

## INDUSTRY OVERVIEW

*This section contains certain information which is derived from a report we commissioned from Timer Auto Consulting, an Independent Third Party. The information extracted from the Timer Auto Report reflects estimates of market conditions based on samples, and is prepared primarily as a marketing research tool. References to Timer Auto Consulting should not be considered as Timer Auto Consulting's opinion as to the value of any security or the advisability of investing in us.*

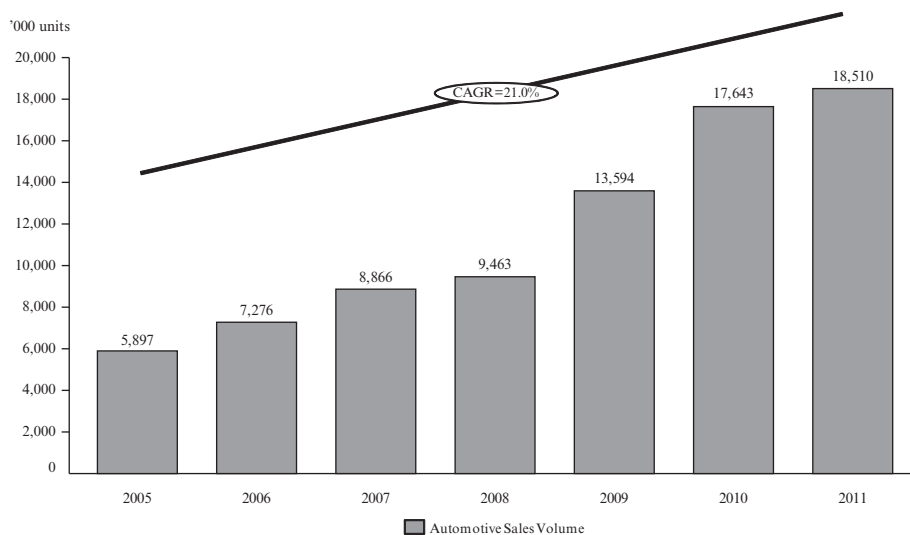
*Our Directors believe that sources of the information extracted from the Timer Auto Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information extracted from the Timer Auto Report has not been independently verified by us, or any of our affiliates or advisers, nor by the Sponsor, the Underwriters or any of their respective directors, affiliates or advisers or any party involved in the Share Offer. We, our affiliates or advisers, the Sponsor, the Underwriters or their respective directors, affiliates or advisers, or any party involved in the Share Offer do not make any representation as to the accuracy, completeness or fairness of such information and, accordingly, you should not unduly rely on such information.*

### CHINA AUTOMOTIVE MARKET OVERVIEW

#### China's automotive market size

According to the Timer Auto Report, China's automotive market experienced robust growth in the past five years. China's automotive sales volume reached 18.5 million units in 2011 from 5.9 million units in 2005, representing a CAGR of 21.0%. China became the largest automotive market in the world in 2010. The chart below illustrates China's automotive sales volume from 2005 to 2011.

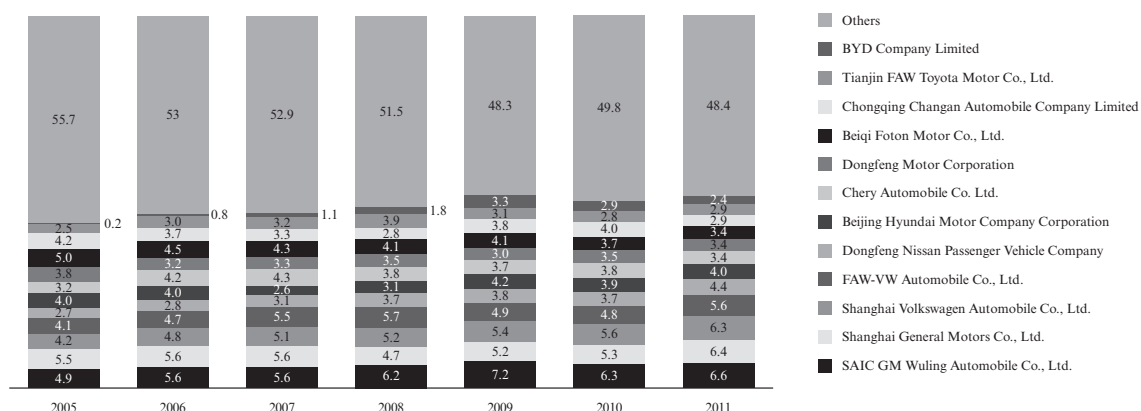
**China Automotive Sales Volume from 2005 to 2011 ('000 units)**



Source: China Association of Automobile Manufactures; CPCA; [www.ChinaBus.info](http://www.ChinaBus.info); Timer Auto Consulting

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**Sales structure of China automotive market from 2005 to 2011 (market share by sales volume (%))**



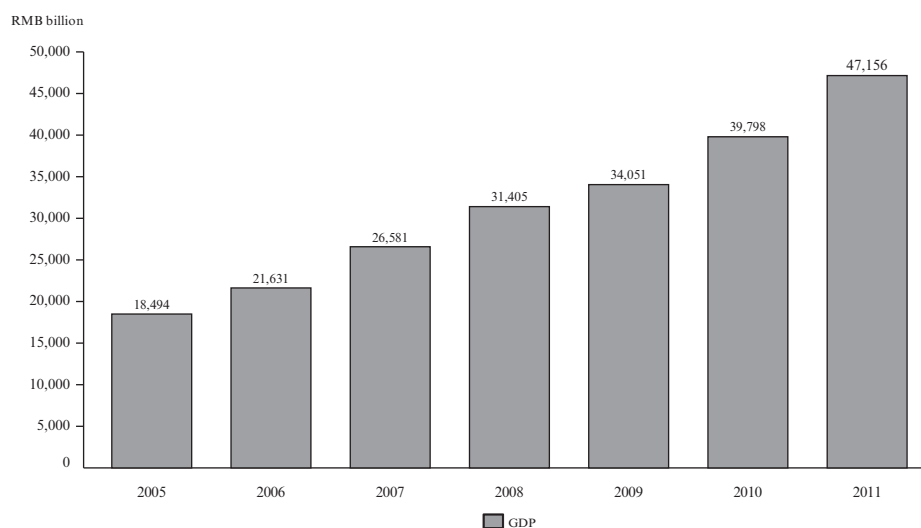
Source: China Association of Automobile Manufactures; CPCA; [www.ChinaBus.info](http://www.ChinaBus.info)

