



協眾國際控股有限公司
Xiezhong International Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code : 3663

**PLACING AND
PUBLIC OFFER**

Sponsor



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Capital Limited

Sole Global Coordinator, Bookrunner and Lead Manager



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Securities (Hong Kong) Limited

IMPORTANT

If you are in any doubt about the contents of this prospectus, you should obtain independent professional advice.



Xiezhong International Holdings Limited 協眾國際控股有限公司 *(incorporated in the Cayman Islands with limited liability)*

PLACING AND PUBLIC OFFER

Number of Offer Shares : 200,000,000 Shares
Number of Hong Kong Offer Shares : 20,000,000 Shares (subject to reallocation)
Number of International Placing Shares : 180,000,000 Shares (subject to reallocation)
Offer Price : Not more than HK\$1.32 and expected to be not less than HK\$0.93 per Offer Share (payable in full upon application in Hong Kong dollars and subject to refund on final pricing), plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%
Par Value : HK\$0.01 per Share
Stock Code : 3663

Sponsor



Guotai Junan Capital Limited

Sole Global Coordinator, Bookrunner and Lead Manager



Guotai Junan Securities (Hong Kong) Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between us and the Lead Manager (acting for itself and on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed between us and the Lead Manager (acting for itself and on behalf of the underwriters) but in any event no later than 5:00 p.m. (Hong Kong time) Wednesday, 13 June 2012. The Offer Price will be not more than HK\$1.32 per Offer Share and is currently expected to be not less than HK\$0.93 per Offer Share. The Lead Manager (acting for itself and on behalf of the Underwriters) may reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction of the number of the Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. If, for any reason, the Offer Price is not agreed between the Company and the Lead Manager (acting for itself and on behalf of the Underwriters) on or before Wednesday, 13 June 2012, the Share Offer will not become unconditional and will lapse immediately.

We are incorporated under the laws of the Cayman Islands and our businesses are located in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between these countries and Hong Kong. Potential investors should also be aware that the regulatory frameworks in these countries are different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the Shares. Such differences and risk factors are set out in the section headed "Risk Factors" and "Appendix V — Summary of the Constitution of our Company and the Companies Law" in this prospectus. Prior to making an investment decision, potential investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors".

Pursuant to the force majeure provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Lead Manager (acting for itself and on behalf of the underwriters) shall be entitled, in certain circumstances, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is currently expected to be (Monday, 18 June 2012). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting — Underwriting arrangements and expenses — 1. Hong Kong Public Offering — Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States.

6 June 2012

EXPECTED TIMETABLE^(NOTE 1)

Latest time to complete electronic applications through the HK eIPO White Form service through the designated website at www.hkeipo.hk (<i>notes 2 and 3</i>)	11:30 a.m. on Monday, 11 June 2012
Application lists for the Hong Kong Public Offering open (<i>note 3</i>)	11:45 a.m. on Monday, 11 June 2012
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC (<i>notes 3 and 4</i>)	12:00 noon on Monday, 11 June 2012
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s) (<i>note 3</i>)	12:00 noon on Monday, 11 June 2012
Application lists close (<i>note 3</i>)	12:00 noon on Monday, 11 June 2012
Expected Price Determination Date (<i>note 5</i>)	Tuesday, 12 June 2012
Announcement of the Offer Price, the level of indication of interest in the International Placing, level of applications under the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering to be published (a) in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and (b) on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.xiezhonginternational.hk	Friday, 15 June 2012
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers or Hong Kong business registration numbers, where appropriate) to be available through a variety of channels, including the website of the Stock Exchange at www.hkexnews.hk , the website of our Company at www.xiezhonginternational.hk and the designated website at www.tricor.com.hk/ipo/result as described in the section headed "How to apply for the Hong Kong Offer Shares — Publication of results" of this prospectus from	Friday, 15 June 2012
Despatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before (<i>notes 7 to 12</i>)	Friday, 15 June 2012

EXPECTED TIMETABLE^(NOTE 1)

Despatch of e-Auto Refund payment instructions/refund
cheques in respect of wholly successful (where applicable)
or wholly or partially unsuccessful applications pursuant
to the Hong Kong Public Offering on or
before (*notes 6, 8 to 12*) Friday, 15 June 2012

Dealings in Shares on the Main Board to commence on Monday, 18 June 2012

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Share Offer, including its conditions, are set out in section headed “Structure of the Share Offer” in this prospectus.
- (2) You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., the applicant will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 11 June 2012, the application lists will not open on that day. Further information is set out in section headed “How to apply for the Hong Kong Offer Shares — Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Monday, 11 June 2012, the dates mentioned in “Expected timetable” may be affected. An announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to apply for the Hong Kong Offer Shares — How to apply by giving **electronic application instructions** to HKSCC” in this prospectus.
- (5) The Price Determination Date is expected to be on or about Tuesday, 12 June 2012, and in any event will be on or before 5:00 p.m. (Hong Kong time) on Wednesday, 13 June 2012. If, for any reason, the Offer Price is not agreed on or before 5:00 p.m. (Hong Kong time) on Wednesday, 13 June 2012, the Share Offer will not proceed.
- (6) e-Auto Refund payment instruction/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.
- (7) Share certificates for the Hong Kong Offer Shares will become valid certificates of title at 8:00 a.m. on Monday, 18 June 2012 provided that (i) the Share Offer has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. If the Share Offer does not become unconditional or the Underwriting Agreements are terminated in accordance with terms, the Share Offer will not proceed. In such a case, our Company will make an announcement as soon as possible thereafter.

EXPECTED TIMETABLE^(NOTE 1)

- (8) Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their applications that they wish to collect any refund cheque(s) (where applicable) and/or Share certificate(s) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Friday, 15 June 2012. Applicants being individuals who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Share Registrar, Tricor Investor Services Limited, must be produced at the time of collection.
- (9) Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering may collect their refund cheque(s), where applicable, in person but may not elect to collect their Share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.
- (10) For applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC, their refund (if any) will be credited to their designated bank account or the designated bank account of the designated CCASS Participant through which they made their application on Friday, 15 June 2012. For applicants who have instructed their designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on their behalf, they can check the amount of refund (if any) payable to them with that designated CCASS Participant. For applicants who have applied as CCASS Investor Participant, they can check the amount of refund (if any) payable to them via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 15 June 2012 or in the activity statement showing the amount of refund money credited to their designated bank account made available to them by HKSCC immediately after the credit of refund money to their bank account. Please refer to the section headed "How to apply for the Hong Kong Offer Shares — Despatch/Collection of Share Certificates and refund of application money" in this prospectus for details.
- (11) For applicants who have applied through the **HK eIPO White Form** service and paid the application monies from a single bank account, refund monies (where applicable) will be despatched to their application payment bank account in the form of e-Auto Refund payment instructions on Friday, 15 June 2012. For applicants who have applied through **HK eIPO White Form** service and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund cheque(s) will be despatched on Friday, 15 June 2012 by ordinary post at their own risk. Please refer to the section headed "How to apply for the Hong Kong Offer Shares — Despatch/Collection of Share certificates and refund of application money" in this prospectus for details.
- (12) Uncollected Share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant applications. Further details are set out in "How to apply for the Hong Kong Offer Shares — Despatch/Collection of Share certificates and refund of application money" in this prospectus.

For details of the structure of the Share Offer, including the conditions thereof, please refer to the section headed "Structure of the Share Offer" in the prospectus.

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information which is different from that contained in this prospectus. Any information or representation not made in this prospectus must not be relied upon by you as having been authorized by us, the Sponsor, the Lead Manager, the Underwriters, any of their respective Directors or any other person or party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all of the information which may be important to you. You should read the whole document before you decide to invest in the Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are summarised in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Shares.

OVERVIEW

According to the Timer Auto Report, we are the ninth largest automotive HVAC⁽¹⁾ systems supplier in terms of sales volume in the overall automotive HVAC system market in China with a market share of 2.8% in 2011. We are one of the leading suppliers of HVAC systems for SUVs⁽²⁾, pickup trucks and heavy trucks in terms of sales volume in 2011 in China. We principally engage in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components. Our automotive HVAC systems and HVAC components are mainly used in SUVs, pickup trucks and heavy trucks. We also supply HVAC systems and HVAC components for construction machineries and other types of vehicles such as light trucks, MPVs, sedans and buses. According to the Timer Auto Report, China’s automotive sales volume reached approximately 18.5 million units in 2011 amongst which, approximately 8.9%, 2.1% and 4.8% were attributable to sales of SUVs, pickup trucks and heavy trucks, respectively.

The table below sets forth the breakdown of our turnover by products and other key financial information during the Track Record Period.

Products	Breakdown of turnover by types of products											
	2009		Year ended 31 December 2010						2011			
	RMB'000	% of total turnover	Gross profit RMB'000	Gross profit margin %	RMB'000	% of total turnover	Gross profit RMB'000	Gross profit margin %	RMB'000	% of total turnover	Gross profit RMB'000	Gross profit margin %
HVAC systems	327,513	94.5	92,117	28.1	521,869	95.7	146,290	28.0	560,576	90.4	155,606	27.8
HVAC components ^(a)	19,026	5.5	4,808	25.3	23,633	4.3	4,696	19.9	59,328	9.6	16,571	27.9
Total	346,539	100.0	96,925	28.0	545,502	100.0	150,986	27.7	619,904	100.0	172,177	27.8

(1) HVAC stands for heating, ventilation and air-conditioning, which is a technology to maintain the comfort of the interior environment of an automotive.

(2) SUV stands for sport utility vehicle, which is a generic marketing term of a vehicle similar to a station wagon, but built on a light-track chassis.

SUMMARY

The table below sets forth the breakdown of our turnover by types of vehicles during the Track Record Period.

	Breakdown of turnover by types of vehicles					
	Year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>
HVAC systems						
SUVs and pickup trucks	181,082	52.2	254,570	46.7	286,572	46.2
Heavy trucks	120,285	34.7	150,222	27.6	126,946	20.5
Construction machineries	10,271	3.0	32,841	6.0	57,959	9.3
Other vehicles ^(b)	15,875	4.6	84,236	15.4	89,099	14.4
HVAC components ^(a)	<u>19,026</u>	<u>5.5</u>	<u>23,633</u>	<u>4.3</u>	<u>59,328</u>	<u>9.6</u>
Total	<u>346,539</u>	<u>100.0</u>	<u>545,502</u>	<u>100.0</u>	<u>619,904</u>	<u>100.0</u>

The following table sets out the number of units and average selling price of our products sold for the Track Record Period:

	Year ended 31 December					
	2009		2010		2011	
	Number of units	Average selling price (RMB/Unit)	Number of units	Average selling price (RMB/Unit)	Number of units	Average selling price (RMB/Unit)
HVAC systems						
SUVs and pickup trucks	126,762	1,429	180,839	1,408	201,042	1,425
Heavy trucks	110,806	1,086	140,785	1,067	120,903	1,050
Construction machineries	3,945	2,604	12,850	2,556	22,959	2,524
Other vehicles ^(b)	<u>29,001</u>	<u>547</u>	<u>93,223</u>	<u>904</u>	<u>106,521</u>	<u>836</u>
Total	<u>270,514</u>		<u>427,697</u>		<u>451,425</u>	
HVAC components ^(a)	<u>84,773</u>	224	<u>107,317</u>	220	<u>258,783</u>	229

Notes:

- (a) HVAC component mainly comprises of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing) for all types of vehicles.
- (b) Other vehicles mainly comprised of light trucks, buses, MPVs and sedans.

We have two production bases. One is located at Jiangning District, Nanjing, Jiangsu while the other is located at Fushun Economic Development Zone, Fushun, Liaoning.

SUMMARY

The following table sets forth the aggregated production capacity, actual production volume and utilisation rate of our production bases for the year ended 31 December 2011.

Products	Year ended 31 December 2011⁽²⁾		
	Production capacity	Actual production volume	Utilisation rate⁽¹⁾
HVAC system ⁽¹⁾	567,984	454,988	80.1%
HVAC components ⁽¹⁾	114,972	98,952	86.1%

Note:

- (1) You should refer to the notes of the table under the paragraph headed “Production capacity and utilisation rate” in the “Business” section on page 108 of this prospectus for the assumptions and basis of calculation of production capacity and utilisation rate in this table.
- (2) You should refer to the paragraph headed “Production capacity and utilisation rate” in the “Business” section on page 108 of this prospectus for further information on the aggregated production capacity, actual production volume and utilisation rate of our production bases for the Track Record Period.

Our customers are mainly PRC automakers such as, Foton, Hawtai Motor, Shuguang Automotive, Zhongxin Auto and Sinotruk and construction machinery manufacturers such as SANY and other automotive HVAC systems and components suppliers.

Our suppliers are mainly PRC suppliers of aluminium and automotive HVAC components such as compressors, receiver driers, expansion valves and HVAC control units.

Major component in the cost of sales was the cost of raw materials, principally aluminum and other HVAC components such as compressors, receiver driers, expansion valves and HVAC control units which we do not manufacture.

MAJOR MILESTONES


The following are the major milestones of our history:

- 2002 — Establishment of Xiezhong Nanjing
- 2009 — Establishment of Xiezhong Liaoning
- 2010 — Acquisition of Xiezhong Beijing
— Establishment of Xiezhong Hubei

SUMMARY

OUR COMPETITIVE STRENGTHS

We believe our success to date and potential for future growth are attributable to our competition strengths which include the following:

- **Leading position in automotive HVAC systems for SUVs, pickup trucks and heavy trucks market in China with strong brand recognition** — We were the fifth largest supplier of automotive HVAC systems for SUVs and pickup trucks and the largest supplier for heavy trucks with a market share of 9.9% and 19.1%, respectively, in terms of sales volume, in China in 2011. We are the ninth largest automotive HVAC systems supplier in terms of sales volume in the overall automotive HVAC system market in China with a market share of 2.8% in 2011. In 2011, our products have been recognised as “Nanjing Famous Brand (南京市名牌產品)”. Our trademark “” have been recognised as “Nanjing Municipal Well-known Trademark (南京市著名商標)” in 2010 and the same trademark have been recognised as “Jiangsu Province Well-known Trademark (江蘇省著名商標)” in 2011.
- **Long established and stable business relationship with our key customers in China** — We have 9 years, 9 years, 6 years and 9 years of business relationship with our major customers, including Foton, Shuguang Automotive, Hawtai Motor and Sinotruk, respectively (according to the Timer Auto Report, Foton and Sinotruk are two leading heavy trucks manufacturers in China). We have been recognised as an “Excellent Supplier” by certain customers, such as Foton, Hawtai Motor, Zhongxing Auto and SANY.
- **Strong research and development capabilities and ability to offer customised products to customers** — In respect of research and development capabilities, we have the following credentials:
 1. our research and development team consists of approximately 117 staffs and 114 of them have received tertiary education or above;
 2. we have 9 registered patents and have applied for registration of 6 other patents;
 3. we have been accredited the 高新技術企業 (High and New Technology Enterprise*) title in 2009;
 4. our laboratory has been recognised by Foton that it has met its capability requirement on key laboratory in July 2010; and
 5. our laboratory was accredited ISO/IEC 17025: 2005 in February 2009 and again in March 2012, which specifies the general requirements for the competence of testing and calibration laboratories by 中國合格評定國家認可委員會 (China National Accreditation Service for Conforming Assessment*) in February 2009 and again in March 2012.

SUMMARY

- **Stringent quality control** — We have received the ISO/TS16949 certification. We have also earned numerous recognitions and honourable titles such as “Excellent Supplier” (優秀供應商), “Top Ten Suppliers” (十佳供應商) or “Top Ten Excellent Supplier” (十佳優秀供應商) from ten different automakers or construction machinery manufacturers between 2005 and 2011.
- **Experienced, stable and dedicated key management personnel with significant industry expertise** — Our key senior executives, including Mr. Chen Cunyou, Mr. Ge Hongbing and Mr. Huang Yugang, have approximately ten years’ experience working in our Group and have joined us since the establishment of our first operating subsidiary, Xiezhong Nanjing, in 2002.

OUR STRATEGIES

Our goal is to become a leader in the automotive HVAC systems market in China. We aim to achieve this objective by implementing the following strategies:

- **Reinforcing our leading market position in the automotive HVAC systems for SUVs, pickup trucks and heavy trucks markets in the PRC and expanding our production capacity to support future sales demand** — We intend to reinforce our current leading position by i) exploring sales opportunities with other automakers which also manufacture SUVs, pickup trucks or heavy trucks and proactively participate in their new product development from the initial design stage; ii) enhancing our new product development capabilities; iii) improving our product quality.
- **Expanding our business in sedans and construction machineries HVAC system markets** — We are actively developing our presence in the automotive HVAC systems for construction machineries and other types of vehicles, such as sedans.
- **Strengthening our research and development capabilities and developing HVAC system for electric vehicles** — We are in the course of constructing a research and development building with a gross floor area of 15,631.00 sq.m. in the Jiangning Plant. We have purchased the environment simulation laboratory equipment, which is expected to put into use at the end of 2012.
- **Maintaining our cost advantage** — We will endeavour to maintain our cost advantages primarily through i) new product research and development; ii) optimising our process; and iii) increasing economies of scale.
- **Expanding our current network of production base** — We intend to strengthen our current presence in Liaoning, Beijing and Hubei.

RISK FACTORS

There are certain risks involved in our operations. Many of these risks are beyond our control. Material risks relating to our business include, amongst others, fluctuations in the prices of aluminium, reliance on major customers, suppliers and the quality of raw material they supply, our credit risk in respect of our high turnover days of trade debtors and bills

SUMMARY

receivables, reliance on logistic service provider and stable supply of utilities, seasonal fluctuations, inability to extend our preferential tax treatment, inability to maintain our competitiveness or meet our customers' demand in a timely manner, failure to pass new products approval process, possible warranty, recall or product liability claims, loss of key management personnel, inability to retain skilled workers, no assurance to implement the business plans, inadequate measures to protect intellectual property rights, and dividend payment and penalties under relevant PRC laws and regulations due to non-compliance activities during the Track Record Period. In addition to risks relating to our business, we are also subject to certain risks relating to our industry, the PRC and the Share Offer.

You should also refer to the section titled "Risk Factors" on pages 31 to 49 in this prospectus for further information on risks relating to our business, our industry, the PRC and the Share Offer.

RECENT DEVELOPMENT

Latest Development Trend of the PRC Automotive Market

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. 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.

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 revenue, reaching RMB35.2 billion in 2015. In particular, China's SUV and pickup truck HVAC system market is expected to achieve a CAGR of 11.7% from 2011 to 2015 while 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.

It is expected that urbanisation and rapid economic growth in third-tier cities in the PRC would lead to strong demand for SUVs and pickup trucks. Besides, modern SUVs are known for its comfort and ability to drive through different types of terrain. It is expected that along with the growth in consumers' spending power in the PRC, demand for diversified types of automobiles with various features will remain strong. With HVAC systems for SUV, pickup truck and heavy truck being our primary products, and as we plan to further exploit the sedans market, we foresee that our business will grow in line with the market growth in the long run.

Our Recent Development

During the three months ended 31 March 2012, our revenue was at the similar level of the same period in 2011, and our product mix was similar to that in 2011. HVAC systems for SUVs and pickup trucks continued to be our largest source of income in the first quarter of 2012. There was a moderate increase in proportion of revenue contributed by HVAC systems for other vehicles, amongst which vans and sedans are the major types of vehicles.

SUMMARY

We expect revenue contributed by HVAC systems for other vehicles may increase in 2012 as we plan to launch new HVAC systems for various vehicle models (such as sedans and buses) in 2012.

During the three months ended 31 March 2012, our gross profit margin was close to that for the year ended 31 December 2011. We maintain a stable gross profit margin mainly because there has not been material change in the selling price of our products, and we carefully control our costs of materials and put effort in improving our product design and reducing the weight of our products. The lighter products on the one hand are more welcome by customers and on the other hand save our material costs.

During the three months ended 31 March 2012, our net profit margin was lower than that for the year ended 31 December 2011, mainly because we had incurred more administrative expenses for the preparation of the Listing and our staff cost had increased mainly because our staff salary and headcount had increased.

SELECTED FINANCIAL INFORMATION

The following tables set forth selected financial data for the period indicated. You should refer to the Accountants' Report set forth in Appendix I to this prospectus for more information.

Selected information from combined income statements

	Years ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Turnover	346,539	545,502	619,904
Gross profit	96,925	150,986	172,177
Profit from operations	59,588	100,718	116,329
Profit before taxation	58,059	96,849	108,540
Profit for the year	<u>49,028</u>	<u>80,705</u>	<u>87,009</u>
Attributable to:			
Equity shareholders of the Company	33,821	79,441	86,066
Non-controlling interests	<u>15,207</u>	<u>1,264</u>	<u>943</u>
Profit for the year	<u>49,028</u>	<u>80,705</u>	<u>87,009</u>
Earnings per share (RMB)			
Basic	<u>0.056</u>	<u>0.132</u>	<u>0.143</u>

SUMMARY

Selected information from combined balance sheets

	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	217,271	309,247	387,175
Current assets	329,862	486,735	601,367
Current liabilities	371,729	522,960	392,972
Net current (liabilities)/assets	(41,867)	(36,225)	208,395
Total assets less current liabilities	175,404	273,022	595,570
Net assets	155,879	246,680	547,957

KEY FINANCIAL RATIOS

Set out below the summary of the key financial ratios of our Group during the Track Record Period:

	<i>Notes</i>	As at/for the year ended 31 December		
		2009	2010	2011
Current ratio	1	0.9	0.9	1.5
Debt-to-equity ratio	2	N/A	0.35	0.16
Gearing ratio	3	79.6%	56.0%	26.7%
Gross profit margin		28.0%	27.7%	27.8%
Net profit margin	4	9.8%	14.6%	13.9%

Notes:

- (1) Current ratio is calculated based on the total current assets divided by total current liabilities at the end of the respective years.
- (2) Debt-to-equity ratio is calculated based on net debt (including interest-bearing borrowings and bills payable less cash and deposits with banks) over total equity attributable to equity shareholders of the Company at the end of the respective years.
- (3) Gearing ratio is calculated as the debt (including the interest-bearing borrowings, bills payable and amounts due to related parties) divided by total equity attributable to equity shareholders of the Company and debt at the end of the respective years and multiplied by 100%.
- (4) Net profit margin is calculated as net profit attributable to equity shareholders of the Company divided by turnover.

As at 31 December 2009 and 2010, we had net current liabilities which were mainly resulted from the amount due to CUAS by Xiezhong BVI of approximately US\$29 million (equivalent to approximately RMB192 million as at 31 December 2010). Such amount due to CUAS has arisen from the funding from CUAS to Xiezhong BVI in financing Xiezhong BVI to acquire equity interest in Xiezhong Nanjing through Xiezhong HK in 2008. The amount due to CUAS was interest free and had no fixed term of payment, and the amount was capitalised as fully paid-up capital and capital reserve of Xiezhong BVI as part of the Group's reorganisation on 7 November 2011. Because of the capitalisation of such amount due to CUAS in November 2011, there had been an increase in current ratio and decreases

SUMMARY

in debt-to-equity ratio and gearing ratio as at 31 December 2011. Should CUAS have not provided such funding and bank borrowings have been used, assuming an interest rate of 5% per annum, we would have incurred additional finance costs of approximately RMB9.9 million, RMB9.7 million and RMB7.8 million, and our net profits would have decreased to RMB39.1 million, RMB71.0 million and RMB79.2 million, for each of the years ended 31 December 2009, 2010 and 2011 respectively. As the amount due to CUAS represented a one-off funding from CUAS solely for the purpose of the acquisition of equity interest in Xiezhong Nanjing, it is expected that the capitalisation of amount due to CUAS, which had been completed in 2011, will not have impact on the Company's margins going forward.

CONTROLLING SHAREHOLDERS

Sunrise International (an investment holding company wholly-owned by Mr. Chen Hao, son of Mr. Chen Cunyou, an executive Director), Mr. Chen Cunyou, Mr. Chen Hao and the Group of Institutional Shareholders are our Controlling Shareholders. Immediately following the Share Offer and the Capitalisation Issue, Sunrise International and the Group of Institutional Shareholders will respectively hold 30% and 45% interest in the Company before any transfer of Shares by it to the grantees under the Share Incentive Plan.

You should refer to the paragraph titled "Controlling Shareholders" in the "Relationship with Controlling Shareholders" section on page 149 of this prospectus for further information.

OFFER STATISTICS

	Based on an Offer Price of HK\$0.93 per Share	Based on an Offer Price of HK\$1.32 per Share
Market capitalization of the Shares (<i>Note 1</i>)	HK\$744 million	HK\$1,056 million
Historical price/earnings multiple (<i>Note 2</i>)	7 times	10 times
Unaudited pro forma adjusted net tangible asset value per Share (<i>Note 3</i>)	HK\$0.86	HK\$0.96

Notes:

- (1) The calculation of the market capitalization of the Shares is based on the respective Offer Price of HK\$0.93 and HK\$1.32 per Share and 800,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalization Issue but does not take into account of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issue Mandate and the Repurchase Mandate.

SUMMARY

- (2) The calculation of the historical price/earnings multiple is based on the profit attributable to equity shareholders of the Company of RMB86,066,000 for the year ended 31 December 2011, the respective Offer Price of HK\$0.93 and HK\$1.32 per Share and on the assumption that 800,000,000 Shares, comprising Shares in issue as at the date of this prospectus and Shares to be issued pursuant to the Share Offer and the Capitalization Issue, had been in issue throughout the year.
- (3) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the section headed “Financial Information” in this prospectus, the respective Offer Price of HK\$0.93 and HK\$1.32 per Share and on the basis of 800,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalization Issue but without taking into account any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issue Mandate and the Repurchase Mandate.

DIVIDEND POLICY

We currently do not have a dividend policy. You should also refer to the paragraph headed “Dividend and Dividend Policy” in the section titled “Financial Information” on pages 229 and 230 of this prospectus for further information.

USE OF PROCEEDS

We intend to use the net proceeds to us from the Share Offer in the manner as summarized in table below.

Approximate % and amount of net proceeds	Application of Net Proceeds
69% or HK\$138 million (equivalent to approximately RMB112 million)	Expansion of production plants and upgrade of existing facilities
32% or HK\$64 million (equivalent to approximately RMB52 million)	● Purchase and upgrade of machinery, equipment and other fixed assets of the facilities in our existing production base at Nanjing
27% or HK\$54 million (equivalent to approximately RMB44 million)	● Construction of the New Nanjing Plant
6.7% or HK\$13 million (equivalent to approximately RMB11 million)	● Capital contribution to Xiezhong Beijing for building the Beijing Plant
3.3% or HK\$7 million (equivalent to approximately RMB5 million)	● Capital contribution to Xiezhong Liaoning for upgrade and addition of production facilities
23% or HK\$46 million (equivalent to approximately RMB37 million)	Funding for research and development
8% or HK\$16 million (equivalent to approximately RMB13 million)	Working capital and other general purposes

SUMMARY

Note:

- (1) Assuming an Offer Price of HK\$1.13 per Share (being the mid-point of the estimated price range), we estimate that the net proceeds to us from the Share Offer will be approximately HK\$200 million (equivalent to approximately RMB162 million), after deducting the underwriting commissions and other estimated expenses payable by us in relation to the Share Offer.

You should also refer to the section titled “Future Plans and Use of Proceeds” on pages 231 to 232 of this prospectus for further information.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

“Administrative Regulations on Environmental Protection for Construction Project”	建設項目環境保護管理條例 (Administrative Regulations on Environmental Protection for Construction Project*)
“affiliate(s)”	any person(s) or entity(ies) that directly or indirectly controls, is controlled by, or is under direct or indirect common control with, another person(s) or entity(ies)
“Aotecar Nanjing”	南京奧特佳冷機有限公司 (Nanjing Aotecar Refrigerating Co., Ltd.*), an indirect wholly-owned subsidiary of China Auto System
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) or/ and GREEN application form(s), individually or collectively, as the context requires
“AQSIQ”	國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine*)
“Articles of Association” or “Articles”	the articles of association of our Company conditionally adopted on 21 May 2012, as amended from time to time
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Audit Committee”	the audit committee of our Company established by the Board
“BAIC”	北京汽車集團有限公司 (Beijing Automotive Group Co., Ltd.*), which is the holding company of Beijing Hainachuan
“BAIC Group”	BAIC, or where the context so requires, its subsidiaries or associates, being an automaker in the PRC and an Independent Third Party (other than being the holding company of Beijing Hainachuan)
“Beijing Guanghai”	北京光華世緣汽車部件有限公司 (Beijing Guanghai Shiyuan Auto-parts Co., Ltd.*), one of the founding shareholders of Xiezhong Beijing. It is an Independent Third Party

DEFINITIONS

“Beijing Hainachuan”	北京海納川汽車部件股份有限公司 (Beijing Hainachuan Automobile Parts Co., Ltd.*), which holds a 50% interest in Xiezhong Beijing. It is an Independent Third Party save for the aforesaid interest
“Beijing Plant”	our production base to be constructed at Daxing District in Beijing
“Board” or “Board of Directors”	the board of Directors
“Business Day”	any day (other than a Saturday or a Sunday or a public holiday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Canopy”	a canopy between our storage warehouse and production warehouse covering an area of approximately 1,400 sq.m. in the Jiangning Plant
“Capitalisation Issue”	the issue of a total of 599,900,000 Shares to be made upon capitalisation of a sum of HK\$5,999,000 standing to the credit of the share premium account of our Company upon completion of the Share Offer referred to in the paragraph headed “Reorganisation — (h) Capitalisation Issue” in the section headed “History and Development” in this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“CDH Auto”	CDH Auto Limited, a company incorporated in the BVI on 29 May 2008, which 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. CDH Auto owns approximately 15.684% interest in the Company immediately before the Share Offer and the Capitalisation Issue. Mr. Wang Zhenyu, our Director, is a director of CDH Auto. CDH Auto holds a 24.84% interest in China Auto System, which is a connected person of our Company. CDH Auto is related to CDH Cool in the manner as set out in the section headed “Substantial Shareholders” in this prospectus. Save for the aforesaid, CDH Auto is an Independent Third Party
“CDH Cool”	CDH Cool Limited, a company incorporated in the BVI on 9 January 2007, which 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. CDH Cool owns approximately 7.458% interest in the Company immediately before the Share Offer and the Capitalisation Issue. Mr. Wang Zhenyu, our Director, is a director of CDH Cool. CDH Cool holds a 11.81% interest in China Auto System, which is a connected person of our Company. CDH Cool is related to CDH Auto in the manner as set out in the section headed “Substantial Shareholders” in this prospectus. Save for the aforesaid, CDH Cool is an Independent Third Party
“Changfeng Motor”	安徽長豐揚子汽車製造有限責任公司 (Anhui Changfeng Yangzi Automobile manufacturing Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associate, being an automaker in the PRC and an Independent Third Party
“China” or “PRC”	the People’s Republic of China, but for the purposes of this prospectus and for geographical reference only (unless otherwise indicated), excluding Hong Kong, Macau and Taiwan
“China Auto System”	China Auto System Technologies Limited (中國汽車系統技術有限公司), 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
“China Auto System Group”	China Auto System and its subsidiaries

DEFINITIONS

“CITIC Capital China”	CITIC Capital China Limited (formerly known as Total Rise Investments Limited), an exempted company incorporated in the Cayman Islands on 18 April 2007 with limited liability, which is an investment holding company wholly-owned by CITIC Capital China Partners, L.P., a private equity investment fund. CITIC Capital China owns approximately 30.858% interest in the Company immediately before the Share Offer and the Capitalisation Issue. CITIC Capital China holds a 48.85% interest in China Auto System, which is a connected person of our Company. Save for the aforesaid, CITIC Capital China is an Independent Third Party
“Company”, “our Company”, “we or “us”	Xiezhong International Holdings Limited 協眾國際控股有限公司, a company incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability
“Companies Law”	the Companies Law (2011 Revision) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it in the Listing Rules, and in this prospectus unless the context otherwise requires, refers to Sunrise International, Mr. Chen Cunyou, Mr. Chen Hao and the Group of Institutional Shareholders
“Covenantor(s)”	Mr. Chen Hao and Sunrise International or any one of them
“CPCA”	全國乘用車市場信息聯席會 (China Passenger Car Association*)
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission*)
“CUAS”	China United Air Systems Limited (中國聯合空調系統有限公司) (formerly known as Fulljoy Enterprises Limited (富欣企業有限公司)), a company incorporated in the BVI on 8 January 2008, which is an investment holding company owned as to 10% by Fang Brothers, 51.43% by CITIC Capital China, 12.43% by CDH Cool and 26.14% by CDH Auto. Immediately prior to the Reorganisation, CUAS was the holding company of our Group

DEFINITIONS

“Deed of Indemnity”	the deed of indemnity dated 4 June 2012 given by Mr. Chen Hao and Sunrise International in favour of our Company (for itself and on behalf of each of its subsidiaries), details of which are set out in the paragraph headed “Legal Proceedings and Regulatory Compliance” in the section headed “Business” in this prospectus and the paragraph headed “G. Other information — 1. Indemnity for tax and other matters” of the section headed “Statutory and General Information” in Appendix VI to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 4 June 2012 given by Mr. Chen Cunyou, Mr. Chen Hao, Sunrise International and each member of the Group of Institutional Shareholders in favour of our Company, details of which are set out in the paragraph headed “Non-Competition Undertakings” of the section headed “Relationship with Controlling Shareholders” in this prospectus
“Director(s)”	the director(s) of our Company or any of them
“EIT”	the PRC Enterprise Income Tax
“EIT Law”	中華人民共和國企業所得稅法 (the Enterprise Income Tax Law of the PRC*) enacted by the NPC
“EIT Rules”	中華人民共和國企業所得稅法實施條例 (the Regulation on the Implementation of the EIT Law*)
“Electricity Distribution Room”	an electricity distribution room which houses the electricity distribution facilities for supply of electricity used in our production with a total gross floor area of approximately 100 sq.m. in the Jiangning Plant
“Fang Brothers”	Fang Brothers (China) Limited 肇豐(中國)有限公司 (formerly known as Fang Brothers Investments Limited 肇豐投資有限公司), a company incorporated in Hong Kong on 18 November 1993, an investment holding company wholly-owned by Fang Brothers Holdings Limited, which is an investment holding company owned as to 50% by Mr. Kenneth Fang and 50% by his family members. Fang Brothers owns 6% interest in the Company immediately before the Share Offer and the Capitalisation Issue. Mr. Kenneth Fang, our Director, is a director of Fang Brothers. Fang Brothers holds a 9.5% interest in China Auto System, which is a connected person of our Company. Save for the aforesaid, Fang Brothers is an Independent Third Party

DEFINITIONS

“FAW-GM”	一汽通用輕型商用汽車有限公司 (FAW-GM Light Duty Commercial Vehicle Company Limited*), or where the context so requires, its holding companies, subsidiaries or associate, being an automaker in the PRC and an Independent Third Party
“Foday”	廣東福迪汽車有限公司 (Guangdong Foday Automobile Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associate, being an automaker in the PRC and an Independent Third Party
“Foton”	北汽福田汽車股份有限公司 (Beiqi Foton Motor Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associate, being an automaker in the PRC
“Four Documents”	the planning and construction permits (i.e. Planning Permit on Construction Works (建設工程規劃許可證), Construction Permit on Construction Works (建築工程施工許可證), Completion Acceptance Report (竣工驗收報告) and building ownership certificates (房產證)) in relation to the Canopy and the Electricity Distribution Room
“Fushun Plant”	our existing production base at Fushun Economic Development Zone, Fushun, Liaoning
“GAC Gonow”	廣汽吉奧汽車有限公司 (Gonow Auto Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“GDP”	gross domestic product
“Great Wall”	長城汽車股份有限公司 (Great Wall Motor Company Limited), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “our”, “we” or “us”	our Company and our subsidiaries at the relevant time, or where the context refers to any time prior to our Company becoming the holding company of the present subsidiaries, the present subsidiaries
“Group of Institutional Shareholders”	CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto collectively

DEFINITIONS

“Guotai Junan Capital” or “ Sponsor”	Guotai Junan Capital Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity as defined under the SFO, acting as the sponsor of the Share Offer
“Guotai Junan Securities” or “Global Coordinator” or “Lead Manager” or “Bookrunner”	Guotai Junan Securities (Hong Kong) Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities as defined under the SFO, acting as the global coordinator, bookrunner and lead manager of the Share Offer
“Hawtai Motor”	榮成華泰汽車有限公司 (Rong Cheng Huatai Automobile Co. Ltd.*), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“Hengte Heavy Industry”	山東德州恒特重工有限公司 (Shandong Dezhou Hengte Heavy Industry Co., Ltd.*), or where the contest so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form (www.hkeipo.hk)
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website (www.hkeipo.hk)
“HK\$” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the Shares offered by us for subscription pursuant to the Hong Kong Public Offering

DEFINITIONS

“Hong Kong Public Offering”	the offering by our Company of initially 20,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to reallocation as described in the section headed “Structure of the Share Offer” in this prospectus) for cash at the Offer Price (plus brokerage of 1% of the Offer Price, SFC transaction levy of 0.003% of the Offer Price and Stock Exchange trading fee of 0.005% of the Offer Price) on the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 5 June 2012 relating to the Hong Kong Public Offering entered into by amongst other parties, the Company, the Lead Manager and the Hong Kong Underwriters as further described in the section headed “Underwriting” in this prospectus
“Hubei Leidite”	湖北雷迪特汽車冷卻系統有限公司 (Hubei Leidite Automobile Cooling System Co., Ltd.*), which holds a 49% interest in Xiezhong Hubei and which is an Independent Third Party save for the aforesaid interest
“IFRS”	International Financial Reporting Standards
“Independent Third Parties”	persons or companies which are independent of and not connected with (within the meaning of the Listing Rules) any of our Directors, chief executive of our Company, our Substantial Shareholders and the directors and shareholders of any other member of our Group and their respective associates, and “Independent Third Party” means any of them
“Inter-enterprise Loans”	the inter-enterprise loans involved by certain members of our Group as further described in the paragraph titled “Legal Proceedings and Regulatory Compliance” in the “Business” section of this prospectus
“International Placing”	the conditional placing of initially 180,000,000 International Placing Shares by the International Underwriters on behalf of our Company with professional and institutional investors (subject to reallocation as described in the section headed “Structure of the Share Offer” in this prospectus) for cash at the Offer Price as further described in the section headed “Underwriting” in this prospectus

