

Our financial performance is dependent upon the continued growth of the automobile industry and the continued growth of the manufacture of auto-parts. There can be no assurance that growth of the industry will continue at current rates or at all. The overall PRC economy affects our revenues as production needs for automobiles are likely to decrease in a slowing economy.

In addition, the automobile industry has been characterized by a more rapid launch of new car models, continuous technological advancement, evolving industry standards and changing customer needs, leading to a trend of shorter product life cycles and competitive pressure to introduce new or enhanced products quickly into the market. There can be no assurance that our research and development efforts will be successful in responding to these industry demands or customer needs, and new technologies or alternative products available in the market may render our existing products and production technologies less competitive. Any failure by us to take timely measures to respond to technological developments and changing industry standards could adversely affect our future performance and ability to compete.

Our performance is reliant on the market demand for automobiles in the PRC. The PRC Government may implement policies to restrict the supply of and/or reduce the demand for automobiles in the PRC which may adversely affect our business, financial condition and results of operations

Our performance is largely reliant on the supply and demand for automobiles which is in turn significantly affected by the economic environment, consumer spending power and preferences and the PRC government policies relating to the automobile industry.

Any changes in government policies applicable to the PRC automobile industry would reduce the demand for automobiles resulting in lesser demand for auto-parts including HVAC components.

There is no assurance that the demand for automobiles will continue to grow in China. If there is a substantial decrease in the supply of or the demand for automobiles and if we are not able to react appropriately, our business performance could be adversely affected. There is also no assurance that the PRC Government will not implement other policies in the future which may adversely affect the automobile industry. Any implementation of government policies to restrict the supply of and/or reduce the demand for automobiles in the PRC may adversely affect the demand for our products, in which event there may be a material and adverse effect on our business, financial condition and results of operations.

We may suffer from intense competition in and risks related to the automobile industry in China

Increasing consumer purchasing power in China has resulted in significant growth in the demand for automobiles. Such growth in the automobile market has encouraged, and is likely to continue to encourage automotive HVAC systems and components suppliers to further expand their market. Our current market share and profit margin may be diluted or reduced if the competition intensifies or there are further price reductions caused by the intensified competition. If we cannot maintain our competitive edge, including our research and development capabilities and good relationship with our customers, over our competitors, we may lose our market share. The pricing, recognition and loyalty to our products and the financial and technical resources allocated to our products may be materially and adversely affected if competing automotive HVAC products gain a competitive advantage.

RISKS RELATING TO THE PRC

Changes in the PRC's economic, political and social conditions and government policies may have an adverse effect on us

Substantially all of our assets and operations are located in the PRC and most of our revenue is derived from the PRC. Accordingly, our business operations and prospects are subject, to a significant degree, to the economic, political and legal developments in the PRC. The PRC economy differs from the economies of most developed countries in a number of respects, including structure, degree of government involvement, level of development, control of capital investment, growth rate, control of foreign exchange and allocation of resources.

The PRC Government plays a significant role in regulating various industries by imposing industrial policies and continually adjusting economic reform measures. As such, we cannot assure that we may be able to benefit from all, or any, of the measures that are under continuous adjustments. In addition, we cannot predict whether changes in the political, economic and social conditions in the PRC or changes in the laws, regulations and policies promulgated by the PRC Government will have any adverse effect on our current or future business, financial condition and results of operations.

Any significant change in, or promulgation of, laws and regulations may increase our costs of production, and our failure to comply with any of these developments could result in legal liabilities for us

Our operations are subject to the PRC laws and regulations, which include, but are not limited to laws and regulations governing the automotive HVAC systems and HVAC components industry in which we operate, foreign investment, labor and insurance matters, tax, levy, tariff, foreign exchange and environmental protection. Any significant change in the scope or application of these laws or regulations or any promulgation of new laws and regulations may affect our costs of production and profit margins (as the case may be) and have an adverse effect on our financial condition and results of operations. Further, the production safety and environmental regulations and their implementation regulations govern the operations of our business. Any failure to comply with such laws and regulations could result in fines, suspension of operations, loss of any licences, penalties or lawsuits. There can also be no assurance that the PRC Government will not impose additional or stricter laws or regulations in the future, which could give rise to significant compliance costs that we may be unable to pass on to our customers.