### Key growth drivers

According to the Timer Auto Report, the recent growth of China's automotive market is attributable to following key drivers:

1. Development of China's economy: From 2005 to 2011, China's GDP registered a double digit annualized growth rate. The strong GDP growth increased purchasing power and drove the automotive market growth. The chart below illustrates China's GDP size from 2005 to 2011.

**GDP of China from 2005 to 2011 (RMB billion)**



Source: National Bureau of Statistic

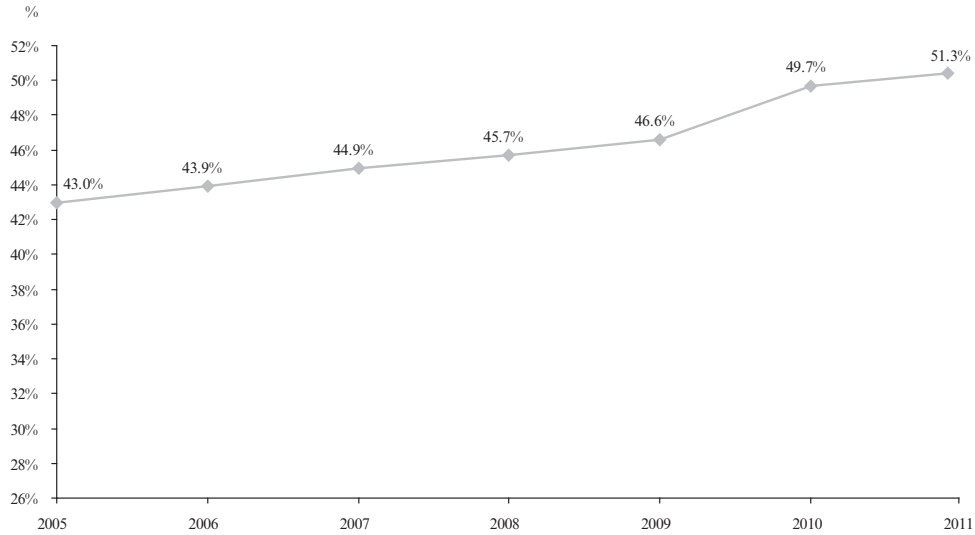
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2. Urbanisation with the economy growth, the urbanisation rate increased to 51.3% in 2011 from 43.0% in 2005, which drove the urban population to increase and infrastructure investment which stimulated the consumer spending, thereby promoting the demand for automotives. The chart below illustrates China's urbanisation rate from 2005 to 2011.

**Urbanisation rate from 2005 to 2011 (%)**



*Source: National Bureau of Statistic*

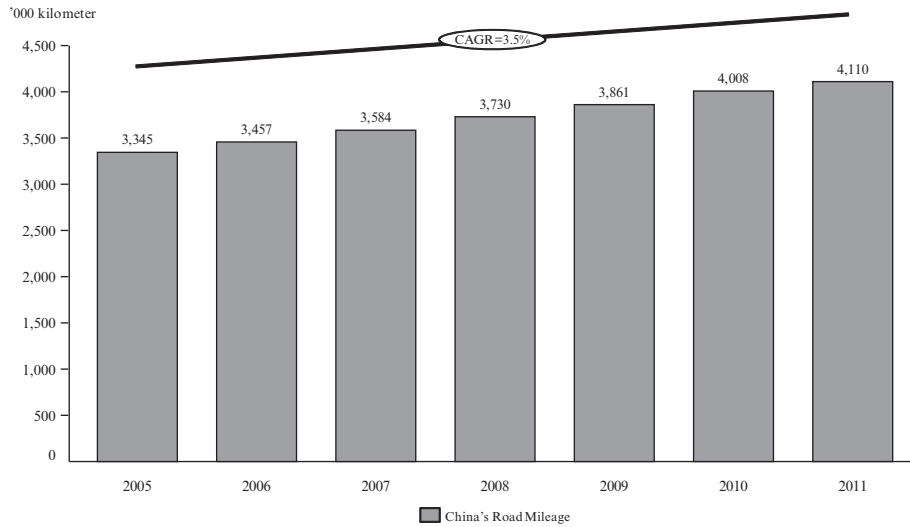
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3. Improving infrastructure: The Chinese government invested heavily in infrastructure in the past few years, especially in roads and other related infrastructure, which facilitated the China's automotive industry growth. The chart below illustrates China's road mileage from 2005 to 2011.

