
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Sunrise International, Mr. Chen Hao and Mr. Chen Cunyou

Immediately following the Share Offer and the Capitalisation Issue, Sunrise International will hold a 30% interest in the Company and will thus remain as our Controlling Shareholder before any transfer of Shares by it to the grantees under the Share Incentive Plan.

Sunrise International is an investment holding company wholly-owned by Mr. Chen Hao, son of Mr. Chen Cunyou, an executive Director. Mr. Chen Hao is therefore considered as our Controlling Shareholder in so far as Sunrise International or Mr. Chen Hao holds 30% interest or more in the Company. Other than holding interests in the Company, Sunrise International does not have any other business activities.

Having considered the circumstances under which Sunrise International acquired shares in Xiezhong BVI in 2010 as disclosed in the paragraph headed “Corporate History of Our Subsidiaries — Xiezhong BVI” in the section headed “History and Development” in this prospectus, Mr. Chen Cunyou is considered as our Controlling Shareholder in so far as any of Sunrise International, Mr. Chen Hao and/or Mr. Chen Cunyou holds 30% interest or more in the Company.

Group of Institutional Shareholders

Immediately prior to the Reorganisation, the Group of Institutional Shareholders collectively held a 60% interest in Xiezhong BVI through CUAS, which was the then holding company of the Group.

At the time of incorporation of Xiezhong BVI, CUAS was wholly-owned by Fang Brothers. On 12 June 2008, CUAS issued new shares representing approximately 49.86%, 28.57%, 11.43%, and 10% of the then issued share capital of CUAS to Fang Brothers, CITIC Capital China, CDH Cool and CDH Auto at subscription prices of approximately US\$9.9 million, US\$11.9 million, US\$4.8 million and US\$4.2 million, respectively. On 18 September 2008, Fang Brothers transferred approximately 11.43% and 8.57% of the issued share capital of CUAS to CITIC Capital China and CDH Auto for cash considerations of RMB57.8 million and RMB43.3 million respectively. On 10 December 2008, Fang Brothers transferred a further approximately 11.43% and 8.57% of the issued share capital of CUAS to CITIC Capital China and CDH Auto for cash considerations of approximately RMB57.8 million and RMB43.3 million respectively. On 31 May 2010, CDH Auto transferred to CDH Cool 1% of the issued share capital of CUAS for a cash consideration of approximately RMB5.1 million. Thereafter, CUAS was held as to approximately 51.43% by CITIC Capital China, as to 10% by Fang Brothers, as to approximately 26.14% by CDH Auto and as to approximately 12.43% by CDH Cool.

The Group of Institutional Shareholders and CUAS entered into a shareholders’ agreement relating to the management and control of CUAS on 12 June 2008, which was amended and supplemented by supplemental agreements entered into among the same parties dated 17 September 2008, 5 December 2008 and 16 January 2009 and 20 May 2010

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(the “CUAS Shareholders’ Agreement”). The CUAS Shareholders’ Agreement provides for, among others, the business of CUAS which shall solely be investment holding in such companies or industries as the directors of CUAS may unanimously agree, the composition of the board of directors of CUAS, matters that required unanimous votes of directors and the pre-emptive rights of each of the Group of Institutional Shareholders in respect of the transfer of shares of CUAS to any third party. Under the CUAS Shareholders’ Agreement, CITIC Capital China shall have the right to nominate two directors, Fang Brothers shall have the right to nominate one director, CDH Cool and CDH Auto together shall have the right to nominate one director.

On 9 December 2009, CUAS, Sunrise International and Xiezhong BVI entered into the Xiezhong BVI Shareholders’ Agreement in respect of the management and other affairs of Xiezhong BVI, including, among others, the composition of the board of directors of Xiezhong BVI, matters that required unanimous votes of CUAS and Sunrise International, and the pre-emptive rights of CUAS and Sunrise International in respect of transfer of shares of Xiezhong BVI to any third party. Under the Xiezhong BVI Shareholders’ Agreement, all directors of Xiezhong BVI shall be appointed by CUAS.

As part of the Reorganisation, CUAS transferred all of its 60% interest in Xiezhong BVI to the Company and subsequently transferred all of its 60% interest in the Company to the Group of Institutional Shareholders in proportion to their respective interests in CUAS by way of distribution in specie with a view to streamlining the structure of the holding of the Shares by the Group of Institutional Shareholders. As a result, the Group of Institutional Shareholders collectively held a 60% interest in the Company. The Xiezhong BVI Shareholders’ Agreement was still valid and subsisting notwithstanding the aforesaid share transfer and distribution in specie.