DEFINITIONS

“International Placing Shares”	the Shares offered pursuant to the International Placing
“International Underwriters”	Underwriters expected to enter into the International Placing Agreement to underwrite the International Placing
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or before the Price Determination Date by, amongst other parties, the Company, the Lead Manager and the International Underwriters in respect of the International Placing, as further described in the section headed “Underwriting” in this prospectus
“Issue Mandate”	the general unconditional mandate given to our Directors by the Shareholders relating to the issue of new Shares, further details of which are contained in the paragraph headed “A. Further information about our Company — 3. Resolutions of the Shareholders passed on 21 May 2012” of the section headed “Statutory and General Information” in Appendix VI to this prospectus
“Jiangning Plant”	our existing production base at Jiangning District, Nanjing, Jiangsu
“Labor Contract Law”	中華人民共和國勞動合同法 (the Labor Contract Law of the PRC*)
“Law on Appraising of Environmental Impacts”	中華人民共和國環境影響評價法 (the Law of the PRC on Appraising of Environmental Impacts*)
“Law on Environmental Protection”	中華人民共和國環境保護法 (the Law of the PRC on Environmental Protection*)
“Law on Prevention and Control of Atmospheric Pollution”	中華人民共和國大氣污染防治法 (the Law of the PRC on Prevention and Control of Atmospheric Pollution*)
“Law on Prevention and Control of Environmental Pollution Caused by Solid Waste”	中華人民共和國固體廢物污染環境防治法 (the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Waste*)
“Law on Prevention and Control of Noise Pollution”	中華人民共和國環境噪聲污染防治法 (the Law of the PRC on Prevention and Control of Noise Pollution*)

DEFINITIONS

“Law on Prevention and Control of Water Pollution”	中華人民共和國水污染防治法 (the Law of the PRC on Prevention and Control of Water Pollution*)
“Latest Practicable Date”	31 May 2012, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication
“Listing”	listing of the Shares on the Main Board
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about Monday, 18 June 2012, on which our Shares are listed and dealings in our Shares commence on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of Growth Enterprise Market of the Stock Exchange (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with Growth Enterprise Market of the Stock Exchange
“M&A Rules”	關於外國投資者併購境內企業的規定 (the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*), jointly promulgated by MOFCOM, SASAC, SAT, SAIC, CSRC and SAFE on 8 August 2006, and repromulgated by MOFCOM on 22 June 2009
“Memorandum of Association”	the memorandum of association of our Company
“Mianyang Huarui Auto”	綿陽華瑞汽車有限公司 (Mianyang Huarui Auto Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“Ministry of Finance”	中華人民共和國財政部 (The Ministry of Finance of the PRC*)
“MIIT”	中華人民共和國工業和信息化部 (The Ministry of Industry and Information Technology of the PRC*)
“MOFCOM”	中華人民共和國商務部 (The Ministry of Commerce of the PRC*)

DEFINITIONS

“Mr. Chen Hao”	Mr. Chen Hao, the son of Mr. Chen Cunyou (an executive Director). Mr. Chen Hao wholly owns Sunrise International
“Mr. Kenneth Fang”	Mr. Fang Kenneth Hung, a non-executive Director. Mr. Kenneth Fang is also a director of Xiezhong BVI, Xiezhong HK, Xiezhong Nanjing and Fang Brothers, and he has a 50% interest in Fang Brothers Holdings Limited, which wholly owns Fang Brothers
“NDRC”	中華人民共和國國家發展和改革委員會 (the National Development and Reform Commission of the PRC*)
“New Nanjing Plant”	our new production base to be constructed in Nanjing
“Nomination Committee”	the nomination committee of our Company established by the Board
“NPC”	中華人民共和國全國人民代表大會 (the National People’s Congress of the PRC*)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) of not more than HK\$1.32 and expected to be not less than HK\$0.93, at which the Offer Shares are to be offered for subscription pursuant to the Share Offer, to be agreed upon by the Lead Manager (acting for itself and on behalf of the Underwriters) and us on or before the Price Determination Date
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares, collectively
“PBOC”	中國人民銀行 (the People’s Bank of China*)
“PRC GAAP”	the generally accepted accounting principles in the PRC
“PRC Government” or “State”	the central government of the PRC including all government subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“PRC Legal Advisers”	Chen & Co. Law Firm, the legal advisers to our Company as to PRC laws
“PRC Legal Opinions”	the legal opinions issued by the PRC Legal Advisers with respect to, <i>inter alia</i> , the corporate history of the Group and the property interests of the Group in the PRC
“PRC State Council”	中華人民共和國國務院 (the State Council of the PRC*)

DEFINITIONS

“Price Determination Date”	the time expected to be on or about Tuesday, 12 June 2012 or such later time as the Lead Manager (on behalf of the underwriters) may agree but in any event not later 5:00 p.m. (Hong Kong time) on Wednesday, 13 June 2012, on which the Offer Price is determined
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of our Company established by the Board
“Reorganisation”	certain share capital changes and the reorganisation steps undertaken by our Group in preparation for the Listing as described in the paragraph headed “Reorganisation” of the section headed “History and Development” in this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by our Shareholders, further details of which are contained in the paragraph headed “A. Further information about our Company — 3. Resolutions of the Shareholders passed on 21 May 2012” of the section headed “Statutory and General Information” in Appendix VI to this prospectus
“RMB” and “Renminbi”	the lawful currency of the PRC
“SAFE”	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC*), the PRC governmental agency responsible for matters relating to foreign exchange administration
“SAFE Circular No. 19”	國家外匯管理局關於印發《境內居民通過境外特殊目的公司融資及返程投資外匯管理操作規程》的通知 (the Notice on Release of the Operating Rules for the Notice on Relevant Issues about Foreign Exchange Administration for Domestic Individuals to Engage in Financing and Round trip Investment via Overseas Special Purpose Companies*) issued in May 2011 by SAFE
“SAFE Circular No. 75”	國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知 (The SAFE’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments through Overseas Special Purpose Vehicles*) issued in October 2005 by SAFE
“SAIC”	中華人民共和國國家工商行政管理總局 (the State Administration for Industry and Commerce of the PRC*)

DEFINITIONS

“SANY”	三一集團有限公司 (SANY Group Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“SASAC”	國務院國有資產監督管理委員會 (the State-owned Assets Supervision and Administration Commission of the PRC State Council*)
“SAT”	中華人民共和國國家稅務總局 (The State Administration of Taxation of the PRC*)
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shantui”	山推工程機械股份有限公司 (Shantui Construction Machinery Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“Shanghai Delphi”	上海德爾福汽車空調系統有限公司 (Shanghai Delphi Automobile Air-conditioning System Co., Ltd.*), one of the founding shareholders of Xiezhong Beijing. It is an Independent Third Party
“Shareholder(s)”	holders of the Shares
“Shareholders’ Agreement”	the shareholders’ agreement dated 4 June 2012 made among the Group of Institutional Shareholders relating to the Company
“Share Offer”	the Hong Kong Public Offering and the International Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 21 May 2012 and revised on 30 May 2012, the principal terms of which are summarized in the paragraph headed “E. Share Option Scheme” of the section headed “Statutory and General Information” in Appendix VI to this prospectus
“Share(s)”	ordinary share(s) in the share capital of our Company, with a par value of HK\$0.01 each
“Share Incentive Plan”	a share incentive plan adopted by Xiezhong Nanjing pursuant to a resolution of the board of directors of Xiezhong Nanjing passed on 29 October 2008

DEFINITIONS

“Shenlong Motor”	神龍汽車有限公司 (Dongfeng Peugeot Citroen Automobile Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“Shuguang Automotive”	遼寧曙光汽車集團股份有限公司 (Liaoning Shuguang Automotive Group Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“Sinotruk”	中國重型汽車集團有限公司 (China National Heavy Duty Truck Group Corp. Ltd.*), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“sq.m.”	square meter(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules, unless the context otherwise requires
“Sunrise International”	Sunrise International Investment Management Inc. 晨光國際投資管理有限公司, a company incorporated in the BVI on 14 August 2009, which is an investment holding company wholly-owned by Mr. Chen Hao. Sunrise International owns 40% interest in the Company immediately before the Share Offer and the Capitalisation Issue. It will own 30% interest in the Company and will therefore be a controlling shareholder of the Company immediately after the Share Offer and the Capitalisation Issue
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Timer Auto Consulting”	Timer Auto Consulting (Shanghai) Co., Ltd, which engages in the provision of market research service and an Independent Third Party
“Timer Auto Report”	a commissioned market research report in relation to, <i>inter alia</i> , the automotive HVAC system market in China, issued by Timer Auto Consulting on 6 June 2012, the details of which are set out in the section headed “Industry Overview” in this prospectus
“Track Record Period”	comprises the three financial years ended 31 December 2011

DEFINITIONS

“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“US\$” or “U.S. dollars”	the lawful currency for the time being of the United States
“VAT”	value-added tax
“Xiezhong Beijing”	北京海納川協眾汽車空調有限公司 (Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd.*), a company established in the PRC on 25 October 2006, which is owned as to 50% by Xiezhong Nanjing and 50% by Beijing Hainachuan
“Xiezhong BVI”	Xiezhong Holdings Limited 協眾控股有限公司 (formerly known as Xiezhong International Holdings Limited 協眾國際控股有限公司), a company incorporated in the BVI on 14 May 2008, which is wholly-owned by our Company
“Xiezhong BVI Shareholders’ Agreement”	the shareholders’ agreement dated 9 December 2009 made among CUAS, Sunrise International and Xiezhong BVI relating to Xiezhong BVI, which was terminated on 4 June 2012
“Xiezhong HK”	Xiezhong Auto-Airconditioner (Hong Kong) Limited 協眾汽車空調(香港)有限公司, a company incorporated in Hong Kong on 21 May 2008, which is directly wholly-owned by Xiezhong BVI
“Xiezhong Hubei”	湖北雷迪特協眾汽車空調系統有限公司 (Hubei Leidite Xiezhong Automobile Air-conditioning System Co., Ltd.*), a company established in the PRC on 13 April 2010, which is owned as to 51% by Xiezhong Nanjing and 49% by Hubei Leidite
“Xiezhong Liaoning”	遼寧晨友汽車空調系統有限公司 (Liaoning Chenyou Automobile Air-conditioning System Co., Ltd.*), a company established in the PRC on 29 September 2009, which is owned as to 60% by Xiezhong Nanjing and 40% by 沈陽特種焊料有限公司 (Shenyang Special Solder Co., Ltd.*)
“Xiezhong Nanjing”	Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. 南京協眾汽車空調集團有限公司, a company established in the PRC on 15 April 2002, which is directly wholly-owned by Xiezhong HK

DEFINITIONS

“Zhongxing Auto”	河北中興汽車製造有限公司 (Hebei Zhongxing Automobile Manufacturing Co., Ltd.*), or where the context so requires, its holding companies, subsidiaries or associates, being an automaker in the PRC and an Independent Third Party
“%”	per cent

Unless otherwise specified, translations of (i) HK\$ into RMB and RMB into HK\$; and (ii) HK\$ into US\$ and US\$ into HK\$ in this prospectus are based on the rates set out below respectively (for the purpose of illustration only):

<i>HK\$1.00</i>	<i>:</i>	<i>RMB0.812</i>
<i>HK\$7.8</i>	<i>:</i>	<i>US\$1.00</i>

Any discrepancies in any table or chart between the total shown and the sum of amounts listed are due to rounding.

The English translations of company names in Chinese or another language which are marked with “” and the Chinese translations of company names in English which are marked with “*” are for identification purpose only. If there is any discrepancy or inconsistency between the Chinese names of the PRC entities in this prospectus and their English translations, the Chinese names shall prevail.*

No representation is made that any amounts in RMB and HK\$ and/or US\$ and HK\$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanation of certain terms used in this prospectus as they relate to us and as they are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions

“automaker”	an automobile manufacturer who produces whole cars and sell them to consumers
“compressor”	a key automotive HVAC component which is a pump that pressurizes and circulates the refrigerant in the air-conditioning system
“condenser”	a key automotive HVAC component which is a heat exchanger that liquefies high-pressure vapor
“consistent displacement compressor”	a consistent displacement compressor adjusts its displacement according to the engine speed
“evaporator”	a key automotive HVAC component for cooling down the interior of the vehicle
“GB/T 28001-2001 Occupational Safety and Health Management System”	GB/T 28001-2001 is a set of standards adopted by the Standardization Administration of the PRC for occupational safety and health management
“heater core”	a key automotive HVAC component which provides warmth to the interior of the vehicle by using heat removed from the engine
“HFO-1234yf”	a new generation of refrigerant with less global warming potential
“HVAC”	heating, ventilation and air-conditioning
“HVAC components”	key components of an HVAC system including mainly evaporator, condenser, heater core, HVAC hoses, radiator, intercooler and oil cooler
“HVAC hoses”	a set of hoses for linking various components in an HVAC system for circulation of refrigerant with the system
“HVAC system”	consists of HVAC components. It functions to maintain the comfort level of the vehicle occupants
“intercooler”	a heat-exchange device applied as an ancillary part to the vehicle engine. It functions to cool down high-temperature air emitted from a pressurizing device, to cool down the air entering the engine

GLOSSARY OF TECHNICAL TERMS

“IEC”	International Electrotechnical Commission, a body for standardisation and conformity assessment for electrical, electronic and related technologies
“ISO”	International Organisation for Standardisation, a world-wide federation of national standards bodies
“ISO/IEC 17025:2005”	general requirements for the competence of testing and calibration laboratories
“ISO14001:2004”	a standard under ISO for environmental management which is primarily concerned with what an organisation does to comply with legal requirements to minimise the harmful effects on the environment caused by its activities and which sets requirements for what an organisation must do to manage processes influencing the impact of its activities on the environment
“ISO/TS 16494”	the particular set of requirement standards for the application of ISO9001 for automotive production and relevant service part organisations
“laminated evaporator”	one type of evaporator which consists of a main heat exchanger, an auxiliary heat exchanger and a connecting bar integrally brazed
“laminated heater core”	one type of heat core which consists of a main heat exchanger, an auxiliary heat exchanger and a connecting member integrally brazed
“MPV”	multi-purpose vehicle
“oil cooler”	a heat-exchange device applied as an ancillary part to the vehicle engine to enhance its performance and reliability
“parallel-flow condenser”	one type of condenser which employs a parallel structure containing several multi-port extruded tube and wave shape mental plates
“parallel-flow evaporator”	one type of evaporator which employs a parallel structure containing several multi-port extruded tube and wave shape mental plates
“parallel-flow heater core”	one type of heater core which employs a parallel structure containing several multi-port extruded tube and wave shape mental plates
“R134a”	one type of refrigerant widely used in HVAC system in automotive vehicles

GLOSSARY OF TECHNICAL TERMS

“radiator”	a heat-exchange device applied to cool down the temperature of a vehicle engine
“refrigerant”	the fluid used for heat transfer in a HVAC system; the refrigerant absorbs heat at a low temperature and a low pressure and transfers heat at a higher temperature and a higher pressure, usually with changes of state
“SUV”	sport utility vehicle
“tube-fin condenser”	one type of condenser which consists of a serial of traditional tubes and thin metal plates
“tube-fin evaporator”	one type of evaporator which consists of a serial of traditional tubes and twin metal plates
“tube-strip condenser”	one type of condenser which applies multi-port extruded tubes to extend the surface area of heat exchange
“tube-strip evaporator”	one type of evaporator which consists of several multi-port extruded tubes and wave shape metal plates

RISK FACTORS

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.

RISK FACTORS

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 on-

RISK FACTORS

site 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.

RISK FACTORS

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

RISK FACTORS

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.

RISK FACTORS

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 “XIEZHONG 协众” 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.

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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.

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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

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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.

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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

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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

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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

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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

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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 foreign 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.

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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 utilising 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

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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

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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.

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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.

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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.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, the Sponsor has, on behalf of our Company, sought the following waivers from strict compliance with certain provisions of the Listing Rules:

1. MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The assets, business and operations of our Company are primarily located, managed and conducted in the PRC. Our Company does not, and in the near future will not, have any substantial management presence in Hong Kong.

In view of the above, our Company considers that it will be more effective and efficient for its executive Directors to be based in the PRC, where most of our Company's operations are located, and it will be onerous and unduly burdensome for it to maintain management presence in Hong Kong in the terms set out in Rule 8.12 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, the following measures have been put in place:

- (a) our Company has appointed Mr. Chen Cunyou (an executive Director) and Mr. Chui Wing Fai (the company secretary of our Company) as its authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Group's principal channel of communication with the Stock Exchange. Mr. Dai Zumian, a member of the senior management of our Group, will act as the alternate authorised representative to Mr. Chen Cunyou. Mr. Chen Cunyou (or if failing him, Mr. Dai Zumian) and Mr. Chui Wing Fai will be available to meet the Stock Exchange on reasonable notice as and when required and will be readily contactable by telephone, facsimile and/or email to deal with enquiries from the Stock Exchange;
- (b) the authorised representatives and the alternate authorised representative will have means to contact all our Directors promptly at all times as and when the Stock Exchange wants to contact our Directors on any matter. To enhance communication between the Stock Exchange, the authorised representatives (including the alternate authorised representative) and the Directors, our Company has implemented a policy whereby: (i) each Director will have to provide his office phone number, mobile phone number, fax number and email address to the authorised representatives (including the alternate authorised representative); and (ii) in the event that a Director is travelling and out of office, he will have to provide the phone number of the place of his accommodation to the authorised representatives (including the alternate authorised representative);

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

- (c) all of our Directors will provide their respective mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange;
- (d) all Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and will be able to meet the Stock Exchange in Hong Kong within a reasonable period; and
- (e) our Company has, in accordance with Rule 3A.19 of the Listing Rules, appointed Guotai Junan Capital Limited as its compliance adviser to act as an additional channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year after the Listing Date.

Accordingly, the Sponsor has, on behalf of our Company, applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules subject to the foregoing measures.

2. CONNECTED TRANSACTIONS

Members of our Group have entered, and are expected to enter, into certain transactions, which would constitute continuing connected transactions for our Company under the Listing Rules. The Sponsor has, on behalf of our Company, applied for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules for the non-exempt continuing connected transactions. Details of such continuing connected transactions and the waiver are set out in the section headed "Connected Transactions" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the SFO, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Share Offer. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Share Offer comprises the Hong Kong Public Offering of initially 20,000,000 Shares and the International Placing of initially 180,000,000 Shares (subject, in each case, to reallocation on the basis described in the section headed "Structure of the Share Offer" in this prospectus).

The listing of the Shares on the Stock Exchange is sponsored by Guotai Junan Capital. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters and the International Placing is managed by the Lead Manager and is underwritten by the International Underwriters. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to the agreement on the Offer Price between the Company and the Lead Manager, on behalf of the Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Lead Manager, for itself and on behalf of the Underwriters, the Share Offer will not proceed.

Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Lead Manager (for itself and on behalf of the Underwriters) and the Company on or about Tuesday, 12 June 2012, or such later date as may be agreed between the Lead Manager and our Company but in any event no later than 5:00 p.m. (Hong Kong time) on Wednesday, 13 June 2012.

If the Lead Manager (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before the Price Determination Date, the Share Offer will not become unconditional and will lapse.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

RESTRICTIONS ON SALE OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of Hong Kong Offer Shares to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a Hong Kong Public Offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorized in connection with the Share Offer to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by our Company, the Sponsor, the Lead Manager, the Underwriters, any of their respective directors or any other persons or parties involved in the Share Offer.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer and upon the exercise of options which may be granted under the Share Option Scheme, being up to 10% of the Shares in issue on the Listing Date.

Save as disclosed herein, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares in issue or to be issued pursuant to the Share Offer will be registered on our Company's branch register of members to be maintained in Hong Kong. Our Company's principal register of members will be maintained by our Company's principal share registrar in the Cayman Islands.

Dealings in the Shares registered in our branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in HK dollars in respect of Shares will be paid to the Shareholders listed on our register of members, by ordinary post, at the Shareholders' risk, to the registered address of each shareholder of our Company.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as HKSCC chooses.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasized that none of our Company, the Underwriters, the Sponsor, any of their respective directors, supervisors, agents or advisers or any other person involved in the Share Offer accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus and on the relevant Applications Forms.

STRUCTURE OF THE SHARE OFFER

Details of the Structure of the Share Offer, including its conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Chen Cunyou	Block 10 East Garden City of Venice Baijia Lake 99 Liyuan Road Central Jiangning District, Nanjing Jiangsu Province PRC	Chinese
Mr. Ge Hongbing	Room 701, Block 5 Golf International Garden 88 Liyuan Road Central Jiangning District, Nanjing, Jiangsu Province PRC	Chinese
<i>Non-executive Directors</i>		
Mr. Zhang Yichen	House D 62-70 Black's Link Hong Kong	Chinese
Mr. Kenneth Fang, <i>GBS, CBE, JP</i>	1st Floor, 3 Osmanthus Road Yau Yat Chuen Kowloon Hong Kong	Chinese
Mr. Liu Xiaoping	Flat A, 4th Floor, Block 5 Metro City Phase 2 8 Yan King Road Tseung Kwan O, New Territories Hong Kong	Chinese
Mr. Wang Zhenyu	Flat E, 6th Floor, Block 2 Star Tower, The Arch 1 Austin Road West Tsimshatsui, Kowloon Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Independent Non-executive Directors

Mr. Zhang Shulin	Room 3401, Block 2 Baiwanzhuang Zhongli Xicheng District Beijing PRC	Chinese
Mr. Lau Ying Kit	Room A, 20/F, Tower D The Grandville 2 Lok Kwai Path Shatin, New Territories Hong Kong	Chinese
Mr. Cheung Man Sang	Flat B, 20/F Mei Chun Court (Tower 21) South Horizons Phase III 21 South Horizon Drive Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sponsor	Guotai Junan Capital Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Global Coordinator, Bookrunner and Lead Manager	Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Hong Kong Underwriters	Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong Ever-Long Securities Company Limited 18th Floor, Dah Sing Life Building 99–105 Des Voeux Road Central Hong Kong Hong Kong International Securities Limited 23rd Floor, Arion Commercial Centre 2–12 Queen's Road West Hong Kong Huatai Financial Holdings (Hong Kong) Limited Room 5808–12, The Centre 99 Queen's Road Central Hong Kong South China Securities Limited 28/F, Bank of China Tower 1 Garden Road Central Hong Kong
Auditors and reporting accountants	KPMG <i>Certified Public Accountants</i> 8th Floor, Prince's Building 10 Chater Road Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to the Company

As to Hong Kong law:
Mayer Brown JSM
16th–19th Floors, Prince’s Building
10 Chater Road
Central
Hong Kong

As to PRC law:
Chen & Co. Law Firm
Suite 1901, North Tower
Shanghai Stock Exchange Building
528 Pudong Nan Road
Shanghai, 200120
PRC

As to Cayman Islands law:
Maples and Calder
53rd Floor, The Center
99 Queen’s Road Central
Hong Kong

**Legal advisers to the Sponsor and
the Underwriters**

As to Hong Kong law:
Li & Partners
22/F, World-Wide House
19 Des Voeux Road Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng Attorneys at Law
34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing 100025
PRC

Property valuer

Savills Valuation and Professional Services Limited
23rd Floor, Two Exchange Square Central
Hong Kong

Receiving banker

DBS Bank (Hong Kong) Limited
Ground Floor
The Center
99 Queen’s Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	c/o Maples Corporate Services Limited PO Box 309, Uglan House, Grand Cayman Cayman Islands, KY1-1104
Headquarter in the PRC	389 Kening Road Science Park Jiangning District, Nanjing Jiangsu Province PRC
Principal place of business in Hong Kong	Room 2912, Tower 2 Times Square 1 Matheson Street Causeway Bay Hong Kong
Company's website	www.xiezhonginternational.hk (<i>information contained in that website does not form part of the prospectus</i>)
Company secretary	Mr. Chui Wing Fai, <i>CPA</i>
Authorised representatives	Mr. Chen Cunyou Block 10, East Garden City of Venice, Baijia Lake, 99 Liyuan Road Central Jiangning District Nanjing, Jiangsu Province, PRC Mr. Dai Zumian (alternate to Chen Cunyou) Room 302, Block 10, 618 Longmian Avenue, Jiangning District, Nanjing Jiangsu Province PRC Mr. Chui Wing Fai 17D, Tower 2, The Palazzo 28 Lok King Street Shatin, New Territories Hong Kong
Audit committee	Mr. Lau Ying Kit (<i>Chairman</i>) Mr. Cheung Man Sang Mr. Zhang Shulin

CORPORATE INFORMATION

Nomination committee	Mr. Zhang Shulin (<i>Chairman</i>) Mr. Lau Ying Kit Mr. Cheung Man Sang Mr. Liu Xiaoping
Remuneration committee	Mr. Cheung Man Sang (<i>Chairman</i>) Mr. Kenneth Fang Mr. Lau Ying Kit Mr. Zhang Shulin
Compliance adviser	Guotai Junan Capital Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Principal bankers	Construction Bank of Nanjing, Jiangning Economic Development Zone Branch* No. 39, Shengtai Road Jiangning Development Zone, Nanjing Jiangsu Province China China Merchants Bank, Hanzhongmen Branch* No. 48, Hanzhongmen Road Gulou District, Nanjing Jiangsu Province China Agricultural Bank of China, Jiulonghu Branch* No. 699, Chengxin Avenue Jiangning District, Nanjing Jiangsu Province China Hang Seng Bank Limited, Head Office 83 Des Voeux Road Central Central Hong Kong
Principal share registrar and transfer office	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall Cricket Square, Grand Cayman KY1-1102 Cayman Islands

CORPORATE INFORMATION

Hong Kong Share Registrar

Tricor Investor Services Limited
26/F, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

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.

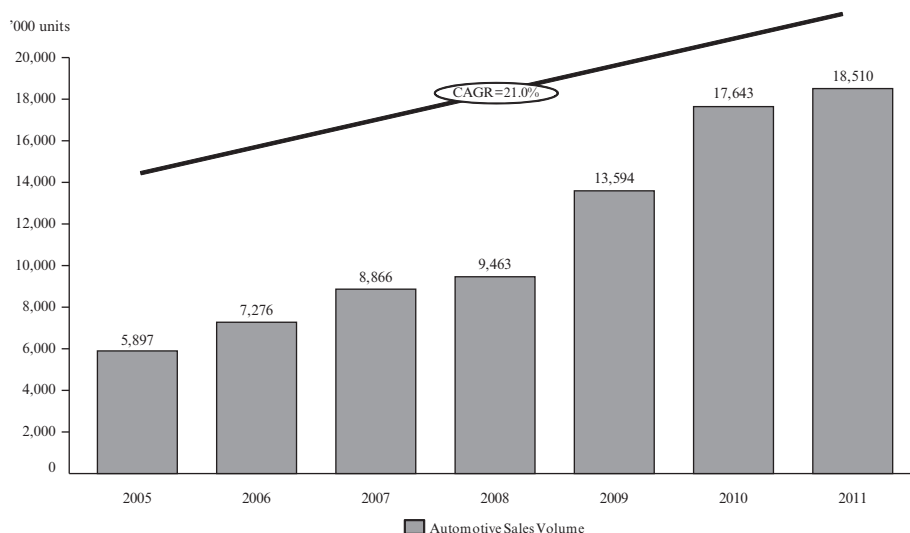
Our Directors believe that sources of the information extracted from the Timer Auto Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or 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.

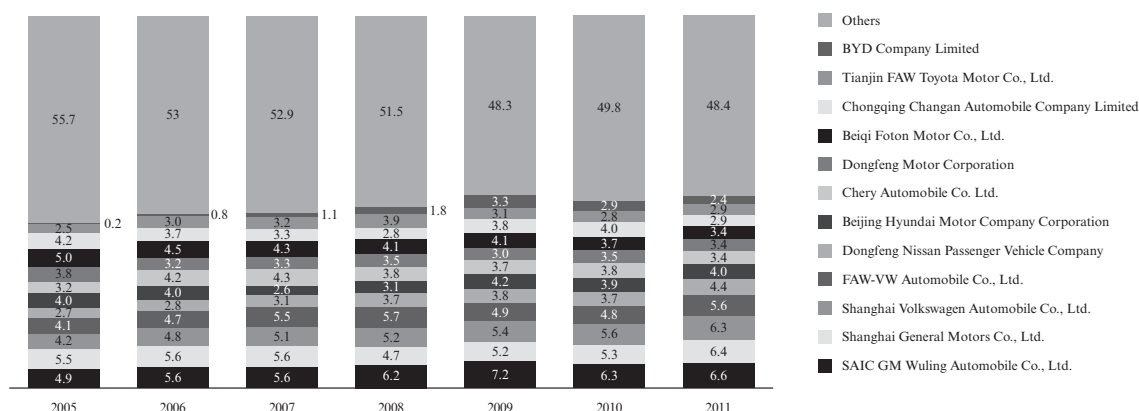
China Automotive Sales Volume from 2005 to 2011 ('000 units)



Source: China Association of Automobile Manufactures; CPCA; www.ChinaBus.info; Timer Auto Consulting

INDUSTRY OVERVIEW

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



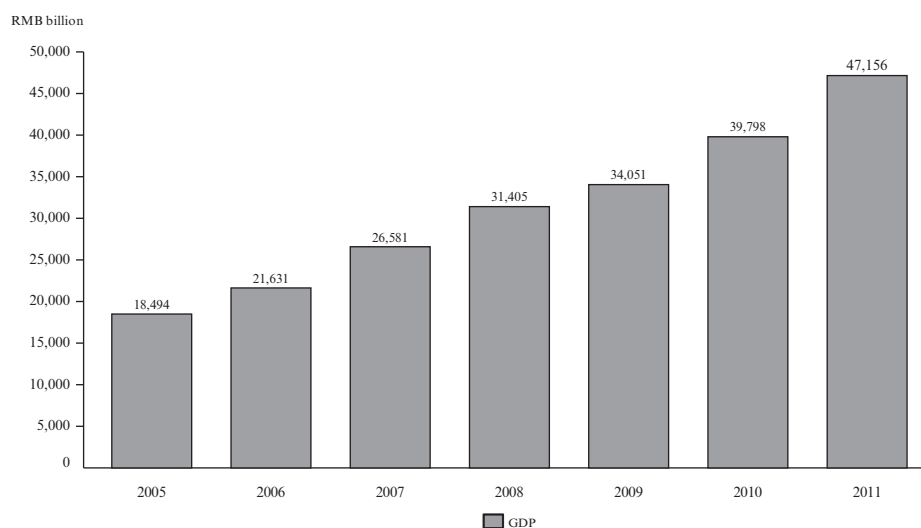
Source: China Association of Automobile Manufactures; CPCA; www.ChinaBus.info

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)

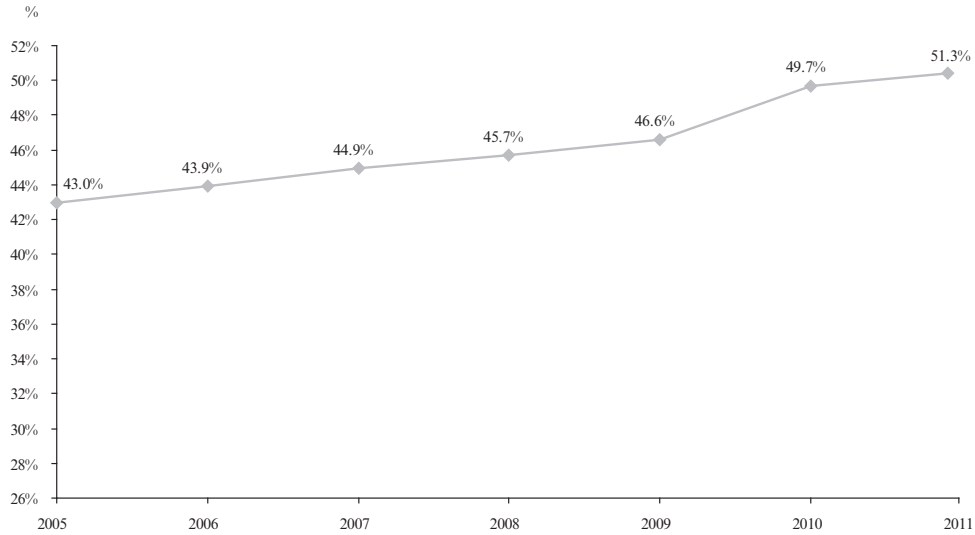


Source: National Bureau of Statistic

INDUSTRY OVERVIEW

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 (%)

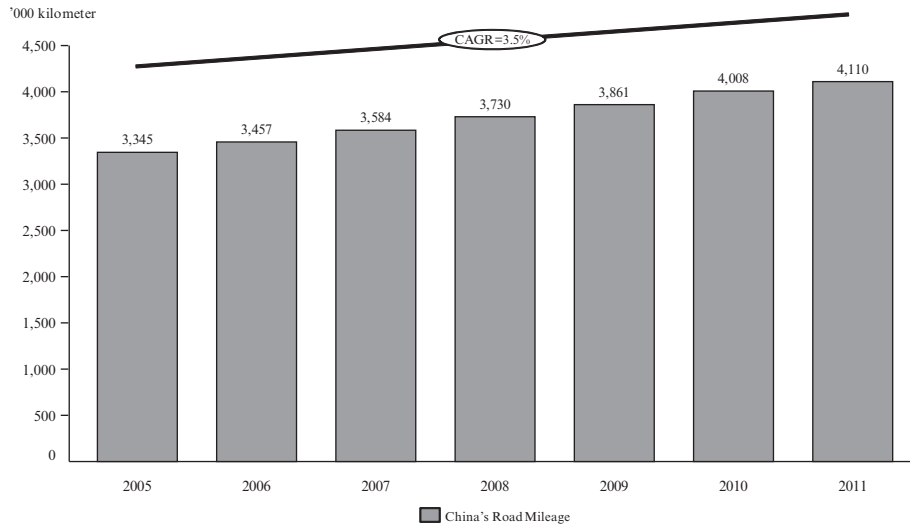


Source: *National Bureau of Statistic*

INDUSTRY OVERVIEW

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

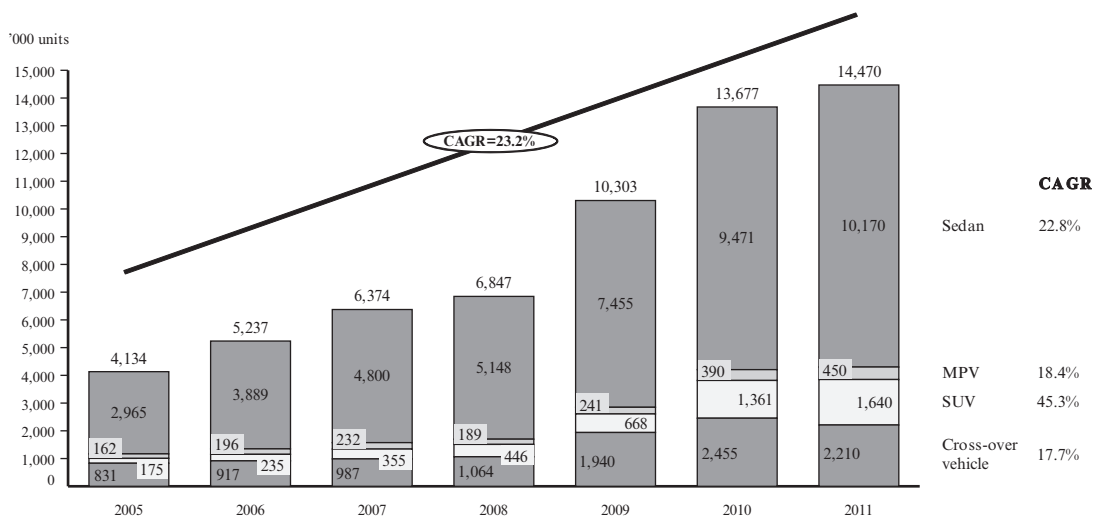
According to the Timer Auto Report, although China's automotive industry has achieved rapid development in the past few years, the automotive ownership in general is still at a relatively low level as compared to other developed countries. In 2011, China automotive ownership per thousand people is 70 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.

INDUSTRY OVERVIEW

China's automotive industry segments

1. Passenger vehicle¹ 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)



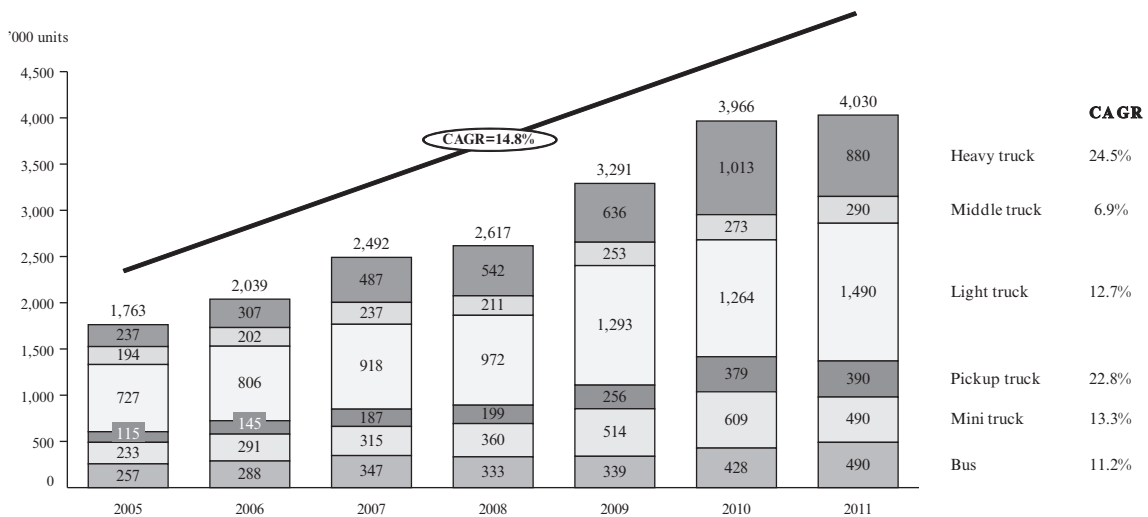
Source: China Association of Automobile Manufactures; Timer Auto Consulting

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

INDUSTRY OVERVIEW

2. Commercial vehicle² 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; 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.