**China's Road Mileage from 2005 to 2011 ('000 kilometer)**



Source: National Bureau of Statistic

### China's automotive market size projection

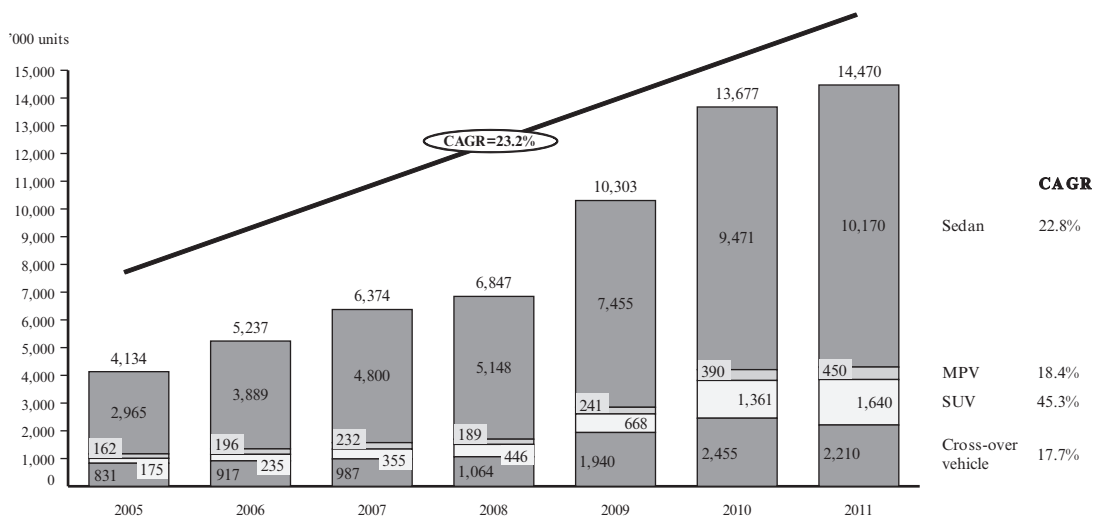
According to the Timer Auto Report, although China's automotive industry has achieved rapid development in the past few years, the automotive ownership in general is still at a relatively low level as compared to other developed countries. In 2011, China automotive ownership per thousand people is 70 units, far below the level in developed countries (such as, United States, Germany and Japan), which ranges from 500 to 800 units of automotive ownership per thousand people. With China's stable economic growth, continued urbanisation, according to Timer Auto Consulting, China's automotive market size in volume is expected to have a CAGR of 8.9% from 2011 to 2015. Timer Auto Consulting estimates that the automotive sales volume in China will reach 26.1 million units in 2015.

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### China's automotive industry segments

1. Passenger vehicle<sup>1</sup> market: According to the Timer Auto Report, China's passenger vehicle market sales in 2011 exceeded 14.5 million units, achieving a CAGR of 23.2% from 2005 to 2011. Among all the segments, SUV is the fastest growing segment of the market. SUV market achieved a CAGR of 45.3% from 2005 to 2011, which was much higher than 23.2% of passenger vehicle market as a whole. SUV's higher growth was primarily attributed to its better off-road performance and bigger cabin space as compared to other types of passenger vehicles and consumers' preference. The chart below illustrates sales structure of China's passenger vehicle market in terms of units sold from 2005 to 2011.

**Sales Structure of Passenger Vehicle from 2005 to 2011 ('000 units)**



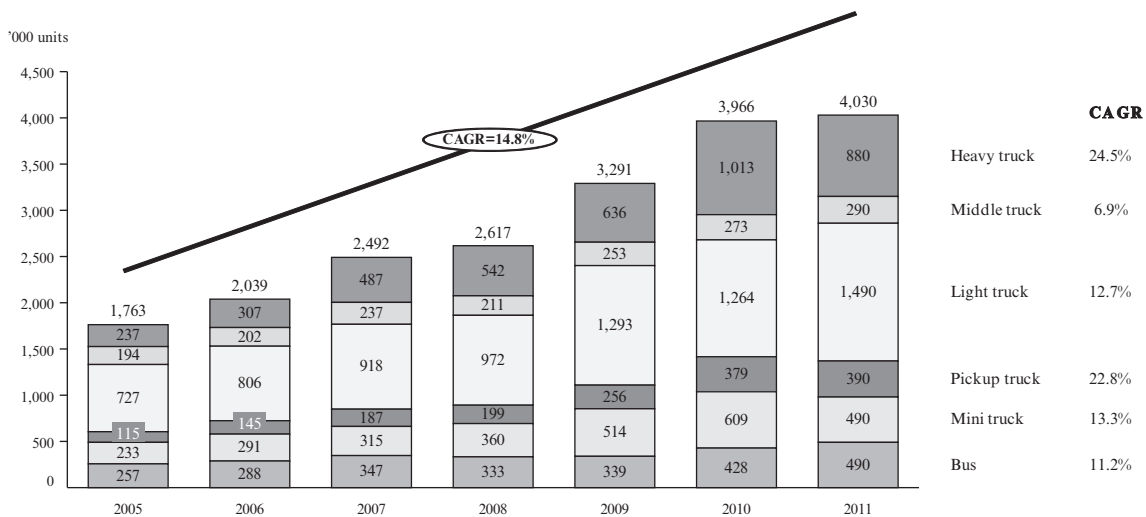
*Source: China Association of Automobile Manufactures; Timer Auto Consulting*

<sup>1</sup> For the purpose of this section, passenger vehicles include sedans, MPVs, SUVs and cross-over vehicles.

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2. Commercial vehicle<sup>2</sup> market: According to the Timer Auto Report, benefited from China's rapid economic development and heavy fixed assets investment, the China's commercial vehicle market reached sales of over 4 million units in 2011. According to the Timer Auto Report, heavy truck and pickup truck markets recorded a CAGR of 24.5% and 22.8%, respectively, from 2005 to 2011, which are the two fastest growing segments among all the commercial vehicle segments. The chart below illustrates sales structure of China's commercial vehicle market in terms of units sold from 2005 to 2011.

**Sales Structure of Commercial Vehicle from 2005 to 2011 ('000 units)**



*Source: China Association of Automobile Manufactures; CPCA; [www.ChinaBus.info](http://www.ChinaBus.info); Timer Auto Consulting*

## CHINA AUTOMOTIVE HVAC SYSTEM MARKET OVERVIEW

### Automotive HVAC system introduction

According to the Timer Auto Report, the automotive HVAC system is used for the air cooling, heating, ventilation and air purification inside a vehicle. The HVAC system is an integral part of an automotive, which is composed of difference parts, including compressor, condenser, evaporator, heater core and others.