The legal system of the PRC is not fully developed, and there are inherent uncertainties which may affect the protection afforded to our business and our Shareholders

Most of our business and operations are governed by the legal system of the PRC. The PRC legal system is based on written statutes and their interpretations by the Standing Committee of the NPC. Prior court decisions may be used for reference but have limited precedential value. Since the late 1970s, the PRC Government has promulgated laws and regulations that had the effect of enhancing the protections afforded to corporate organisations and their governance, as well as various forms of foreign investments in the PRC. However, since these laws and regulations are relatively new and as the PRC legal system continues to evolve rapidly, the interpretation and enforcement of these laws, regulations and rules involves significant uncertainty and different degrees of inconsistency, limiting potentially the available legal protections to our business operations. In addition, the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms. Therefore, it is difficult to evaluate the outcome of administrative and court proceedings and the actual level of legal protection we enjoy. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith, and may affect our ability to realize our rights under laws in connection with contract or tort. Further, we cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-exemption of local regulations by national laws. We cannot therefore assure that we will enjoy the same level of legal protection in the future, nor such new laws and regulations will not affect our operations, causing adverse effects on our financial condition and results.

Government control of currency conversion and changes in the exchange rate between the RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends, increase competition from foreign competitors, affect the value of our net assets, earnings and dividends in foreign currency terms

RMB currently is not a freely convertible currency. We receive all of our revenues in RMB and will need to convert RMB to foreign currency for payment of dividends, if any, to holders of our Shares. Under the current foreign exchange regulations in the PRC, our PRC subsidiary will be permitted, upon completion of the Share Offer, to effect foreign exchange for current-account transactions (including the distribution of dividends) through accounts permitted by the PRC Government. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. There can be no assurance that the PRC Government will not in the future impose restrictions on foreign exchange transactions for current-account items, including the payment of dividends.

The exchange rate of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC Government and changes in the PRC's and international political and economic conditions. Any future exchange rate volatility relating to RMB may give rise to uncertainties in the value of our net assets, earnings and dividends. An appreciation of RMB may result in increased competition from foreign competitors; a devaluation of RMB may adversely affect the value of our net assets, earnings and dividends in foreign currency terms.

Moreover, to the extent that we need to convert the net proceeds from the Share Offer and future financing into the RMB for our operations, appreciation of the RMB against the relevant foreign currencies would have an adverse effect on the RMB amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in Hong Kong dollars, any devaluation of the RMB against the Hong Kong dollar could adversely affect the amount of any cash dividends on our Shares in Hong Kong dollar terms.

Our PRC subsidiary is subject to the PRC rules and regulations on currency conversion. The ability of our PRC subsidiary to pay dividends or make other distributions to us may be restricted by these PRC foreign exchange control restrictions. In addition, under PRC law and upon the Listing on the Stock Exchange, our PRC subsidiary may only pay dividends out of distributable reserves as determined under PRC GAAP. As a result, our PRC subsidiary may not have sufficient or any distributable reserves to make dividend distributions to us in the future, including in periods in which its financial statement indicates that operations have been profitable. Besides, foreign exchange transactions for capital account purposes, which may include direct overseas investment and various international loans, require the prior approval of, or registration with, SAFE or its branches. If we are unable to obtain any consent from SAFE or its branches to convert RMB into foreign currencies for such purposes, our capital expenditure plan and, consequently, our results of operations and financial condition could be adversely affected.

It may be difficult to effect service of process or to enforce foreign judgments in the PRC

All of our assets are located in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. A judgment of a court from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if the judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements. However, the PRC does not have treaties with the United Kingdom, the United States and most other countries providing for the reciprocal enforcement of judgments. Also, Hong Kong has no arrangement for reciprocal enforcement of judgments with the United States, causing uncertainties in relation to the enforcement of foreign judgments.

We may be required to pay income tax on capital gains from the transfer of equity interests in our PRC subsidiaries or jointly controlled entity held by our offshore subsidiaries

In connection with the EIT Law which came into effect on 1 January 2008, jointly issued by the Ministry of Finance and SAT on 30 April 2009, 關於企業重組業務企業所得稅處理若干問題的通知 (財稅[2009]59號) (the Circular on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (Cai Shui [2009] No. 59)*), became effective retrospectively on 1 January 2008. In preparation for the Share Offer, our Group and its subsidiaries and joint-controlled entity commenced the Reorganisation. For more details of the Reorganisation, please refer to the paragraph headed "Reorganisation" in the section headed "History and Development" in this prospectus. The transfer of equity interests in certain PRC subsidiaries indirectly held by offshore subsidiaries of our Group to other offshore subsidiaries of our Group is subject to an income tax of 10% on capital gains which may be determined as the difference between the fair value of the equity interests transferred and the cost of investment. On 10 December 2009, the SAT issued 關於加強非居民企業股權轉讓所得企業所得稅管理的通知(國稅函[2009]698號)) (the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer (Guo Shui Han [2009] No. 698)*), which became effective retrospectively on 1 January 2008. The notice clarified the definition cost of investment and other relevant details on EIT management regarding the share transfer of a PRC resident enterprise by non-PRC resident enterprises directly or indirectly. We have not made any provision for the payment of any income tax on any capital gain that may arise under the above circular and notice as it is currently unclear how the relevant PRC tax authorities will implement or enforce the above circular and notice and whether such income tax on capital gains treatment will be subject to further change. In the event that we are required to pay the income tax on capital gains by the relevant PRC tax authorities, our tax liability may increase and our net profits and cash flow may be affected.