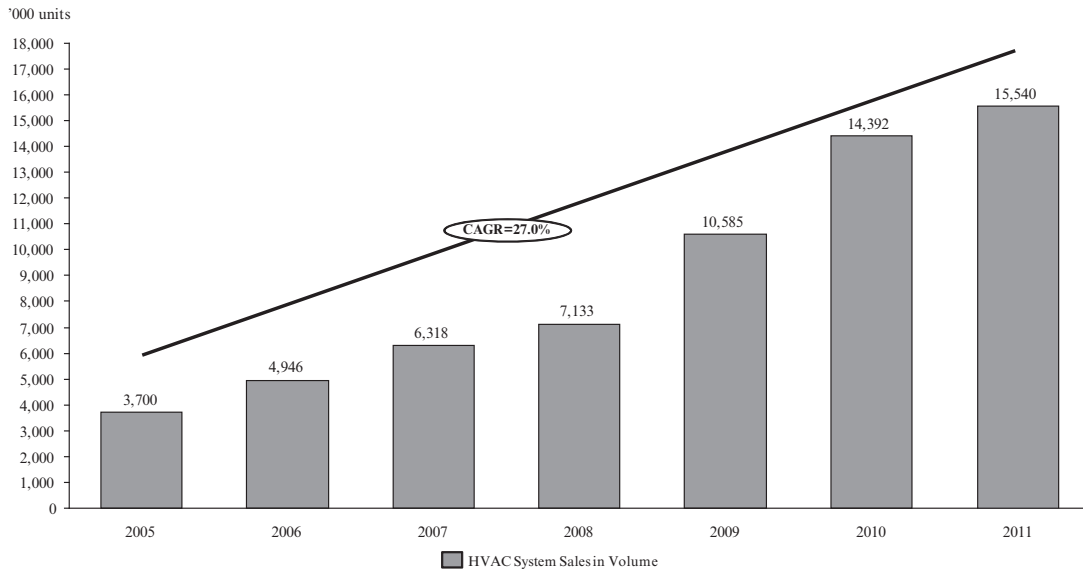
² For the purpose of this section, commercial vehicles include heavy trucks, middle trucks, light trucks, pickup trucks, mini trucks and buses.

INDUSTRY OVERVIEW

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)



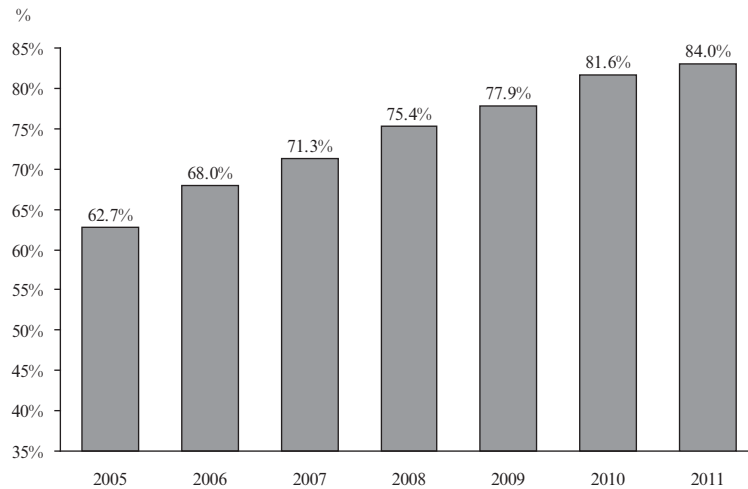
Source: China Association of Automobile Manufactures; CPCA; www.ChinaBus.info; Timer Auto Consulting

INDUSTRY OVERVIEW

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



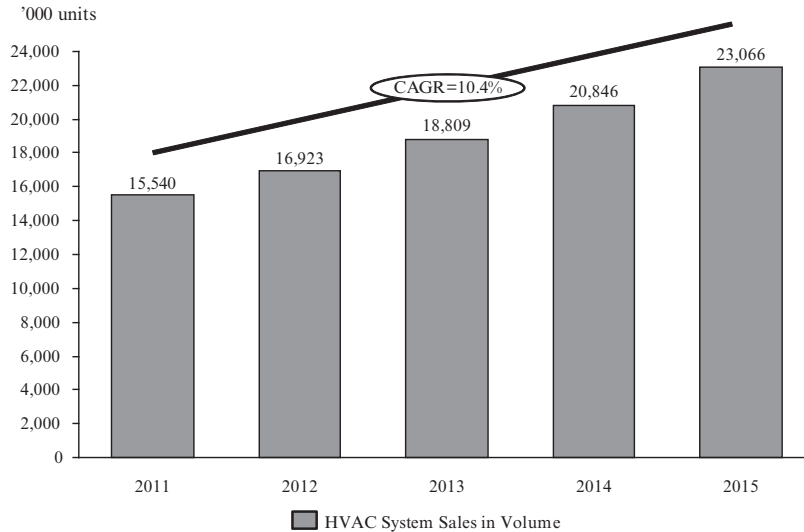
Source: China Association of Automobile Manufactures; CPCA; www.ChinaBus.info; Timer Auto Consulting

INDUSTRY OVERVIEW

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)



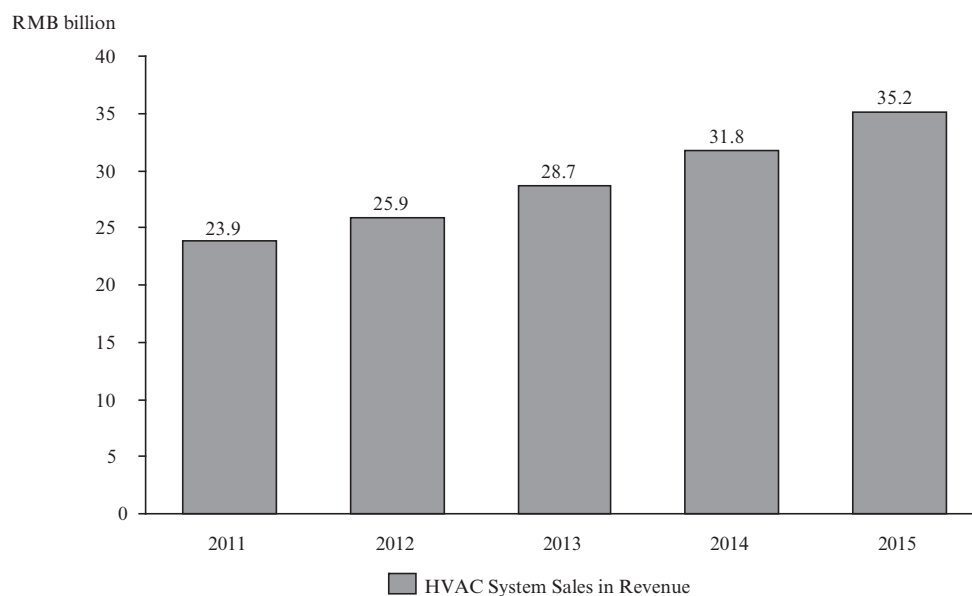
Source: China Association of Automobile; CPCA; Timer Auto Consulting

INDUSTRY OVERVIEW

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

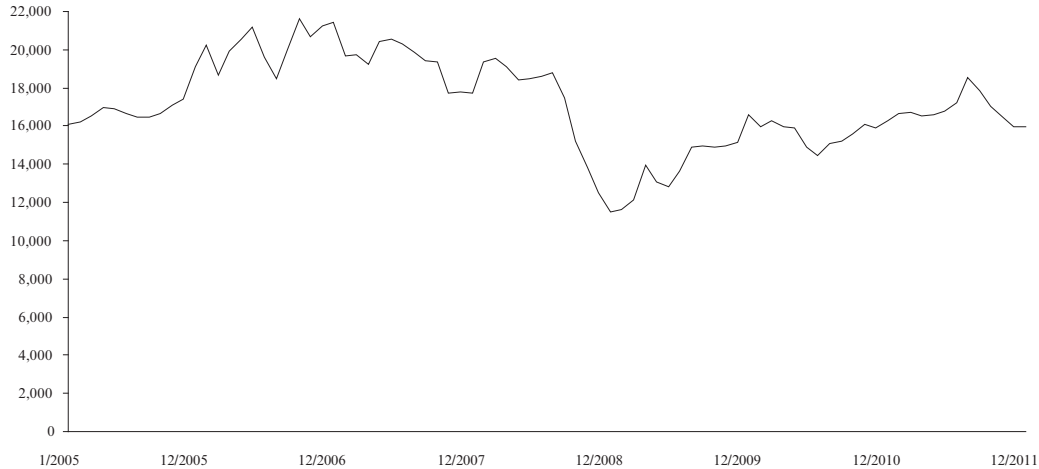
Historical price of raw materials of automotive HVAC system

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.

INDUSTRY OVERVIEW

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.

INDUSTRY OVERVIEW

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.

INDUSTRY OVERVIEW

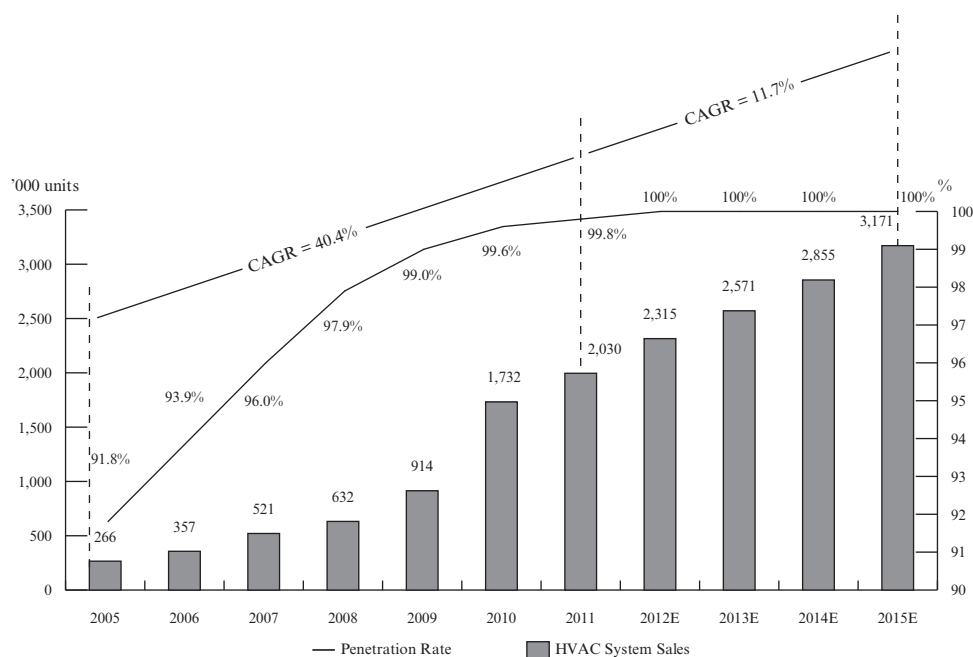
To cater for the growing trend of environmental protection, the Company has started cooperation with its customers to develop HVAC systems and HVAC components used in electric and hybrid vehicles. In 2010, the Company began to supply HVAC systems for electric vehicles to Foton. As the electric and hybrid 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

INDUSTRY OVERVIEW

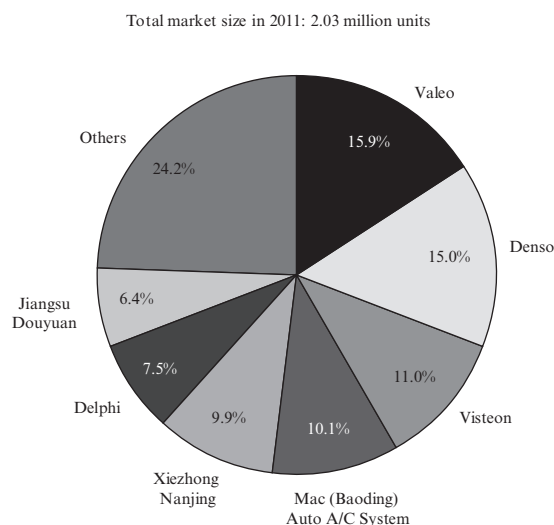
SUV and pickup truck HVAC system market competitive landscape

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)



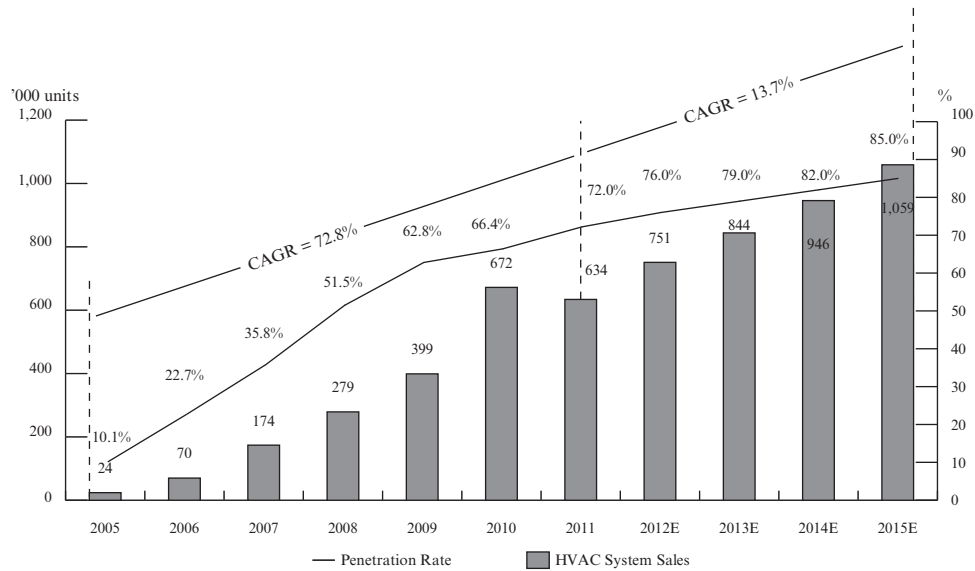
Source: China Association of Automobile Manufactures; CPCA; Timer Auto Consulting

INDUSTRY OVERVIEW

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

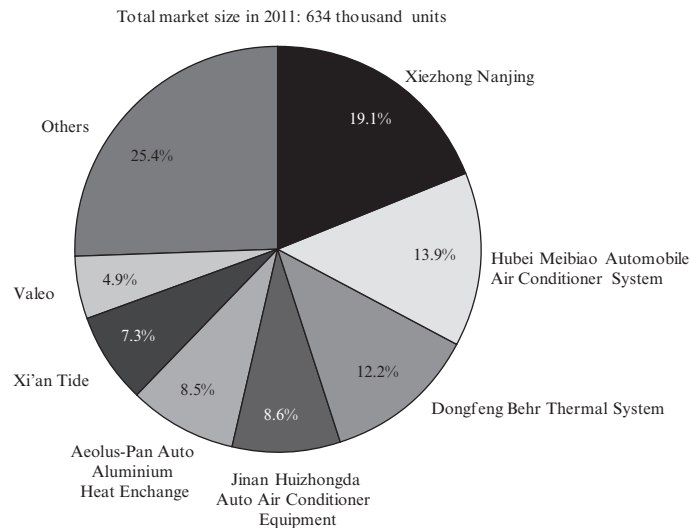
INDUSTRY OVERVIEW

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)



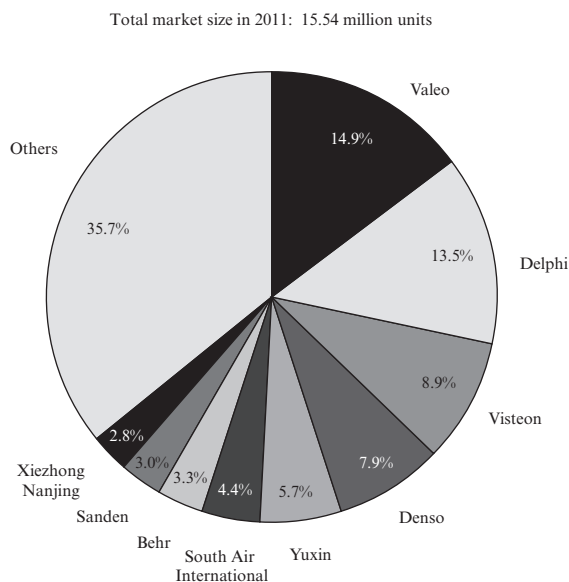
Source: China Association of Automobile Manufactures; Timer Auto Consulting

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.

HISTORY AND DEVELOPMENT

BUSINESS MILESTONES

The following are the key milestones of our business history:

- 2002 — Establishment of Xiezhong Nanjing
- 2007 — Accredited as “Excellent Supplier” by Foton
- 2008 — Accredited as “Excellent Supplier” by Foton and Zhongxing Auto
 - Accredited as “Excellent Components Supplier” by Changfeng Motor
 - Accredited as “Best Supplier for Development” by Foday
 - Accredited with “Technology Innovation Award” by Foton
- 2009 — Establishment of Xiezhong Liaoning
 - Accreditation with the title “高新技術企業 (High and New Technology Enterprise*)”
 - Accredited as “Excellent Supplier” by Foton, Zhongxing Auto, Changfeng Motor and SANY
 - Accredited as “Top Ten Excellent Supplier” by Hawtai Motor and GAC Gonow
 - Accredited with Technology Innovation Award by Foton
 - Our laboratory at our production base in Jiangning District in Nanjing was first accredited ISO/IEC 17025: 2005, which specifies the general requirements for the competence of testing and calibration laboratories by 中國合格評定國家認可委員會 (China National Accreditation Service for Conformity Assessment*)
- 2010 — Acquisition of Xiezhong Beijing
 - Establishment of Xiezhong Hubei
 - Expansion of the Jiangning Plant, including commencement of construction of our research and development building
 - Accredited as “Excellent Supplier” by Hawtai Motor, SANY and Hengte Heavy Industry

HISTORY AND DEVELOPMENT

- The capability of our laboratory at the Jiangning Plant was certified by Foton
- Our trademark “” was recognised as a “Nanjing Municipal Well-known Trademark (南京市著名商標)”
- 2011
 - Xiezhong Nanjing was accredited GB/T 28001-2001 certification for its established occupational health and safety management systems; Xiezhong Nanjing was accredited GB/T24001-2004 idt ISO14001: 2004 certification in relation to its environmental management systems
 - Xiezhong Nanjing obtained ISO/TS16949: 2009 certification for its quality management system applicable to the design and manufacture of air conditioners
 - Our products were recognised as “Nanjing Famous Brand (南京名牌產品)”
 - Accredited as “Top Ten Excellent Supplier” by GAC Gonow
 - Accredited as “Excellent Components Supplier” by Changfeng Motor
 - Accredited as “Excellent Supplier” by Zhongxing Auto, FAW-GM and Shantui
 - Accredited with “Excellent Quality Performance Award (優秀質量表現獎)” by Mianyang Huarui Auto
 - Our trademark “” was recognised as a “Jiangsu Province Well-known Trademark (江蘇省著名商標)”
- 2012
 - Our laboratory at our production base in Jiangning District in Nanjing was again accredited ISO/IEC 17025: 2005 by 中國合格評定國家認可委員會 (China National Accreditation Service for Conformity Assessment*)

CORPORATE HISTORY OF OUR SUBSIDIARIES

Xiezhong Nanjing

Xiezhong Nanjing was established in the PRC on 15 April 2002 with an initial registered capital of RMB26 million, which was contributed as to approximately 94.23% by Ms. Ni Xianglian, the wife of Mr. Chen Cunyou, and as to approximately 5.77% by 南京協眾汽車有限公司 (Nanjing Xiezhong Automobile Co., Ltd.*) (“NX Automobile”), in which Mr. Chen Cunyou controlled a 81.25% interest at that time. Shortly thereafter, in contemplation of setting up 南京協眾集團 (Nanjing Xiezhong Group*) with Xiezhong Nanjing as the parent company holding three subsidiaries namely NX Automobile, 南京協眾集團電器有限公司 (Nanjing Xiezhong Group Electrical Appliances Co., Ltd.*) (“NX Electrical Appliances”) and 南京協眾集團汽車內飾件有限公司 (Nanjing Xiezhong Group Automobile Interior Parts Co., Ltd.*) (“NX Interior Parts”), Mr. Chen Cunyou and Xiezhong Nanjing entered into an equity transfer agreement on 17 April 2002 whereby Mr. Chen Cunyou transferred his 57.5% interest in NX Automobile to Xiezhong Nanjing at a consideration of RMB4.6 million (which was the same as 57.5% of the then registered capital of NX Automobile). Then, on 24 April 2002, Mr. Chen Cunyou entered into an equity transfer agreement with NX Automobile to acquire its 5.77% interest in Xiezhong Nanjing at a consideration of RMB1.5 million (which was the same as 5.77% of the then registered capital of Xiezhong Nanjing).

On 14 April 2004, the registered capital of Xiezhong Nanjing was increased by RMB24 million, which was fully contributed by Mr. Chen Cunyou. Thereafter, the registered capital of Xiezhong Nanjing was RMB50 million owned as to 51% by Mr. Chen Cunyou and as to 49% by Ms. Ni Xianglian.

南京協眾集團 (Nanjing Xiezhong Group*) was set up on 16 April 2004 with Xiezhong Nanjing as the parent company of (a) NX Automobile, which was principally engaged in the sale and distribution of automobiles and which was owned as to 51% by Xiezhong Nanjing, (b) NX Electrical Appliances, which was principally engaged in the manufacturing, sale and distribution of automotive air-conditioning pipes and which was owned as to approximately 66.7% by Xiezhong Nanjing and (c) NX Interior Parts which was principally engaged in the manufacturing, sale and distribution of air-conditioning plastic parts and which was owned as to 52.6% by Xiezhong Nanjing.

On 22 June 2007, the interest of Xiezhong Nanjing in NX Electrical Appliances was diluted to approximately 33.9% as a result of an increase of RMB2.9 million in the registered capital of NX Electrical Appliances. On 27 May 2008, Xiezhong Nanjing disposed all of its 66% interest in NX Automobile to Mr. Chen Hao at a consideration of RMB6.6 million (which was the same as 66% of the then registered capital of NX Automobile). On 20 May 2008, Xiezhong Nanjing disposed all of its approximately 33.9% interest in NX Electrical Appliances and 52.6% interest in NX Interior Parts to 南京協眾友旭汽車有限公司 (Nanjing Xiezhong Youxu Automobile Co., Ltd.*) (“Youxu”) which was then owned as to 40% by Mr. Chen Cunyou and as to 60% by Xiezhong Nanjing, at a consideration of RMB2 million and RMB2.63 million respectively (which were the same as approximately 33.9% of the then registered capital of NX Electrical Appliances and 52.6%

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of the then registered capital of NX Interior Parts respectively). On 23 July 2008, Xiezhong Nanjing disposed all of its 60% interest in Youxu to NX Automobile at a consideration of RMB9 million (which was the same as 60% of the then registered capital of Youxu). The aforesaid disposals were effected in contemplation of CUAS's acquisition of 70% interest in Xiezhong Nanjing in June 2008 mentioned below as CUAS intended to invest in the automotive HVAC systems business engaged by Xiezhong Nanjing only. As a result of the aforesaid disposals, Xiezhong Nanjing ceased to hold any interest in NX Automobile, NX Interior Parts, NX Electrical Appliances and Youxu before the Track Record Period. NX Interior Parts and NX Electrical Appliances were dissolved in January 2010 and February 2010, respectively.

Both NX Automobile, which is now owned as to 66% by Mr. Chen Hao and 34% by Ms. Ni Xianglian and Youxu, which is owned as to 60% by NX Automobile and 40% by Mr. Chen Cunyou, are principally engaged in the sale and distribution of automobiles and the provision of related repair and maintenance services. When repairing or carrying out repair and maintenance services for their customers' automobiles, if it is necessary to replace certain parts or components in their automobiles, NX Automobile and Youxu would help the customers to purchase and then sell such replacement parts or components to their customers and install them into their automobiles. The Directors believe that the nature of business of NX Automobile and Youxu are different from that of our Group and therefore they do not, and are unlikely to, compete with the Group.

Yo Sun Investment Limited, an investment holding company which was then owned as to 40% by Mr. Ni Yuncheng, the brother of Ms. Ni Xianglian and as to 60% by Mr. Ge Hongbing, an executive Director, decided to invest in Xiezhong Nanjing in contemplation of its growing potential and therefore entered into an equity transfer agreement on 8 November 2005 with Ms. Ni Xianglian and Mr. Chen Cunyou to acquire from Ms. Ni Xianglian a 25% interest in Xiezhong Nanjing at a consideration of RMB12.5 million (which was the same as 25% of the then registered capital of Xiezhong Nanjing). The consideration of such equity transfer was determined with reference to the net assets of Xiezhong Nanjing of around RMB50 million and the net profits of Xiezhong Nanjing of around RMB0.3 million at that time. After such equity transfer, Xiezhong Nanjing became a sino-foreign joint venture enterprise owned as to 51% by Mr. Chen Cunyou, as to 25% by Yo Sun Investment Limited and as to 24% by Ms. Ni Xianglian.

Pursuant to an equity transfer agreement dated 30 May 2008 (as amended by a supplemental agreement dated 15 September 2008) between Yo Sun Investment Limited and Xiezhong HK (which was then, and remains to be, wholly-owned by Xiezhong BVI which in turn was then wholly-owned by CUAS), Xiezhong HK acquired a 25% interest in Xiezhong Nanjing from Yo Sun Investment Limited at a consideration of approximately RMB71.5 million. Pursuant to another equity transfer agreement dated 30 May 2008 (as amended by a supplemental agreement dated 15 September 2008) among Ms. Ni Xianglian, Mr. Chen Cunyou and Xiezhong HK (the "Xiezhong Nanjing Equity Transfer Agreement"), Xiezhong HK acquired from Ms. Ni Xianglian and Mr. Chen Cunyou their respective 24% and 21% interests in Xiezhong Nanjing at a consideration of approximately RMB68.6 million and RMB60 million respectively. The amounts of the consideration paid by Xiezhong HK to Yo Sun Investment Limited, Ms. Ni Xianglian and Mr. Chen Cunyou set

HISTORY AND DEVELOPMENT

out above were determined on an arm's length basis with reference to Xiezhong Nanjing's net profits and net assets in 2007 as well as the conditions of the automobile industry and the capital market at that time. The net profits and net assets of Xiezhong Nanjing in 2007 based on its audited financial statements (preliminary figures of which were available at that time for determining the consideration) were approximately RMB49.2 million and RMB110.3 million respectively. The consideration therefore represented a price-earnings ratio of approximately 5.8. Immediately after such transactions, Xiezhong Nanjing was owned as to 70% by Xiezhong HK and as to 30% by Mr. Chen Cunyou.

Pursuant to an equity transfer agreement dated 28 January 2010 between Mr. Chen Cunyou and Xiezhong HK, Mr. Chen Cunyou transferred his 30% interest in Xiezhong Nanjing to Xiezhong HK at a consideration of US\$11 million. The consideration paid by Xiezhong HK to Mr. Chen Cunyou was determined on an arm's length basis with reference to Xiezhong Nanjing's net profits and net assets in 2009. The net profits and net assets of Xiezhong Nanjing in 2009 based on its unaudited management accounts were approximately RMB67.4 million and RMB252 million respectively. The consideration therefore represented a price-earnings ratio of approximately 3.7 taking into account the conditions of the automobile industry and the capital market at that time which were adversely affected by the financial crisis starting in the last quarter of 2008. On 10 February 2010, Xiezhong Nanjing became a direct wholly-owned subsidiary of Xiezhong HK.

Xiezhong BVI

Xiezhong BVI was incorporated in BVI on 14 May 2008 with one share of US\$1.0 issued to CUAS on the same date.

Pursuant to the Xiezhong Nanjing Equity Transfer Agreement, if the audited profit after tax of Xiezhong Nanjing for the year ended 31 December 2008 amounted to RMB73 million or above, Mr. Chen Cunyou shall have an option to acquire, or designate another person to acquire, a 10% interest in Xiezhong Nanjing (or an equivalent interest in Xiezhong HK or its holding company) at a nominal price. As the said audited profit of Xiezhong Nanjing exceeded RMB73 million, Mr. Chen Cunyou exercised the said option and in contemplation of his son Mr. Chen Hao going to succeed his interest in the Group's business, designated Sunrise International which is wholly-owned by Mr. Chen Hao to subscribe for 100 shares of US\$1.0 each in Xiezhong BVI at par and at the same time, CUAS subscribed for 599 shares in Xiezhong BVI at par, such that on 1 February 2010, Xiezhong BVI became owned as to approximately 14.29% by Sunrise International and approximately 85.71% by CUAS. As Xiezhong BVI held a 70% attributable interest in Xiezhong Nanjing at that time, Sunrise International's then approximately 14.29% interest in Xiezhong BVI represented a then attributable interest of approximately 10% in Xiezhong Nanjing.

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,

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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.

On 30 May 2010, pursuant to a subscription agreement dated 2 February 2010, 300 shares of US\$1.0 each were issued to Sunrise International at a total issue price of US\$11 million, which was the same as the consideration paid by Xiezhong HK to Mr. Chen Cunyou for acquiring 30% interest in Xiezhong Nanjing pursuant to the equity transfer agreement dated 28 January 2010 referred to in the sub-paragraph headed "Xiezhong Nanjing" above. The subscription of such 300 shares in Xiezhong BVI by Sunrise International was financed by a US\$5 million bank loan (which was repaid in full in March 2011 with a loan from Mr. Chen Cunyou to Mr. Chen Hao) and by a US\$6 million loan from Mr. Chen Cunyou to Mr. Chen Hao who on-lent to Sunrise International. There was no written agreement in respect of the aforesaid loans from Mr. Chen Cunyou. Mr. Chen Cunyou does not have any equity or any other interest in Sunrise International. Mr. Chen Cunyou and Mr. Chen Hao have confirmed that there was no arrangement between Mr. Chen Cunyou, Mr. Chen Hao and Sunrise International for the transfer of the 30% interest in Xiezhong Nanjing to Xiezhong HK referred to in the sub-paragraph headed "Xiezhong Nanjing" above. As advised by our PRC legal advisers, the acquisition of 300 shares in Xiezhong BVI by Sunrise International was not subject to any approval of the relevant PRC regulatory authorities, and Mr. Chen Hao, as a PRC resident, had duly completed all the requisite foreign exchange registration formalities applicable to foreign investments by PRC residents in respect of his holding of shares in Xiezhong BVI through Sunrise International. After such subscription and immediately before the Reorganisation, Xiezhong BVI was held as to 40% by Sunrise International and as to 60% by CUAS.

Having considered the circumstances under which Sunrise International acquired shares in Xiezhong BVI mentioned above, Mr. Chen Cunyou is considered as one of our Controlling Shareholders.

Xiezhong HK

Xiezhong HK was incorporated in Hong Kong on 21 May 2008 with one share of HK\$1.0 each issued to the initial subscriber, which transferred that share to Xiezhong BVI at par on the same date.

Xiezhong Liaoning

With a view to enhancing the production scale and meeting local demands more efficiently, Xiezhong Nanjing decided to form a strategic joint venture with a local partner in Liaoning, so as to leverage on its customer network. Xiezhong Liaoning was established in the PRC on 29 September 2009 with a registered capital of RMB10 million, which was contributed as to 60% by Xiezhong Nanjing and as to 40% by 瀋陽特種焊料有限公司 (Shenyang Special Solder Co., Ltd.*).

瀋陽特種焊料有限公司 (Shenyang Special Solder Co., Ltd.*) is principally engaged in processing and selling of welding materials. It has a long standing business relationship with one of the top five customers of our Company. Xiezhong Liaoning was formed as a strategic

HISTORY AND DEVELOPMENT

joint venture with a view to enhancing the Group's business with such customer and the Group's production scale and also fostering its strategic development in the northern region of the PRC by leveraging on the customer network of this local partner in Liaoning and meeting local demands more efficiently.

Xiezhong Beijing

Xiezhong Beijing was established on 25 October 2006 with an initial registered capital of RMB3 million, which was contributed as to 55% by Shanghai Delphi, an Independent Third Party, and as to 45% by Beijing Guanghua, an Independent Third Party. Xiezhong Beijing has been principally engaged in the sales of automotive HVAC systems since its establishment.

On 15 May 2008, Beijing Hainachuan entered into an equity transfer agreement with each of Shanghai Delphi and Beijing Guanghua, pursuant to which Beijing Hainachuan acquired from Shanghai Delphi and Beijing Guanghua their respective 4% and 36% interests in Xiezhong Beijing at a consideration of approximately RMB0.1 million and RMB1.1 million respectively (which were the same as 4% and 36% of the then registered capital of Xiezhong Beijing). Thereafter, Xiezhong Beijing was owned as to 51% by Shanghai Delphi, as to 9% by Beijing Guanghua and as to 40% by Beijing Hainachuan.

Beijing Hainachuan, being a member of the BAIC Group, is principally engaged in the sales of automobile parts and capital investment. In January 2010, with a view to strengthening the Group's relationship with the BAIC Group, Xiezhong Nanjing decided to invest in Xiezhong Beijing by acquiring a 50% interest in Xiezhong Beijing so as to form a strategic joint venture with Beijing Hainachuan, which would hold the remaining 50% interest in Xiezhong Beijing. As a result, on 2 March 2010, Xiezhong Nanjing entered into an equity transfer agreement with each of Shanghai Delphi and Beijing Guanghua for the acquisition of their respective 51% and 9% interests in Xiezhong Beijing at a consideration of RMB1.53 million and RMB0.27 million respectively (which were the same as 51% and 9% of the then registered capital of Xiezhong Beijing). On the same date, Xiezhong Nanjing also entered into an equity transfer agreement with Beijing Hainachuan for the disposal of 10% interest in Xiezhong Beijing at a consideration of RMB0.3 million (which was the same as 10% of the then registered capital of Xiezhong Beijing). The amounts of consideration of the aforesaid equity transfers were based on the registered capital of Xiezhong Beijing without any premium given Xiezhong Beijing was trading at a loss at that time. After the aforesaid equity transfers, Xiezhong Beijing has been owned as to 50% by Xiezhong Nanjing and as to 50% by Beijing Hainachuan.

On 17 September 2010, the registered capital of Xiezhong Beijing was increased from RMB3 million to RMB43 million by RMB40 million, which was contributed as to 50% by Xiezhong Nanjing and as to 50% by Beijing Hainachuan.

On 26 January 2011, Xiezhong Nanjing and Beijing Hainachuan, being equity holders of Xiezhong Beijing, resolved at a shareholders' meeting that the number of directors of Xiezhong Beijing be increased from six to seven with the additional director to be nominated by Xiezhong Nanjing and that matters to be decided by the board of directors of Xiezhong Beijing shall be decided by a simple majority of votes. On the same date, they also

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agreed to authorise the board of directors of Xiezhong Beijing their power to govern the financial and operating policies of Xiezhong Beijing. Pursuant to the articles of association of Xiezhong Beijing, removal of directors of Xiezhong Beijing requires unanimous votes of its shareholders. Xiezhong Nanjing therefore obtained an effective control over the majority of the board of directors of Xiezhong Beijing and the financial and operating policies of Xiezhong Beijing. As a result, Xiezhong Beijing became a subsidiary of the Group on 26 January 2011 under the accounting principles adopted by the Group.