Subsequently, on 4 June 2012, the Xiezhong BVI Shareholders’ Agreement was terminated by the parties thereto and on the same date, the Group of Institutional Shareholders entered into the Shareholders’ Agreement among themselves for a term of one year upon Listing. The Group of Institutional Shareholders agreed that the Shareholders’ Agreement should not create perpetual obligations among themselves and after arm’s length negotiation, they agreed that it is desirable for the Shareholders’ Agreement to be terminated at the end of one year upon Listing as by that time the corporate governance practice of the Company as a listed company should have been well established. Under the Shareholders’ Agreement, the Group of Institutional Shareholders agreed to exercise their voting rights at the general meetings of the Company or pass Shareholders’ resolutions in writing (as the case may be), and/or procure Directors nominated by them to vote at the Board meetings or pass Directors’ resolutions in writing: (a) to procure that CITIC Capital China shall have the right to nominate two non-executive Directors, Fang Brothers shall have the right to nominate one non-executive Director, CDH Cool and CDH Auto together shall have the right to nominate one non-executive Director; and (b) in the same manner in respect of the following matters concerning the Company: (i) issue of Shares; (ii) purchase or redemption of Shares; (iii) variation of rights attaching to any Shares; and (iv) variation of accounting policy or standards.

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The Group of Institutional Shareholders further agreed under the Shareholders' Agreement that save for pursuant to the Share Offer, neither of them will, without the prior written consent of the Stock Exchange or unless in compliance with the Listing Rules, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (a) in the First Six-month Period, any of the Relevant Shares pursuant to Rule 10.07(1)(a) of the Listing Rules; and (b) in the Second Six-month Period, any of the Relevant Shares to the extent that the total number of Shares then held by it immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances is less than such number as determined by using the following formula:

$$A \times 30\% \times B/C$$

“A” means the number of Shares in issue immediately before such disposal or the exercise or enforcement of such options, rights, interest or encumbrances;

“B” means the number of Shares held by the relevant member of the Group of Institutional Shareholders immediately before such disposal or the exercise or enforcement of such options, rights, interest or encumbrances; and

“C” means the total number of Shares held by the Group of Institutional Shareholders collectively immediately before such disposal or the exercise or enforcement of such options, rights, interest or encumbrances.

By virtue of their joint investment in the Group through CUAS, the Xiezhong BVI Shareholders' Agreement, the CUAS Shareholders' Agreement and the Shareholders' Agreement, the Group of Institutional Shareholders could be considered as acting in concert in respect of the Group under the Takeovers Code.

Immediately following the Share Offer and the Capitalisation Issue, the Group of Institutional Shareholders will collectively hold a 45% interest in the Company before any transfer of Shares by it to the grantees under the Share Incentive Plan.

In view of the above, the Group of Institutional Shareholders constitute our Controlling Shareholders within the meaning of the Listing Rules. Details of the Group of Institutional Shareholders are set out below.

Fang Brothers is an investment holding company wholly-owned by Fang Brothers Holdings, which in turn is owned as to 50% by Mr. Kenneth Fang, our non-executive Director, and 50% by his family members.

CITIC Capital China is an investment holding company wholly-owned by CITIC Capital China Partners, L.P., an exempted limited partnership organised and existing under the laws of the Cayman Islands and a private equity investment fund focused on private equity investments in China. The general partner of CITIC Capital China Partners, L.P. is CCP GP Ltd., an exempted company incorporated in the Cayman Islands with limited liability. The limited partners of CITIC Capital China Partners, L.P. include institutional

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investors such as pension funds, endowment funds, funds of funds and financial institutions. CITIC Capital China Partners, L.P. is managed by CCP Advisory Ltd., an exempted company incorporated in the Cayman Islands with limited liability.

CDH Cool is an investment holding company wholly-owned by CDH China Growth Capital Fund II, L.P., an exempted limited partnership organised and existing under the laws of the Cayman Islands and a private equity investment fund focused on private equity investments in China. The general partner of CDH China Growth Capital Fund II, L.P. is CDH China Growth Capital Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability. The limited partners of CDH China Growth Capital Fund II, L.P. include institutional investors such as pension funds, endowments, foundations, funds of funds and financial institutions. CDH China Growth Capital Fund II, L.P. is managed by CDH Investment Advisory Private Limited, a limited liability company incorporated in Singapore.

CDH Auto is an investment holding company wholly-owned by CDH China Fund III, L.P., an exempted limited partnership organised and existing under the laws of the Cayman Islands and a private equity investment fund focused on private equity investments in China. The general partner of CDH China Fund III, L.P. is CDH III Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability. The limited partners of CDH China Fund III, L.P. include institutional investors such as pension funds, endowments, foundations, funds of funds and financial institutions. CDH China Fund III, L.P. is managed by CDH Investment Advisory Private Limited, a limited liability company incorporated in Singapore.

