
CONNECTED TRANSACTIONS

A. EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into the following transactions which will constitute exempt continuing connected transactions for our Company upon Listing:

1. Leasing of office premises from Hubei Leidite

On 4 January 2012, Xiezhong Hubei and Hubei Leidite entered into a lease agreement, pursuant to which Xiezhong Hubei agreed to lease from Hubei Leidite certain office premises with a gross floor area of 140 sq.m. located at the 2nd floor of the factory at 武漢經濟技術開發區后官湖大道88號 (88 Houguanhu Avenue, Wuhan Economic Technology Development Zone) for one year commenced from 1 January 2012 to 31 December 2012 at a total annual rental of RMB31,920. Xiezhong Hubei has been using such office premise since its establishment.

Savills Valuation and Professional Services Limited has confirmed that the rents payable under the aforesaid lease agreement reflects the prevailing market rates.

Xiezhong Hubei is owned as to 51% by Xiezhong Nanjing and 49% by Hubei Leidite. Therefore, Hubei Leidite, being a substantial shareholder of Xiezhong Hubei which is a subsidiary of our Company, is a connected person of our Company under the Listing Rules upon Listing.

As the highest of the applicable percentage ratios is less than 0.1%, such transaction will upon Listing constitute a continuing connected transaction for our Company exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Leasing of office premises from Beijing Hainachuan

On 1 November 2011, Xiezhong Beijing and Beijing Hainachuan entered into an agreement, pursuant to which Beijing Hainachuan agreed to allow Xiezhong Beijing to use certain office premises with a gross floor area of 33.39 sq.m. located at 北京大興區育政街20號 (20 Yuzheng Street, Daxing District, Beijing) at nil consideration commenced from 1 November 2011 until the date on which Xiezhong Beijing has moved into a new factory.

Xiezhong Beijing is owned as to 50% by Xiezhong Nanjing and 50% by Beijing Hainachuan. Since Xiezhong Nanjing has an effective control over the majority of the board of directors of Xiezhong Beijing, Xiezhong Beijing is accounted for as subsidiary of our Company, Beijing Hainachuan, being a substantial shareholder of Xiezhong Beijing, is therefore a connected person of our Company under the Listing Rules upon Listing.

As the highest of the applicable percentage ratios is less than 0.1%, such transaction will upon Listing constitute a continuing connected transaction for our Company exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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B. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into the following transactions, which will constitute non-exempt continuing connected transactions for our Company upon Listing (the “Non-exempt Continuing Connected Transactions”):

1. Purchase of automotive air-conditioning compressors and assembly parts from Aotecar Nanjing

On 10 May 2012, Xiezhong Nanjing and Aotecar Nanjing entered into a master sales agreement (the “Aotecar Master Sales Agreement”), pursuant to which Aotecar Nanjing agreed to supply to Xiezhong Nanjing air-conditioning compressors and assembly parts based on normal commercial terms and at prices to be determined with reference to the prevailing market prices in respect of equivalent products for a term commenced on 1 January 2012 to 31 December 2014.

Aotecar Nanjing is an indirect wholly-owned subsidiary of China Auto System, which is owned as to 48.85% by CITIC Capital China, as to 9.5% by Fang Brothers, as to 11.81% by CDH Cool, as to 24.84% by CDH Auto and as to 5% owned by an Independent Third Party. As CITIC Capital China is a substantial shareholder of our Company, Aotecar Nanjing, being its associate, is a connected person of our Company under the Listing Rules upon Listing. The transaction contemplated under the Aotecar Master Sales Agreement will constitute a continuing connected transaction for our Company upon Listing.

The aggregate purchases of compressors and assembly parts from Aotecar Nanjing for each of the three years ended 31 December 2009, 2010 and 2011 were approximately RMB31.9 million, RMB38.6 million and RMB33.9 million, respectively (which represented approximately 12.8%, 9.8% and 7.6% respectively of the cost of sales of our Company for the corresponding years). The amount of purchases dropped in 2011 as two of Xiezhong Nanjing’s customers sourced compressors and assembly parts directly from Aotecar Nanjing instead of through Xiezhong Nanjing.

The estimated maximum purchases of compressors and assembly parts under the Aotecar Master Sales Agreement for each of the three years ending 31 December 2012, 2013 and 2014 are RMB37.3 million, RMB41.8 million and RMB48.0 million, respectively. The above estimated maximum purchases are determined based on the amount of aggregate purchases in the year 2011 and an expected annual growth rate of approximately 10-15% taking into account the expected increase in customers’ demand and the productivity of Xiezhong Nanjing after Listing. The said estimated maximum purchases are treated as the annual caps for this Non-exempt Continuing Connected Transaction for the purposes of the Listing Rules.