<sup>2</sup> For the purpose of this section, commercial vehicles include heavy trucks, middle trucks, light trucks, pickup trucks, mini trucks and buses.

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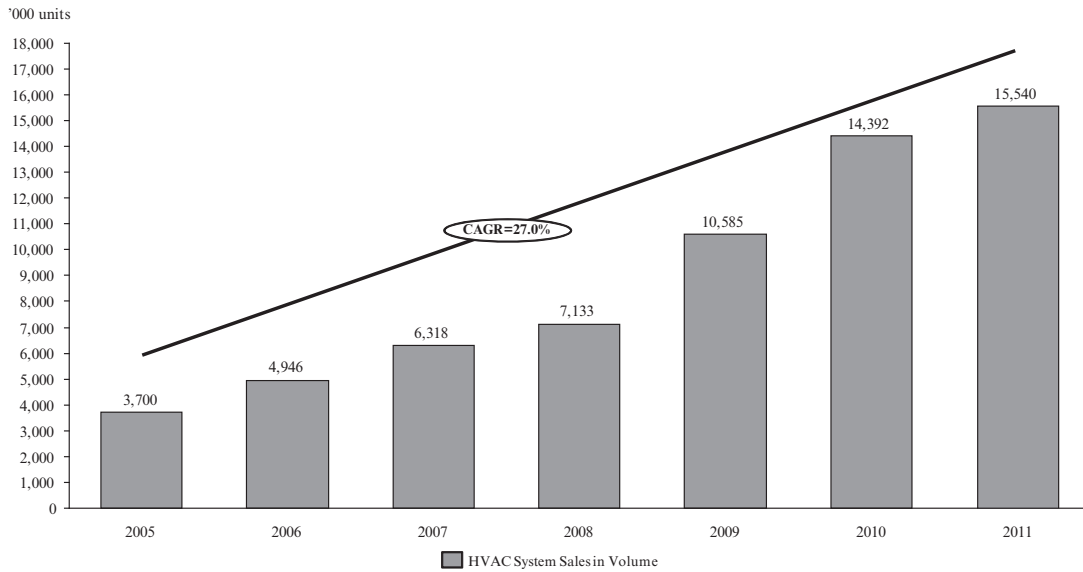
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### China automotive HVAC system market size

According to the Timer Auto Report, driven by the rapid growth of China's automotive industry and increasing automotive HVAC system penetration rate, China's automotive HVAC system market has grown rapidly over the past few years and reached the sales volume of 15.5 million units in 2011, which representing a CAGR of 27.0% from 2005 to 2011. The chart below illustrates China's automotive HVAC system historical market size in terms of units from 2005 to 2011.

**HVAC System Market Size from 2005 to 2011 ('000 units)**



Source: China Association of Automobile Manufactures; CPCA; [www.ChinaBus.info](http://www.ChinaBus.info); Timer Auto Consulting

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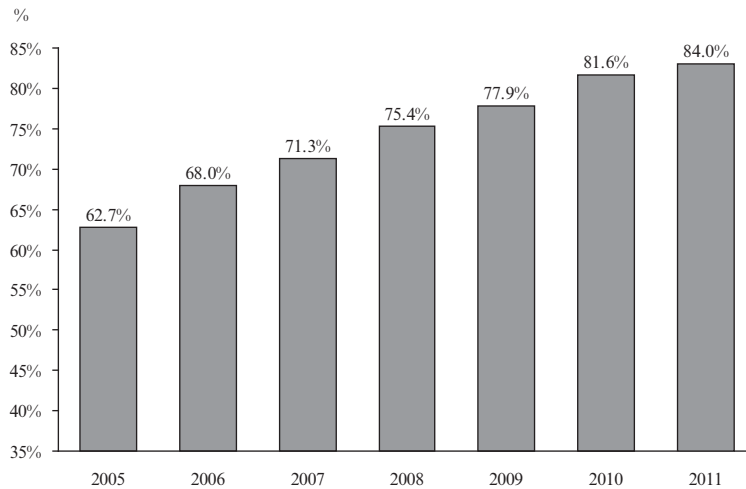
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### China automotive HVAC system penetration rate

According to the Timer Auto Report, as living standards in China improves, the automotive HVAC system is increasingly being treated as a standard feature of an automotive, thereby driving the automotive HVAC system penetration rate to increase. According to the Timer Auto Report, China's automotive HVAC system penetration rate increased to 84.0% in 2011 from 62.7% in 2005. The chart below illustrates China's automotive HVAC system historical penetration rate from 2005 to 2011.

**HVAC System Penetration rate from 2005 to 2011**



Source: China Association of Automobile Manufactures; CPCA; [www.ChinaBus.info](http://www.ChinaBus.info); Timer Auto Consulting



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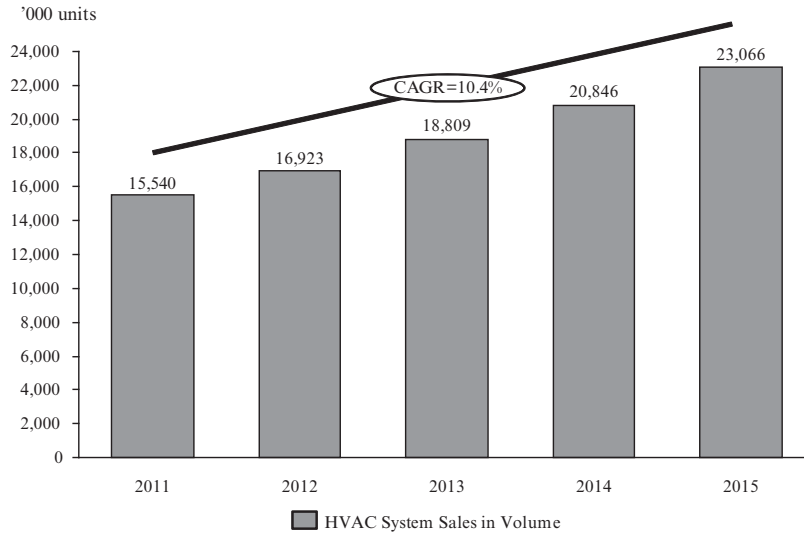
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### China automotive HVAC system market size projection

According to the Timer Auto Report, with the continuous development of China's automotive market and rising automotive HVAC system penetration rate, China's automotive HVAC system market is expected to have a 10.4% CAGR from 2011 to 2015 in terms of sales volume. The chart below illustrates China's automotive HVAC system market size projection in terms of sales volume from 2012 to 2015.