CHINA AUTO SYSTEM GROUP

The Group of the Institutional Shareholders together hold a 95% interest in China Auto System. The China Auto System Group is principally engaged in the manufacture and sale of automotive air-conditioning compressors.

During the Track Record Period, the turnover of China Auto System Group amounted to approximately RMB797 million, RMB1,245 million and RMB1,380 million, respectively, and the net profits of China Auto System Group amounted to approximately RMB102.5 million, RMB148.7 million and RMB181.7 million, respectively. As at 31 December 2011, total assets of China Auto System Group amounted to approximately RMB1,468.9 million.

The Directors believe that there is unlikely to be competition between our Group and China Auto System Group because the products of the China Auto System Group are different from those of our Group. Our Group mainly provides automotive HVAC systems and accessories whereas the China Auto System Group provides automotive air-conditioning compressors which are one of the important components of the automotive HVAC systems. From the perspective of the automotive manufacturers, they are two distinct types of products which are incapable of substituting each other. Accordingly, the China Auto System Group and our Group operate in two different markets, the former in the market for the supply of compressors and our Group in the market for the supply of automotive HVAC systems and accessories. Depending on the design and layout of the HVAC system of a particular car model, an automotive manufacturer either source the

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entire HVAC system directly from an HVAC system provider such as our Group, or individual parts and components, including compressors, from different suppliers and providers such as the China Auto System Group for its own assembly and production. It is an industry practice that the automotive manufacturer has the sole and absolute discretion to determine the types and brands of compressors used and to require the HVAC system providers to source the compressors from its designated compressor providers.

During the Track Record Period, there were nine, six and eleven automobile manufacturers who were customers of both China Auto System Group and our Group (the “Common Customers”). The Common Customers purchase automotive HVAC systems or automobile parts from our Group and concurrently purchase automotive air-conditioning compressors from China Auto System Group. Among the Common Customers, two of them, including Foton, purchase automotive air-conditioning compressors and assembly parts from China Auto System Group directly and at the same time purchases automotive HVAC systems from our Group which installs compressors and assembly parts from China Auto System Group. For the other Common Customers, we do not install compressors and assembly parts from China Auto System Group into our automotive HVAC systems. In respect of all Common Customers, China Auto System Group and our Group conduct sales and marketing activities separately, independently and without reference to each other.

During the Track Record Period, our aggregate sales of automotive HVAC systems to the Common Customers amounted to approximately RMB185.5 million, RMB223.6 million and RMB276.3 million respectively (which represented approximately 53.5%, 41.0% and 44.6% of our total turnover for the corresponding years); while for China Auto System Group, its sales of automotive air-conditioning compressor to the Common Customers represented approximately 26.8%, 3.5% and 17.3% of its total turnover for the corresponding years.

Our Group from time to time purchases air-conditioning compressors and assembly parts from Aotecar Nanjing, which is one of our suppliers of compressors and is an indirect wholly-owned subsidiary of China Auto System, for assembly into our HVAC systems products. For further information in relation to the transactions between our Group and the China Auto System Group, please refer to the paragraph headed “B. Non-exempt Continuing Connected Transactions — 1. Purchase of automobile air-conditioning compressors and assembly parts from Aotecar Nanjing” in the section headed “Connected Transactions” in this prospectus.

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INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the Share Offer:

Management Independence

Each of our Directors is aware of his fiduciary duties as a director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a director of our Company and his personal interest. In the event that there is a potential conflict of interest in respect of any matters, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such matters and shall not be counted in the quorum.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently.

Operational Independence

We have our own organisational structure with independent business and administrative departments and units, each with specific areas of responsibilities. Our Group holds all relevant licences that are material to our business operations and has sufficient operating capacity in terms of capital, equipment and employees to operate our business independently. We do not share production facilities with our Controlling Shareholders or any of their respective associates.

Financial Independence

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

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

We were not as at the Latest Practicable Date, and will not before the Listing, relying on any loans, guarantees, security or pledge provided by our Controlling Shareholders or any of their respective associates to or in favour of our Group nor providing any financial assistance to or in favour of our Controlling Shareholders.

NON-COMPETITION UNDERTAKINGS

None of the Controlling Shareholders, their respective associates and the Directors is interested in any business which competes or is likely to compete, directly or indirectly, with our business.