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As the highest of the applicable percentage ratios is more than 5% and the lowest of the annual caps is more than HK\$10,000,000, unless a waiver from the Stock Exchange has been obtained, such transaction will upon Listing constitute a continuing connected transaction for our Company subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Sale of automobile air-conditioning systems and assembly parts to the BAIC Group

On 10 May 2012, Xiezhong Nanjing and BAIC entered into a master sales agreement (the "Beijing Auto Master Sales Agreement"), pursuant to which the Group agreed to sell air-conditioning systems and assembly parts of automobile air-conditioning systems to certain associates of BAIC, including Foton, 北京汽車股份有限公司株洲分公司 (Zhuzhou Branch of Beijing Automobile Co., Ltd.*) and 北京汽車新能源汽車有限公司 (Beijing Automobile New Energy Automobile Company Limited*) based on normal commercial terms and at prices to be determined with reference to the prevailing market prices for a term commencing from the Listing Date to 31 December 2014.

Foton is a PRC car manufacturer which is listed on Shanghai Stock Exchange (stock code: 600166). According to Foton's annual report for the year ended 31 December 2011, BAIC was Foton's single largest shareholder which owned 32.76% shares of Foton. 北京汽車股份有限公司株洲分公司 (Zhuzhou Branch of Beijing Automobile Co., Ltd.*) is a branch office of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.*), which is owned as to 51% by BAIC while 北京汽車新能源汽車有限公司 (Beijing Automobile New Energy Automobile Company Limited*) is a wholly-owned subsidiary of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.*). As BAIC is the holding company of Beijing Hainachuan which owns 50% of the registered capital of Xiezhong Beijing which has become a subsidiary of our Company since January 2011, members of the BAIC Group are our connected persons under the Listing Rules. The transactions contemplated under the Beijing Auto Master Sales Agreement will constitute a continuing connected transaction for our Company upon Listing.

The aggregate sales of air-conditioning systems and assembly parts of automobile air-conditioning systems by Xiezhong Nanjing and Xiezhong Beijing (since Xiezhong Nanjing acquired 50% in Xiezhong Beijing on 2 March 2010) to the BAIC Group for each of the three years ended 31 December 2009, 2010 and 2011 were approximately RMB154.8 million, RMB175.4 million and RMB200.5 million, respectively (which represented approximately 44.7%, 32.2% and 32.3% respectively of the turnover of our Company for the corresponding years).

The maximum aggregate sales under the Beijing Auto Master Sales Agreement for each of the three years ending 31 December 2012, 2013 and 2014 are estimated to be RMB240 million, RMB289 million and RMB345 million, respectively. The above estimated maximum sales are determined with reference to the historical sales amounts set out above and an expected annual growth rate of approximately 18-20%. Such expected annual growth rate is higher than the growth rate in the previous years because we plan to make more efforts in strengthening our Group's collaboration with the BAIC Group. We expect that the annual growth rate of our sales to the BAIC Group for its existing models of

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automobiles will be around 8-10% and that the BAIC Group's demand for our products will also increase significantly following the launch of new models of automobiles including three models that Xiezhong Nanjing has collaborated with the BAIC Group in the research and development of their new air-conditioning system, and that the increase in the productivity of Xiezhong Nanjing after Listing may meet such expected increase in demand from the BAIC Group. The said estimated maximum sales are treated as the annual caps for this Non-exempt Continuing Connected Transaction for the purposes of the Listing Rules.

As the highest of the applicable percentage ratios is more than 5% and the lowest of the annual caps is more than HK\$10,000,000, unless a waiver from the Stock Exchange has been obtained, such transaction will upon Listing constitute a continuing connected transaction for our Company subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Application for waiver for the Non-exempt Continuing Connected Transactions

Having reviewed the relevant documentation, underlying agreements and historical figures, and having considered the pricing basis and annual caps, the Directors (including the independent non-executive Directors) are of the view that:

- (a) the Non-exempt Continuing Connected Transactions have been and will be entered into in the ordinary and usual course of business of the Group on normal commercial terms, or on terms no less favourable to our Group than terms available to or from Independent Third Parties; and
- (b) the terms of the Non-exempt Continuing Connected Transactions and their respective annual caps for each of the three years ending 31 December 2014 are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

Based on its review of the relevant documentation and historical figures provided by our Company, the Sponsor is of the view that the Non-exempt Continuing Connected Transactions have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms, or on terms no less favourable to our Group than terms available to or from independent third parties, and the terms of the Non-exempt Continuing Connected Transactions and the respective annual caps are fair and reasonable and in the interests of our Company and our Shareholders taken as a whole.

The Sponsor has, on behalf of our Company, applied to the Stock Exchange and, the Stock Exchange has granted a waiver from strict compliance with the announcement and independent shareholders' approval requirements under the Listing Rules for the Non-exempt Continuing Connected Transactions. Our Company shall comply with the annual review and reporting requirements for the Non-exempt Continuing Connected Transactions under Chapter 14A of the Listing Rules.