**HVAC System Sales Forecast from 2012 to 2015 ('000 units)**



Source: China Association of Automobile; CPCA; Timer Auto Consulting

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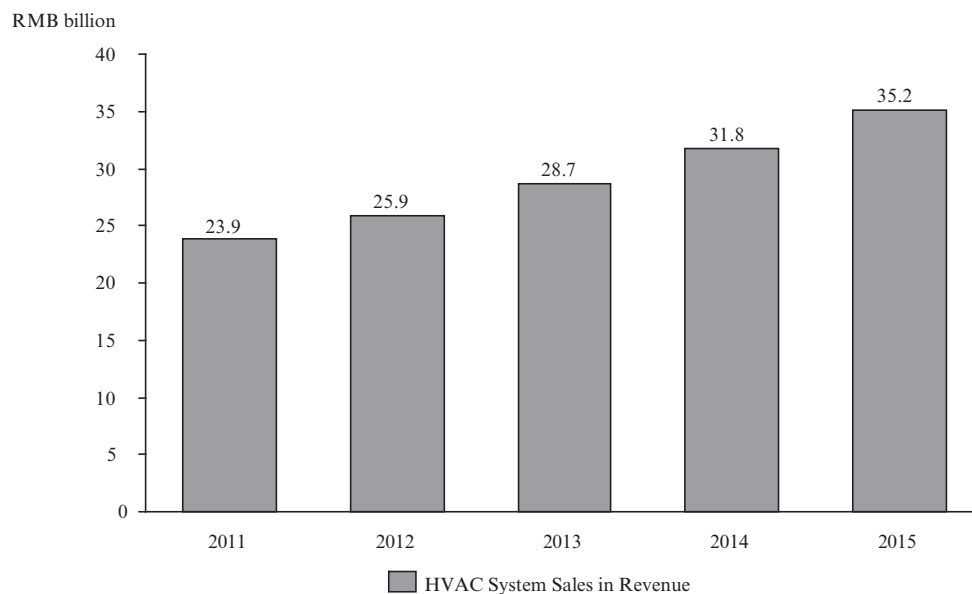
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According to the Timer Auto Report, due to the continuous growth of China's automotive market and the increase of penetration rate of HVAC systems, China's automobile HVAC system industry is expected to maintain a double-digit CAGR in the next few years.

According to the Timer Auto Report, China's automotive HVAC system market is expected to have a 10.4% CAGR from 2011 to 2015 in terms of sales revenue, reaching RMB35.2 billion in 2015. The chart below illustrates China's automotive HVAC system market size projection in terms of sales revenue from 2012 to 2015.

**HVAC System Sales Forecast from 2012 to 2015 (RMB Billion)**



*Source: China Association of Automobile; CPCA; Timer Auto Consulting*

### **Historical price of raw materials of automotive HVAC system**

As the main raw materials of evaporators, condensers and other components of the HVAC system, aluminium has experienced notable price fluctuation over recent years owing to a number of different factors both in China and abroad. During the period from 2006 to 2007, aluminum price remained high. Prices began to fall in September 2008 as a result of the global economic crisis. 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.

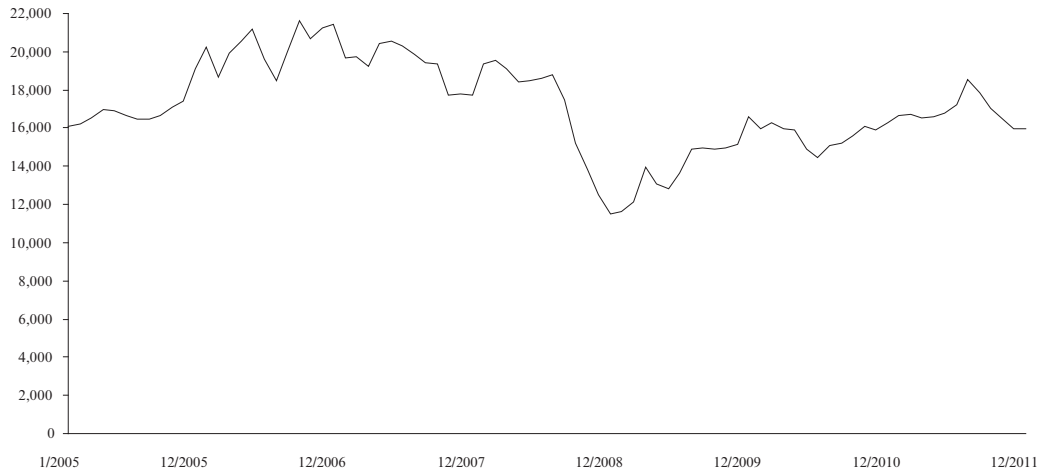
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The chart below illustrates the historical market price of aluminium as quoted on the Shanghai Futures Exchange from January 2005 to December 2011.

**Aluminium Market Price (RMB per tonne)**



Source: Shanghai Futures Exchange

The cost of compressors weighs relatively heavy on the overall procurement cost of raw materials for HVAC systems. However, according to the Timer Auto Report, due to the large number of compressor manufacturers, competition between them is fierce. In recent years, the price of compressors has tended to decline year by year.