We may be deemed to be a PRC tax resident under the EIT Law and be subject to PRC taxation on our worldwide income

Under the EIT Law, enterprises established outside the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and will generally be subject to a uniform 25% EIT on their worldwide income. Under the EIT Rules, "de facto management bodies" are defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in the PRC and may remain in the PRC. Therefore, we may be treated as a PRC resident enterprise for EIT purposes and thus be subject to EIT on our worldwide income. However, a PRC resident enterprise is exempt from dividend income received from qualified resident enterprises. The tax consequences of such treatment are currently unclear, as they will depend on the implementation regulations and how local tax authorities apply or enforce the EIT Law and the EIT Rules. Our business, financial condition and operating results may be materially and adversely affected if we are subject to PRC taxation on our worldwide income.

Our foreign corporate Shareholders may be subject to income tax upon any gains from transfer of their shares

Under the EIT Law and EIT Rules, our foreign corporate Shareholders may be subject to a 10% income tax upon any gains realized from the transfer of their Shares and dividend distributable to such fore corporate Shareholder, if such income is regarded as income from "sources within the PRC". According to the EIT Rules, whether income generated from transferring equity investments is to be regarded as sources within the PRC or from foreign territory shall depend upon the locations in which the enterprises accepting the equity investment are located. However, it is unclear whether income received by our Shareholders will be deemed to be income from sources within the PRC and whether there will be any exemption or reduction in taxation for our foreign corporate Shareholders due to the recent promulgation of the EIT Law. If our foreign corporate Shareholders are required to pay PRC income tax on the transfers of our Shares that they hold, the value of our foreign corporate Shareholders' investments in our Shares may be materially and adversely affected.

We rely on dividends paid by our PRC subsidiaries for our cash needs, and limitations on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our business, prospects, financial condition and results of operations

We are a holding company incorporated in the Cayman Islands and conduct substantially all of our operations through our PRC subsidiaries. We will rely on dividends paid by our PRC subsidiaries for our future cash needs that cannot be provided by equity issuance or borrowings outside of the PRC, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses in excess of such amounts will depend on dividends from our PRC subsidiaries. Regulations in the PRC currently permit payment of dividends by the PRC subsidiary only out of accumulated profits as determined in accordance with the PRC generally accepted accounting principles. According to applicable PRC laws and regulations, our PRC subsidiaries are required to set aside at least 10% of its after-tax profit based on the PRC generally accepted accounting principles each year for its statutory reserves until the amount of such reserves reach 50% of its registered capital. These reserves are not distributable as dividends. Contributions to such reserves are made from our PRC subsidiary's net profit after taxation. In addition, if our PRC subsidiaries incur debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. As a result, our PRC subsidiaries are restricted in its ability to transfer the net profit to us in the form of dividends. If our PRC subsidiaries cannot pay dividends due to government policy and regulations, or because they cannot generate the requisite cash flow, we may not be able to pay dividends, service our debt or pay our expenses, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

PRC regulations relating to loans and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the net proceeds of the Share Offer to contribute additional capital or make loans to our PRC subsidiaries

We are an offshore holding company conducting our operations in the PRC through our PRC subsidiaries. In utilisating the net proceeds we expect to receive from the Share Offer for the purposes described in the section headed "Future Plans and Use of Proceeds" in this prospectus, we may make loans or additional capital contributions to our PRC subsidiaries.

Any loans to Xiezhong Nanjing which is treated as a foreign invested enterprise under PRC law, are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to Xiezhong Nanjing to finance its activities cannot exceed statutory limits and must be registered with SAFE or its local counterpart. We may also determine to finance our PRC subsidiaries or jointly controlled entity by means of capital contributions. These capital contributions may need be approved by the MOFCOM or its local counterpart.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to use the net proceeds from the Share Offer to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders or our PRC subsidiaries to liabilities or penalties, limit our ability to inject capital into our PRC subsidiary or limit the ability of our PRC subsidiary to distribute profits to us