Xiezhong Hubei

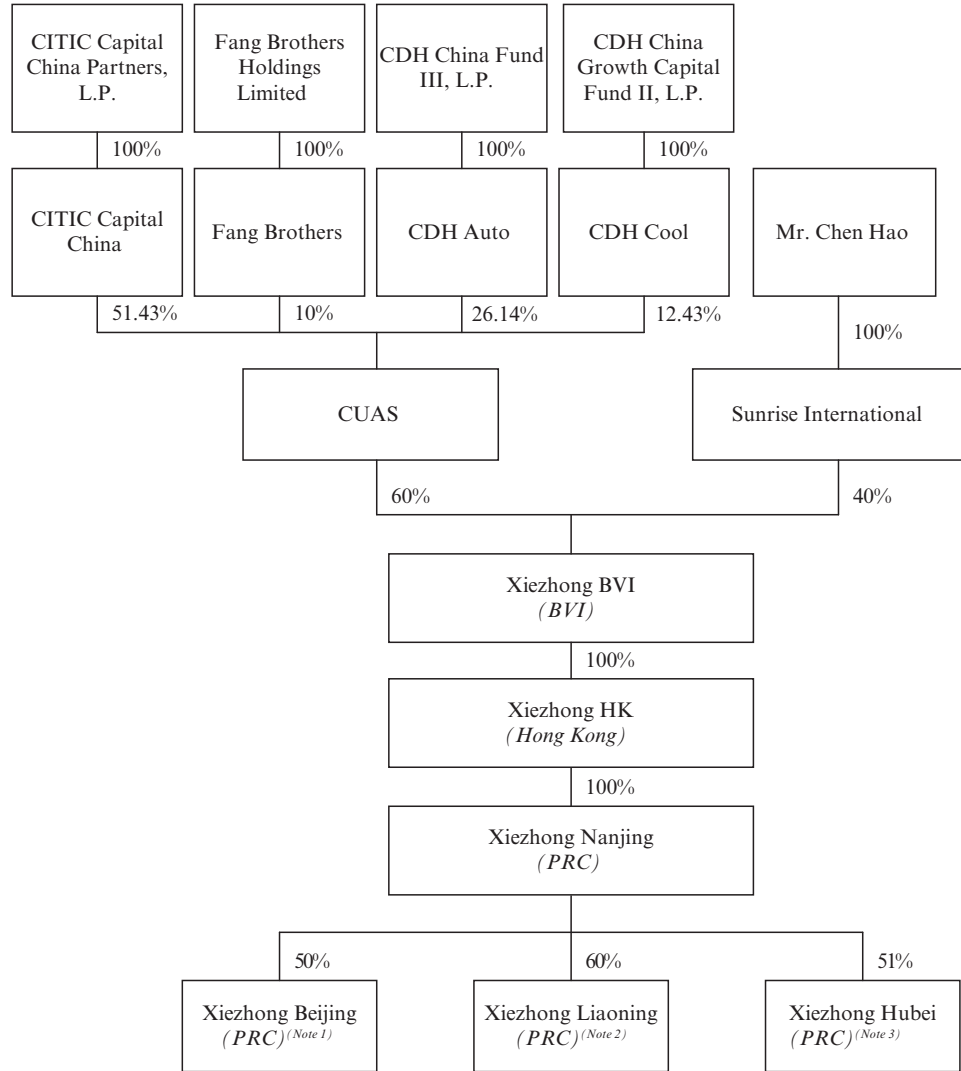
Xiezhong Hubei was established on 13 April 2010 with a registered capital of RMB10 million, which was contributed as to 51% by Xiezhong Nanjing and as to 49% by Hubei Leidite.

Hubei Leidite is principally engaged in designing, manufacturing and selling of automobile intercoolers and radiators, and providing related after sales services. It has a long standing business relationship with a large automobile company which is a customer of the Group. Xiezhong Hubei was formed as a strategic joint venture with a view to enhancing the Group's business with such customer and the Group's production scale and also fostering its strategic development through the joint venture in the central region of the PRC. Xiezhong Hubei is a subsidiary of the Company within the meaning of the Listing Rules. Pursuant to the articles of association of Xiezhong Hubei, all decisions (including participation in the financial and operating policy decisions) need to be unanimously passed by either all the equity holders or the equity holders representing two-thirds of equity interests in Xiezhong Hubei. Therefore, although the Group holds 51% equity interests in Xiezhong Hubei, it is unable to control Xiezhong Hubei. As a result, Xiezhong Hubei is accounted for as a jointly controlled entity under the accounting principles adopted by the Group.

HISTORY AND DEVELOPMENT

CORPORATE STRUCTURE PRIOR TO THE REORGANISATION

Our corporate and shareholding structure immediately prior to the Reorganisation is set out in the chart below:



Notes:

1. The remaining 50% interest in Xiezhong Beijing is held by Beijing Hainachuan. Save for the holding of a 50% interest in Xiezhong Beijing, Beijing Hainachuan is an Independent Third Party.
2. The remaining 40% interest in Xiezhong Liaoning is held by 瀋陽特種焊料有限公司 (Shenyang Special Solder Co., Ltd.*). Save for the holding of a 40% interest in Xiezhong Liaoning, 瀋陽特種焊料有限公司 (Shenyang Special Solder Co., Ltd.*) is an Independent Third Party.
3. The remaining 49% interest in Xiezhong Hubei is held by Hubei Leidite. Save for the holding of a 49% interest in Xiezhong Hubei, Hubei Leidite is an Independent Third Party.

HISTORY AND DEVELOPMENT

REORGANISATION

Our Group underwent the following reorganisation steps to rationalise our group structure for the Listing:

(a) Incorporation of the Company

On 30 September 2011, our Company was incorporated in the Cayman Islands as an exempted company with an authorised share capital of HK\$390,000 divided into 39,000,000 Shares with one nil paid Share issued to the initial subscriber, which transferred such nil paid Share to CUAS on 23 November 2011. On 23 November 2011, our Company issued four nil paid Shares to Sunrise International and five nil paid Shares to CUAS.

(b) Capitalisation of the debts due from Xiezhong BVI to CUAS and issuance of shares from Xiezhong BVI to Sunrise International

On 7 November 2011, the debts due from Xiezhong BVI to CUAS totalled approximately US\$29.0 million, which was arisen from the funding from CUAS to Xiezhong BVI in financing Xiezhong BVI to acquire equity interest in Xiezhong Nanjing through Xiezhong HK in 2008, were capitalised by way of Xiezhong BVI issuing three shares of US\$1.00 each to CUAS, credited as fully paid at par, as full and final settlement of the said debt. On the same date, two shares of US\$1.00 each were issued to Sunrise International at par. Immediately thereafter, Xiezhong BVI remained to be owned as to 60% by CUAS and as to 40% by Sunrise International.

(c) Capitalisation of the debts due from Xiezhong HK to Xiezhong BVI

On 29 November 2011, the debts due from Xiezhong HK to Xiezhong BVI totalled approximately US\$39.7 million were capitalised by way of Xiezhong HK issuing one share of HK\$1.00 each to Xiezhong BVI, credited as fully paid at par, as full and final settlement of the said debt.

(d) Share swap

Pursuant to a share swap agreement dated 16 January 2012 among CUAS, Sunrise International and our Company, CUAS and Sunrise International transferred all their respective interests in Xiezhong BVI to our Company in consideration of our Company (a) allotting and issuing 59,994 and 39,996 Shares to CUAS and Sunrise International respectively credited as fully paid; (b) crediting the previously issued six nil paid Shares held by CUAS as fully paid; and (c) crediting the previously issued four nil paid Shares held by Sunrise International as fully paid on 20 January 2012.

After such share swap, our Company has become the holding company of our Group.

HISTORY AND DEVELOPMENT

(e) Distribution of Shares in specie to shareholders of CUAS

On 20 January 2012, with a view to streamlining the structure of the holding of the Shares by the Group of Institutional Shareholders, CUAS made a distribution in specie by transferring 60,000 Shares held by it to its shareholders namely, the Group of Institutional Shareholders in proportion to their respective interest in CUAS as follows:

Name	Number of Shares Distributed
CITIC Capital China	30,858
Fang Brothers	6,000
CDH Auto	15,684
CDH Cool	7,458

(f) Increase of authorised share capital of the Company

On 10 February 2012, the authorised share capital of our Company was increased from HK\$390,000 divided into 39,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares.

(g) Termination of the Xiezhong BVI Shareholders' Agreement and the Group of Institutional Investors entering into the Shareholders' Agreement

On 4 June 2012, CUAS, Sunrise International and Xiezhong BVI entered into an agreement to terminate the Xiezhong BVI Shareholders' Agreement.

On the same date, the Group of Institutional Shareholders entered into the Shareholders' Agreement among themselves for a term of one year. 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 shall 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.

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 period commencing on the date by reference to which disclosure of its shareholding in our Company is made in the Prospectus and ending on the date which is six months from the Listing Date (the "First Six-month Period"), any of the Shares in respect of which it is shown in this prospectus to be the

HISTORY AND DEVELOPMENT

beneficial owner (the “Relevant Shares”) pursuant to Rule 10.07(1)(a) of the Listing Rules; and (b) in the period of six months commencing on the date on which the First Six-month Period expires (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.

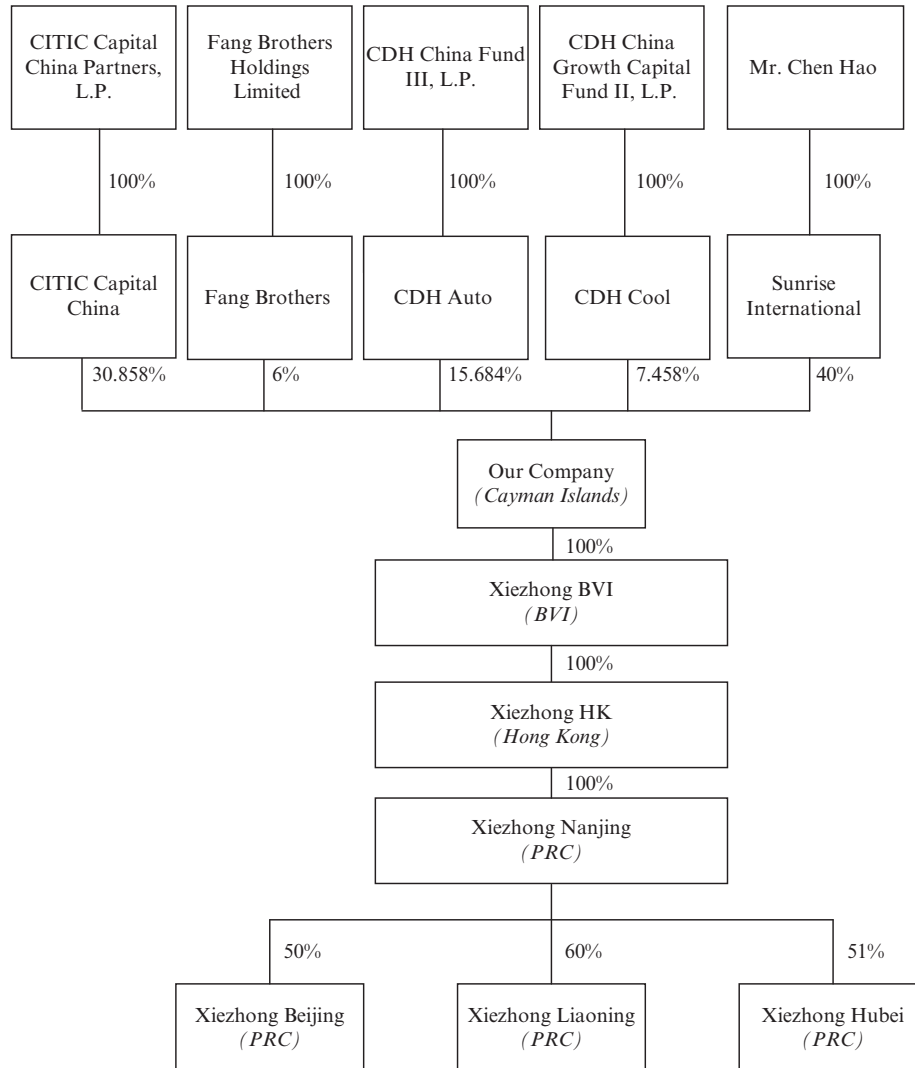
(h) Capitalisation Issue

Conditional upon the share premium account of our Company being credited as a result of the Share Offer, a sum of HK\$5,999,000 standing to the credit of the share premium account of our Company will be capitalised by way of applying such sum in paying up in full 599,900,000 Shares for the issue (the “Capitalisation Issue”) to Fang Brothers, CITIC Capital China, CDH Cool, CDH Auto and Sunrise International divided among themselves in proportion to their respective interest in the Company immediately before the Share Offer.

As advised by our PRC Legal Advisers, the Reorganisation is in compliance with the relevant applicable PRC laws and regulations in all material aspects.

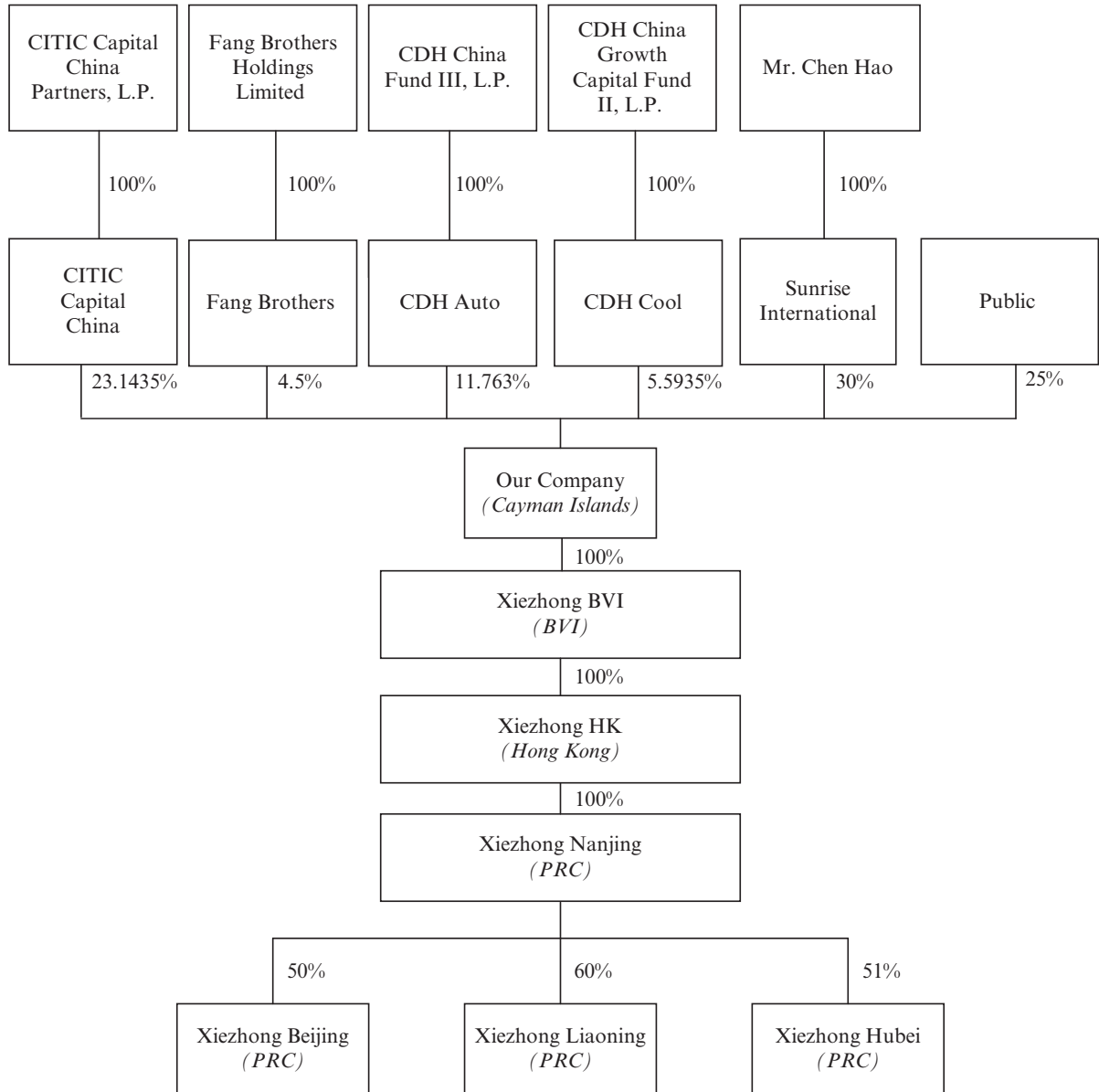
HISTORY AND DEVELOPMENT

Our corporate and shareholding structure immediately *before* the Share Offer and the Capitalisation Issue is as follow:



HISTORY AND DEVELOPMENT

Our corporate and shareholding structure immediately *after* the Share Offer and the Capitalisation Issue is as follow:



HISTORY AND DEVELOPMENT

SHARE INCENTIVE PLAN

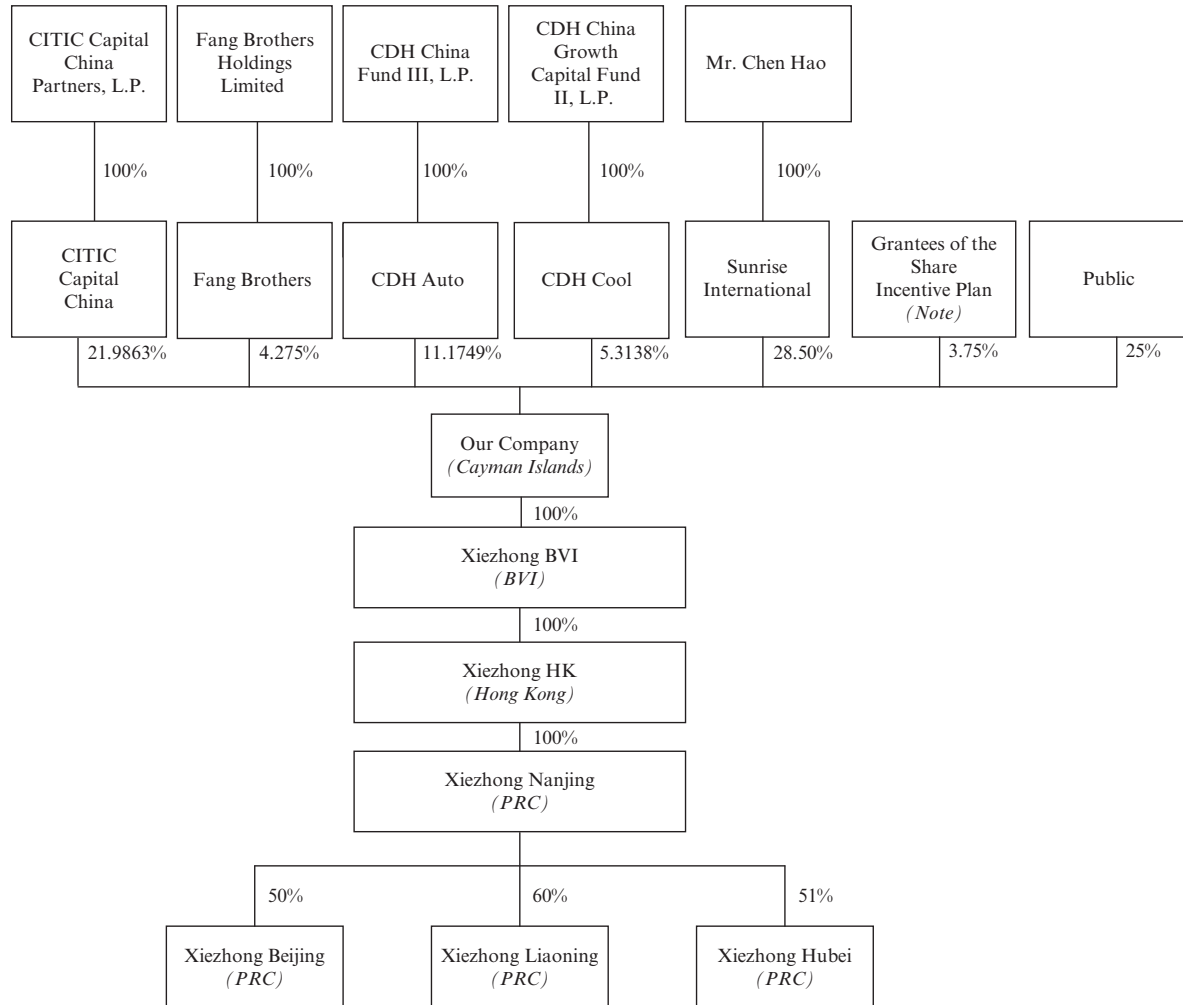
On 29 October 2008, the board of directors of Xiezhong Nanjing adopted the Share Incentive Plan, pursuant to which 33 grantees were granted rights to acquire at nil consideration, shares in Xiezhong Nanjing or its listing vehicle holding company, totalled 5% of the issued shares of such listing vehicle immediately before its listing, conditional upon Xiezhong Nanjing having achieved the targeted profits for each of the years 2008, 2009 and 2010 of RMB60 million, RMB63 million, and RMB80 million respectively. As Xiezhong Nanjing had achieved the targeted profits, each of Fang Brothers, CITIC Capital China, CDH Auto, CDH Cool and Sunrise International agreed to transfer a total of 30,000,000 Shares to the said grantees at nil consideration in proportion to their respective interests in the Company upon the grantees exercising their rights under the Share Incentive Plan. Such rights can be exercised for a period of 10 years from the date of grant. The grantees have agreed that they would not exercise any of their rights before the first anniversary of the Listing Date and that any exercise of their rights before the second anniversary of the Listing Date would be subject to a limit of 50% with their remaining rights to be exercised from the second anniversary onwards.

Particulars of the grants under the Share Incentive Plan are set out below:

Grantees	Number of Shares to be acquired by the grantees	Approximate percentage of interest in our Company immediately after the Listing
Directors		
Mr. Chen Cunyou	10,260,000	1.2825%
Mr. Ge Hongbing	6,000,000	0.75%
Senior management		
Mr. Huang Yugang	3,000,000	0.375%
Others (30 Employees)	10,740,000	1.3425%

HISTORY AND DEVELOPMENT

Our corporate and shareholding structure immediately *after* the Share Offer, the Capitalisation Issue and transfer of Shares to the grantees under the Share Incentive Plan (which transfer will not take place until the first anniversary of the Listing Date) is as follow:



Note: There will be no transfer of Shares to the grantees under the Share Incentive Plan before the first anniversary of the Listing Date.

OVERVIEW

Our business

We are one of the leading suppliers of HVAC systems for SUVs, pickup trucks and heavy trucks in terms of sales volume in 2011 in China. We principally engage in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components. Our automotive HVAC systems represented approximately 94.5%, 95.7% and 90.4% respectively, of our total turnover for the Track Record Period. Our automotive HVAC systems are mainly used in SUVs, pickup trucks and heavy trucks. According to the Timer Auto Report, in terms of sales volume, we were the fifth largest supplier of automotive HVAC systems (with the market share of 9.9%) for SUVs and pickup trucks and the largest supplier of automotive HVAC systems (with the market share of 19.1%) for heavy trucks in China in 2011. According to the same report, we are 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. We also supply HVAC systems and HVAC components for construction machineries and other types of vehicles such as light trucks, sedans and buses.

Our production bases

Currently, we have two production bases. One is located at Jiangning District, Nanjing, Jiangsu, for the manufacture of HVAC systems and HVAC components (including evaporators, condensers, heater cores, HVAC hoses, HVAC housings, radiators, intercoolers and oil coolers). The other production base is located at Fushun Economic Development Zone, Fushun, Liaoning, for the manufacture of HVAC systems (without installing the compressors). We have an annual production capacity of 567,984 units of HVAC systems and 114,972 pieces of HVAC components in aggregate as at 31 December 2011. In order to further enhance our service to our customers and improve our competitive strengths, we have also acquired the land use right of a parcel of land at Daxing District, Beijing with a total site area of 45,178.23 sq.m. and plan to build our third production base.

Our products

According to the Timer Auto Report, driven by the growth of China's automotive market and rising penetrating rate of HVAC systems in automobile, the sales of automotive HVAC systems has grown rapidly over the past few years. As an integral part of an automotive, the primary function of a HVAC system is to maintain the temperature level of the vehicle for the comfort of its occupants. Automotive HVAC systems are assembled from different automotive HVAC components, such as, evaporators, condensers, heater cores, compressors, HVAC hoses, radiators, intercooler, oil cooler, receiver drier, expansion valve and HVAC control units. We primarily develop, manufacture and sell automotive HVAC systems and components (such as evaporators, condensers, heater cores and HVAC hoses). For manufacturing of our HVAC systems, we also source some other HVAC components from other suppliers (such as compressors, receiver driers, expansion valves and HVAC control units).


Our research and development

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. In order to succeed in this industry, we place emphasis on strengthening our research and development capabilities. Our research and development team has a proven record of research and development capabilities and experience on automotive HVAC systems as well as related production techniques. We have 9 registered patents and have applied for registration of 6 other patents as at the Latest Practicable Date. In 2009, we have been accredited with the title 高新技術企業 (High and New Technology Enterprise*). To further strengthen our research and development capabilities, we are in the course of constructing a research and development building with a gross floor area of 15,631.00 sq.m. in the Jiangning Plant. We have purchased the environment simulation laboratory equipment, which is expected to put into use at the end of 2012. For information on our research and development capabilities, please refer to the paragraph titled “Our competitive strengths — Strong research and development capabilities and ability to offer customised products to customers” and “Our Strategies — Strengthening our research and development capabilities and developing HVAC system for electric vehicles” in this section of this prospectus.

Our customers

We offer automotive HVAC systems to automakers in China such as Foton, Hawtai Motor, Shuguang Automotive, Zhongxing Auto, Great Wall and Sinotruk. We also offer automotive HVAC components to automakers and other automotive HVAC system and component suppliers in China. Our products are mainly used in SUVs, pickup trucks and heavy trucks. The major customers of our HVAC systems for SUVs, pickup trucks and heavy trucks include, Foton, Shuguang Automotive, Hawtai Motor, and Sinotruk, which we have approximately 9 years, 9 years, 6 years and 9 years of business relationship, respectively. According to the Timer Auto Report, Foton and Sinotruk are two leading domestic heavy trucks manufacturers. In addition to strengthening our leading position in the automotive HVAC systems for SUVs, pickup trucks and heavy trucks market in China, we are also actively developing our presence in the automotive HVAC systems for construction machineries and other types of vehicles, such as sedans. One of our operating subsidiaries, Xiezhong Nanjing, has been recognised as an “Excellent Supplier” by certain customers, such as Foton, Hawtai Motor, Zhongxing Auto and SANY.

Our recognitions

Our HVAC systems and HVAC components are marketed under our own trademark “” and this trademark has been recognised as a “Nanjing Municipal Well-known Trademark (南京市著名商標)” in 2010 and as a “Jiangsu Province Well-known Trademark (江蘇省著名商標)” in 2011. Our products have been recognised as “Nanjing Famous Brand (南京名牌產品)” by 南京市人民政府 (Nanjing Municipal People’s Government*) in 2011.

Other information

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.


For the Track Record Period, turnover attributable to sales of automotive HVAC systems accounted for approximately 94.5%, 95.7% and 90.4% of our total turnover respectively. For the same periods, turnover attributable to sales of automotive HVAC components accounted for approximately 5.5%, 4.3% and 9.6%, respectively, of our total turnover.

During the Track Record Period, all of our revenue was generated from our sales to the PRC domestic market.

OUR COMPETITIVE STRENGTHS

We believe our success to date and potential for future growth are attributable to our competitive strengths which include the following:

Leading position in automotive HVAC systems for SUVs, pickup trucks and heavy trucks market in China with strong brand recognition

We offer automotive HVAC systems mainly for SUVs, pickup trucks and heavy trucks. According to the Timer Auto Report, we are one of the leading suppliers of HVAC systems for SUVs, pickup trucks and heavy trucks in terms of sales volume in 2011 in China. According to the Timer Auto Report, in terms of sales volume, we were the fifth largest supplier (with market share of 9.9%) of automotive HVAC systems for SUVs and pickup trucks and the largest supplier (with market share of 19.1%) of automotive HVAC systems for heavy trucks in China in 2011. According to the same report, we are 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. In 2011, our products have been recognised as “Nanjing Famous Brand (南京名牌產品)” by the 南京市人民政府 (“Nanjing Municipal People’s Government”). In 2010 and 2011, our trademark “” have been recognised as “Nanjing Municipal Well-known Trademark” and as Jiangsu Province Well-known Trademark (江蘇省著名商標), respectively. With our leading market position and strong brand recognition established with our customers, we believe we are well-positioned to benefit from future growth in automotive HVAC systems industry in the PRC.

Long established and stable business relationship with our key customers in China

Our Directors believe due to our competitive strengths as set out in this section, we have succeeded in developing a stable and longstanding business relationship with our major customers, such as Foton, Shuguang Automotive, Hawtai Motor and

Sinotruk (amongst which, Foton and Sinotruk are two leading domestic heavy trucks manufacturers according to the Timer Auto Report) which we have approximately 9 years, 9 years, 6 years and 9 years of business relationship with, respectively. One of our operating subsidiary Xiezhong Nanjing has also been recognised as an “Excellent Supplier” by certain customers, such as Foton, Hawtai Motor, Zhongxing Auto and SANY. We believe our established and solid customer base provides us with a competitive advantage compared with other HVAC systems manufactures. For further information, please refer to the paragraph headed “Our Competitive Strengths — Strong research and development capabilities and ability to offer customised products to customers” in this section of this prospectus.

Strong research and development capabilities and ability to offer customised products to customers

We operate in an industry where the products require a high degree of customisation. The technical specifications and requirements of an automotive HVAC system differ depending on the model of vehicle which the HVAC system is to be used. The automotive HVAC systems have to be developed, customised and manufactured based on the technical requirements and specifications of each different model of vehicles. For this reason, we have emphasized the importance of strengthening our research and development capabilities. As at the Latest Practicable Date, our research and development team consists of approximately 117 staffs. Amongst which, 114 staffs have received tertiary education or above. Our research and development team has a proven record of research and development capability on automotive HVAC systems as well as related production techniques. We have 9 registered patents and have applied for registration of 6 other patents as at the Latest Practicable Date. Our research and development projects are mainly conducted in the laboratory at the Jiangning Plant. This laboratory has been recognised by Foton that it has met its capability requirement on key laboratory in July 2010. This laboratory has been accredited ISO/IEC 17025: 2005 which specifies the general requirements for the competence of testing and calibration laboratories by 中國合格評定國家認可委員會 (China National Accreditation Service for Conformity Assessment*) in February 2009 and again in March 2012. To further strength our research and development capabilities, we are in the course of constructing a research and development building with a gross floor area of 15,631.00 sq.m. in the Jiangning Plant. We estimate that the construction of the research and development building will be completed in the end of 2012. We have purchased the environment simulation laboratory equipment for RMB27.8 million, which is expected to put into use at the end of 2012. In 2009, we have been accredited with the title 高新技術企業 (High and New Technology Enterprise*).

We believe that our research and development capabilities have allowed us to timely respond to our customers’ new product development requests and meet the specifications and technical requirements of our different customers.

In addition to cooperation with automakers, we have also established cooperating relationship in conducting research and development projects with certain academic institutions (such as Zhejiang University and Nanjing Agricultural University Institute of Technology) and other HVAC components suppliers. As an example, in October 2006, we entered into an agreement with Nanjing Agricultural University Institute of

Technology to improve the efficiency of evaporators used in our HVAC systems under an improvement program. We have subsequently applied the result of this project in our production process which has helped us to reduce the weight of our products.

Stringent quality control

We view product quality of critical importance to our business. Therefore, we place strong emphasis on the quality of our products through the implementation of quality control measures at our production process. We also believe that a good assurance system is a reliable mechanism to ensure the quality of our products, thus increasing our customers' confidence in our products. We conduct quality inspection during various key production processes to monitor the quality of our product. We carry out quality control process during the inspection and testing in accordance with the ISO/TS16949 requirements. We have proven our capability to meet product specifications and quality requirements of our customers. Our Group has been awarded certain quality system certifications. We have also earned numerous recognitions and honourable titles such as "Excellent Supplier" (優秀供應商) and "Top Ten Suppliers" (十佳供應商) from our customers such as Foton, Zhongxing Auto, Hawtai Motor and SANY. For further details of titles awarded to us or our products by customers, please see the paragraph titled "Awards and recognitions" in this section of this prospectus. These certifications, recognitions and titles are important indicators of our success and reflect our commitment to strict quality standards which help us to attract new customers.

Experienced, stable and dedicated key management personnel with significant industry expertise

Our key senior executives, including Mr. Chen Cunyou, our general manager and executive Director, Mr. Ge Hongbing, our executive deputy general manager and executive Director and Mr. Huang Yugang, our vice general manager, have extensive experience in the automotive HVAC systems industry. They have approximately ten years' experience working in our Group and have joined us since the establishment of our first operating subsidiary, Xiezhong Nanjing, in 2002. Our continued success in expanding our business and maintaining our growth is to a large extent attributable to the industry expertise and customer relationships of our management. We believe our experienced and dedicated management team will continue to lead our Group in capturing market opportunities and to develop and implement our business strategies.

OUR STRATEGIES

Our goal is to become a leader in the automotive HVAC systems market in China. We aim to achieve this objective by implementing the following strategies:

Reinforcing our leading market position in the automotive HVAC systems for SUVs, pickup trucks and heavy trucks markets in the PRC and expanding our production capacity to support future sales demand

According to the Timer Auto Report, China's automotive HVAC systems for SUVs, pickup trucks and heavy trucks markets are expected to grow at a CAGR of around 13% from 2011 to 2015. As one of the leading suppliers of automotive HVAC systems for SUVs, pickup trucks and heavy trucks, we believe we will benefit from such market growth. We intend to reinforce our current leading position in the PRC automotive HVAC systems for SUVs, pickup trucks and heavy trucks markets by i) exploring sales opportunities with other automakers which also manufacture SUVs, pickup trucks or heavy trucks and proactively participating in their new product development from the initial design stage; ii) enhancing our new product development capabilities; and iii) improving our product quality. In selecting other automakers which also manufacture SUVs, pickup trucks or heavy trucks which we intend to establish business relationship with, we will strive to look for automakers which have a good market reputation, a leading market position, with steady business growth and a strong financial background. Similar with our existing customers, we intend to proactively participate in product development with new customers from the initial design stage. To solidify our business relationship with these automakers, we may also establish production base close to these automakers. Currently, we are supplying HVAC systems for sedans and pickup trucks to certain sino-foreign joint ventures automakers such as Shenlong Motor and FAW-GM, respectively. We are exploring the market by seeking to sell HVAC systems for SUVs, pickup trucks and heavy trucks to such existing customers as well. We are also actively seeking business opportunities with other similar sino-foreign joint ventures automakers for sales of HVAC systems for SUVs, pick up trucks and heavy trucks.

In order to support our future sales demand, we intend to increase our production capacities. Our production facilities for HVAC systems achieved an average utilisation rate of 81.9%, 80.3% and 80.1% during the Track Record Period, calculated as described in this section under the paragraph titled "Production Facilities and Production Capacities — Production capacity and utilisation rate". For details of our expansion plans, please refer to the paragraph titled "Production Facilities and Production Capacities — Expansion of production plant" in this section of this prospectus.

Expanding our business in sedans and construction machineries HVAC system markets

To diversify our customer base and better leverage our already established presence in China automotive HVAC system and components markets, we are actively developing our business opportunities with sedans and construction machineries manufacturers. We have already supplied HVAC systems or HVAC components for

sedans to our existing customers, such as Foton, GAC Changfeng and Hawtai Motor. In addition to the existing customers, we have developed a number of new sedan manufacturers as our customers such as Shenlong Motor and BAIC Group from 2010. Amongst which, Shenlong Motor is a sino-foreign joint venture automaker. For the Track Record Period, our sales to customers who are construction machinery manufacturers has increased rapidly from approximately RMB10.3 million in 2009 to RMB32.8 million in 2010 and RMB58.0 million in 2011, representing approximately 3.0%, 6.0% and 9.3% of our total turnover, respectively. We have already been recognised as an “Excellent Supplier” by SANY. We will continue to further expand our business in sedan and construction machinery HVAC system markets.

Strengthening our research and development capabilities and developing HVAC system for electric vehicles

We believe our research and development capabilities are one of the key reasons for our success. We will strive to strengthen our research and development capabilities by recruiting more talents, increasing research and development expenditure and expanding our research and development facilities. We are in the course of constructing a research and development building with a gross floor area of 15,631.00 sq.m. in the Jiangning Plant. The construction of the research and development building is expected to be completed in the end of 2012. We have purchased the environment simulation laboratory equipment for RMB27.8 million, which is expected to put into use at the end of 2012. This equipment allows us to test our products under different simulated environmental conditions which can help us to develop the market of HVAC systems for sedans.

We believe that as a result of the growing environmental protection concerns, electric vehicles will become the future trend of the automotive industry. We have commenced research and development of HVAC systems for electric vehicles in 2008 and have started supplying HVAC systems for electric vehicles to Foton in 2010. We have also cooperated with other institutions to develop certain components of HVAC system for electric vehicles.

Maintaining our cost advantages

In order to maintain our long term competitiveness and stable profit margins, we will endeavour to maintain our cost advantages primarily through i) new product research and development; ii) optimising the manufacturing process and efficiency by upgrading our production lines and improving the level of automation; and iii) increasing economies of scale.

We believe that through the above measures, we will be able to efficiently manage our production cost and maintain our profitability.

BUSINESS

Expanding our current network of production bases

To further improve our service to our customers, reduce the distribution cost and strengthen our strategic co-operation with our major customers, in addition to our presence in Jiangsu, we intend to strengthen our current presence in Liaoning, Beijing and Hubei. We are also considering establishing new manufacturing base in other regions of China by ourselves or through mergers and acquisitions or joint ventures. As at the Latest Practicable Date, we did not have any specific acquisition target in respect of which we have entered into any legally binding agreement.

PRODUCTS

Our principal products are automotive HVAC systems. We also manufacture HVAC components, including evaporators, condensers, heater cores, radiators, intercoolers, oil coolers, HVAC hoses and HVAC housings.

The following table sets forth the breakdown of our sales turnover by products during the Track Record Period:

Products	Year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>
HVAC systems	327,513	94.5	521,869	95.7	560,576	90.4
HVAC components ⁽¹⁾	<u>19,026</u>	<u>5.5</u>	<u>23,633</u>	<u>4.3</u>	<u>59,328</u>	<u>9.6</u>
Total turnover	<u><u>346,539</u></u>	<u><u>100.0</u></u>	<u><u>545,502</u></u>	<u><u>100.0</u></u>	<u><u>619,904</u></u>	<u><u>100.0</u></u>

Notes:

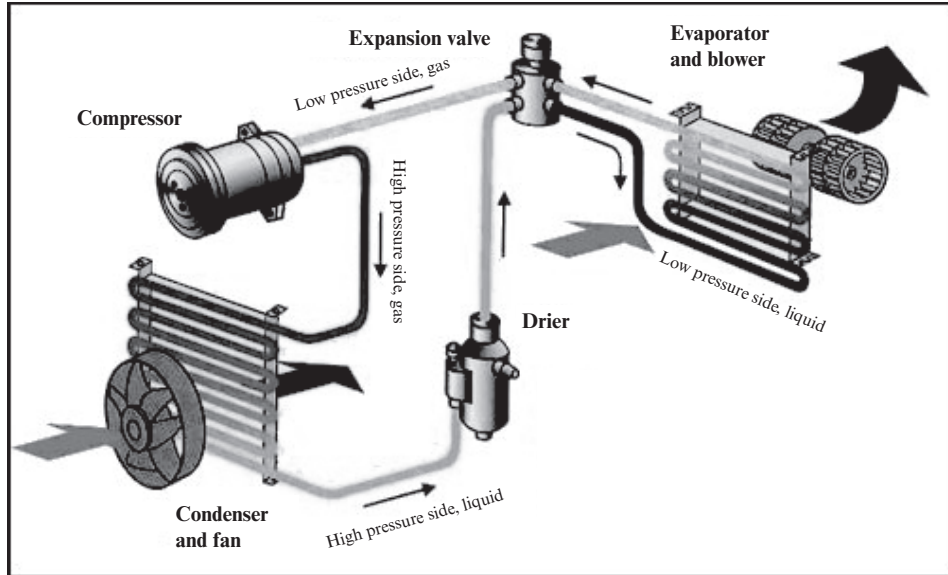
- (1) HVAC component mainly comprises of evaporator, condenser and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing).