### **China automotive HVAC system market entry barriers**

According to the Timer Auto Report, the entry barriers of the automotive HVAC system market consist of the following three main aspects:

1. High technical requirements: an automotive HVAC system consists of compressor, evaporator, condenser, HVAC hoses and other parts. To design and develop an automotive HVAC system, an automotive HVAC system manufacturers need to conduct the research and development in accordance with the vehicle's performance, body structure, engine compartment layout, environmental conditions and other factors. Since an automotive HVAC system has to be customised depending on different specification and requirement of a particular vehicle model, design and development of an automotive HVAC system is highly technical.
2. Capital requirement: to conduct design and development of automotive HVAC systems, HVAC system manufacturer needs to be equipped with various production equipments, research and development equipments, testing equipments and other facilities. In addition, the automotive manufacturer customers usually have high requirements on the HVAC system quality and cost. Therefore, an automotive HVAC system manufacturer have to process strong quality control capability.

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3. High customer development requirement: as an important component of a vehicle, automotive manufacturers usually have a rigorous supplier qualification inspection period and process, which normally takes around one and a half year to two years to complete. Therefore, it will be difficult and long for the new entrants to develop the customer base.

### **Technology trend of the automotive HVAC system industry and its impact on the Group's business operation and financial performance**

According to the Timer Auto Report, energy efficiency and lightweight is the development trend in automotive HVAC system industry. To tie in with the development of the automobile industry, HVAC systems suppliers need to further reduce the overall weight and sizes of an automotive HVAC system. This will lead to the requirement on improving the compactness and efficiency of the HVAC components. Major domestic and foreign automotive HVAC systems suppliers are making efforts to improve the production technique of HVAC components with an aim to provide stable, low noise, lightweight and energy efficient automotive HVAC system.

As the concern of air pollution increases, use of the presently commonly used refrigerant in the automotive HVAC system (namely, R134a) will become more restricted. According to the Timer Auto Report, a new type of refrigerants, namely HFO-1234yf, will become one of the preferred substitutes for R134a. HFO-1234yf produces little pollution. According to the Timer Auto Report, because the effects of the new refrigerant has yet to be tested and its price is much higher, using HFO-1234yf as the refrigerant in automotive HVAC systems will not become a mainstream in the short term. It is expected that the use of HFO-1234yf would not have a material impact on our production and cost of sales.

According to the Timer Auto Report, as environmental protection awareness increases, development of automotive HVAC systems for electric, hybrid and other forms of green energy vehicles will also become a development trend in the HVAC system industry.

In line with the development trend, lightening the weight of our product has been one of the research focuses of the Company to enhance the performance of the existing products. For example, our initial tube-fin evaporator was replaced by a thinner laminated evaporator and was then replaced by parallel-flow evaporator. Another example is that function of condenser has been improved when the tube-fin condenser is gradually replaced by the parallel-flow condenser. We believe that our effort on lightening the weight of our products will enhance the efficiency of our HVAC system and therefore improve the market competitiveness of the Company.

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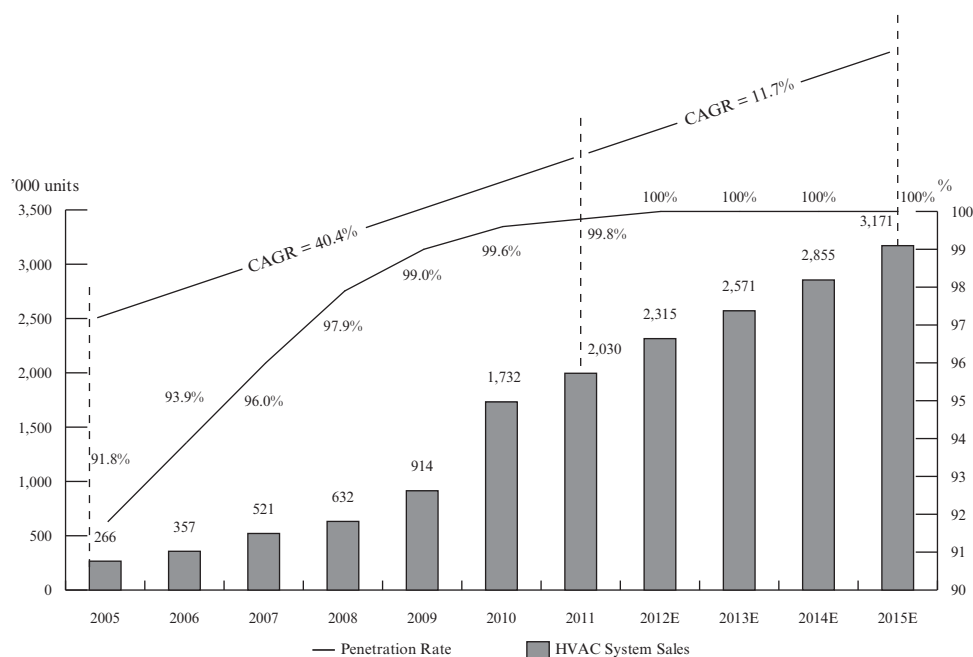
To cater for the growing trend of environmental protection, the Company has started cooperation with its customers to develop HVAC systems and HVAC components used in electric and hybrid vehicles. In 2010, the Company began to supply HVAC systems for electric vehicles to Foton. As the electric and hybrid vehicle markets (and hence the HVAC systems for electric and hybrid vehicles) are still developing, we expect that the sales of HVAC systems and components for electric vehicles will not have material effect on the Company in the short run.

### CHINA'S SUV, PICKUP TRUCK AND HEAVY TRUCK HVAC SYSTEM MARKET OVERVIEW

#### SUV and pickup truck HVAC system market

According to the Timer Auto Report, from 2005 to 2011, China's SUV and pickup truck market experienced a CAGR of 38.4%. SUV and pickup truck have a high HVAC system penetration rate, which is almost 100% in 2011. Primarily driven by the SUV and pickup truck markets growth, the China's SUV and pickup truck HVAC system market achieved a CAGR of 40.4% from 2005 to 2011, reaching a sales volume of 2.03 million units in 2011. According to the Timer Auto Report, China's SUV and pickup truck HVAC system market is expected to achieve a CAGR of 11.7% from 2011 to 2015. The chart below illustrates China's SUV and pickup truck HVAC system market size in terms of sales volume and penetration rate between 2005 to 2015.