SAFE issued a public notice in October 2005, namely SAFE Circular No. 75, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of the PRC for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an "offshore special purpose company". In addition, any PRC resident that is a shareholder of an offshore special purpose company is required to amend its SAFE registration with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment, creation of any security interest over any asset or any other material change in share capital. On 20 May 2011, SAFE issued SAFE Circular No. 19, which is the relevant guidance to the local branches of SAFE with respect to the operational process for SAFE relating to SAFE Circular No. 75. Mr. Chen Hao, the beneficial owner of our single largest Shareholder, has fulfilled registration requirements imposed by the SAFE. However, we may not be fully informed of the identities of all our future Shareholders who are PRC residents. Moreover, we do not have control over our Shareholders and cannot assure you that all of our beneficial owners who are PRC residents will comply with SAFE Circular No. 75 and SAFE Circular No. 19. The failure of our Shareholders who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular No. 75 and SAFE Circular No. 19 or the failure of future Shareholders who are PRC residents to comply with the registration procedures set forth in SAFE Circular No. 75 and SAFE Circular No. 19 may subject such beneficial owners and/or our PRC subsidiaries to fines and legal sanctions and may also limit our ability to contribute additional capital to our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute dividends to our Company or otherwise materially and adversely affect our business.

Inflation in the PRC could materially and adversely affect our profitability and growth

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in our costs, our business may be materially and adversely affected. In order to control inflation in the past, the PRC Government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austerity policy can lead to a slowing of economic growth. A slowdown in the PRC economy could also materially and adversely affect our business and prospects.

RISKS RELATING TO THE SHARE OFFER

Any future sale of our Shares by our Controlling Shareholders could have an adverse effect on the market price of our Shares

Future sales of a substantial number of our Shares by our Controlling Shareholders, or the even perception that such sales may occur, could negatively impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate.

We are currently not aware that our Controlling Shareholders have any intention to sell any Shares held by them. We cannot assure you that after the completion of the lock-up periods, our Controlling Shareholders will not sell of any Shares held by them. In particular, amongst the Group of Institutional Shareholders, CITIC Capital China, CDH Cool and CDH Auto are private equity investment funds and it may be part of their usual course of business to realize investment they have made if it is determined by them that it is commercially sound to do so.

There has been no prior public market for our Shares, and an active trading market may not develop after the Share Offer

Prior to the Share Offer, there has been no public market for our Shares. The Offer Price for our Shares will be determined by agreement between the Lead Manager (acting for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Offer Price may not be indicative of the price at which our Shares will trade following the completion of the Share Offer. Moreover, there can be no assurance that there will be an active trading market for our Shares, or if it exists, that it can be sustained following the completion of the Share Offer, or that the price at which our Shares will trade will not decline below the Offer Price.

The trading volume and share price of our Shares may fluctuate

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, announcements of new technologies, strategic alliances or acquisitions, safety or environmental accidents suffered by us, loss of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices of our products or raw materials could cause large and sudden changes in the volume and price at which our Shares will trade. We cannot assure that such development will not occur. In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of the Shares.

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to the PRC and any provinces, cities or regions thereof contained in this prospectus, the reliability of which cannot be assumed or assured

Certain facts and statistics in this prospectus relating to the PRC, its economy and the industries in which we operate within the PRC are derived from official government publications generally believed to be reliable. While we have taken reasonable care to reproduce such information, we cannot guarantee the quality or reliability of such materials. These facts and statistics have not been prepared or independently verified by us, the Sponsor, the Lead Manager or the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, or materials prepared based on such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other difficulties, the statistics presented in this prospectus may be inaccurate or may not be comparable from period to period or to statistics produced for other economics and should not be unduly relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should place upon all such facts and statistics.

Forward looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains statements that are forward-looking and uses words typically used for forward-looking statements such as "will," "expect," "estimate," "anticipate," "plan," "believe", "may", "intend", "ought to", "continue", "project", "should", "seek", "potential" and other similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Purchasers of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although we made these forward-looking statements after due and careful consideration we believe that the assumptions upon which the forward-looking statements are based are fair and reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but not limited to, those identified in this "Risk Factors" section, many of which are not within our control. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans and objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise.

We may further issue Shares after the Listing, which could adversely affect the market price of our Shares

The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on a number of factors, including market acceptance of our products, the need to adapt to changing technologies and technical requirements, and the existence of opportunities for expansion.

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to issue additional equity securities or debt securities or obtain debt financing. The issuance of additional equity securities or convertible debt securities could result in additional dilution to our Shareholders and/or adversely affect the market price of our Shares. Additional debt would result in increased expenses and could result in covenants that would restrict our operations. We have not made arrangements to obtain additional financing, and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to us, if at all.

You may face difficulties in protecting your interests because we are incorporated under Cayman Islands law, which law may provide different protection to minority shareholders than the laws of Hong Kong and other jurisdictions

Our corporate affairs are governed by our Memorandum of Association and Articles and common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders differs in some respects from those established under statutes and under judicial precedents in other jurisdictions. As a result, remedies available to the minority Shareholders of our Company may be different from those they would have enjoyed under the laws in other jurisdictions. For further information, please see "Appendix V — Summary of the Constitution of our Company and the Companies Law" to this prospectus.