HVAC system

The technical specifications and requirements of an automotive HVAC system differ depending on the model of vehicle which the HVAC system is to be used. In order to be compatible and be able to adapt into different layouts of a vehicle's model, automotive HVAC systems have to be designed, developed and manufactured on a made-to-order basis.

Automotive HVAC systems are assembled from different automotive HVAC components, such as, evaporators, condensers, heater cores, compressors, HVAC hoses, HVAC housings, radiators, intercooler, oil cooler, receiver drier, expansion valve and HVAC control units.

The following diagram shows the schematic layout of an automotive HVAC system:



HVAC components

Evaporators

Evaporator is where the refrigerant evaporates from liquid form back into gaseous form. Its primary function is to cool down the interior of the vehicle.

The evaporators used in our HVAC systems are self-manufactured and we manufacture a diversified portfolio of evaporators. Our evaporators include laminated, tube-fin, tube-strip and parallel-flow type evaporators. Laminated and parallel-flow evaporators are currently the major types of our evaporator products used in our HVAC systems.

Condensers

Condenser is a heat exchanger that liquefies the high-pressure vapor discharged from compressor. Condenser consists of a series of tubes surrounded by thin fins which provide a large surface area for heat dissipation.

The condensers used in our HVAC systems are self-manufactured. Our condensers include parallel-flow, tube-fin and tube-strip type condensers with different specifications. Parallel-flow condenser is currently the major type of our condenser products used in our HVAC systems.

Other HVAC components

Heater Cores

Heater core provides warmth to the interior of the vehicle by circulating coolant from the engine, and then air blows through the heater core into the passenger compartment of the vehicle.

The heater cores used in our HVAC systems are self-manufactured. Our heater cores include laminated and parallel-flow type heater cores with different specifications. Parallel-flow heater core is currently the major type of our heater core products used in our HVAC systems.

Radiators, intercoolers and oil coolers

We also produce other automotive heat-exchange devices, such as radiator, intercoolers and oil cooler. Depending on the types of HVAC systems, different heat-exchange devices are used in the HVAC systems. Radiators are used for cooling the engine of a vehicle. Oil coolers and intercoolers are applied as an ancillary part to the vehicle engine to enhance its performance and reliability.

HVAC hoses

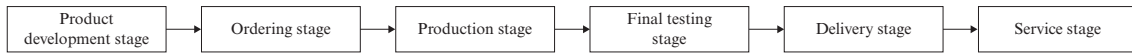
We also produce HVAC hoses. The function of the HVAC hoses is to link various HVAC components in an HVAC system in order to circulate refrigerant within the system.

HVAC housings

We also produce HVAC housings. The function of the HVAC housing is to house different HVAC components for fitting into the vehicle. It directs the air-flow with an HVAC system. Through various air-doors, it controls the direction of air to pass through the heater core or evaporator to achieve heated air or cold air, respectively, depending on the vehicle occupant's setting.

BUSINESS MODEL

The following diagram is a brief illustration of our business model:



Product development stage

As our products are customised for different types of vehicles, we work closely with our customers at the product development stage. Once the product development contract has been signed we will design our product with our customers. After that, we will produce samples of our products to our customers for testing and approval.

Ordering stage

Purchase orders setting out the actual quantity of purchase will be placed with us in accordance with the sales and production plan of our customers from time to time. Production of the products will commence according to the purchase orders placed by our customers.

Production stage

After we receive the purchase orders from our customers, our production planning team will prepare the overall production plan. We will then commence procurement of raw material and HVAC components and commence the production.

Final testing stage

We place great emphasis on the quality and standard of the HVAC systems and HVAC components we produce. We conduct quality inspection during various key production process to monitor the product is up to standard and major faults can be spotted and ratified as soon as possible during the production process. In addition, we conduct final quality control testing on all of our finished goods.

Delivery stage

Our finished products upon passing the quality inspection and testings will be packed and delivered to the location as specified by customers by logistics service providers engaged by us.

Service stage

We will provide technical and after-sales service to our customers during the warranty period.

BUSINESS

PRODUCTION FACILITIES AND PRODUCTION CAPACITIES

We currently have two production bases. One of the production bases is located at Jiangning District in Nanjing, Jiangsu with a total site area of 60,133.90 sq.m., while the other is located at Fushun Economic Development Zone, Fushun, Liaoning, the PRC with a total site area of 30,893.00 sq.m.. We have an annual production capacity of 567,984 units of HVAC systems and 114,972 pieces of HVAC components in aggregate as at 31 December 2011. Some of the equipments of our assembly line and moulds of our products were imported from Japan and Korea.

Production capacity and utilisation rate

The following table sets forth the production capacity, the production volume and the average utilisation rate of our production lines for each of our product types during the Track Record Period:

Products	Year ended 31 December								
	2009			2010			2011		
	Production capacity	Actual production volume	Utilisation rate ⁽⁴⁾	Production capacity	Actual production volume	Utilisation rate ⁽⁴⁾	Production capacity	Actual production volume	Utilisation rate ⁽⁴⁾
HVAC system ⁽¹⁾	399,828	327,648	81.9%	507,492 ⁽²⁾	407,738	80.3%	567,984	454,988	80.1%
HVAC components ⁽³⁾	83,844	51,576	61.5% ⁽⁵⁾	84,924	72,011	84.8%	114,972	98,952	86.1%

Notes:

- (1) As HVAC system is our primary product, most of our HVAC components produced by us are assembled to produce HVAC system rather than sold as separate HVAC components. Hence, our production capacity and production volume of HVAC components is lower than HVAC systems. Our annual production capacity for HVAC systems as at 31 December 2009, 2010 and 2011 are calculated by multiplying the actual production volume of the highest output month in the relevant year by twelve. The production capacity as set out in the above table is an estimation calculated on the aforesaid basis and hence may not reflect the capacity of our production facilities in reality.
- (2) The Fushun Plant commenced operation in April 2010, hence our production capacity contributed by this production base is calculated by multiplying the actual production volume of the highest output month during 2010 by nine (being the nine months period of operation from April 2010 to December 2010).
- (3) The production capacity and the production volume of our HVAC components excludes those HVAC components manufactured by us and used to manufacture HVAC systems rather than sold to third parties as HVAC components products. Our annual production capacity for HVAC components as at 31 December 2010 and 2011 are calculated by multiplying the actual production volume of the highest output month in the relevant year by twelve. In 2009, due to exceptional overtime operations, there was an exceptionally high output in one particular month. To avoid distorting the calculation of production capacity by this outlying output record of a particular month, production capacity in 2009 is calculated by multiplying the actual production volume of the second highest monthly output by twelve. The production capacity as set out in the above table is an estimation calculated on the aforesaid basis and hence may not truly reflect the capacity of our production facilities in reality.
- (4) The average utilisation rate is derived on the basis of the actual production volume divided by the production capacity during the same period of time.

- (5) The utilisation rate of capacity for production of HVAC components for the year ended 31 December 2009 was relatively lower as compared to 2010 and 2011 because there had been a smaller demand for our components products in 2009 as compared to 2010 and 2011.

Expansion of production plant

We intend to leverage our leading position in the automotive HVAC systems for SUV, pickup truck and heavy truck market in China and our product research and development capability to capture further business opportunities. We plan to expand our production capacity to cater for the growing demand from our customers and to realize potential economies of scale.

Nanjing

In order to increase our production capacity in the Jiangning Plant, we plan to upgrade and purchase additional machinery, equipments, moulds and toolings for the Jiangning Plant. With upgraded machinery and additional toolings and moulds, we expect that our production capacity in the Jiangning Plant would increase from about 499,000 units in 2011 to about 700,000 units in 2013. The increase in production capacity in the Jiangning Plant would facilitate us to strengthen capacity for production of HVAC systems for SUVs, pickup trucks and heavy trucks, and to expand the market for HVAC systems for sedans. We estimate that capital expenditure for expansion in the Jiangning Plant would be about RMB90 million. We plan to fund the capital expenditure of RMB90 million partly by the net proceeds of the Share Offer and partly by our internal resources.

We also plan to build a new production plant in Nanjing to manufacture HVAC systems mainly for construction machinery and buses and HVAC components. We intend to acquire land and to commence construction by mid-2013 and complete the whole construction work in 2015. As at the Latest Practicable Date, we have not entered into any legally binding agreement for the acquisition of land. We expect that the New Nanjing Plant would have a designed production capacity of about 150,000 units of HVAC system. We plan to have the New Nanjing Plant to commence operation partially in 2014 and to commence full operation in 2015. We estimate that total capital expenditure for the New Nanjing Plant would be approximately RMB80 million, of which about RMB60 million would be the cost of land and construction; and about RMB20 million would be the cost of machinery and equipment. We plan to fund the capital expenditure of RMB80 million partly by the net proceeds of the Share Offer and partly by our internal resources. When the New Nanjing Plant commence full operation in 2015, we estimate that our total production capacity for production of HVAC system in Nanjing would reach about 850,000 units in 2015.

The New Nanjing Plant is planned with a view to further exploring the market of HVAC systems for construction machineries and buses. During the Track Record Period, our turnover attributable to HVAC systems for construction machineries, buses and other vehicles increased substantially by 4 times in 2010. Our Directors believe that the growth in demand for construction machineries has been driven by infrastructure and construction work being carried out in China in recent years. According to the Timer Auto Report, the PRC Government invested heavily in infrastructure in the past few years, especially in roads

and other related infrastructure. For further details, please refer to the paragraph titled “Key growth drivers — 3. Improving infrastructure” in the “Industry Overview” section of this prospectus. Our Directors also believe that demand for HVAC systems for buses would be steady and stable as bus of various kinds are one of the major transportation used by the general public in the PRC. According to the Timer Auto Report, China’s bus market has achieved a CAGR of 11.2% from 2005 to 2011 in terms of sales volume with sales volume reaching approximately 490,000 units in 2011. For further details, please refer to the paragraph titled “China’s automotive industry segments — 2. Commercial vehicle market” in the “Industry Overview” section of this prospectus. Currently, a number of our automakers customers also manufacture construction machineries and buses. Riding on our established business relationship with them, we intend to further explore business opportunities with our customers in respect of HVAC systems for construction machineries and buses. Since our existing facilities in Nanjing are mainly used in producing HVAC system for SUVs, pickup trucks, heavy trucks and sedans, and that utilisation rate of our capacity already reached over 80% during the Track Record Period, in light of the increasing demand for HVAC systems for construction machineries, buses and other vehicles, we plan to build the New Nanjing Plant in order to further explore market opportunities in this respect. Based on the historical growth of the construction machineries and bus markets in China, the increase of China’s automotive HVAC system penetration rate, and growth of our turnover attributable to HVAC systems for construction machineries, our Directors believe that there will be sufficient customer demand on the Group’s products to utilise the New Nanjing Plant.

Currently, we are also in the course of constructing a research and development building with a gross floor area of 15,631.00 sq.m. in the Jiangning Plant. We estimate that the construction of the research and development building will be completed by the end of 2012.

Liaoning

The Fushun Plant was located at a leased property with an aggregated gross floor area of 1,200 sq.m. until September 2012. In June 2011, we completed the acquisition of the land use right of a parcel of land with a total site area of 30,893.00 sq.m. located in Fushun Economic Development Zone, Fushun Liaoning and have constructed the Fushun Plant with an aggregate gross floor area of 5,656.56 sq.m. We commenced production in the Fushun Plant in October 2011. We estimate that capital expenditure for Fushun Plant for the purchase of additional machinery, equipments, moulds, toolings and other fixed assets would be about RMB10 million. We plan to fund the capital expenditure of RMB10 million partly by the net proceeds of the Share Offer and partly by our internal resources. Along with our normal business growth and as we further tap into the northern China market, we expect that the annual production capacity for production of HVAC systems (without installing compressors) of Xiezhong Liaoning will be increased gradually from approximately 68,000 units of HVAC systems in 2011 to approximately 80,000 units of HVAC systems in 2013.

Beijing

We have acquired a parcel of land at Daxing District in Beijing with an aggregated site area of 45,178.23 sq.m. on which we plan to construct the Beijing Plant for the manufacture of HVAC systems. We intend to commence construction of the Beijing Plant in the second half of 2012 and to complete the whole construction work in 2015. We expect that the Beijing Plant would have a designed production capacity of 200,000 units of HVAC systems, and would commence operation partially in 2014 and full operation in 2015. We estimate that total capital expenditure for the Beijing Plant would be approximately RMB90 million and we, as a 50% equity owner of Xiezhong Beijing, would be responsible of about RMB45 million of the capital expenditure, being mainly the cost of machinery and equipments. We plan to fund the capital expenditure partly by net proceeds from the Share Offer and partly by our internal resources.

The Beijing Plant is being built with a view to exploring market for HVAC systems for sedans especially in Hebei, Beijing and cities nearby. According to the Timer Auto Report, China's sedan market has achieved a CAGR of 22.8% from 2005 to 2011 in terms of sales volume with sales volume reaching approximately 10 million units in 2011. For further details, please refer to the paragraph titled "China's automotive industry segments — Passenger vehicle market" in the "Industry Overview" section of this prospectus. We have been supplying HVAC systems to automakers located in Beijing and Hebei for a number of years, and in 2012, we have also started supplying HVAC systems for sedan to certain automakers in northern China. Steady demand from automakers in the area is observed. By establishing the Beijing Plant, we will be able to save delivery cost and sell HVAC systems to automakers in the proximity at a more competitive price. Our Directors also believe that the establishment of the Beijing Plant would facilitate us to strengthen communication with our existing customers in the area and to establish contacts and potential business opportunities with other automakers in the area. Based on the historical growth of the sedans market in China, and couple with our plan to expand our business in sedan HVAC system market as further detailed in the paragraph titled "Our Strategies — Expanding our business in sedans and construction machineries HVAC system markets" in this section our Directors believe that there will be sufficient customers demand on the Group's products to utilise the Beijing Plant. We have entered into technical agreements of products development with BAIC Group for development of HVAC systems for their electric vehicles. We expect that our Beijing Plant will be able to utilise its capacity and handle the orders from BAIC Group when it commences operation.

In addition, we will seek to acquire, invest in, or form joint ventures or strategic alliances with companies which we believe can facilitate our expansion strategy. As at the Latest Practicable Date, we did not have any specific acquisition target in respect of which we have entered into any legally binding agreement.

BUSINESS

A summary of capital expenditure/breakdown of application of the net proceeds for the Share Offer for the above expansion plan is set out below:

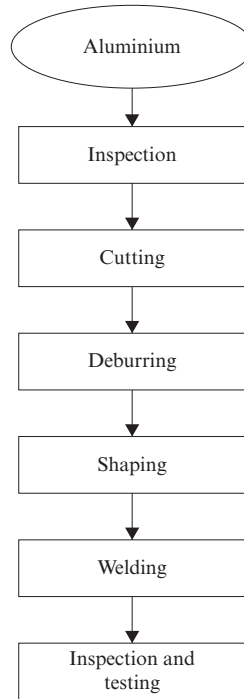
Expansion plan	Expected completion date of the expansion plan	Expected addition in production capacity	Forecast capital expenditure	Source of funding
Upgrading facilities in Jiangning Plant	By the end of 2013	201,000 units of HVAC systems	RMB90 million	As to about RMB52 million from the net proceeds of the Share Offer (or about 32% of the net proceeds) and the balance of about RMB38 million by our internal resources
Building the New Nanjing Plant	By the end of 2015	150,000 units of HVAC systems	RMB80 million	As to about RMB44 million from the net proceeds of the Share Offer (or about 27% of the net proceeds) and the balance of about RMB36 million by our internal resources
Construction and acquiring production facilities for Beijing Plant	By the end of 2015	200,000 units of HVAC systems	RMB45 million	As to about RMB11 million from the net proceeds of the Share Offer (representing about 6.7% of the net proceeds) and the balance of about RMB34 million by our internal resources
Acquiring production facilities for Fushun Plant	By the end of 2013	12,000 units of HVAC systems	RMB10 million	As to about RMB5 million from the net proceeds of the Share Offer (or about 3.3% of the net proceeds) and the balance of about RMB5 million by our internal resources

PRODUCTION PROCESS

Set forth below are the major steps of the production process of our major products:

HVAC components

Our principal HVAC components products are evaporators, condensers and heater cores which undergo similar production process. The followings are the principal production process of evaporators, condensers and heater cores.

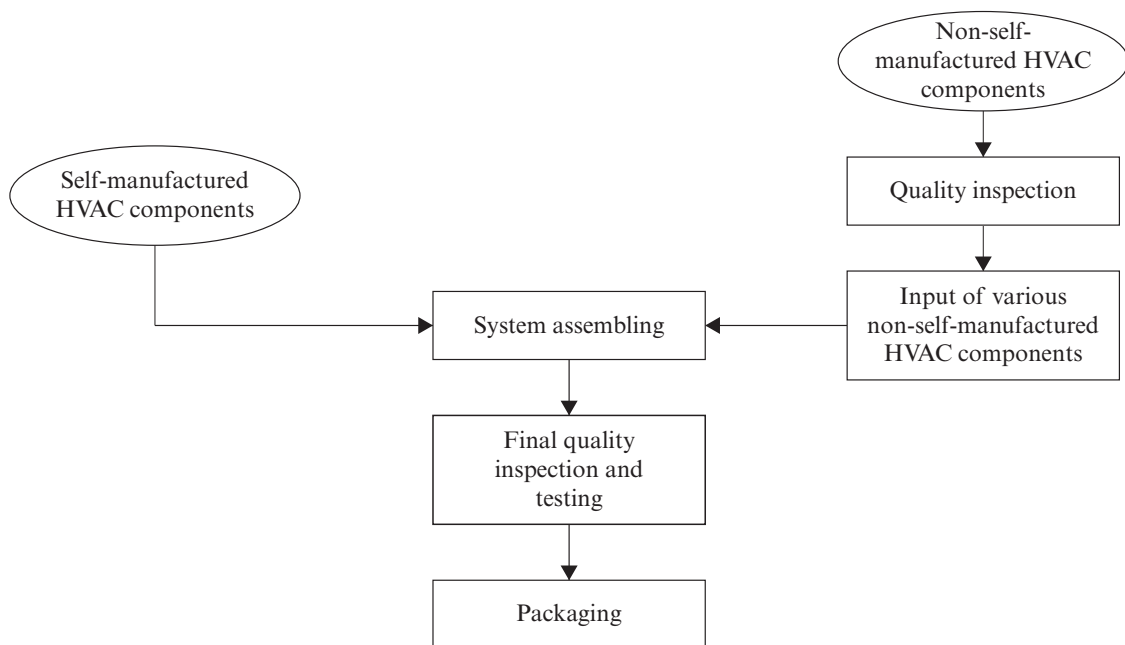


- 1 Inspection — Incoming aluminium raw materials are subject to on-site inspection on a sampling basis and substandard materials will be returned to suppliers.
- 2 Cutting — Aluminium raw materials are cut and processed to form different production components such as heat dissipation plates, water tanks and pipes. Aluminium wastes are generated as a by-product in the course of cutting of the raw materials.
- 3 Deburring — In the process of cutting, burrs are created on the aluminium parts which has to be deburred. Additionally, the processed parts are cleaned to remove oil and dirt from their surface before passing to assembly.
- 4 Shaping — The processed parts are shaped with our mould in the stamping presses to form the assemble parts. We also carry out inspection at this stage of our production process.
- 5 Welding — The assembled parts undergo the welding process.

- 6 Inspection and testing — The finished products are inspected and tested with relevant quality control criteria (e.g. product size, gas-tightness and performance) before sending to our warehouses. The condensers and evaporators are tested for any leakage. Substandard products will be removed and sold as aluminium wastes.

HVAC systems

HVAC system is manufactured by assembling various HVAC components together, which include those HVAC components which are manufactured by us, such as evaporators, condensers, heater cores and HVAC hoses and other HVAC components which are sourced from other HVAC components manufacturers, such as compressors, receiver driers, expansion valves and HVAC control units. The followings are the principal production process of HVAC systems.



- 1 Inspection of non-self-manufactured HVAC components — HVAC components which are not manufactured by us are inspected before they are used in various steps of the production process of our HVAC systems below.
- 2 System assembling — HVAC components, which are manufactured by us and other HVAC components which are sourced from other HVAC components manufacturers are assembled together to become a HVAC system.
- 3 Quality inspection and testing — Quality inspection will take place for the HVAC systems we produce at different key production process so as to spot any defects and conduct ratification as soon as possible. As our final quality control testing, the HVAC systems are tested and inspected for any defects on various aspects, including the performance of the HVAC systems. At the same time, we will carry out process controls during testing in accordance with the ISO/TS16949 requirements.

- 4 Packaging — If no defects are found, the HVAC systems are packaged.

RAW MATERIALS AND SUPPLIERS

Raw materials

The primary raw materials for our production are aluminium and HVAC components. During the Track Record Period, the total cost of raw materials accounted for approximately 87.9%, 89.7% and 88.5%, respectively, of our total cost of sales.

We mainly purchase our aluminium from suppliers in China and most of our purchases are settled in Renminbi. Instead of having long-term fixed price supply contracts, we place orders with our suppliers according to our monthly procurement plan on a monthly basis pursuant to the framework supply agreements entered into with our suppliers (which normally have a one-year term) according to our annual procurement plan (which is set according to our annual sales plan). As advised by our PRC Legal Advisers, the framework supply agreements between the Group and its major suppliers which are currently being performed and have not expired or been terminated are legally binding and enforceable under the relevant laws and regulations of the PRC. Under certain framework supply agreements for purchase of aluminium, our purchase cost of aluminium raw materials is based on the market price of aluminium at the time of purchase with reference to the Shanghai Futures Exchange (上海期貨交易所) plus a per-unit processing fee which was fixed when the framework supply agreements were entered into. Under the framework supply agreements for purchase of HVAC components, the unit price, warranty period, payment and delivery terms are usually fixed when such agreements were entered into. Generally, we have no obligations to meet any minimum purchases quantity under such framework supply agreements. The quantity of our purchase is usually set when we place the purchase order with our suppliers. Our suppliers bear the transportation costs for delivery to our production facilities. Credit terms generally offered by our major suppliers are around 90 days. Staffs of our procurement department inspect the level of storage of raw material on a weekly basis to ensure that there is no excessive storage of any type of raw material and compile a raw material control list. Orders for raw material will be made with reference to such control list. Once an order for raw material has been placed, staffs of our procurement department will monitor and keep track of the ordered raw materials until they are arrived at our production site.

The price of aluminium is primarily determined by supply and demand of aluminium in the domestic PRC commodity market. 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. We have not adopted any policy to hedge against the fluctuation in aluminium price. We closely monitor movements in the market price of aluminium and will adjust our stock level should we anticipate any significant fluctuation in price or supply. During the Track Record Period, we have not experienced any material disruption in the supply of any of the raw materials required for our production.

BUSINESS

To maintain our relationship with our customers, we have not been raising the price of our products due to increase of raw material price during the Track Record Period. To minimise our exposure to fluctuation of raw material price and maintain a stable profit margin, we have implemented the following measures:

1. develop new products with higher profit margins and develop new customers;
2. improve the design of our product to achieve maximum performance at the least cost;
3. improve our production technique to streamline our production process;
4. negotiate with our suppliers and request for discounts on the raw material to be used for older vehicle models;
5. it is our inventory procurement policy to maintain at least two suppliers for each of the raw material to prevent overreliance on any particular supplier and that we are able to source the raw material from the supplier which can offer the lowest price; and
6. our logistic team reviews and monitors our inventory level on a periodical basis to maintain an appropriate level of inventory. We formulate monthly procurement plans to determine the quantity of raw material we purchase in a particular month with reference to our sales plan. This allows us to determine the quantity of raw material we should procure taking into account our sales plan in the forthcoming month, our inventory level, the current price and estimated price trend of such raw material.

For our production of HVAC systems, we also purchase compressors and other automotive HVAC components which we do not manufacture. Amongst which, compressor is the major HVAC component we procure. During the Track Record Period, our costs of sales of compressors were RMB70.7 million, RMB96.4 million and RMB86.5 million, respectively, representing approximately 28.3%, 24.4% and 19.3% of our total cost of sales. Compressors and the HVAC components which we produce are distinct products. The technology requirements and equipment requirements for production of compressors are different from the HVAC components which we produce. In order to manufacture compressors, we would have to recruit new personnel with expertise in the area of compressors manufacturing and acquire new production equipments. This would impose additional capital requirement on us. In addition, as we currently do not possess the experience in sales and manufacturing of compressors, we would be exposed to certain risks if we embark on sales and manufacturing of compressors. As a result, the Group currently does not have any plan to acquire or develop its capability in manufacturing its own compressors in the foreseeable future. According to Timer Auto Consulting, it is the industry practice that the production of compressors and other HVAC components are carried out separately by different manufacturers given that these products are distinct from one and other, and some automakers may also require the HVAC system providers to source the compressors from its designated compressor manufacturers. In this light, the Sponsor is of the view that it is in line with industry practice for the Group to source

compressors from third parties for assembling of its automotive HVAC systems and that it represents a complete business model. During the Track Record Period, we did not encounter any material disruption in the supply of compressors and other automotive HVAC components required for our production.

Pursuant to the framework supply agreements we entered into with our suppliers, our suppliers generally provide a warranty period equal to or more than the warranty period we provide to our customers. It is generally stipulated in the framework supply agreement that if any incident has arisen in the market due to the quality of the product supplied by our suppliers, the suppliers shall send personnel to attend the scene to resolve the matter at our request and be responsible to indemnify our loss. It is also generally stipulated in the framework supply agreements that our suppliers shall be responsible for all economic loss and legal liabilities as a result of products recall due to regulatory non-compliance including potential issue on product safety caused by our suppliers.

Utilities

Electricity, water and nitrogen gas are the principal utilities used in our production process. Our electricity and water are supplied by state-run organisations at market price. Our nitrogen gas is purchased at market price. No long-term supply contract has been entered in respect of utility supply. During the Track Record Period, our utility cost amounted to approximately RMB3.9 million, RMB5.1 million and RMB5.9 million, respectively, representing approximately 1.5%, 1.3% and 1.3% of our total cost of sales. During the Track Record Period, we did not encounter any material disruption in the supply of utilities to our production facilities.

Suppliers

Our suppliers have to go through certain selection process prescribed by us before it can become our supplier of a particular raw material. We take into account factors such as the quality and technology level of the suppliers, the purchase price and the historical dealings with the suppliers in selecting our suppliers. We also conduct evaluation of our suppliers from time to time and eliminate suppliers who fail to meet our standard from our suppliers' list and add in new qualified suppliers. Once they become our suppliers, we conduct regular assessments on our suppliers to ensure that they fulfill our requirements on quality control. In particular, our procurement team would carry out on site evaluations at the premises of our main suppliers, and assess their production capacity, so as to ensure that the production capacity of the respective suppliers are sufficient to meet our Group's production and future development needs, and at the same time maintain the quality of the products and materials from the source of supply.

For the Track Record Period, our five largest suppliers together accounted for approximately 33.4%, 30.4% and 25.6%, respectively, and our largest supplier accounted for approximately 11.0%, 9.7% and 8.0%, respectively, of our total purchase.

BUSINESS

The following tables set forth certain information in relation to our five largest suppliers during the Track Record Period.

Five largest suppliers for the year ended 31 December 2011	Purchase amount (RMB'000)	Years of relationship
Supplier A	33,871	7
Supplier B	26,721	7
Supplier C	17,368	9
Supplier D	16,305	1
Supplier E	14,117	8

Five largest suppliers for the year ended 31 December 2010	Purchase amount (RMB'000)	Years of relationship
Supplier A	38,579	7
Supplier B	37,948	9
Supplier E	17,386	8
Supplier C	14,861	9
Supplier F	12,227	5

Five largest suppliers for the year ended 31 December 2009	Purchase amount (RMB'000)	Years of relationship
Supplier A	31,869	7
Supplier B	30,167	9
Supplier C	12,784	9
Supplier E	12,318	8
Supplier F	9,621	5

The number of years of business relationship with our five largest suppliers during the Track Record Period ranged from approximately 1 to 9 years.

As our purchase mainly comprises aluminium and automotive HVAC components, mainly compressors, receiver driers and expansion valves that are not customised products and are readily available in the market, we believe that it would not be difficult for us to find alternative suppliers should existing suppliers cease business relationships with us in the future with no significant impact to our production process. To avoid any disruptions in production, we maintain at least two suppliers for each of the raw materials.

BUSINESS

In some cases, our customers would have preference on the type or supplier of the automotive HVAC components to be used in the HVAC systems we supply to these customers. Unless specifically requested by our customers, generally we would recommend to our customers and discuss with our customers which type or supplier of automotive HVAC components we use in our HVAC systems.

When we engage a HVAC components supplier to supply a new HVAC component, we will enter into a technical agreement of products development with our supplier to set out, amongst others, 1) the technical requirements of the HVAC component to be developed; 2) the respective responsibility of our supplier during the development stage of the HVAC component; 3) the ownership of the intellectual properties created during the development of the HVAC component; and 4) the timetable of the development of the HVAC component. Under the technical agreement of products development, we are responsible for providing the technical requirements of the component to be developed, conducting functionality testing and trial assembly on the sample according to the technical requirement and providing feedback to our suppliers. Our suppliers are responsible for compiling the product development timetable for our approval, developing the component according to the technical drawing, sample and other technical information we provided, submitting the sample product and testing report to us and commence trial production upon our notification. Generally, the ownership of intellectual properties created during the products development would belong to us and we do not provide any funding to our suppliers while the product is being developed. Generally, we will pay a certain portion of the cost of the mould of the product to our supplier for its development while the remaining cost of the mould will either be (i) amortised in the subsequent sales of the HVAC components by our supplier to us; or (ii) be payable by us once production volume of such product has reached a certain level; or (iii) be payable by us when the products produced using the mould have passed the relevant quality inspection tests.

During the Track Record Period, 45.1%, 38.0% and 45.7% of the compressors we used in our HVAC systems were sourced from Aotecar Nanjing, a connected person of our Company under the Listing Rules upon Listing. For further details, please refer to the section titled “Connected Transactions” of this prospectus. During the Track Record Period, our purchase from Aotecar Nanjing amounted to RMB31.9 million, RMB38.6 million and RMB33.9 million respectively, which represents 12.8%, 9.8% and 7.6% of the cost of sales for the corresponding year and was our largest supplier during the Track Record Period. Aotecar Nanjing is an indirect wholly-owned subsidiary of China Auto System Technologies Limited (中國汽車系統技術有限公司) which is engaged in investment holding and with its subsidiaries principally engaged in the manufacture and sale of automobile air-conditioning compressors in the PRC.

Save as disclosed above, none of our Directors or their associates or any person who, to the best knowledge of our Directors, owned 5% or more of our issued share capital as at the Latest Practicable Date had any interest in any of our five largest suppliers for the Track Record Period.

BUSINESS

SALES AND MARKETING

Our products can be principally divided into two product segments: (1) sales of automotive HVAC systems and (2) sales of automotive HVAC components. For the Track Record Period, we generated 94.5%, 95.7% and 90.4%, respectively, of our turnover from sales of HVAC systems and 5.5%, 4.3% and 9.6%, respectively, of our turnover from sales of HVAC components.

The following table sets out an analysis of our turnover by segments for the Track Record Period:

Products	Year ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>
HVAC systems	327,513	94.5	521,869	95.7	560,576	90.4
HVAC components ⁽¹⁾	<u>19,026</u>	<u>5.5</u>	<u>23,633</u>	<u>4.3</u>	<u>59,328</u>	<u>9.6</u>
Total turnover	<u>346,539</u>	<u>100.0</u>	<u>545,502</u>	<u>100.0</u>	<u>619,904</u>	<u>100.0</u>

Notes:

- (1) HVAC component mainly comprises of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing).

Our HVAC systems are mainly used by our customers in SUVs, pickup trucks and heavy trucks.


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The following table sets out a breakdown of our sales turnover by different types of vehicles for the Track Record Period:

Types of vehicles	Year ended 31 December					
	2009		2010		2011	
	RMB'000	% of total turnover	RMB'000	% of total turnover	RMB'000	% of total turnover
HVAC systems						
SUVs and pickup trucks	181,082	52.2	254,570	46.7	286,572	46.2
Heavy trucks	120,285	34.7	150,222	27.6	126,946	20.5
Construction machineries	10,271	3.0	32,841	6.0	57,959	9.3
Other vehicles ⁽¹⁾	15,875	4.6	84,236	15.4	89,099	14.4
HVAC components ⁽²⁾	19,026	5.5	23,633	4.3	59,328	9.6
Total turnover	346,539	100.0	545,502	100.0	619,904	100.0

Notes:

- (1) Other vehicles mainly comprised of light trucks, buses, MPVs and sedans.
- (2) HVAC components mainly comprise of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing) for all types of vehicles.

Our automotive HVAC systems are primarily sold to the automakers and construction machinery manufacturers in China such as, Foton, Hawtai Motor, Shuguang Automotive, Zhongxin Auto, Sinotruk and SANY. Our operating subsidiary, Xiezhong Nanjing, has been recognised as an “Excellent Supplier” by certain customers, including Foton, Hawtai Motor, Zhongxin Auto and SANY. Our HVAC systems and HVAC components are marketed under our own trademark “”. We also sell our automotive HVAC components to automakers and other automotive HVAC systems and components suppliers.

As the technical specifications and requirements of an automotive HVAC system differ depending on the model of vehicle which the HVAC system is to be used, we primarily sell our products according to the specification requirements of our customers. We have been working closely with our customers in developing and producing a wide variety of automotive HVAC systems which are used in different vehicle models. We will continue to develop our products according to our customers’ specifications to solidify our position in the HVAC systems market. Meanwhile, we are also exploring potential business opportunities with other automakers. For further details please refer to the paragraph titled “Our strategies” in this section of the prospectus.

We generally obtain sales of our products to our existing customers by way of invitation for product development for new products or direct purchase orders for the existing products; and from new customers by way of tender.

Sales contracts with new customers are usually secured through tender. Our marketing team identifies tenders through market research, invitation by automakers or through referrals. Once we have identified a tender, we will engage in discussion with the automaker

on the preliminary commercial terms and technical requirements of the potential sales. The automaker will send us a “technical package” of the product it wishes to source which will contain information such as, the product requirements (such as the type of vehicles which the product will be used in), the technical requirements of the product, the timetable of the product development, estimated production volume of the product and the product’s expected lifespan. Based on the information in the technical package, we will conduct a market analysis and prepare a product design and development proposal which contains the development timetable of the product, the technical and development requirements of the product, the size of the potential market and estimated sales volume for our management to consider whether the potential sales will be beneficial for us. If our analysis suggests that the potential sales will be beneficial for us, we will prepare the tender documents and submit a bid for such sales with our bidding price based on the aforementioned analysis. If we are shortlisted amongst other bidders, representatives of the automaker will carry out onsite assessment on our production facilities. If the automaker is satisfied with the result of the onsite assessment and our bid has been accepted by such automaker, we will sign a technical agreement of products development with the automaker.

In respect of sales of a new products to existing customers, we will obtain information from our customers of the proposed new products and the required product specifications, and prepare the price quotation and the relevant documents for our customers’ consideration. If our price quotations are accepted by our customers, we will sign a technical agreement with our customers.

Generally, the purpose of the technical agreement on products development is to set out, amongst others, 1) the technical requirement of the product to be developed; 2) the responsibility of our customer and us during the development stage and production stage of the product; 3) the ownership of the intellectual properties created during products development; and 4) the timetable of the product development. Generally, the ownership of intellectual properties created during products development by us with our customers would belong to our customers. In the development of our products, our customers would usually set out the technical requirements and we would conduct the design and development of the product according to such requirements. During the development of our products, our customers are responsible for providing information of the compartment layout of the vehicle, closely cooperate with us and coordinate resolving any issue during the course of development of the product, ensure the accuracy of the data provided to us, assessing the design proposal and technical data we provided, assessing the functionality and quality of the sample product we provided. Our customers would also participate in the quality assurance and functionality testing process and would assess whether to commence mass production of the product based on our production preparation status. During the approval process before small scale production commences, samples of our product will be produced using the mould of the product developed. The samples functionality will be tested and its appearance and its dimension will be tested against the products technical requirements. Before mass production commences, further assessment will be conducted on the stability of our product’s quality and consistency during large scale production and whether our production capacity can satisfy large scale production. During the Track Record Period, approximately 4.4%, 3.5% and 2.4% of our total turnover were from sales to new

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customers. These new customers generally required us to go through the above approval processes. During the Track Record Period and up to the Latest Practicable Date, none of our HVAC systems or HVAC components has ever failed to pass the approval process prescribed by automaker. Generally, our customers do not provide any funding to us while the product is being developed. The cost of developing the product incurred by us is generally amortised in the subsequent sales of the product to our customer.