**SUV and Pickup Truck HVAC System Market Size ('000 units)  
and penetration rate from 2005 to 2015**



Source: China Association of Automobile Manufactures; CPCA; Timer Auto Consulting

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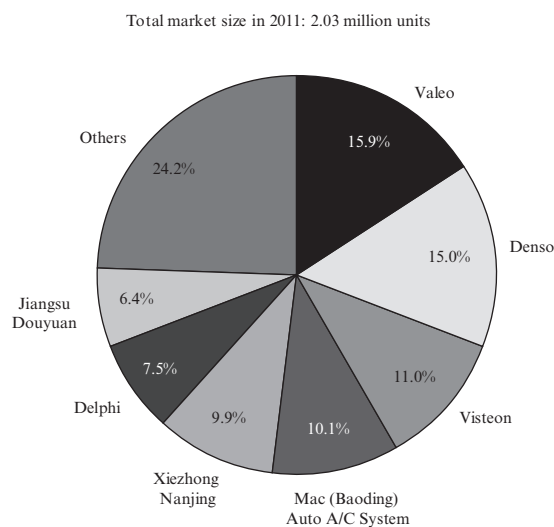
### SUV and pickup truck HVAC system market competitive landscape

According to the Timer Auto Report, for SUV and pickup truck HVAC system market, the top five companies had a market share of 61.9% in terms of sales volume in 2011. Leading companies include Valeo, Denso, Visteon, Macs, Xiezhong Nanjing, Delphi and others. According to the Timer Auto Report, the major manufacturers of this market are divided into three categories:

1. the first category of HVAC system manufacturers are those which supply SUV and pickup truck customers through the joint venture companies set up between the HVAC system manufacturers and automotive manufacturers (such as Macs);
2. the second category of HVAC system manufacturers are those foreign HVAC system manufacturers which supply SUV and pickup trucks manufacturers through its wholly-owned or affiliated companies in China (such as Visteon); and
3. the third category of HVAC system manufacturers are independent HVAC system manufacturers (such as Xiezhong Nanjing).

As one of the market leaders, Xiezhong Nanjing had 9.9% market share in terms of sales volume in China's SUV and pickup truck HVAC system market in 2011, ranking fifth. The chart below illustrates China's SUV and pickup truck HVAC system market shares in terms of sales volume in 2011.

#### Market share of China's SUV and Pickup Truck HVAC system in 2011 (by sales volume)



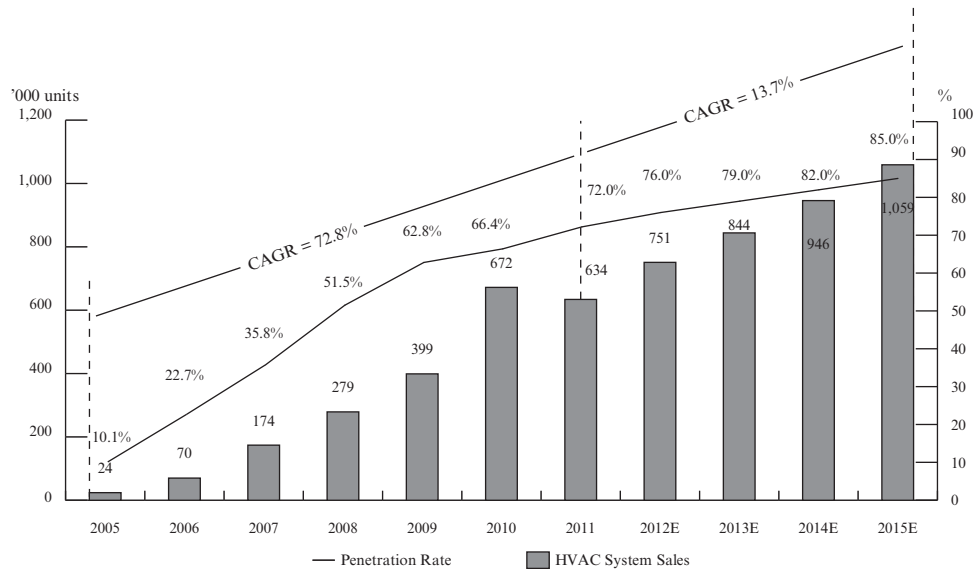
Source: China Association of Automobile Manufactures; CPCA; Timer Auto Consulting

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### Heavy truck HVAC system market

According to the Timer Auto Report, from 2005 to 2011, China's heavy truck market experienced a CAGR of 24.5%. The HVAC system penetration rate in China's heavy truck market has risen rapidly in the past few years, rising from 10.1% in 2005 to 72.0% in 2011. Driven by China's heavy truck market growth and rising penetration rate, China's heavy truck HVAC system market achieved a CAGR of 72.8% from 2005 to 2011, reaching a sales volume of 634 thousand units in 2011. According to the Timer Auto Report, heavy truck has a relatively low HVAC system penetration rate, which was only 72.0% in 2011, which indicates strong growth potentials in the future. According to the Timer Auto Report, China's heavy truck HVAC system market is expected to achieve a CAGR of 13.7% in terms of sales volume from 2011 to 2015. The chart below illustrates China's heavy truck HVAC system market size in terms of sales volume and penetration rate from 2005 to 2015.