In order to manage any potential competing or conflict of interests with our Group, each of the Group of Institutional Shareholders, Sunrise International, Mr. Chen Hao and Mr. Chen Cunyou (each a “Non-Compete Covenantor”) has entered into the Deed of Non-competition in favour of our Company, pursuant to which each of the Non-Compete Covenantors has unconditionally and irrevocably undertaken to, and covenanted with, our Company (for itself and as trustee for each of the other members of our Group) that with effect from the Listing Date, for so long as (i) the securities of our Company are listed on the Stock Exchange and (ii) in the case of Sunrise International, Mr. Chen Hao and Mr. Chen Cunyou, they individually or collectively with any of their respective associates are directly or indirectly interested in not less than 30% of the issued share capital of our Company; and in the case of the Group of Institutional Shareholders, during the term of the Shareholders’ Agreement:

- (a) he/it will not compete, and would procure that none of the companies that he/it directly or indirectly controls the exercise of 30% or more of the voting power at general meetings will compete, with our Group, whether on his/its own or jointly with other entities, in the business carried on by our Group as at the date of the Deed of Non-competition unless and until our Group ceases to carry on or be engaged in such business; and
- (b) he/it will make an annual confirmation in the annual report of our Company on whether he/it and his/its respective associates have complied with the undertakings under the Deed of Non-competition and provide all information necessary for the review of such compliance.

Our Company has adopted the following measures to avoid potential conflict of interests and safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors shall review on an annual basis the undertakings given by the Non-Compete Covenantors under the Deed of Non-competition described above; and
- (b) our Company will disclose the decision on the matters reviewed by our independent non-executive Directors relating to the enforcement of the undertakings given by the Non-Compete Covenantors under the Deed of Non-competition described above in its annual report, in addition to other disclosure requirements under the Listing Rules.

We believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an

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impartial, external opinion to protect the interests of our public Shareholders. Our independent non-executive Directors will, where necessary, be provided with the access to independent professional advisers for advice at the cost and expense of our Group.

RESTRICTIONS ON DISPOSAL OF SHARES UNDERTAKING BY OUR CONTROLLING SHAREHOLDERS

Sunrise International and Mr. Chen Hao

Each of Sunrise International and Mr. Chen Hao has irrevocably and unconditionally undertaken to our Company, the Sponsor, Global Coordinator (for and on behalf of itself and the Underwriters) and the Stock Exchange that it/he will not, without the prior written consent of the Stock Exchange or unless in compliance with the Listing Rules, in the 12 months from the Listing Date, dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which it is shown by this prospectus to be the beneficial owner.

The Group of Institutional Shareholders and others

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Group of Institutional Shareholders and their respective shareholders (namely CITIC Capital China Partners, L.P., Fang Brothers Holdings Limited, CDH China Fund III, L.P., CDH China Growth Capital Fund II, L.P.) has irrevocably and unconditionally undertaken to our Company, the Sponsor, Global Coordinator (for and on behalf of itself and the Underwriters) and the Stock Exchange that save for pursuant to the Share Offer, it shall not and shall procure that the relevant registered holders shall not, without the prior written consent of the Stock Exchange or unless in compliance with the Listing Rules:

- (1) in the First Six-month Period, dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which it is shown by this prospectus to be the beneficial owner (the “Relevant Shares”); and
- (2) in the Second Six-month Period, dispose of, nor enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Group of Institutional Shareholders collectively would cease to hold 30% or more of the issued share capital of the Company.

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The Group of Institutional Shareholders further agreed under the Shareholders' Agreement that save for pursuant to the Share Offer, neither of them will, without the prior written consent of the Stock Exchange or unless in compliance with the Listing Rules, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (a) in the First Six-month Period, any of the Relevant Shares pursuant to Rule 10.07(1)(a) of the Listing Rules; and (b) in the Second Six-month Period, any of the Relevant Shares to the extent that the total number of Shares then held by it immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances is less than such number as determined by using the following formula:

$$A \times 30\% \times B/C$$

“A” means the number of Shares in issue immediately before such disposal or the exercise or enforcement of such options, rights, interest or encumbrances;

“B” means the number of Shares held by the relevant member of the Group of Institutional Shareholders immediately before such disposal or the exercise or enforcement of such options, rights, interest or encumbrances; and

“C” means the total number of Shares held by the Group of Institutional Shareholders collectively immediately before such disposal or the exercise or enforcement of such options, rights, interest or encumbrances.

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders (except for Mr. Chen Cunyou) has undertaken to us, the Sponsors, Global Coordinator (for and on behalf of itself and the Underwriters) and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (1) when it pledges or charges any of its securities beneficially owned by it in favor of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the laws of Hong Kong) as security for a bona fide commercial loan, immediately inform us in writing of such pledge or charge, together with the number of securities so pledged or charged; and
- (2) when it receives indications, either verbal or in writing, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by our Controlling Shareholders (except for Mr. Chen Cunyou) and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.