In addition to the product development contract, we will also enter into an annual framework sales agreement with our customer for a term of one year which is renewable on a yearly basis, pursuant to which our customers will normally place monthly orders with us. As advised by our PRC Legal Advisers, the annual framework sales agreements between the Group and its major customers which are currently being performed and have not expired or been terminated are legally binding and enforceable under the relevant laws and regulations of the PRC. The annual framework sales agreements generally set out the planned specification, model, name and unit price of our products and other terms including packing, delivery and payment. For sales under subsequent annual framework sales agreement of such product, the price of our product may change depending on the negotiation between our customers and us while the other terms of the annual framework sales agreements remain mostly unchanged. In some of our annual framework sales agreements, it is a condition that we have obtained ISO/TS 16949:2009 certification. Generally, our customers have no obligations to meet any minimum sales quantity under the annual framework sales agreements. The quantity of our products ordered by our customers will be determined according to the purchase orders placed by our customers.

We have focused on developing customer relationships through direct marketing activities including maintaining regular management visits, providing customer care through our sales representatives and offering after-sales technical support. As part of our after-sales service, during the Track Record Period, we have seconded certain staff members to our major customers' production base to offer onsite technical support.

Customers

We primarily sell automotive HVAC systems and components to automakers and construction machinery manufacturers in China such as Foton, Hawtai Motor, Shuguang Automotive, Zhongxin Auto, Sinotruk and SANY. During the Track Record Period, we had 80, 91 and 113 customers respectively and they were mainly PRC automakers of SUVs, pickup trucks and heavy trucks, as well as other automotive HVAC systems and components suppliers.

During the Track Record Period, we have not entered into any long-term sales agreement with our customers, which we believe is consistent with the market practice.

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.

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The following tables set forth certain information in relation to our five largest customers during the Track Record Period:

Five largest customers for the year ended 31 December 2011	Sales amount (RMB'000)	Years of relationship
Customer A	180,910	9
Customer B	73,776	9
Customer C	63,603	4
Customer D	43,118	3
Customer E	42,557	5

Five largest customers for the year ended 31 December 2010	Sales amount (RMB'000)	Years of relationship
Customer A	111,380	9
Customer B	76,561	9
Customer F	60,838	2
Customer C	60,626	4
Customer G	53,285	5

Five largest customers for the year ended 31 December 2009	Sales amount (RMB'000)	Years of relationship
Customer A	154,846	9
Customer G	47,422	5
Customer B	44,419	9
Customer H	20,959	9
Customer I	18,217	9

The number of years of business relationship with our five largest customers during the Track Record Period ranged from approximately 2 to 9 years.

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The BAIC Group has become our connected persons under the Listing Rules since January 2011. Foton, being our largest customer, is an associate of BAIC. A breakdown of sales to the BAIC Group during the Track Record Period is set out below:

	For the year ended 31 December		
	2009	2010	2011
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Sales to Foton by our Group	154.8	111.4	180.9
Sales to Foton by Xiezhong Beijing before it became our subsidiary in January 2011	—	64.0	12.3
Sales to other associates (as defined under the Listing Rules) of BAIC by our Group	—	—	7.3
Total	<u>154.8</u>	<u>175.4</u>	<u>200.5</u>

Please refer to the section headed “Connected Transactions” in this prospectus for details of our transactions with the BAIC Group.

Save as disclosed above, none of our Directors or their associates or any person who to the knowledge of our Directors owned 5% or more of our issued share capital as at the Latest Practicable Date had any interest in any of our five largest customers for the Track Record Period.

Pricing and credit policy

Our products are not subject to any price control by the PRC Government. We set prices for each type of our products by taking into account the costs of raw materials and other HVAC components, level of complexity of products, market competition and demand and with reference to a reasonable profit margin.


We offer credit to our customers on a case-by-case basis, depending on our relationship with, and the location, credibility and volume of purchases of, each customer and the industry practices and market conditions. We generally offer a credit period of around 90 days to our customers. Most of our sales are denominated in Renminbi and payments are settled by prepayment, notes receivables, or through bank transfers or by bank bills.

Transportation

We generally bear the cost of transporting products to our customers. Except for cases where we need to deliver our products to our customers by our own transportation on an urgent basis, we generally outsource the delivery of our products to third-party logistics providers. These outsourcing arrangements allow us to reduce our capital investment and eliminate the risk of liability to transportation accidents, delivery delays and losses, as our logistics providers will bear these risks. In addition, we also re-evaluate the credentials and

performance of our logistics providers on a periodic basis and terminate those providers with unsatisfactory service. We have established an average of approximately 6 years of business relationships with 2 logistics providers, in order to lower the risk of losses arising from performance failure of these logistics providers.

Branding and recognition

We consider brand awareness and customer loyalty as the key to our future success. Our HVAC systems and HVAC components products are marketed under our own trademark “” which has been recognized as a “Nanjing Municipal Well-known Trademark (南京市著名商標)” in 2010 and as a “Jiangsu Province Well-known Trademark (江蘇省著名商標)” in 2011. Our products have been recognized as “Nanjing Famous Brand (南京市名牌產品)” by the 南京市人民政府 (Nanjing Municipal People’s Government*) in 2011. To introduce our products to a broader group of customers and further expand our customer base, we participate in trade shows and exhibitions, including heavy trucks or commercial vehicles related exhibitions and other automobile-related exhibitions in major cities of China. We also organize visits to our production facilities by automakers to market our new products and enhance our brand recognition.

Seasonality

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. Generally, our sales are higher during the months of March to May and October to December of each year while our sales are lower during the months of June to September of each year.

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AWARDS AND RECOGNITIONS

Awards/Certification	Time of Granting/ Awarding (validity period, if any)	Granted/Awarded by	Awarded Entity
文明企業 (Civilized Unit*)	2004–2005	南京市江寧區精神文明建設指導委員會 (Jiangning District of Nanjing Spiritual Civilization Development Steering Commission*)	Xiezhong Nanjing
南京市江寧區十佳和諧勞動關係企業 (Top ten harmonious labour relation in Jiangning District of Nanjing*)	2006	江寧區總工會 (Labour Union of Jiangning District*) 江寧區勞動和社會保障局 (Social and Labor Insurance Administration of Jiangning District*) 江寧區中小企業局 (Small and Medium Enterprise Bureau of Jiangning District*) 江寧區企業聯合會、企業家協會 (Joint Association of Enterprises and Entrepreneur Association of Jiangning*)	Xiezhong Nanjing
安全生產先進單位 (Safety production advanced enterprise*)	February 2006, January 2008	南京市江寧區人民政府 (Jiangning District of Nanjing Municipal People's Government*)	Xiezhong Nanjing
先進單位 (Advanced unit)	January 2007	南京市江寧區勞動和社會保障局 (Social and Labor Insurance Administration of Jiangning District, Nanjing)	Xiezhong Nanjing
重合同守信用企業 (Contract trustworthy enterprise of Nanjing*)	2008, 2009, 2010	南京市江寧區人民政府 (Jiangning District of Nanjing Municipal People's Government*)	Xiezhong Nanjing
高新技術企業 (High and new technology enterprise*)	December 2009	江蘇省科學技術廳 (Jiangsu Province Science and Technology Department*) 江蘇省財政廳 (Jiangsu Province Finance Department*) 江蘇省國家稅務局 (Jiangsu State Administration of Taxation*) 江蘇省地方稅務局 (Jiangsu Local Taxation Bureau*)	Xiezhong Nanjing

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Awards/Certification	Time of Granting/ Awarding (validity period, if any)	Granted/Awarded by	Awarded Entity
福田汽車重點試驗室分包方 能力認可証書 (Subcontractors Capability Certificate of Key Laboratory of Foton*)	28 July 2010 (valid until 27 July 2013)	recognised by 福田汽車節能減排重 點試驗室 (Foton's Key Laboratory of Energy Saving*); Examined by 天津華城認證中心 (Tianjin Huacheng Certification Centre*)	Laboratory of Xiezhong Nanjing
南京市著名商標 (Nanjing Municipal Well-known Trademark*)	December 2010 (valid until 2013)	南京市工商行政管理局 (Nanjing Administration for Industry and Commerce*)	Xiezhong Nanjing for the trademark of “  ”
GB/T24001-2004 idt ISO14001:2004 for production of XZ series automobile air conditioners and its relative environment management activity	5 January 2011 (valid for three years)	北京中潤興認證有限公司 (Beijing ZhongRunXing Certification Co., Ltd.*)	Xiezhong Nanjing
GB/T 28001-2001 for production of XZ series automobile air conditioners and its relative established occupation health and safety management activity	5 January 2011 (valid for three years)	北京中潤興認證有限公司 (Beijing ZhongRunXing Certification Co., Ltd.*)	Xiezhong Nanjing
南京市名牌產品 (Nanjing Famous Brand*)	April 2011 (valid for three years)	南京市人民政府 (Nanjing Municipal People's Government*)	Xiezhong Nanjing
ISO/TS16949:2009 for quality management system applicable to the design and manufacture of air-conditioners	11 July 2011 (valid for three years)	BSI Management Systems (China)	Xiezhong Nanjing
江蘇省著名商標 (Jiangsu Province Well- known Trademark*)	31 December 2011	江蘇省工商行政管理局 (Jiangsu Province Administration for Industry and Commerce*)	Xiezhong Nanjing for the trademark of “  ”
ISO/IEC 17025: 2005	27 March 2012 (valid for three years)	中國合格評定國家認可委員會 (China National Accreditation Service for Conformity Assessment*)	Xiezhong Nanjing

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In addition, our customers have granted us the following honourable titles.

Customers	Honours
Foton	Excellent Supplier in 2007, 2008, 2009 Technology Innovation Awards in 2008, 2009 Concurrent Development Alliance (同步開發聯合體) in 2005
Zhongxing Auto	Excellent Supplier in 2008, 2009, 2011
Changfeng Motor	Excellent Supplier in 2009 Excellent Components Supplier in 2008, 2011
Hawtai Motor	Excellent Supplier in 2010 Top Ten Excellent Supplier in 2009
Hengte Heavy Industry	Excellent Supplier in 2010
GAC Gonow	Top Ten Excellent Supplier in 2009, 2011
Sinotruk	Qualified Supplier in 2009
SANY	Excellent Supplier in 2009, 2010
Shantui	Excellent Supplier in 2011
FAW-GM	Excellent Supplier in 2011
Foday	The Best Supplier for Development for 2008
Mianyang Huarui Auto	Excellent Quality Performance Award (優秀質量表現獎) in 2011

RESEARCH AND DEVELOPMENT

Our research and development team consists of approximately 117 staffs as at the Latest Practicable Date. Amongst which, 114 staffs have received tertiary education or above (with 53 of them are university graduates and 61 of them have received tertiary education). Our research and development team is headed by our executive deputy general manager and executive Director, Mr. Ge Hongbing, who is the executive deputy general manager and chief engineer of Xiezhong Nanjing, and Mr. Huang Yugang who is one of the members of our senior management. Mr. Huang is the deputy general manager and research and development department head of Xiezhong Nanjing and is responsible for overseeing the technical aspect of the research and development of our products. Mr. Ge Hongbing has approximately 17 years of experience in automobile air conditioner industry. Mr. Huang has approximately 21 years of experience in the production technique and production quality control of electrical appliance and automobile air conditioning systems. Our research and development projects are mainly conducted in the laboratory at the Jiangning Plant. This laboratory has been recognised by Foton that it has met its capability requirement on key laboratory in July 2010. This laboratory has been accredited ISO/IEC 17025: 2005 which specifies the general requirements for the competence of testing and calibration laboratories by 中國合格評定國家認可委員會 (China National Accreditation Service for Conformity Assessment*) in February 2009 and again in March 2012. We have purchased the environment simulation laboratory equipment, which is expected to put into use at the end of 2012. Such environment simulation laboratory equipment enables us to evaluate the performance of our HVAC system products when they are installed in different model of vehicles by simulating different environmental conditions, including different temperature and humidity. We have invested RMB27.8 million to purchase such environment simulation laboratory equipment.

We have adopted the following research and development strategies:

(i) to develop our own proprietary technologies by our own research and development team

Our research and development team has a proven record of independent research and development experience on automotive HVAC systems as well as related production techniques. As at the Latest Practicable Date, we had 9 registered patents, 8 of which were developed by our own research and development team and had applied for registration of 6 other patents.

Our registered patents had mainly been applied to improve the functionality, quality and reliability of our products and the efficiency of our production process.

Examples of our registered patents include, amongst others, the followings:

1. one utility model of parallel-flow condenser and one invention of parallel-flow evaporator, both involves fitting plates with holes in the header tube of the condenser and evaporator. These have allowed the refrigerant to flow evenly in the condenser and evaporator which have improved the cooling efficiency of the condenser and heat dissipation ability of the evaporator;

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2. an invention of a device which continuously defrost the evaporator so that the compressor do not have to switch on frequently thereby reducing energy consumption and improving reliability of the HVAC system;
3. a utility model of header tube of our parallel-flow evaporator. This utility model involves shaping the header tube of the parallel-flow evaporator from one single piece of raw material which has reduced the risk of leakage and improve the functionality of the evaporator. As the production of such tube is relatively simpler, this utility model has also the benefit of reducing production cost;
4. a utility model of laminated evaporator involves fully utilising the heater exchange's surface area to improve cooling ability of the evaporator; and
5. two designs of the outlook of HVAC control units.

The patents which we have applied for registration include utility models of improvement of design of HVAC system and various components of our products (such as blower unit, electric circuit of HVAC system, heater water tank and HVAC housing). These utility models are designed to improve the functionality and production process of our products. For example, one of the utility models replaces screws with locking clips in assembling the blower units thereby reducing cost of raw material and making the assembly easier so as to reduce the production cost. Other patents which we have applied for registration include design of the outlook of HVAC control unit.

Please refer to “B. Further Information about the Business — 2. Intellectual Property Rights” in Appendix VI in this prospectus for further details on our patents and other intellectual property rights.

(ii) to strengthen research and development cooperation with universities, automakers and our HVAC components suppliers

While we perform most of our research and development activities independently to develop our own products and technologies, we also leverage our research and development capability to undertake research projects with certain automakers, HVAC components suppliers and academic institutions (such as Zhejiang University and Nanjing Agricultural University Institute of Technology).

Our technical team will work closely with the technical department of our customers to ascertain their technical requirements. We further cooperate with the customer during the products development process. In addition, we will enter into components and parts development agreement with our suppliers, pursuant to which we develop some HVAC components we do not manufacture.

In October 2006, we entered into an agreement with Nanjing Agricultural University Institute of Technology to improve the efficiency of evaporators used in our HVAC systems under an improvement program. Pursuant to the agreement, we allocated RMB200,000 to this project, of which RMB50,000 was used for research, labour, administration and sample production fee and the remaining RMB150,000 was used for revising the mould of the evaporators. Nanjing Agricultural University

Institution of Technology's role in this project included analyzing the functionality of the original evaporators, building the mathematical model and preparing the proposal for revising the mould of the evaporators while our role in this project included providing the two-dimension drawing, information on the experiments carried out to the original sample of the evaporators, and providing technical guidance to Nanjing Agricultural University Institution of Technology, assessing the feasibility of revising the mould of the evaporators based on the proposal prepared by Nanjing Agricultural University Institution of Technology and if determined to be feasible, revised the mould accordingly. This project ended in May 2007. We have subsequently applied the result of this project in our production process which has helped us to reduce the weight of our products. Pursuant to the agreement we entered into with Nanjing Agricultural University Institution of Technology, we retained ownership of the revised mould and the technical know-how developed as a result of this project.

In July 2009, we have engaged Zhejiang University to assist us in the development of the HVAC control unit for electric vehicles. Pursuant to the agreement entered into between Xiezhong Nanjing and Zhejiang University, Zhejiang University was responsible for developing the HVAC control unit for electric vehicles according to the technical requirements provided by us. Zhejiang University was responsible for preparing the research and development proposal which mainly contained information of the research to be carried out, the technical road-map, coordination of the research process and the product approval process. The agreement also stipulated a development timetable which spanned from July 2009 to December 2010. Under the agreement, both Zhejiang University and us have equal share of the ownership of the intellectual properties and are entitled to apply for patent of the intellectual properties developed in this project. Once patented, the ownership of the relevant patent and any income arising from such patent will be shared equally between Zhejiang University and us. This project was completed in December 2010 and a HVAC control unit for electric vehicles has been developed. As at the Latest Practicable Date, no intellectual properties developed in this project has been patented. Xiezhong Nanjing paid a fee of RMB100,000 to Zhejiang University for funding the research. To capture the emerging electric vehicle market opportunities, we intend to allocate more resources for the research and development of HVAC systems for electric vehicles.

Since we operate in an industry where the products require customisation, we believe that our research and development activities have allowed us to respond to our customers' new product development requests and meet the specifications and technical requirements of its different customers. To successfully secure sales, we have to demonstrate to automakers that we have the research and development capability to conduct concurrent product development with the automakers while the vehicle is being developed and that our products will be compatible with the vehicle. In order to better satisfy our customers' requirement, we have participated in new product research and development with customers from the initial design stage. We believe such collaborative research and development efforts with automakers have enhanced our research and development capabilities and customer loyalty. Benefited from our research and development efforts, we are able to develop new products and thereby maintain our competitiveness and pricing power. We have successfully registered 9 patents of invention or utility models, and we are in the process of applying 6 patents of design or utility models as at the Latest Practicable Date.

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We had also been benefited from our research and development efforts in reducing the size and weight of our products, enhancing the efficiency of our products and enabling us to use common parts for various products.

Going forward, we intend to strengthen our research and development of existing products through recruiting additional expertise and increase our annual budget on research and development. For further details, please refer to the paragraph titled “Our Strategies — Strengthening our research and development capabilities and developing HVAC system for electric vehicles” in this section of the prospectus

We place strong emphasis on our research and development capabilities, as our Directors believe it is one of the key factors to our success. Our research and development expenses during the Track Record Period amounted to approximately RMB4.1 million, RMB6.6 million and RMB9.9 million, respectively. Expenditure on research activities is recognised as an expense in the period in which it is incurred. According to IFRS, expenditure on development activities is capitalised only if all the criteria for capitalisation under IFRS are met. The criteria include, among others, technical feasibility of completing the intangible asset so that it will be available for use or sale; and whether the expenditure attributable to the intangible asset during its development can be reliably measured. As our research and development costs may not be easily quantified and allocated to specific items to be developed, our research and development expense were not capitalized, but were expensed when they were incurred.

INTELLECTUAL PROPERTY

Our intellectual property rights are important to our businesses since we have developed a number of patents over the years and have applied them in our HVAC systems to enhance our competitiveness, product quality and operation efficiency. We take steps to protect our intellectual property rights and implement a set of internal intellectual property management rules. We also enter into confidentiality agreements and non-competition agreements with certain of our staff (who have access to our technical know-hows) as measures to protect, amongst others, our technical know-hows. Under the confidentiality agreements with our staff, our staff would be responsible to pay the damages caused to us as a result of their breaches of the confidentiality agreement. During the Track Record Period and as at the Latest Practicable Date, there has not been any breach of the confidentiality requirement under the relevant agreement by our staff where our staff was required to pay damages to us as a result.

Pursuant to the agreements with our customers, our customers require us and our staffs to keep confidential and ensure the safekeeping of the confidential information they have provided to us. Generally, we are restricted from divulging any confidential technical and commercial information to any third party without the written consent of our customers. Under the agreements with our customers, we would be responsible to pay damages to our customers if we breach the confidentiality requirement imposed on us. During the Track Record Period and as at the Latest Practicable Date, there has not been any breach of the confidentiality requirement under the relevant agreement by us where we were required to pay damages to our customers as a result.

To ensure that our staff also fulfill their duty of confidentiality, we also require our staff who are involved in the relevant project to sign confidentiality undertakings in relation to the technical drawings, products and other technical information provided by our

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customers, designs belonging to our customers and other information as specified by our customers as confidential. As products of different customers are produced in the same production facilities, to prevent leakage of confidential information and to protect technological know-how, we have formulated relevant confidentiality policies and have requested our staffs to adhere to such policies. For example, our confidentiality policies stipulate that for representatives of our customers visiting our production bases, they will be allowed to enter our production facilities only if they are guided by our staffs who will accompany representatives of our customers throughout their visit. Our confidentiality policies also prohibit our staffs from making copies of confidential information without the approval of managerial staffs and from discussing in open area of our premises in relation to our customers' confidential information.

In some cases, we engage automotive HVAC components suppliers to develop a new automotive HVAC component. Generally, we would have the ownership of the intellectual property rights in respect of such new automotive HVAC components. In such cases, we enter into technical agreements of product development with the automotive HVAC components suppliers, pursuant to which, the suppliers have a duty of confidentiality on all of the design drawings, technical documents provided by us and so developed under the relevant agreements. Such duty of confidentiality shall survive on termination of the relevant agreement. Under the agreements with our suppliers, our suppliers shall be responsible for all loss and damages arising out of breaches of their duty of confidentiality. Under the relevant agreements with automotive HVAC components suppliers, the automotive HVAC components suppliers are restricted from (i) selling, distributing, importing, exporting or allowing other parties to manufacture, use, sell, distribute or transfer the innovation created under the relevant agreement; (ii) assembling, supplying or otherwise transferring the products or similar products to any third parties; and (iii) selling or otherwise transferring the mould, specialized production tool and facilities containing the information of the products. During the Track Record Period and as at the Latest Practicable Date, there has not been any breach of confidentiality requirement under the relevant agreement by our suppliers, where our supplier was required to pay damages to us as a result.

As at the Latest Practicable Date, we had registered 1 trademark, 9 patents and 1 domain name and had applied for registration of 6 other patents and another 2 trademarks of “协众” 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. There was no infringement or disputes in respect of our intellectual property rights against or by any third parties during the Track Record Period.

QUALITY CONTROL

We adopt a quality control system throughout our operation, extending from raw materials procurement, production and processing, to sales and distribution of our products to customers. Raw material which are used in our production are subject to quality control. We conduct sample testing on batch of HVAC components which are not manufactured by us. In the event we detect any substandard parts from the number of samples we have drawn, according the terms of our contract with our suppliers, we will return the whole batch of such parts to the relevant suppliers and may claim compensation in accordance with the terms of the supply agreements. We provide technical support services to give

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guidance to our customers on how to install our products in their vehicles to prevent product damage caused by improper installation. We cooperate with customers so that our HVAC systems can better suit our customers' vehicles. In July 2011, our operating subsidiary, Xiezhong Nanjing, obtained ISO/TS16949:2009 certification for its quality management system applicable to the design and manufacturing of air-conditioner, which will remain valid until 10 July 2014. ISO/TS16949:2009 is a particular set of standards for the application in the automobile industry. We have not received any material complaint on our product quality during the Track Record Period.

It is our policy that our customers are not entitled to return our products except for deficiency of quality reason. Some of our sales contracts with customers stipulate that our products may be returned if there is serious deficiency of the quality of our products. Upon receipt of feedback from our customers on the defective products, we shall discuss with our customers to resolve the matters according to the terms of the sales contract. We shall also conduct investigation and take remedial measures (such as price adjustment or return of those specific defective goods) if appropriate. During the Track Record Period, goods return was less than 2% of our sales.

We generally provide warranty coverage for our products. Generally, the warranty period we provide ranges from 60,000 kilometres to 100,000 kilometres of mileage of the relevant vehicle or 1 year to 3 years. In other contracts for sales of HVAC systems or HVAC components for construction machineries, we provide a warranty period of 1 year or 2,000 hours of operation of the machinery of which the HVAC systems are used, whichever is sooner. During the warranty period, we will be responsible for repairing, exchanging and returning our defective products free-of-charge for our customers. During the Track Record Period, provision for product warranties utilised amounted to approximately RMB2.3 million, RMB1.6 million and RMB3.6 million respectively and additional provision made for products warranties amounted to approximately RMB2.3 million, RMB4.9 million and RMB2.4 million, respectively. Our Directors have confirmed that we had not received any significant product recall, warranty claims or product liability claims for defective products during the Track Record Period.

INVENTORY MANAGEMENT

Our inventories mainly consist of raw materials, work-in-progress and finished products. Our logistics team reviews and monitors our inventory level on a periodical basis. This involves the maintenance of an appropriate level of inventory as well as any write-down or provision for any obsolete and slow-moving inventory items. During the Track Record Period, there was a write-down of inventories of approximately RMB0.1 million, RMB1.4 million, and RMB1.3 million, respectively.

COMPETITION

Our products are sold in the domestic market in China. We face increasing competition from various competitors including foreign and domestic automotive HVAC system manufacturers. For further details of the competitive landscape of the automotive HVAC system market, please refer to the paragraph titled "China's SUV, pickup truck and heavy truck HVAC system market overview" in the "Industry Overview" section of this prospectus.

Given our competitive strengths as set out in the paragraph titled “Our competitive strengths” in this section of the prospectus, our Directors believe our leading position in the HVAC systems for SUVs, pickup trucks and heavy trucks markets will not be easily overtaken.

ENVIRONMENTAL AND OCCUPATIONAL HEALTH AND SAFETY

Environmental Protection

Our Group’s manufacturing operations are subject to PRC environmental laws and regulations on air emission, solid waste emission, sewage and waste water, discharge of waste and pollutants, and noise pollution. These laws and regulations include the Law on Environmental Protection, the Law on Prevention and Control of Water Pollution, the Law on Prevention and Control of Atmospheric Pollution, the Law on Prevention and Control of Noise Pollution and the Law on Prevention and Control of Environmental Pollution Caused by Solid Waste. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. Our Group is also subject to Administrative Regulations on Environmental Protection for Construction Project and the Law on Appraising of Environmental Impacts.

The pollutants generated from our operation mainly include exhaust fume emitted from our canteen, sewage and waste water from our production process, solid waste such as scrap aluminium and noise generated in the course of our production. We mainly deal with the above pollutants with the measures listed below:

1. Exhaust fume — exhaust fume passes through the oil fume separator before it is emitted through the chimney.
2. Sewage and waste water — sewage and waste water are treated in septic tank and oil separator respectively before they undergo water treatment.
3. Solid waste — solid waste, mainly scrap aluminium, is collected by scrap metal recyclers.
4. Noise — we have fitted noise insulation to suppress the noise generated in the course of our production.

In January 2011, our operating subsidiary, Xiezhong Nanjing, was accredited GB/T24001-2004 idt ISO14001:2004 certification in relation to its environmental management systems, which will remain valid until 4 January 2014.

Neither Xiezhong Nanjing, Xiezhong Beijing, Xiezhong Liaoning nor Xiezhong Hubei produces, uses or sells refrigerants except that: (i) Xiezhong Nanjing may use a very small amount of R134a for the purpose of experiment; (2) Xiezhong Nanjing would purchase R134a for certain customers according to their specific requirements. For each of the three years ended 31 December 2011, the cost of refrigerants represents approximately 0.05%, 0.03% and 0.15%, respectively, of our total cost of sales. As confirmed by our PRC Legal Advisers, it is not necessary for Xiezhong Nanjing to get any permission from any

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government authorities to use or purchase R134a and that we are in compliance with the relevant PRC environmental laws and regulations in relation to our use of R134a in the course of our business.

As confirmed by our PRC Legal Advisers, we have complied in all material respects with the relevant PRC environmental protection laws and regulations. We have been subject to the inspections by the local governmental authorities from time to time. Up to the Latest Practicable Date, we were not subject to any material fine or claim arising from non-compliance with environmental laws and regulations or any citation for our environmental measures. We are committed to the continued compliance with the relevant PRC environmental protection laws and regulations.

During the Track Record Period, our annual cost of compliance with the applicable environmental protection laws and regulations was approximately RMB6,000, RMB6,000 and RMB6,000, respectively. The cost of compliance going forward is expected to be approximately RMB8,000, RMB10,000 and RMB12,000 for each of the three years ending 31 December 2014.

We have taken necessary measures to protect our employees' health and safety at work, including providing our employees with protective clothing and accessories, such as gloves, goggles and masks, and providing occupational safety training for all of our employees and special training for operators of certain equipment. In January 2011, our operating subsidiary, Xiezhong Nanjing, was accredited GB/T 28001-2001 certification for its established occupational health and safety management systems, which will remain valid until 4 January 2014.

During the Track Record Period, we have not encountered any material claims or incidents in relation to occupational health and safety issues or been involved in any accident causing death or serious injury in the course of our business operations.

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EMPLOYEES

As at 31 December 2009, 2010 and 2011 and as at the Latest Practicable Date, we had approximately 612, 747, 893 and 882 staff, respectively. The following table sets forth, for the periods indicated, the breakdown of number of our employees employed by function:

Department	As of 31 December 2011		As at the Latest Practicable Date	
	<i>Number of employees</i>	<i>Percentage of total employees (%)</i>	<i>Number of employees</i>	<i>Percentage of total employees (%)</i>
Management	6	0.7	8	0.9
Research and development	113	12.7	117	13.3
Sales and marketing	69	7.7	78	8.8
Production	491	55.0	484	54.9
Procurement	16	1.8	17	1.9
Quality control	71	8.0	62	7.0
Office Support	39	4.3	37	4.2
Finance	17	1.9	16	1.8
Human resources	5	0.5	5	0.6
Logistic	66	7.4	58	6.6
Total	893	100.0	882	100.0

Our total staff costs for the Track Record Period were RMB33.8 million, RMB42.7 million and RMB50.7 million, respectively, which accounted for 9.7%, 7.8% and 8.2% of our total turnover, respectively. We provide training to our staff on a regular basis. We adopt a performance-based incentive scheme for all our employees. We adhere strictly to both statutory employment standards and those requested by our customers, such as wages and working hours, and maintain internal standards and workplace practices that exceed both.

Social insurance and housing provident funds contributions

Pursuant to applicable PRC laws and regulations, we are required to contribute to social insurance (which includes contribution for various funds in the PRC, including pension insurance, medical insurance, unemployment insurance, occupation injuries and maternity insurance) and housing provident funds for our staff.

Xiezhong Nanjing, Xiezhong Liaoning, Xiezhong Hubei and Xiezhong Beijing, as PRC entities, are required by the PRC laws and regulations to make contributions to the social insurance and housing provident funds. Due to the differences in local regulations, inconsistent implementation by local authorities in the PRC and different levels of acceptance of the social insurance and housing provident funds systems by employees,

during the Track Record Period, Xiezhong Nanjing, Xiezhong Liaoning and Xiezhong Hubei did not fully comply with the relevant PRC laws and regulations in relation to social insurance contributions.

As advised by our PRC Legal Advisers, the amount of social insurance 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 as they had adopted an amount less than the average monthly salary received by each employee in the preceding year as the basis for calculation. We have consulted with the competent social insurance administration bureau, and were informed that according to the general practice of these social insurance administration bureau, the unpaid social insurance contributions cannot be fully paid since such social insurance administration bureau will not accept repayment of the unpaid social insurance contributions and that the contribution basis can only be adjusted in July of each year. We estimate that the aggregated amount of unpaid social insurance contributions will be approximately RMB7.9 million until 30 June 2012. We will make full social insurance contributions for all of employees of Xiezhong Nanjing, Xiezhong Liaoning and Xiezhong Hubei from July 2012 onward for all of our PRC employees in according with the relevant PRC laws and regulations.

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 make contribution in 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.

Each of Xiezhong Nanjing, Xiezhong Liaoning and Xiezhong Hubei had communicated with the relevant authorities regarding the contributions of social insurance. Xiezhong Nanjing has obtained a written confirmation from 南京市江寧區社會勞動保險所 (the Social and Labor Insurance Administration of Nanjing Municipal Jiangning District*), the competent social insurance authority, on 5 December 2011, which confirmed that Xiezhong Nanjing had duly contributed social insurance for its employees since its incorporation in compliance with the PRC law without any record of being sanctioned for any non-compliance. Xiezhong Liaoning has obtained a written confirmation from 撫順市社會保險事業管理局經濟開發區分局 (the Social Insurance Matter Administration Bureau of Fushun Municipal Branch of Economic Development Zone*), the competent social insurance authority, on 2 November 2011, which confirmed that Xiezhong Liaoning had duly contributed social insurance for its employees since its incorporation in compliance with the PRC law without any record of being sanctioned for any non-compliance. Xiezhong Hubei has obtained a written confirmation from 武漢經濟技術開發區社保處登記科 (the Registration Unit of Social Insurance Bureau of Wuhan Economic Technology Development Zone*), the competent social insurance authority, on 26 October 2011, which confirmed that payment of social insurance contributions by

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Xiezhong Hubei is normal. Such written confirmation only confirmed that Xiezhong Hubei has made contributions for its employees, and no unusual incidence has occurred in the payment of social insurance contributions by Xiezhong Hubei.

Xiezhong Nanjing has obtained a written confirmation from 南京住房公積金管理中心江寧管理部 (the Housing Provident Funds Administration Centre of Nanjing, Jiangning Administration Department), the competent housing provident funds authority on 9 December 2011, which confirmed that Xiezhong Nanjing had fully paid all previously unpaid housing provident funds during the Track Record Period and has since contributed housing provident funds for its employees without any non-compliance with laws, regulations or local rules related to housing provident funds. Xiezhong Liaoning has obtained a written confirmation from 撫順市住房公積金管理中心望花區辦事處 (the Office of Housing Provident Funds Administration Centre of Wanghua District of Fushun*), the competent housing provident funds authority, on 16 December 2011, which confirmed that Xiezhong Liaoning had duly contributed housing provident fund for its employees, without any record of being sanctioned for any non-compliance since its incorporation. Xiezhong Hubei further obtained a written confirmation from 武漢住房公積金管理中心 (the Housing Provident Funds Administration Centre of Wuhan*), the competent housing provident funds authority on 12 January 2012, which confirmed that Xiezhong Hubei had paid the housing provident funds from April 2010 to December 2011 and that it has not received any complaint from the relevant government authorities and employees.

There is no assurance that the relevant government authorities will not levy administrative penalties as mentioned above against the Group in the future. Nevertheless, based on the above confirmations from the relevant government authorities, our PRC Legal Advisers are of the view that the risk of Xiezhong Nanjing, Xiezhong Liaoning and Xiezhong Hubei being imposed of any fines by the relevant authorities is relatively remote. Taking into account the advice from our PRC Legal Advisers above, the Directors consider that the financial impact on the Group is minimal and no provision has been made in this regard, which would not affect the true and fair view of the financial information in Appendix I to this prospectus.

The previously unpaid housing provident funds amounted to RMB4.0 million and such amount has been subsequently fully paid. The Group has already made due contributions to housing provident funds as at the Latest Practicable Date.

As at the Latest Practicable Date, none of Xiezhong Nanjing, Xiezhong Liaoning and Xiezhong Hubei had received any complaint from our employees in relation to the social insurance and housing provident funds contributions, or any notice or legal documents from the regulatory authorities of social insurance and housing provident funds requesting contributions for the relevant social insurance or housing provident funds.

Save for the above, as advised by our PRC Legal Advisers, the Group has complied with the relevant labour and social welfare laws and regulations in PRC in all material aspects.

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During the Track Record Period, we have not experienced any significant problems with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. We believe that we have a good working relationship with our employees.

INSURANCE

We maintain insurance policies covering certain properties and motor vehicles. In line with our understanding of the usual industry practice, we do not maintain product liability insurance as it is not compulsorily required under the PRC laws and regulations. We consider that our insurance coverage is in line with the industry practice in the PRC.

PROPERTIES

As at the Latest Practicable Date, we had interest in the following properties in the PRC.

At Jiangning District, Nanjing, Jiangsu, we have our Jiangning Plant, which are five single to three-storey workshop, office buildings and warehouse with a total gross floor area of approximately 34,689.10 sq.m. and various structures erected upon a parcel of land with a site area of 60,133.90 sq.m. On the same parcel of land, we are constructing a research centre building with a gross floor area of 15,631.00 sq.m.

At Fushun Economic Development Zone, Fushun, Liaoning, a three-storey workshop and office building with a gross floor area of approximately 5,656.56 sq.m. erected upon a parcel of land with a site area of 30,893.00 sq.m.

At Caiyu Town, Daxing District, Beijing, a parcel of land with a site area of approximately 45,178.23 sq.m. This parcel of land was acquired for construction of the Beijing Plant.

At Caiyu Town, Daxing District, Beijing, a leased property of a room with a gross floor area of approximately 33.39 sq.m. which is occupied by us for office use.

At Yujia Town, Tongzhou District Beijing, a leased property of a single-storey warehouse building with a gross floor area of approximately 674.2 sq.m. which is occupied by us for storage use.

At Wuhan Economic Technology Development District, Wuhan, Hubei Province, a leased property of an office unit with a gross floor area of approximately 140 sq.m. which is occupied by us for office use.

The following sets out the material irregularities in respect of our properties.

Lack of planning and construction permits, completion acceptance report and building ownership certificates for some of the properties in the Jiangning Plant

As at the Latest Practicable Date, we have not obtained the Four Documents for the Canopy and the Electricity Distribution Room. We did not obtain the Four Documents because we have mistakenly believed that since these structures are simple temporary structures and we can demolish them if required by the relevant governmental authorities, it was not necessary to obtain the Four Documents. We have consulted with the relevant governmental authorities, and was informed that Xiezhong Nanjing cannot make up the formalities for applying for the Planning Permit on Construction Works (which is the prerequisite for applying for the other three documents) for both the Canopy and the Electricity Distribution Room because Xiezhong Nanjing had failed to satisfy the requirements of planning pursuant to the relevant PRC laws and regulations. Without the Planning Permit on Construction Works, Xiezhong Nanjing is not able to apply for the other three documents.