**Heavy Truck HVAC System Market Size ('000 units)  
and penetration rate from 2005 to 2015**



Source: China Association of Automobile Manufactures; Timer Auto Consulting

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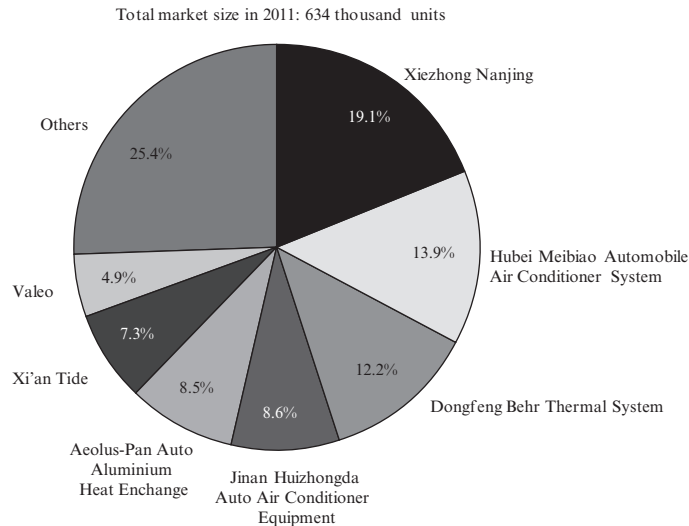
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### Heavy truck HVAC system market competitive landscape

According to the Timer Auto Report, for heavy truck HVAC system market, the top five manufacturers had a market share of 62.4% in terms of sales volume in 2011. Leading manufacturers include Xiezhong Nanjing, Hubei Meibiao, Dongfeng Behr, Valeo and others. Major manufacturers of this market are divided into two categories: independent manufacturers (such as Xiezhong Nanjing and Jinan Huizhongda) and joint ventures manufacturers between foreign automotive HVAC system companies and automotive manufacturers (such as Dongfeng Behr).

Xiezhong Nanjing is the largest company in China's heavy truck HVAC system market, with 19.1% market share in terms of sales volume in 2011. The chart below illustrates China's heavy truck HVAC system market shares in terms of sales volume in 2011.

#### Market share of China's heavy truck HVAC system in 2011 (by sales volume)



Source: China Association of Automobile Manufactures; Timer Auto Consulting

### Overall HVAC system market competitive landscape

According to the Timer Auto Report, in 2011, the top five foreign automotive HVAC system companies and automotive manufacturers, namely Valeo, Delphi, Visteon, Denso, Behr and Sanden accounted for around 50.0% market share in terms of sales volume in the overall automotive HVAC system market in the PRC while independent automotive HVAC system manufacturers such as Yuxin and Xiezhong Nanjing also occupied certain amount of market shares in the same market. According to the Timer Auto Report, Xiezhong Nanjing is the ninth largest automotive HVAC systems supplier in terms of sales volume in the overall automotive HVAC system market in the PRC with a market share of 2.8% in 2011. The chart below illustrates China's overall HVAC system market shares in terms of sales volume in 2011.

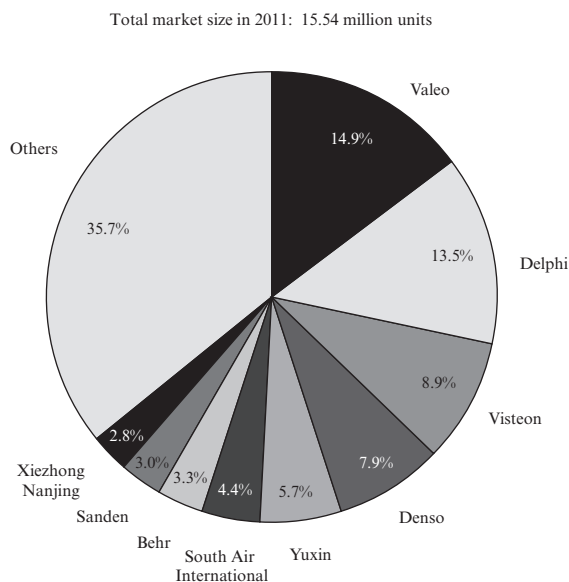


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### Market share of China's overall HVAC system in 2011 (by sales volume)



Source: China Association of Automobile; Timer Auto Consulting

### SOURCES OF INFORMATION

In connection with the Share Offer, we have engaged Timer Auto Consulting to conduct detailed market analysis of and provide a research report on automotive HVAC system and component markets in China particularly the automotive HVAC systems for SUVs, pickup trucks and heavy trucks segments in the PRC. Timer Auto Consulting is a private independent provider of market research service focusing on automotive industry. The information disclosed in this prospectus from Timer Auto Consulting is extracted from a research study commissioned by us for a fee of RMB127,500 and is disclosed with the consent of Timer Auto Consulting. The payment of Timer Auto Consulting's fee was not contingent upon our successful Listing or on any of the results obtained from the Timer Auto Report. The Timer Auto Report dated 6 June 2012 consists of, among others, historical data for the period from 2005 to 2011, and forecasts for the period from 2012 to 2015.

#### Research methodology

Timer Auto Consulting's independent research was undertaken through both primary and secondary research obtained from various sources within the PRC, in order to present a more comprehensive and accurate picture of China automotive air-conditioner market. Timer Auto Consulting's sources cover:

1. Timer Auto's own database;
2. Official statistics, reports and/or databases;
3. Independent research reports;

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4. Annual reports of public companies, company website; and
5. Interviews with leading experts including participants from automotive manufacturers, HVAC system suppliers, and related industry experts.

### **Data validation and integrity assessment**

Timer Auto Consulting used multiple secondary and primary sources to validate all data and information. It tested and analyzed the resources and views against those of others and did not rely on any single-source so as to ensure reliability and to eliminate bias.

### **Projection**

Timer Auto Consulting adopted its standard practice of both quantitative as well as qualitative forecasts. Timer Auto Consulting obtained the forecast from historical data analysis plotted against macroeconomic data, taking considerations of specific related industry drivers. Timer Auto Consulting adopted the Delphi method, conducted interviews with top experts to get an in-depth and comprehensive review of the future of the relevant markets.