As advised by our PRC Legal Advisers, the penalty which the relevant authority may impose on us in respect of the Canopy and the Electricity Distribution Room would be as follows:

- (a) for failing to obtain the Planning Permit on Construction Works, order of demolition of such properties within a prescribed time limit, forfeiture of any realty or unlawful gains if cannot be demolished and a fine equivalent to not more than 10% of the construction costs of such properties, which we estimate would not exceed RMB80,000;
- (b) for failing to obtain the Construction Permit on Construction Works, a fine of not less than RMB5,000 and not more than RMB30,000 in the event that Xiezhong Nanjing has made any unlawful gains, or a fine of not less than RMB5,000 and not more than RMB10,000 in the event that Xiezhong Nanjing has not made any unlawful gains; and
- (c) for failing to obtain the Completion Acceptance Report, order to the rectify non-compliance and a fine of not less than 2% and not more than 4% of the contract value of the construction contract, which our Directors estimate would not exceed RMB32,000.

As further advised by our PRC Legal Advisers, no fines will be imposed on us for failing to obtain the building ownership certificates in accordance with the existing PRC laws and regulations.

During the Track Record Period, there has been no accident causing injuries owing to the structural safety of the Canopy or the Electricity Distribution Room. Although the relevant government authorities have so far taken no steps in demanding the demolition of these structures or imposing the aforementioned penalties, there is no assurance that the relevant government authorities will not take any action. Demolition of the Canopy and relocation of the Electricity Distribution Room may be necessary if the relevant government authorities decide to take enforcement action against us.

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Our Directors consider that the demolition of the Canopy and relocation of the Electricity Distribution Room in respect of the aforesaid properties will not have a material impact on our operation for the reasons described below:

- (i) the Canopy is mainly used to place our semi-finished products temporarily on rainy days when they are transferred between the production warehouse and storage warehouse. In the event of demolition of the Canopy, we plan to cover our semi-finished products by other means and our Directors believe that this will not result in any material adverse effect on our operation and financial conditions. In the event of demolition of the Electricity Distribution Room, we plan to relocate the same into our production warehouse. As a contingency plan, we have already identified one suitable site area in our production warehouse to relocate the Electricity Distribution Room. We estimate that the cost of relocation, which include the cost of reconnection of all electricity cables, will be not more than RMB360,000. The estimated cost of relocation does not include the aforementioned possible maximum fine and the demolishing costs of the Electricity Distribution Room. If so required, we estimate that it will take no more than 7 days to complete the relocation process, during which it is estimated that our operation and business will not be halted as we intend to increase our production volume beforehand to replenish our stock of products to cater for our customers' demands while we are implementing the relocation plan. Having considered the cost of demolition of the Canopy and the cost of relocation for the Electricity Distribution Room mentioned above, our Directors are of the view that it will not have a material financial and operating impact on us; and
- (ii) Sunrise International and Mr. Chen Hao have agreed to provide indemnity to the Group in respect of the loss arising from this incident of non-compliance of the relevant PRC laws and regulations. For further details of the indemnities provided by Sunrise International and Mr. Chen Hao, please refer to the paragraph headed "G. Other information" in Appendix VI to the prospectus.

The relevant lessor does not have legal title to lease a storage warehouse to Xiezhong Beijing

Xiezhong Beijing has leased a property being used as storage warehouse with an aggregate gross floor area of approximately 674.20 sq.m. in Tongzhou District, Beijing. As advised by our PRC Legal Advisers, the storage warehouse is erected on a piece of farmers collectively-owned land (農民集體所有地) which was leased by lessor from the relevant village committee. The warehouse was constructed by the lessor without obtaining the necessary planning, construction permits and building ownership certificate. As advised by our PRC Legal Advisers, pursuant to 中華人民共和國土地管理法 (the Law of Land Administration of the PRC*), farmers' collectively-owned land shall not be leased, transferred or rented for non-agricultural construction, except in certain circumstances and the lessor could be ordered by the relevant land administrative departments to make correction within a prescribed time limit and confiscate the proceeds generated from the breach and impose a fine. As a result, our PRC Legal Advisers are of the view that Xiezhong Beijing could be ordered to cease occupation of the storage warehouse.

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In the event that the relevant government authority orders Xiezhong Beijing to cease occupation of the storage warehouse, we plan to minimise our exposure to adverse impact on our operation by adopting a contingency plan of relocating to another storage warehouse. We estimate that the cost to be incurred during the relocation process will mainly be transportation cost with an estimated sum of approximately RMB1,500. We estimate the monthly rental cost of a storage warehouse of similar size to be approximately RMB8,300 per month and it will take no more than 3 days to complete the relocation process, during which it is estimated that our operation and business will not be halted. Having considered the cost of relocation of our storage warehouse and the monthly rental fee payable, our Directors are of the view that it will not have a material financial and operating impact on us.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

As at the Latest Practicable Date, we were not a party to any material arbitration, litigation or administrative proceedings which could be expected to have a material adverse effect on our business or results of operations. We are not aware of any pending or threatened arbitration, litigation or administrative proceedings against us.

During the years ended 31 December 2009 and 2010, Xiezhong Nanjing extended Inter-enterprise Loans to Aotecar Nanjing, Xiezhong Liaoning and 北京智科投資管理有限公司 (Beijing Zhike Investment Management Co., Ltd*), in order to provide short term financing to Aotecar Nanjing for it to repay its existing bank loans such that it can renew the bank loans, and to provide working capital financing to Xiezhong Liaoning and Beijing Zhike Investment Management Co., Ltd. The amounts of these Inter-enterprise Loans range from RMB2 million to RMB20 million. As at the Latest Practicable Date, all Inter-enterprise Loans have been fully settled. The aggregated income gained by Xiezhong Nanjing as a result of these Inter-enterprise Loans amounts to approximately RMB1.1 million.

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 state 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 resulting 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.

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In 2010, Xiezhong Nanjing had received advances from 南京協眾集團房地產開發有限公司 (Nanjing Xiezhong Group Property Development Co. Ltd.*) as borrower of an Inter-enterprise Loan in the amount of RMB10 million which has been fully settled. Our PRC Legal Advisers have advised that according to the relevant PRC laws and regulations, Xiezhong Nanjing as borrower of such advances, will not be penalized.

As confirmed by our PRC Legal Advisers, except as disclosed in this prospectus, we have complied with, in all material respects, all the relevant laws and regulations applicable to the Group's operations in the PRC and obtained all necessary licenses and approvals from the relevant authorities to carry out our business in all material aspects.

Indemnity by Sunrise International and Mr. Chen Hao

Sunrise International and Mr. Chen Hao have executed the Deed of Indemnity in favour of our Group whereby they will jointly and severally indemnify each of the members of the Group against, inter alia, all expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including, but not limited to, legal and other professional costs), charges, liabilities, fines, penalties and tax which any member of the Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with the non-compliance incidents of the relevant PRC laws and regulations by any member of the Group in the PRC described above in the paragraphs headed "Employees", "Properties" and "Legal Proceedings and Regulatory Compliance" in this section. For further details of the Deed of Indemnity, please refer to the paragraph headed "G. Other information — 1. Indemnity for tax and other matters" in Appendix VI to the prospectus.

MEASURES TO STRENGTHEN CORPORATE GOVERNANCE PROCEDURES

Our Company has adopted the following measures to prevent reoccurrence of material non-compliance incidents in the future:

Incidents

Lack of planning and construction permits, completion acceptance report and building ownership certificates for some of the properties in the Jiangning Plant and the relevant lessor does not have legal title in respect of a storage warehouse leased by Xiezhong Beijing (as more particularly described in the paragraph headed “Properties” in this section)

Prevention measures

Future property development would only be commenced after the necessary licenses and permits have been obtained.

Properties under development would only be used after the respective authorities had inspected the properties and issued the necessary licenses and permits.

We will only enter into lease agreements after the lessor has provided all relevant title documents.

Our compliance officers will be in charge to oversee the regulatory compliance aspect of all property transaction in the future and report to the Directors as to the timing when the relevant construction work can be started or when the relevant properties can be used or leased. Our compliance officers will be assisted by external PRC legal advisers in performing their duties. We will also engage external PRC legal advisers to conduct due diligence on property title for us. Where the property transaction is complicated and requires extensive devotion of time, we will engage external PRC legal advisers to take charge of the transaction for us.

Incidents

Failure to fully pay social insurance (as more particularly described in the paragraph headed “Employees” in this section)

Inter-enterprise loans (as more particularly described in the paragraph headed “Legal Proceedings and Regulatory Compliance” in this section)

Prevention measures

Reinforcement education regarding the importance of participation in the social insurance scheme would be provided to all new employees.

We will make the social insurance fund contributions for all of our PRC employees in accordance with the relevant PRC laws and regulations.

Our human resources department will be responsible for ensuring that social insurance contribution is duly made by the Group and the employees.

Our finance department will carry out internal checking on a quarterly basis to ensure that we are making the social contribution in accordance with the relevant PRC laws and regulations.

The Group will not advance or receive any Inter-enterprise Loans after the Listing.

We will consult our external PRC legal adviser before we enter into any loan transaction (other than bank loans).

In order to prevent future occurrence of legal non-compliance by our PRC subsidiaries and joint-controlled entity in the PRC, a compliance committee comprising all independent non-executive Directors as established by the Board will oversee the matter and ensure compliance with the PRC laws and regulations. The compliance committee will be assisted by external PRC legal advisers in performing its duties. To ensure ongoing compliance with the relevant laws and regulations in the PRC on a daily operation basis, Mr. Xin Fangwei, one of our senior management officer, and Mr. Chui Wing Fai, our company secretary, have been appointed as our internal compliance officers. Mr. Xin and Mr. Chui are responsible for managing matters on connection with regulatory compliance of our PRC operations. To reinforce Mr. Xin and Mr. Chui’s performance as our internal compliance officers in the PRC, we will also appoint PRC legal adviser to handle all legal and compliance matters of our Group and to advise us on legal and compliance matters in relation to our Group’s operation.

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As a matter of implementation of effective preventive measures in order to further ensure ongoing compliance with the relevant laws and regulations in the PRC, we have planned to adopt the following measures:

- Meetings and seminars will be arranged for our senior management from time to time to discuss and study regulatory requirements and latest updates thereof applicable to our business operations.
- All senior management and staff will be required to report to and/or notify our Directors, our compliance officers or our external PRC legal adviser promptly of any events which are subject of any possible violations of various regulatory requirements.
- Regular training programmes will be held to improve our staff's legal knowledge.

Our Directors are of the view that the above measures will improve our staff's understanding of the relevant rules and regulations in the PRC and enable us to strengthen our internal control environment both at the working level and at the monitoring level, and therefore, the above measures should be adequate and effective to ensure our Group's ongoing compliance with the relevant rules and regulations in the PRC.

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.

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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.

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.

CONNECTED TRANSACTIONS

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

CONNECTED TRANSACTIONS

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.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board consists of nine members, three of whom are independent non-executive Directors.

The following table sets forth information regarding the current Directors.

Name	Age	Position
Mr. Chen Cunyou	49	Chairman, executive Director and chief executive officer
Mr. Ge Hongbing	41	Executive Director
Mr. Zhang Yichen	48	Non-executive Director
Mr. Kenneth Fang	73	Non-executive Director
Mr. Liu Xiaoping	56	Non-executive Director
Mr. Wang Zhenyu	48	Non-executive Director
Mr. Lau Ying Kit	38	Independent non-executive Director
Mr. Cheung Man Sang	56	Independent non-executive Director
Mr. Zhang Shulin	71	Independent non-executive Director

Executive Directors

Mr. Chen Cunyou, aged 49, is the chairman and the chief executive officer of the Company and an executive Director. He is also a director of Xiezhong BVI, Xiezhong HK, Xiezhong Nanjing, Xiezhong Beijing, Xiezhong Liaoning and Xiezhong Hubei.

Mr. Chen is the founder of Xiezhong Nanjing and has acted as its general manager since its establishment in April 2002. He was also the chairman of board of directors of Xiezhong Nanjing from April 2002 to May 2008 and was re-appointed as the chairman of Xiezhong Nanjing since September 2011. He has been appointed as a Director since 30 September 2011.

He served as the general manager of 江蘇汽車空調器製造有限公司 (Jiangsu Auto Airconditioner Manufacturing Co., Ltd.*) from 1994 to 1997. Then, he served as the general manager of 南京中港汽車空調器製造有限公司 (Nanjing Zhonggang Auto Airconditioner Manufacturing Co., Ltd.*) until he founded Xiezhong Nanjing in April 2002. He has served as the chairman of 南京浙商投資有限公司 (Nanjing Zheshang Investment Co., Ltd.*) since 2003 and as the chairman of 南京浙江商會 (Nanjing Zhejiang Chamber of Commerce*) since 2002. He is also a member of the People's Congress of the PRC of Nanjing.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen obtained a master's degree in business administration from University of Atlanta, formerly known as Barrington University, in May 2003. Mr. Chen was also granted the award of Model Worker of Nanjing (南京市勞動模範) by Nanjing Municipal People's Government of the PRC in 2005.

Mr. Ge Hongbing, aged 41, is our executive deputy general manager and an executive Director. Mr. Ge is also a director, executive deputy general manager and chief engineer of Xiezhong Nanjing, a director and the general manager of Xiezhong Beijing and Xiezhong Hubei, a director of Xiezhong BVI, Xiezhong HK and the chairman of Xiezhong Liaoning. He joined our Group since the establishment of Xiezhong Nanjing. He has been appointed as a Director since 29 November 2011.

Mr. Ge has approximately 17 years of experience in the automobile air conditioner industry. Mr. Ge worked for 東風 — 派恩汽車鋁熱交換器有限公司 (Aeolus-Pan Automobile Aluminium Heat Exchanger Co., Ltd.*) as a research and development engineer of the technical department from October 1994 to March 1995. Mr. Ge worked as research and development engineer of the technical department in 南京派恩汽車空調有限公司 (Nanjing Pan Automobile Air-conditioning Co., Ltd.*) from April 1995 to March 1996. Mr. Ge served various positions when he worked in 南京中港汽車空調器製造有限公司 (Nanjing Zhonggang Automobile Air Conditioner Manufacturing Co., Ltd.*) between April 1996 to April 2002, including chief engineer, head of technical department and head of sales department. Mr. Ge graduated with a bachelor's degree from 東華大學 (Donghua University) (formerly known as 中國紡織大學 (China Textile University)) in July 1994 majored in heat ventilation and air-conditioning engineering. Mr. Ge obtained his master's degree in business administration from University of Atlanta, formerly known as Barrington University, in May 2003.

Non-executive Directors

Mr. Zhang Yichen, aged 48, is a non-executive Director and a director of Xiezhong BVI, Xiezhong HK and Xiezhong Nanjing. He joined our Group in March 2010 and has been the chairman of Xiezhong Nanjing since then until September 2011. He has been appointed as a Director since 30 September 2011.

Mr. Zhang joined to set up CITIC Capital Holdings Limited in 2002 and has been its chief executive officer. He was previously a managing director in debt markets group at Merrill Lynch. He joined CITIC Group in 2000 and served as an executive director of CITIC Pacific Limited, a company listed on the Main Board of the Stock Exchange, from March 2000 to May 2002.

Mr. Zhang is currently a member of the Eleventh National Committee of the Chinese People's Political Consultative Conference. He is also the chairman of 中華股權投資協會 (China Venture Capital and Private Equity Association), a vice chairman of 北京股權投資基金協會 (Beijing Private Equity Association) and 天津股權投資基金協會 (Tianjin Private Equity Association).

Mr. Zhang obtained a bachelor's degree in computer science and engineering from the Massachusetts Institute of Technology, U.S.A. in June 1986.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Kenneth Fang, *GBS, CBE, JP*, aged 73, is a non-executive Director and a director of Xiezhong BVI, Xiezhong HK and Xiezhong Nanjing. He joined our Group in May 2008 and was the chairman of Xiezhong Nanjing from June 2008 to March 2010. Mr. Fang has been appointed as a Director since 30 September 2011.

Mr. Fang is a director of Fang Brothers and Fang Brothers Holdings and the chairman of Fang Brothers Knitting Limited. He is also the chairman of Yeebo (International Holdings) Limited, a company listed on the Main Board of the Stock Exchange, and was previously the chairman of Times Ltd., a company listed on the Main Board of the Stock Exchange on 16 July 2007 and subsequently privatised and delisted on 25 May 2010. Mr. Fang also serves as a non-executive director of Jiangsu Expressway Company Limited and as an independent non-executive director of Wing Tai Properties Limited (formerly known as USI Holdings Limited), each being a company listed on the Main Board of the Stock Exchange. Mr. Fang is also the deputy managing director as well as a director of Nantong Jianghai Capacitor Co., Ltd., a company listed on the Shenzhen Stock Exchange.

Mr. Fang was granted the award of Industrialist of the Year (傑出工業家獎) by the Federation of Hong Kong Industries in 2002. He is an honorary chairman of the Hong Kong Textile Council and an honorary president of Hong Kong Woollen and Synthetic Knitting Manufacturers' Association. He is also a member of the National Committee of Chinese People's Political Consultative Conference and a member of the Standing Committee of Chinese People's Political Consultative Conference of Jiangsu Province.

Mr. Fang graduated from Massachusetts Institute of Technology, U.S.A. in June 1961 with a master's degree in chemical engineering. He was also conferred an honorary doctor's degree in business administration by the Hong Kong Polytechnic University in December 2005.

Mr. Liu Xiaoping, aged 56, is a non-executive Director of our Company and a director of Xiezhong BVI, Xiezhong HK, Xiezhong Nanjing, Xiezhong Beijing and Xiezhong Hubei. He joined our Group in May 2008. He has been appointed as a Director since 30 September 2011.

Mr. Liu has been a managing director at CITIC Capital Holdings Limited since December 2005. From 2003 to 2005, he served as the managing director of CITIC 21CN Company Limited, a company listed on the Main Board of the Stock Exchange. From 1998 to 2002, Mr. Liu served as vice president in the direct investment department at China International Capital Corporation (Hong Kong) Limited.

Mr. Liu graduated from 吉林工業大學 (Jilin University of Technology) (now known as 吉林大學 (Jilin University)) in January 1980. He obtained a master's degree in engineering at 北京航空航天大學 (Beijing University of Aeronautics and Astronautics) in April 1982. Mr. Liu subsequently obtained a doctor's degree of philosophy at University of Minnesota U.S.A. in March 1990.

Mr. Wang Zhenyu, aged 48, is a non-executive Director and a director of Xiezhong BVI, Xiezhong HK, Xiezhong Nanjing and Xiezhong Liaoning. He joined our Group in May 2008. He has been appointed as a Director since 30 September 2011.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang has been employed by CDH Investments Management (Hong Kong) Limited since 2008, and his current position is managing director. From 2002, he served as a vice president and managing director with various affiliates of CDH Investment Management (Hong Kong) Limited. From 2000 to 2002, he served as an associate in the investment consultancy department of China International Capital Corporation Limited. He has also been a director of CDH Cool and CDH Auto since 2007 and 2008, respectively.

Mr. Wang graduated from 合肥工業大學 (Hefei University of Technology) with a bachelor's degree in machinery engineering in August 1985 and a master's degree in industrial management engineering in July 1988.

Independent Non-executive Directors

Mr. Cheung Man Sang, aged 56, is an independent non-executive Director. He joined our Group on 16 May 2012 as an independent non-executive Director.

Mr. Cheung has been serving as the executive director and chief executive officer of China Private Equity Limited since December 2010. From August 2010 to November 2010, he served as the general manager of Vigo Hong Kong Investment Ltd. Prior to that, he served various positions at China Travel Service (Holdings) Hong Kong Limited and its group of companies between June 1996 and June 2010. In 1998, he became the general manager of China Travel Finance & Investment (H.K.) Limited, and was subsequently appointed as deputy general manager of group finance department and as general manager of China Travel Insurance Advisers Hong Kong Limited. During February 2007 to 2009, he served as a director of Tangshan Guofeng Iron & Steel Co., Ltd. In 2009, he was transferred back to group finance department of China Travel Service (Holdings) Hong Kong Limited to serve as deputy general manager. He has been serving as the independent non-executive director of 天津市桂發祥十八街麻花總店有限公司 (Tianjin Guifaxiang Mahua Food Group CO., LTD.) since 27 December 2011.

Mr. Cheung obtained a master's degree in business administration from 廈門大學 (Xiamen University) in December 2004.

Mr. Lau Ying Kit, aged 38, is an independent non-executive Director. He joined our Group on 16 May 2012 as an independent non-executive Director. He graduated from the City University of Hong Kong with a master's degree of science in finance in November 2008 and became the associate member of Hong Kong Institute of Certified Public Accountants in March 2003.

Mr. Lau has been an independent non-executive director of Kingdom Holdings Limited, a company listed on the Main Board of the Stock Exchange, since November 2006. He has also been the chief financial officer and company secretary of Great Harvest Maeta Group Holdings Limited, a company listed on the Main Board of the Stock Exchange, since August 2010.

Mr. Lau was previously an independent non-executive director of Shandong Chenming Paper Holdings Limited, which is a company listed in Hong Kong and Shenzhen, from April 2007 to April 2010. He was also the financial controller and company secretary of

DIRECTORS AND SENIOR MANAGEMENT

Sing Lee Software (Group) Limited from December 2003 to January 2005. He then acted as the chief financial officer and company secretary of China Glass Holdings Limited from December 2004 to December 2009. After that, he worked as the chief financial officer and company secretary of C Y Foundation Group Limited from January 2009 to June 2010. The aforesaid companies are all listed on the Main Board of the Stock Exchange.

Mr. Zhang Shulin, aged 71, is an independent non-executive Director. He joined our Group on 16 May 2012 as an independent non-executive Director. He has over 10 years of experience in automobile engineering and over 20 years of experience in managing automobile enterprises.

Mr. Zhang has been an independent director of 山東興民鋼圈股份有限公司 (Shandong Xingmin Wheel Co.,Ltd.) and 浙江萬豐奧威汽輪股份有限公司 (Zhejiang Wanfeng Auto Wheel Co.,Ltd.). Both companies are listed on the Shenzhen Stock Exchange.

Mr. Zhang is a consultant of 中國汽車技術研究中心 (Research Centre of China Automobile Techniques*). Mr. Zhang was previously the deputy head of 國家機械工業局國家機械工業部汽車司 (the Automobile Section of National Mechanical Industry Department under National Mechanical Industry Bureau*). He was also the executive deputy director and secretary of 中國汽車工業協會 (China Association of Auto Manufacturers*).

Save as disclosed, each of the Directors has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. Chen Cunyou, aged 49, is the chairman and the chief executive officer of the Company and an executive Director. Biographical details of Mr. Chen are set out in the paragraph headed “Directors” under this section.

Mr. Ge Hongbing, aged 41, is the executive deputy general manager and chief engineer of Xiezhong Nanjing and an executive Director. Biographical details of Mr. Ge are set out in the paragraph headed “Directors” under this section.

Mr. Huang Yugang, aged 43, is the deputy general manager and the research and development department head of Xiezhong Nanjing and is responsible for overseeing the technical aspect of our production and the research and development of our products. Mr. Huang is also the general manager of Xiezhong Liaoning since February 2010. Mr. Huang joined our Group in May 2002. Mr. Huang has accumulated approximately 21 years of experience in the production technique and production quality control of electrical appliance and automobile air-conditioning systems. Prior to joining our Group, Mr. Huang

DIRECTORS AND SENIOR MANAGEMENT

worked in 菊花電器集團有限公司(無錫)二廠 (the Number 2 Factory of Juhua Electric Appliance (Group) Co., Ltd., Wuxi*) as a technician from July 1990 to June 1993. Mr. Huang worked in 江陰粵陽汽車空調有限公司 (Jiangyin Yueyang Automobile Air conditioner Co., Ltd.*) from June 1993 to August 1997 and has served various positions, including the head of the quality control department and the head of technical department. Mr. Huang then worked in 張家港派恩汽車空調有限公司 (Zhang Jia Gang Pan Automobile Air Conditioner Co., Ltd.*) as technical manager from August 1997 to December 1999. Mr. Huang worked in 南京中港汽車空調器製造有限公司 (Nanjing Zhonggang Automobile Air Conditioner Manufacturing Co. Ltd.*) as the head of technical department from August 2000 to April 2002. Mr. Huang obtained a diploma in the Discipline of Microcomputer from the Department of Electronics of Jiangnan University in July 1990.

Mr. Xin Fangwei, aged 37, is the finance manager of Xiezhong Nanjing. Mr. Xin joined our Group in November 2008. Mr. Xin has accumulated approximately 10 years of experience in the areas of financial management. Prior to joining our Group, Mr. Xin worked for 南京泉峰國際貿易有限公司 (Nanjing Chervon International Trading Co., Ltd.*) from November 2001 to December 2004 as a finance officer. Mr. Xin was a senior accounting supervisor of 海康人壽保險有限公司 (AEGON-CNOOC Life Insurance Co. Ltd.*) from August 2005 to August 2006 and a senior accounting supervisor of 海康人壽保險有限公司江蘇分公司 (AEGON-CNOOC Life Insurance Co. Ltd., Jiangsu Branch Co.,*) from August 2006 to February 2007. Mr. Xin graduated with a bachelor's degree in auditing from 華北電力大學 (North China Electric Power University*) in July 1999. Mr. Xin obtained his master's degree in business administration from 河海大學 (Hohai University*) in June 2010. Mr. Xin has been an accountant since 2004.

Mr. Lei Shenghua, aged 48, is the deputy general manager of Xiezhong Nanjing and is responsible for overseeing the sales, project management and technical aspect of our business. Mr. Lei joined our Group in March 2011. Mr. Lei has accumulated approximately 19 years of experience in the area of HVAC systems production. Prior to joining our Group, Mr. Lei worked for 江鈴汽車股份有限公司 (Jiangling Motors Co, Ltd.*) as an engineer from January 1992 to March 1996. Mr. Lei worked for 江西新電汽車空調系統有限公司 (Jianxi Xindian Automobile Air Conditioner System Co., Ltd.) from March 1996 to February 2011 and has served various positions, including engineer, head of production department, director of technology centre, head of marketing department, assistance to the general manager, deputy general manager and executive deputy general manager (responsible for the management of the marketing, production and quality control departments). Mr. Lei graduated with a bachelor's degree in materials science and engineering from Shanghai Jiao Tong University in July 1986.

Mr. Zhang Qingrong, aged 64, is the deputy general manager of Xiezhong Nanjing since October 2011 and is responsible for overseeing the quality control, production and logistic aspect of our business. Mr. Zhang was the quality director of Xiezhong Nanjing from February 2011 to September 2011 and was responsible for overseeing the quality control of our products. Mr. Zhang joined our Group in February 2011. Mr. Zhang has accumulated approximately 14 years of experience in automobile components manufacturing and quality control in automobile air conditioning systems. Prior to joining our Group, Mr. Zhang worked for 南京法雷奧離合器有限公司 (Nanjing VALEO

DIRECTORS AND SENIOR MANAGEMENT

Clutch Co., Ltd.*) as the production department manager and logistics department manager from October 1997 to April 2000. Mr. Zhang worked for 空調國際(上海)有限公司 (Air International Shanghai Co., Ltd.*) and has held various positions, including logistic department manager, production department manager and quality department manager and as management representative to oversee production quality control from May 2000 to April 2008 and from October 2009 to June 2010. Mr. Zhang worked for 上海利佰國際貿易有限公司 (Shanghai Leanbuy International Trading Co. Ltd.*) as the quality department manager from May 2008 to September 2009. Mr. Zhang graduated from 上海船舶工業學校 (Shanghai Ship Industrial School*) in January 1969 and obtained an economist title granted by Review Committee of Economics in March 1992.

Mr. Dai Zumian, aged 35, is the chief financial officer of our Company. He joined our Group in May 2012.

Prior to joining our Group, Mr. Dai was the chief financial officer of 上海金絲猴食品股份有限公司 (Shanghai Golden Monkey Foodstuff Company Limited*) from February 2009 to April 2012. From September 2006 to August 2007, he served as the company secretary and qualified accountant at Hisense Kelon Electrical Holdings Company Limited, a company listed in the Stock Exchange (stock code: 921) and the Shenzhen Stock Exchange (stock code: 000921). Mr. Dai had over 7 years' experience in audit. His experience in audit includes those gained at PricewaterhouseCoopers Zhongtian Certified Public Accountants from February 2005 to August 2006.

Mr. Dai has obtained a bachelor's degree in International Business Management from Shanghai University of Finance and Economics in June 1999. He is a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Save as disclosed, each of the senior management has not been a director of any other publicly listed company during the three years preceding the date of this prospectus.

COMPANY SECRETARY

Mr. Chui Wing Fai, aged 46, is the company secretary of our Company. He joined our Group in November 2011.

Prior to joining our Group, Mr. Chui was the company secretary and senior finance manager of China Water Property Group Limited, a company listed on the Main Board of the Stock Exchange, from January 2008 to February 2010. Mr. Chui has over 18 years of experience in audit and accounting. His commercial accounting experience includes those gained at China Resources Light Industries and Textiles (Holdings) Company Limited (currently known as China Resources Textiles (Holdings) Company Limited) and China Resources Enterprise, Limited, a company listed on the Main Board of the Stock Exchange, from 2000 to 2006. He worked at Deloitte Touche Tohmatsu from 1993 to 1999.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chui obtained a bachelor's degree in business administration from the Chinese University of Hong Kong and a master's degree in business administration from the University of South Australia. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

BOARD COMMITTEE

Audit committee

Our Company established an audit committee on 21 May 2012 with its written terms of reference in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board.

Our audit committee consists of three members, being Mr. Lau Ying Kit, Mr. Cheung Man Sang and Mr. Zhang Shulin. Mr. Lau Ying Kit currently serves as the chairman of our audit committee.

Remuneration committee

Our Company established a remuneration committee on 21 May 2012 with its written terms of reference in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to evaluate the performance and make recommendations on the remuneration of our senior management and members of the Board.

Our remuneration committee consists of four members, being Mr. Cheung Man Sang, Mr. Kenneth Fang, Mr. Lau Ying Kit and Mr. Zhang Shulin. Mr. Cheung Man Sang currently serves as the chairman of our remuneration committee.

Nomination committee

Our Company established a nomination committee on 21 May 2012 with its written terms of reference in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

Our nomination committee consists of four members, being Mr. Cheung Man Sang, Mr. Lau Ying Kit, Mr. Liu Xiaoping and Mr. Zhang Shulin. Mr. Zhang Shulin currently serves as the chairman of our nomination committee.

COMPLIANCE ADVISER

Our Company has appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our Company will seek the advice of the compliance adviser in the following circumstances:

- (1) before the publication of any announcement, circular or financial report required by the Listing Rules;
- (2) where a transaction, which might be a notifiable or connected transaction for the Company under the Listing Rules, is contemplated;
- (3) where the Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of operation of our Group deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital of our Company are as follows:

<i>Number of Shares comprised in the authorised share capital:</i>	<i>HK\$</i>
2,000,000,000 Shares	20,000,000

The share capital of our Company immediately following the completion of the Share Offer will be as follows:

<i>Shares issued and to be issued, fully paid or credited as fully paid, immediately upon completion of the Share Offer</i>	<i>HK\$</i>
100,000 Shares in issue as at the date of this prospectus	1,000
599,900,000 Shares to be issued pursuant to the Capitalisation Issue	5,999,000
<u>200,000,000</u> Shares to be issued pursuant to the Share Offer	<u>2,000,000</u>
<u>800,000,000</u> Shares in total	<u>8,000,000</u>

Assumptions

The above tables assume that the Share Offer becomes unconditional and does not take into account any Shares which may be allotted and issued upon the exercise of options to be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issue Mandate and Repurchase Mandate as described below.

Ranking

The Offer Shares will rank *pari passu* in all respects with all other Shares in issue as at the date of this prospectus, and in particular, will rank in full for all dividends and other distributions declared, paid or made on the Shares after the date of this prospectus save for entitlements to the Capitalisation Issue.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions stated in the paragraph headed “Conditions” of the section headed “Structure of the Share Offer” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value not exceeding the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue; and
- (ii) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the Repurchase Mandate.

Our Directors may, in addition to the Shares which they are authorised to issue under this mandate, allot, issue and deal with the Shares pursuant to (a) a rights issue; (b) the exercise of rights of subscription, exchange or conversion under the terms of any warrants or convertible securities issued by our Company or any securities which are exchangeable into Shares; (c) the exercise of the subscription rights under options granted under the Share Option Scheme or any other similar arrangement of our Company from time to time adopted for the grant or issue to officers and/or employees and/or consultants and/or advisors of our Company and/or any of its subsidiaries and/or other persons of Shares or rights to acquire Shares; or (d) any scrip dividend or similar arrangement providing for allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of our Company.

The Issue Mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- upon the expiration of the period within which our Company is required by applicable laws or the Articles or the Companies Law to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting, whichever occurs first.

For further details of the Issue Mandate, see the paragraph headed “A. Further information about our Company — 3. Resolutions of the Shareholders passed on 21 May 2012” of the section headed “Statutory and General Information” in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on conditions stated in the paragraph headed “Conditions” of the section headed “Structure of the Share Offer” in this prospectus, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase

SHARE CAPITAL

Shares with an aggregate nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Share Offer and Capitalisation Issue.

The Repurchase Mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “A. Further information about our Company — 6. Repurchase by our Company of its own securities” of the section headed “Statutory and General Information” in Appendix VI to this prospectus.

The Repurchase Mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- upon the expiration of the period within which our Company is required by applicable laws or the Articles or the Companies Law to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting, whichever occurs first.

For further information about the Repurchase Mandate, refer to the paragraph headed “A. Further information about our Company — 3. Resolutions of the Shareholders passed on 21 May 2012” of the section headed “Statutory and General Information” in Appendix VII to this prospectus.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, without taking into account any Shares that may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, our Directors are not aware of any person (other than Directors) who will, immediately upon listing and before transfer of Shares to the grantees under the Share Incentive Plan, have interests or short positions in any Shares or underlying Shares which are required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions (L) and short positions (S) in Shares

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
CDH Cool	Beneficial owner	44,748,000(L)	5.59%
		2,237,400(S)	0.28%
CDH China Growth Capital Fund II, L.P. ¹	Interest of controlled corporation	44,748,000(L)	5.59%
		2,237,400(S)	0.28%
CDH China Growth Capital Holdings Company Limited ¹	Interest of controlled corporation	44,748,000(L)	5.59%
		2,237,400(S)	0.28%
China Diamond Holdings II, L.P. ¹	Interest of controlled corporation	44,748,000(L)	5.59%
		2,237,400(S)	0.28%
CDH Auto	Beneficial owner	94,104,000(L)	11.76%
		4,705,200(S)	0.59%
CDH China Fund III, L.P. ²	Interest of controlled corporation	94,104,000(L)	11.76%
		4,705,200(S)	0.59%
CDH III Holdings Company Limited ²	Interest of controlled corporation	94,104,000(L)	11.76%
		4,705,200(S)	0.59%
China Diamond Holdings III, L.P. ²	Interest of controlled corporation	94,104,000(L)	11.76%
		4,705,200(S)	0.59%
China Diamond Holdings Company Limited ^{1, 2}	Interest of controlled corporation	138,852,000(L)	17.36%
		6,942,600(S)	0.87%
CITIC Capital China	Beneficial owner	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
CITIC Capital China Partners, L.P. ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
CCP GP Ltd. ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
CCP Ltd. ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
CITIC Capital Partners Limited ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
CITIC Capital Holdings Limited ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
CP Management Holdings Limited ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
Brian J. Doyle ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Warlord Investment Corporation ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
CIC International Co. Limited ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
China Investment Corporation ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
CITIC Limited ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
CITIC Group Corporation ³	Interest of controlled corporation	185,148,000(L)	23.14%
		9,257,400(S)	1.16%
Sunrise International ⁴	Beneficial owner	240,000,000(L)	30%
		12,000,000(S)	1.50%
Mr. Chen Hao ⁴	Interest of controlled corporation	240,000,000(L)	30%
		12,000,000(S)	1.50%

Notes:

1. CDH Cool is wholly-owned by CDH China Growth Capital Fund II, L.P. The general partner of CDH China Growth Capital Fund II, L.P. is CDH China Growth Capital Holdings Company Limited, which is owned as to 69.5% by China Diamond Holdings II, L.P. The general partner of China Diamond Holdings II, L.P. is China Diamond Holdings Company Limited. Therefore, each of CDH China Growth Capital Fund II, L.P., CDH China Growth Capital Holdings Company Limited and China Diamond Holdings II, L.P. and China Diamond Holdings Company Limited is deemed to be interested in all the Shares held by and all short positions in Shares of CDH Cool by virtue of the SFO.
2. CDH Auto is wholly-owned by CDH China Fund III, L.P. The general partner of CDH China Fund III, L.P. is CDH III Holdings Company Limited, which is owned as to 80% by China Diamond Holdings III, L.P. The general partner of China Diamond Holdings III, L.P. is China Diamond Holdings Company Limited. Therefore, each of CDH China Fund III, L.P., CDH III Holdings Company Limited, China Diamond Holdings III, L.P. and China Diamond Holdings Company Limited is deemed to be interested in all the Shares held by and all short positions in Shares of CDH Auto by virtue of the SFO.
3. Each of these entities or persons is deemed to be interested in all the Shares held by and all short positions in Shares of CITIC Capital China by virtue of the SFO given their direct or indirect relationship with CITIC Capital China as described below:
 - (a) CITIC Capital China is wholly-owned by CITIC Capital China Partners, L.P., the general partner of which is CCP GP Ltd.
 - (b) CCP GP Ltd. is wholly-owned by CCP Ltd., which is in turn a wholly-owned subsidiary of CITIC Capital Partners Limited.
 - (c) CCP Ltd., is a wholly-owned subsidiary of CITIC Capital Partners Limited.
 - (d) CITIC Capital Holdings Limited holds a 51% interest in CITIC Capital Partners Limited.
 - (e) CP Management Holdings Limited holds a 49% interest in CITIC Capital Partners Limited.

SUBSTANTIAL SHAREHOLDERS

- (f) Each of Mr. Zhang Yichen and Mr. Brian J. Doyle holds a 50% interest in CP Management Holdings Limited.
 - (g) Warlord Investment Corporation holds a 40% interest in CITIC Capital Holdings Limited.
 - (h) Warlord Investment Corporation is a wholly-owned subsidiary of CIC International Co. Limited.
 - (i) CIC International Co. Limited is wholly-owned by China Investment Corporation.
 - (j) CITIC Group Corporation, through various intermediary holding companies in aggregate holds a 55% interest in CITIC Capital Holdings Limited.
 - (k) CITIC Group Corporation and CITIC Limited entered into a restructuring agreement on 16 January 2012, pursuant to which CITIC Limited is deemed to be interested in all the Shares held by and all short positions in Shares of CITIC Capital China.
4. Sunrise International is 100% owned by Mr. Chen Hao. Therefore, Mr. Chen Hao is deemed to be interested in all the Shares held by and all short positions in Shares of Sunrise International by virtue of the SFO.
5. As mentioned in the paragraph headed “Share Incentive Plan” in the section headed “History and Development” in this prospectus, each of Fang Brothers, CDH Cool, CDH Auto, CITIC Capital China and Sunrise International has an obligation to transfer a total of 30,000,000 Shares in proportion to their respective interests in the Company at nil consideration to the grantees under the Share Incentive Plan upon full exercise of the grantees’ rights thereunder. As a result, each of them has a short position in respect of the Shares to be so transferred under the Share Incentive Plan.

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You should read the following discussion and analysis in conjunction with our audited combined financial information together with the accompanying notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. Our audited combined financial information has been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. Please see the section headed "Risk Factors" in this prospectus.

OVERVIEW

Our business

We are one of the leading suppliers of HVAC systems for SUVs, pickup trucks and heavy trucks in terms of sales volume in 2011 in China. We principally engage in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components. Our automotive HVAC systems represented approximately 94.5%, 95.7% and 90.4% respectively, of our total turnover for the Track Record Period. Our automotive HVAC systems are mainly used in SUVs, pickup trucks and heavy trucks. According to the Timer Auto Report, in terms of sales volume, we were the fifth largest supplier of automotive HVAC systems (with the market share of 9.9%) for SUVs and pickup trucks and the largest supplier of automotive HVAC systems (with the market share of 19.1%) for heavy trucks in China in 2011. According to the same report, we are 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. We also supply HVAC systems and HVAC components for construction machineries and other types of vehicles such as light trucks, sedans and buses.

Our production bases

Currently, we have two production bases. One is located at Jiangning District, Nanjing, Jiangsu, for the manufacture of HVAC systems and HVAC components (including evaporators, condensers, heater cores, HVAC hoses, HVAC housings, radiators, intercoolers and oil coolers). The other production base is located at Fushun Economic Development Zone, Fushun, Liaoning, for the manufacture of HVAC systems (without installing the compressors). We have an annual production capacity of 567,984 units of HVAC systems and 114,972 pieces of HVAC components in aggregate as at 31 December 2011. In order to further enhance our service to our customers and improve our competitive strengths, we have also acquired the land use right of a parcel of land at Daxing District, Beijing with a total site area of 45,178.23 sq.m. and plan to build our third production base.

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Our products

According to the Timer Auto Report, driven by the growth of China's automotive market and rising penetrating rate of HVAC systems in automobile, the sales of automotive HVAC systems has grown rapidly over the past few years. As an integral part of an automotive, the primary function of a HVAC system is to maintain the temperature level of the vehicle for the comfort of its occupants. Automotive HVAC systems are assembled from different automotive HVAC components, such as, evaporators, condensers, heater cores, compressors, HVAC hoses, radiators, intercooler, oil cooler, receiver drier, expansion valve and HVAC control units. We primarily develop, manufacture and sell automotive HVAC systems and components (such as evaporators, condensers, heater cores and HVAC hoses). For manufacturing of our HVAC systems, we also source some other HVAC components from other suppliers (such as compressors, receiver driers, expansion valves and HVAC control units).

Our research and development

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. In order to succeed in this industry, we place emphasis on strengthening our research and development capabilities. Our research and development team has a proven record of research and development capabilities and experience on automotive HVAC systems as well as related production techniques. We have 9 registered patents and have applied for registration of 6 other patents as at the Latest Practicable Date. In 2009, we have been accredited with the title 高新技術企業 (High and New Technology Enterprise*). To further strengthen our research and development capabilities, we are in the course of constructing a research and development building with a gross floor area of 15,631.00 sq.m. in the Jiangning Plant. We have purchased the environment simulation laboratory equipment, which is expected to put into use at the end of 2012. For information on our research and development capabilities, please refer to the paragraph titled "Our competitive strengths — Strong research and development capabilities and ability to offer customised products to customers" and "Our Strategies — Strengthening our research and development capabilities and developing HVAC systems for electric vehicles" in the section headed "Business" in this prospectus.


Our customers

We offer automotive HVAC systems to automakers in China such as Foton, Hawtai Motor, Shuguang Automotive, Zhongxing Auto, Great Wall and Sinotruk. We also offer automotive HVAC components to automakers and other automotive HVAC system and component suppliers in China. Our products are mainly used in SUVs, pickup trucks and heavy trucks. The major customers of our HVAC systems for SUVs, pickup trucks and heavy trucks include, Foton, Shuguang Automotive, Hawtai Motor, and Sinotruk, which we have approximately 9 years, 9 years, 6 years and 9 years of business relationship, respectively. According to the Timer Auto Report, Foton and Sinotruk are two leading domestic heavy trucks manufacturers. In addition to strengthening our leading position in

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the automotive HVAC systems for SUVs, pickup trucks and heavy trucks market in China, we are also actively developing our presence in the automotive HVAC systems for construction machineries and other types of vehicles, such as sedans. One of our operating subsidiaries, Xiezhong Nanjing, has been recognised as an “Excellent Supplier” by certain customers, such as Foton, Hawtai Motor, Zhongxing Auto and SANY.

Our recognitions

Our HVAC systems and HVAC components are marketed under our own trademark “” and this trademark has been recognised as a “Nanjing Municipal Well-known Trademark (南京市著名商標)” in 2010 and as a “Jiangsu Province Well-known Trademark (江蘇省著名商標)” in 2011. Our products have been recognised as “Nanjing Famous Brand (南京名牌產品)” by 南京市人民政府 (Nanjing Municipal People’s Government*) in 2011.

Other information

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.

For the Track Record Period, turnover attributable to sales of automotive HVAC systems accounted for approximately 94.5%, 95.7% and 90.4% of our total turnover, respectively. For the same periods, turnover attributable to sales of automotive HVAC components accounted for approximately 5.5%, 4.3% and 9.6%, respectively, of our total turnover.

During the Track Record Period, all of our turnover was generated from our sales to the PRC domestic market.

BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 30 September 2011. To rationalise the corporate structure in preparation of the listing of the Company’s shares on the Stock Exchange, the Company underwent the Reorganisation as detailed in the section headed “History and Development” in this prospectus. The Group is principally engaged in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components.

Upon completion of the group reorganisation on 20 January 2012, the Company became the holding company of Xiezhong BVI, and the companies now comprising the Group are owned by the same equity shareholders, i.e. CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto and Sunrise International, both before and after the group reorganisation mentioned above. As the Company was formed for the sole purpose of the Reorganisation and had no operations prior to the acquisition of Xiezhong BVI, no business combination has occurred and there were no changes in the economic substance of the ownership and the business of the Group. Accordingly, the Reorganisation has been

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accounted for using a principle similar to that for a reverse acquisition as set out in IFRS 3, Business combinations. The combined financial statements of the Company are considered as a continuation of the consolidated financial statements of Xiezhong BVI with the assets and liabilities of Xiezhong BVI recognised and measured at their historical carrying amounts prior to the Reorganisation.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial positions and results of operations have been and will be significantly affected by a number of factors, many of which may not be within our control. The principal factors affecting our results of operations are set out below.

Economic conditions in China

Our revenue was generated by the sale of automotive HVAC systems and automotive HVAC components in the PRC domestic market. Our customers are mainly PRC automakers of SUVs, pickup trucks and heavy trucks and other automotive HVAC systems and components suppliers. During the Track Record Period, the growth in domestic consumption of consumer and manufactured goods, which has risen in line with the growth in the PRC GDP, has resulted in increased demand for our products. The economic growth in the PRC and in particular the growth of the PRC automotive industry have a significant impact on all aspects of our operations, including but not limited to the demand for and pricing of our products.

Cost of raw materials

The primary raw materials for our production are aluminium and HVAC components. For the Track Record Period, the total cost of raw materials accounted for 87.9%, 89.7% and 88.5%, respectively of our total cost of sales. The price of aluminium is subject to fluctuations in the domestic commodity market and changes in aluminium prices will affect our cost of aluminium raw materials and results of operations. As we increase our production in accordance with our capacity expansion plans, we expect that our demand for raw materials will increase. Although we believe that we benefit from economies of scale in our procurement efforts and can obtain favorable pricing terms from our suppliers, fluctuations in the prices of raw materials will continue to have an impact on our results of operations.

Market competition

Increased competition or our inability to sustain our competitive advantages could adversely affect our results of operations. We, as one of the leading suppliers of HVAC systems for SUVs, pickup trucks and heavy trucks based in China, were able to maintain a

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stable gross margin through developing new products, engaging new customers, benefits of economies of scale and stringent cost control. During the Track Record Period, the gross profit margins of our Group were 28.0%, 27.7% and 27.8% respectively.

Production capacity

During the Track Record Period, our results of operations have been and are expected to continue to be affected by our production capacity in the future. In order to strengthen our market position in the PRC, we intend to further expand our production capacity as set out in the section headed “Business — Production Facilities and Production Capacities” in this prospectus. We believe that increasing our production capacity will help us to increase market share, revenue and profit. However, if we over-expand our production capacity beyond the demand for our products, our results of operations may be adversely affected.

Taxation

Under the new EIT Law which passed by the Fifth Plenary Session of the Tenth NPC, effective from 1 January 2008, the PRC’s statutory income tax rate is 25%.

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not derive any income which was subject to Hong Kong Profits Tax during the Track Record Period.

Xiezhong Nanjing was entitled to a tax holiday of two-year full exemption from income tax followed by three-year 50% reduction of the applicable income tax rate commencing from the first profit-making year from PRC income tax perspective (“**2 + 3 tax holiday**”) based on the then effective tax regulations prior to 1 January 2008. Xiezhong Nanjing started its tax holiday in 2006.

The 2+3 tax holiday is grandfathered under the new EIT Law and its relevant regulations. Further, Xiezhong Nanjing is recognised as a High and New Technology Enterprise under the new EIT Law and is subject to income tax at a reduced rate of 15% for a period of 3 years from 2009 to 2011. According to the grandfathering regulations, Xiezhong Nanjing cannot enjoy multiple preferential policies during the grandfathering period. As such, Xiezhong Nanjing has chosen to complete the 2+3 tax holiday until its expiry in 2010.

Accordingly, Xiezhong Nanjing is subject to income tax at 12.5% for 2009 and 2010, at 15% for 2011.

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The recognition of Xiezhong Nanjing as a High and New Technology Enterprise will expire on 21 December 2012 and the preferential tax treatment enjoyed by Xiezhong Nanjing has ended in 2011. As advised by our PRC Legal Advisers, for recognition as a High and New Technology Enterprise, an enterprise shall meet the following conditions:

- (a) being an enterprise registered in China (excluding Hong Kong, Macao and Taiwan regions) and owns the independent intellectual property rights in the core technology of its main products (or services) through its own independent research and development, assignment, endowment, mergers and acquisitions, etc. during the past three years, or through an exclusive license therefor of at least five years;
- (b) its products (or services) falling within the scope specified in 國家重點支持的高新領域 (Hi-tech Sectors Supported by the State on a Priority Basis*);
- (c) science and technology personnel who have received tertiary education or above accounted for at least 30% of its total workforce during the years in question, and the research and development personnel therein accounted for at least 10% of its total workforce during the years in question;
- (d) engages in research and development activities on an ongoing basis in order to obtain new scientific and technological (excluding humanities and social science) knowledge, creatively apply new scientific and technological knowledge or substantively improve its technology, products (or services) and, during the most recent three financial years, the percentage of its total sales revenues accounted for by its total research and development expenses should be in line with the following requirements: (i) for an enterprise with sales revenue of less than RMB50 million during the most recent year, a percentage of not less than 6%; (ii) for an enterprise with sales revenue of at least RMB50 million but less than RMB200 million during the most recent year, a percentage of not less than 4%; (iii) for an enterprise with sales revenue of at least RMB200 million during the most recent year, a percentage of not less than 3%; furthermore, its total research and development expenses incurred within territory of the PRC shall account for not less than 60% of the total expenses of the research and development; in the event that the enterprise has been incorporated for less than three years, the calculation shall be made in accordance with the actual number of years it has been in operation;
- (e) the revenue from its hi-tech products (or services) accounted for at least 60% of its total revenue for the year in question; and
- (f) its indicators such as the management level of its research and development organisation, capacity to apply practically its scientific and technological achievements, the quantity of its independent intellectual property rights, sales and total assets growth, etc., shall be in line with the requirements set forth in 高新技術企業認定管理工作指引 (Guidelines for the Management of Recognition of High and New Technology Enterprise*), the aforesaid four indicators are used to

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evaluate the enterprise's technology resources for innovation, management innovation, innovation to achieve results, etc., and to take a weighted scoring method that is required to achieve more than 70 points.

Xiezhong Nanjing has submitted the application for the extension of the recognition to the competent high and new technology enterprise recognition authority on 18 April 2012. In respect of the condition (d) above in relation to research and development costs, we have engaged an independent PRC registered accountant to prepare a specific report to verify our research and development costs in accordance with 高新技術企業認定管理辦法(Administrative Measures for Recognition of High and New Technology Enterprise*) and 高新技術企業認定管理工作指引 (Guidelines for the Management of Recognition of High and New Technology Enterprise*). According to such PRC official guidelines, research and development costs includes, among other things, staff costs, costs of the purchase of raw materials for the research and development projects such as cost of moulds, cost of producing samples, testing of equipments, experiments, maintenance of equipments, rental, depreciation and amortisation charges of devices, equipments and properties used for research purpose and other research-related miscellaneous expenses. The amount of research and development cost quantified according to such PRC official guidelines is different from the amount qualified according to IFRS. This is because while costs directly and indirectly related to research and development are quantified under the above PRC official guidelines for the purpose of ascertaining the condition (d) above, IFRS includes only those costs directly attributable to research and development (chiefly comprising the costs of research-related staff, expendable supplies and depreciation of research equipments) as research and development cost. Based on the specific report issued by the PRC registered accountant that we engaged, total research and development costs spent by Xiezhong Nanjing which falls within the definition under the above PRC official guidelines during 2009 to 2011 accounted for more than 3% of turnover of Xiezhong Nanjing of the same years and Xiezhong Nanjing is able to fulfill condition (d) above. On the basis that Xiezhong Nanjing has met the aforementioned conditions for the extension through (a) to (e), our PRC Legal Advisers further advised that there should be no material legal impediment for Xiezhong Nanjing to extend the recognition as a High and New Technology Enterprise, provided that Xiezhong Nanjing is recognised by the relevant authority to have achieved more than 70 points with reference to the aforementioned indicators such as intellectual property rights, capacity to apply practically its science and technological achievements, the management level of its research and development organisation, and growth rate. However, there can be no assurance that we will succeed in extending the recognition. We expect Xiezhong Nanjing would be able to obtain the extension of the recognition as a High and New Technology Enterprise by the end of 2012 and in such case Xiezhong Nanjing would be subject to a preferential tax rate of 15% for the year ending 31 December 2012 as well as the two years onwards. In the event that the application for extension is unsuccessful or is not obtained by the end of 2012, Xiezhong Nanjing will be subject to income tax rate of 25% for the year ending 31 December 2012.

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Xiezhong Liaoning, Xiezhong Hubei and Xiezhong Beijing are subject to income tax rate of 25%.

Any changes in the income tax rate applicable to us would have a significant impact on our financial condition and results of operations.

CRITICAL ACCOUNTING POLICIES, ESTIMATE AND JUDGMENTS

The accounting policies set out below have been applied consistently to all periods presented in the financial information.

(a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(b) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

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- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(c) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings	15–20 years
— Machinery and equipment	3–10 years
— Furniture, fixtures and office equipment	5 years
— Motor vehicles	5 years
— Leasehold improvement	Over the term of lease

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

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Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses. Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(d) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful life are amortised from the date they are available for use and their estimated useful lives are as follows:

Core technology	10 years
Customer relationships	5–10 years
Software and patent	5–10 years

The estimated useful life of the Group's core technology to manufacture automotive HVAC system is determined after taking into account the product life cycles for automotive products and anticipated technological and other charges.

Both the period and method of amortisation are reviewed annually.

(e) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;

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- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries and jointly controlled entities (including those recognised using the equity method), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.
- For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance

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account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(f) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with the relevant accounting policy. Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with the relevant accounting policy.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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RESULTS OF OPERATIONS

The following table sets forth our combined income statements for the Track Record Period as extracted from the Accountants' Report included in Appendix I to this prospectus:

	Years ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	346,539	545,502	619,904
Cost of sales	<u>(249,614)</u>	<u>(394,516)</u>	<u>(447,727)</u>
Gross profit	96,925	150,986	172,177
Other revenue and net income	3,169	5,444	6,835
Distribution costs	(18,521)	(28,785)	(24,730)
Administrative expenses	(21,948)	(26,856)	(37,767)
Other operating expenses	<u>(37)</u>	<u>(71)</u>	<u>(186)</u>
Profit from operations	59,588	100,718	116,329
Finance costs	(1,529)	(1,930)	(7,554)
Share of losses of jointly controlled entities	<u>—</u>	<u>(1,939)</u>	<u>(235)</u>
Profit before taxation	58,059	96,849	108,540
Income tax	<u>(9,031)</u>	<u>(16,144)</u>	<u>(21,531)</u>
Profit for the year	<u><u>49,028</u></u>	<u><u>80,705</u></u>	<u><u>87,009</u></u>
Attributable to:			
Equity shareholders of the Company	33,821	79,441	86,066
Non-controlling interests	<u>15,207</u>	<u>1,264</u>	<u>943</u>
Profit for the year	<u><u>49,028</u></u>	<u><u>80,705</u></u>	<u><u>87,009</u></u>

PRINCIPAL INCOME STATEMENT COMPONENTS

Turnover

Our turnover is derived from the sale of automotive HVAC systems which accounted for 94.5%, 95.7% and 90.4% respectively, of our total turnover during the Track Record Period and HVAC components, which mainly includes evaporators, condensers, heater cores, HVAC hoses, radiators, intercoolers and oil coolers, which accounted for 5.5%, 4.3% and 9.6% respectively, of our total turnover during the Track Record Period.

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The following table sets forth the breakdown of our turnover by products during the Track Record Period:

Products	Years ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>
HVAC systems	327,513	94.5	521,869	95.7	560,576	90.4
HVAC components ⁽¹⁾	<u>19,026</u>	<u>5.5</u>	<u>23,633</u>	<u>4.3</u>	<u>59,328</u>	<u>9.6</u>
Total turnover	<u><u>346,539</u></u>	<u><u>100.0</u></u>	<u><u>545,502</u></u>	<u><u>100.0</u></u>	<u><u>619,904</u></u>	<u><u>100.0</u></u>

Note:

- (1) HVAC components mainly comprises of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing).

Our HVAC systems are mainly used in SUVs, pickup trucks and heavy trucks.

The following table sets out a breakdown of our sales turnover by different types of vehicles for the Track Record Period:

	Years ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>	<i>RMB'000</i>	<i>% of total turnover</i>
HVAC systems						
SUVs and pickup trucks	181,082	52.2	254,570	46.7	286,572	46.2
Heavy trucks	120,285	34.7	150,222	27.6	126,946	20.5
Construction machineries	10,271	3.0	32,841	6.0	57,959	9.3
Other vehicles ⁽¹⁾	15,875	4.6	84,236	15.4	89,099	14.4
HVAC components ⁽²⁾	<u>19,026</u>	<u>5.5</u>	<u>23,633</u>	<u>4.3</u>	<u>59,328</u>	<u>9.6</u>
Total turnover	<u><u>346,539</u></u>	<u><u>100.0</u></u>	<u><u>545,502</u></u>	<u><u>100.0</u></u>	<u><u>619,904</u></u>	<u><u>100.0</u></u>

Notes:

- (1) Other vehicles mainly comprised of light trucks, buses, MPVs and sedans.
- (2) HVAC components mainly comprise of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing) for all types of vehicles.

During the Track Record Period, our turnover contributed from HVAC systems for SUVs and pickup trucks, construction machineries, other vehicles and HVAC components had been increasing. This was mainly because of the business growth of our existing customers as well as our expansion of customer base by our efforts in finding new customers. In 2010, turnover contributed from HVAC systems for heavy trucks and construction machineries increased mainly because the PRC government had, during 2009 and 2010, expedited infrastructure with a view to boosting economy growth after the

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financial crisis in 2008, which had in turn led to an increased demand for HVAC systems for heavy trucks and construction machineries. In 2011, turnover contributed from HVAC systems for heavy trucks decreased mainly because the PRC government had implemented policies to cool down the booming property market which had in turn led to a decreased demand for HVAC systems for heavy trucks. In 2011, sales of HVAC systems for construction machineries increased mainly because (i) we had four new customers of construction machineries manufacturers in the year, which contributed about RMB1.8 million of our revenue; and (ii) our existing customers of construction machineries manufacturers increased purchases from us as they are satisfied with the quality of our products and find our selling price reasonable.

The following table sets out the number of units and average selling price of our products sold for each of the three years ended 31 December 2011:

	Years ended 31 December					
	2009		2010		2011	
	Number of units	Average selling price (RMB/Unit)	Number of units	Average selling price (RMB/Unit)	Number of units	Average selling price (RMB/Unit)
HVAC systems						
SUVs and pickup trucks	126,762	1,429	180,839	1,408	201,042	1,425
Heavy trucks	110,806	1,086	140,785	1,067	120,903	1,050
Construction machineries	3,945	2,604	12,850	2,556	22,959	2,524
Other vehicles ^(b)	<u>29,001</u>	547	<u>93,223</u>	904	<u>106,521</u>	836
	<u>270,514</u>		<u>427,697</u>		<u>451,425</u>	
HVAC components ^(a)	<u>84,773</u>	224	<u>107,317</u>	220	<u>258,783</u>	229


Notes:

- (a) HVAC components mainly comprises of evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing) for all types of vehicles.
- (b) Other vehicles mainly comprised of light trucks, buses, MPVs and sedans.

During the Track Record Period, the unit price of HVAC systems for SUVs and pickup trucks were stable and fluctuated by less than 2%. This was because we had new product models launched and at the same time we had existing product models being sold at a discounted price. The unit price of HVAC systems for heavy trucks and construction machineries decreased slightly by less than 2% in each of the year 2010 and 2011. This was mainly because models of heavy trucks and construction machineries during these two years had been relatively stable and therefore our HVAC systems for heavy trucks and construction machineries had been stable, and there was a slight price discount on existing product models in 2011. The unit price of HVAC systems for other vehicles increased in 2010 mainly because we began to sell HVAC systems for vans in 2010 which is of a higher unit price than HVAC systems for light trucks and sedans. The unit price of

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HVAC systems for other vehicles decreased in 2011 mainly because of the differences in proportion of various products. During the Track Record Period, average unit price for HVAC components was relatively stable.

Our automotive HVAC systems are primarily sold to the automakers and construction machinery manufacturers in China such as, Foton, Hawtai Motor, Shuguang Automotive, Zhongxin Auto, Sinotruk and SANY. Our operating subsidiary, Xiezhong Nanjing, has been recognised as an “Excellent Supplier” by certain customers, including Foton, Hawtai Motor, Zhongxin Auto and SANY. Our HVAC systems and HVAC components are marketed under our own trademark “”. We also sell our automotive HVAC components to automakers and other automotive HVAC systems and components suppliers.

During the Track Record Period, all of our turnover was generated from the sale of automotive HVAC systems and automotive HVAC components in the PRC.

Cost of sales

Our cost of sales primarily comprises raw materials, direct labour and manufacturing overhead. For the Track Record Period, our cost of sales was RMB249.6 million, RMB394.5 million and RMB447.7 million respectively, representing 72.0%, 72.3% and 72.2% of our turnover respectively.

The following table sets forth the breakdown of our cost of sales for the Track Record Period:

Cost of sales	Years ended 31 December					
	2009		2010		2011	
	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>
Raw materials						
Aluminum	17,463	7.0	35,331	9.0	52,577	11.8
Compressors	70,655	28.3	96,391	24.4	86,512	19.3
Other HVAC components	<u>131,393</u>	<u>52.6</u>	<u>222,148</u>	<u>56.3</u>	<u>257,120</u>	<u>57.4</u>
	219,511	87.9	353,870	89.7	396,209	88.5
Direct labour	15,665	6.3	21,687	5.5	27,780	6.2
Manufacturing overhead	<u>14,438</u>	<u>5.8</u>	<u>18,959</u>	<u>4.8</u>	<u>23,738</u>	<u>5.3</u>
Total	<u>249,614</u>	<u>100.0</u>	<u>394,516</u>	<u>100.0</u>	<u>447,727</u>	<u>100.0</u>

The major component in the cost of sales was the cost of raw materials, principally aluminium and HVAC components such as compressors and other HVAC components such as receiver driers, expansion valves and HVAC control units which we do not manufacture. We purchase processed aluminium in various forms such as aluminium tubes, aluminium foil and aluminium plates. For the Track Record Period, the cost of aluminium accounted for 7.0%, 9.0% and 11.8%, respectively, of our total cost of sales. During the Track Record Period, our average purchase cost of processed aluminium was approximately RMB32,229 per tonne, RMB33,755 per tonne, and RMB34,090 per tonne respectively. Such purchase

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cost comprised the cost of aluminium (which was approximately RMB13,272 per tonne, RMB15,741 per tonne and RMB16,676 per tonne during the Track Record Period respectively) and processing fee (which was approximately RMB18,957 per tonne, RMB18,014 per tonne and RMB17,414 per tonne during the Track Record Period respectively). The cost of aluminium is determined with reference to market price while the processing fee of aluminium varies depending on the type of aluminium to be processed and the negotiation between us and our suppliers at the beginning of a year when the framework agreement is entered into. The increase in our purchase cost of processed aluminium was in line with upward trend of aluminium market price, which was partly offset by the decrease in processing fee. The decrease in processing fee was mainly brought by the intense competition amongst the aluminium processors and suppliers.

For the Track Record Period, the cost of sales of compressors accounted for 28.3%, 24.4% and 19.3%, respectively, of our total cost of sales. The decrease in the cost of compressors (as a percentage of our total cost of sales) was mainly because some of our customers elected to purchase compressors by themselves. As such we did not need to purchase and install compressors into our HVAC systems for them and we can save our cost of sales and the related distribution and administrative costs as well. Besides, the decrease in cost of compressors (as a percentage of our total cost of sales) was also in line with the trend that the price of compressors has tended to decline. During the Track Record Period, our per unit cost of compressor was approximately RMB485, RMB462 and RMB452 respectively. The decrease in per unit cost of compressor despite the increase in market price of aluminium was primarily brought by the intense competition amongst compressors manufacturers. Aotecar Nanjing, a connected person of us as defined under the Listing Rules, is one of our suppliers of compressors. During the Track Record Period, the per unit purchase price of compressors from Aotecar Nanjing was similar to our average unit cost of compressors, and was similar to the purchase price of compressors from other Chinese manufacturers. In some cases, we are requested by customers to purchase compressors of specified brands or models from manufacturers which are sino-foreign joint ventures. In such cases, the per unit purchase price from these sino-foreign joint ventures would be generally higher than the per unit purchase price from Chinese manufacturers including Aotecar Nanjing. Details of our transactions with Aotecar Nanjing are set out in the section headed “Connected Transactions” in this prospectus.

The cost of other HVAC components has remained relatively stable for the Track Record Period and has accounted for 52.6%, 56.3% and 57.4%, respectively, of our total cost of sales for the same periods. During the Track Record Period, the cost of raw materials accounted for 87.9%, 89.7% and 88.5%, respectively, of our total cost of sales.

Direct labour costs primarily consist of expenses related to wages and bonus. During the Track Record Period, direct labour costs accounted for 6.3%, 5.5% and 6.2%, respectively, of our total cost of sales.

Manufacturing overhead costs primarily consist of depreciation of our plant and equipment and fixed manufacturing costs, including utilities and maintenance costs. During the Track Record Period, manufacturing overhead costs accounted for 5.8%, 4.8% and 5.3%, respectively, of our total cost of sales.

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Gross profit

For the Track Record Period, our gross profit was RMB96.9 million, RMB151.0 million and RMB172.2 million, respectively. Our gross profit margin, which is equal to gross profit divided by turnover, was 28.0%, 27.7% and 27.8%, respectively, for the same periods.

The following table sets forth the breakdown of our gross profits and gross profit margins by products during the Track Record Period:

Products	Years ended 31 December					
	2009	2010		2011		
	Gross profit margin <i>RMB'000</i>	Gross profit margin <i>%</i>	Gross profit margin <i>RMB'000</i>	Gross profit margin <i>%</i>	Gross profit margin <i>RMB'000</i>	Gross profit margin <i>%</i>
HVAC systems	92,117	28.1	146,290	28.0	155,606	27.8
HVAC components	<u>4,808</u>	25.3	<u>4,696</u>	19.9	<u>16,571</u>	27.9
Total	<u>96,925</u>	28.0	<u>150,986</u>	27.7	<u>172,177</u>	27.8

During the Track Record Period, our gross profit margin was relatively stable. This was because (i) while the market price of aluminium had been increasing moderately, we have made our evaporators and condensers thinner (hence, lighter) which has in turn reduced our usage of aluminium in our production; (ii) because of the intense price competition among the aluminium suppliers, we possess strong bargaining power to negotiate our purchase cost of aluminium; and (iii) HVAC systems for SUVs, pickup trucks, heavy trucks and construction machineries remained as our major products during the Track Record Period and there had not been material fluctuation of selling price of such products during the Track Record Period.

Other revenue and net income

Other revenue and net income primarily include interest income and government grants. During the Track Record Period, we received government grants from local government authorities in the form of subsidies as an encouragement for our development in the science aspect and as one of the core enterprises in local economy. As advised by our PRC Legal Advisers, most of the government grants were granted on an one-off basis, except as otherwise additionally granted by the local government authorities, we may not be able to continue to enjoy such governmental subsidiaries in the future.

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The following table sets forth the breakdown of our other revenue and net income during the Track Record Period:

	Years ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other revenue			
Government grants	1,807	3,987	2,677
Interest income	350	203	1,608
Others	<u>1,012</u>	<u>1,187</u>	<u>2,550</u>
	3,169	5,377	6,835
Other net income			
Gains on disposal of property, plant and equipment	<u>—</u>	<u>67</u>	<u>—</u>
Total	<u><u>3,169</u></u>	<u><u>5,444</u></u>	<u><u>6,835</u></u>

Distribution costs

Our distribution costs consist primarily of transportation cost, product warranty expenses, salary paid to our sales and marketing employees, and depreciation and amortisation charges. During the Track Record Period, our distribution costs represented 5.3%, 5.3% and 4.0% of our total turnover, respectively.

The following table sets forth the breakdown of distribution costs for the Track Record Period:

	Years ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Transportation cost	4,605	7,920	7,370
Product warranty expenses	2,346	4,870	2,395
Staff cost	2,525	6,269	4,861
Depreciation and amortisation	4,964	4,992	5,917
Others	<u>4,081</u>	<u>4,734</u>	<u>4,187</u>
Total	<u><u>18,521</u></u>	<u><u>28,785</u></u>	<u><u>24,730</u></u>

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Administrative expenses

Our administrative expenses consist primarily of salary expenses paid to our management and administrative personnel, research and development expenses, professional fees, depreciation expenses and impairment losses on trade debtors. During the Track Record Period, our administrative expenses represented 6.3%, 4.9% and 6.1% of our total turnover, respectively.

The following table sets forth the breakdown of our administrative expenses for the Track Record Period:

	Years ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff cost	13,232	11,131	12,414
Research and development expenses	4,077	6,559	9,886
Listing expenses	—	—	5,156
Professional fees	845	1,661	1,826
Depreciation and amortisation	692	820	2,178
Impairment losses on trade debtors	414	2,310	164
Others	<u>2,688</u>	<u>4,375</u>	<u>6,143</u>
Total	<u>21,948</u>	<u>26,856</u>	<u>37,767</u>

Included in the administrative staff cost, there were share-based payment expenses amounting to approximately RMB6.3 million, RMB1.3 million and RMB0 for the Track Record Period respectively.

Pursuant to a resolution of the board of directors of Xiezhong Nanjing passed on 29 October 2008, a share incentive plan was adopted by Xiezhong Nanjing. In accordance with the share incentive plan, the board of directors of Xiezhong Nanjing is authorised to invite its employees of Xiezhong Nanjing to take up options at nil consideration to acquire the shares of the Company from existing equity shareholders, i.e. CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto, Sunrise International, as incentives or rewards if certain conditions are met.

The total number of shares to be acquired upon the exercise of all options granted under the share incentive plan is 30,000,000.

Further details of the terms of the share incentive plan are set out in the paragraph headed “Share incentive plan” in the “History and Development” section of this prospectus.

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Finance costs

Our finance costs mainly represent interest expenses on bank loans and discounted bills. During the Track Record Period, the finance costs of the Group were approximately RMB1.5 million, RMB1.9 million and RMB7.6 million respectively.

Income tax

Our income tax expenses increased from RMB9.0 million in 2009 to RMB16.1 million in 2010, and to RMB21.5 million in 2011, mainly because of the increase in profit. In 2009 and 2010, our effective tax rate was relatively stable and was about 15.6% and 16.7% respectively. In 2011, our effective tax rate increased to 19.8%, mainly because one of our subsidiaries, Xiezhong Nanjing, completed the 2 + 3 tax holiday in 2010, and was subject to income tax at 12.5% in 2009 and 2010, and at 15% in 2011.

REVIEW OF HISTORICAL RESULTS OF OPERATION

Year ended 31 December 2011 compared with year ended 31 December 2010

Turnover

Turnover for the year ended 31 December 2011 was RMB619.9 million, an increase of RMB74.4 million, or 13.6%, from turnover of RMB545.5 million for the year ended 31 December 2010. The increase in turnover was attributable to the increase in sale of both automotive HVAC systems and HVAC components. Sales of HVAC systems increased by 7.4% mainly because of expansion of our client base and business scale. In particular, the increase of our turnover was mainly driven by the increase in sales of HVAC systems for SUVs and pickup trucks and construction machineries. Sales of HVAC components increased by 151.0% mainly because we have expanded our products offerings of HVAC components and have raised the grade of our products for sale, resulting in an increased turnover for our HVAC components from our customers. Besides, during 2011, we have a new customer of HVAC components which contributed about RMB8.8 million of our turnover, and one of our HVAC components customers who is a component wholesaler has increased sales locations and enlarged operation scale in the PRC and thus increased purchases of HVAC components from us, leading to an increase in turnover from sales of HVAC components.

Cost of sales

Cost of sales increased by 13.5% from RMB394.5 million in 2010 to RMB447.7 million in 2011. The increase in cost of sales was in line with our increase in sales. Cost of sales as a percentage of turnover was relatively stable and was about 72.2% in 2011 as compared to about 72.3% in 2010.

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Gross profit

Gross profit for the year ended 31 December 2011 was RMB172.2 million, an increase of RMB21.2 million, or 14.0%, from the gross profit of RMB151.0 million for the year ended 31 December 2010. Overall gross profit margin of the Group was relatively stable and was about 27.8% in 2011 as compared to 27.7% in 2010. Gross profit margin of HVAC components increased from 19.9% in 2010 to 27.9% in 2011. This was mainly because we have upgraded the standard of our products and expanded product offerings of HVAC components and as a result we are able to sell HVAC components at a higher gross profit margin. During 2011, we have a new customer for HVAC components which is an automaker and demanded for more high-end HVAC components and the gross profit for such high-end products is higher. Besides, another customer of HVAC components which is a component wholesaler increased its sales locations in the PRC and enlarged operation scale in 2011 and it also demanded for more high-end products. As a result, our gross profit of HVAC components increased in 2011.

Distribution costs

Distribution costs for the year ended 31 December 2011 were RMB24.7 million, a decrease of RMB4.1 million, or 14.2%, from the distribution costs of RMB28.8 million for the year ended 31 December 2010. The decrease was mainly because in 2011, we have improved efficiency in logistic and successfully reduced transportation cost by about 6.9%. Besides, as we have strengthened our quality control and as the proportion of our sales without warranty term increased, less warranty provision was required and our product warranty expenses decreased by about 50.8%. Our sales of HVAC components to a HVAC component wholesaler are without warranties terms. Such products include evaporators, condensers, heater cores and other miscellaneous HVAC parts that we manufacture. When we started our business with this wholesaler in 2009, this wholesaler was relatively small in scale and as it possesses its own engineering staff, it handles maintenance by itself and it does not request us to provide warranty in exchange for better trading terms and our supply of components. In 2011, it increased sales locations in the PRC and therefore increased purchases from us, leading to a higher percentage of our sales without warranty terms. During the year ended 31 December 2011, percentage of our turnover from sales without warranty terms increased from 2% in 2010 to 7% in 2011.

Administrative expenses

Administrative expenses for the year ended 31 December 2011 were RMB37.8 million, an increase of RMB10.9 million, or 40.5%, from RMB26.9 million for the year ended 31 December 2010. The increase was mainly because of the increase in our research and development cost from RMB6.6 million in 2010 to RMB9.9 million in 2011; the listing expenses of RMB5.2 million; and the increase of depreciation and amortisation charges due to the addition of fixed assets and machinery.

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Finance costs

Finance costs for the year ended 31 December 2011 were RMB7.6 million, an increase of RMB5.7 million, or 300.0%, from RMB1.9 million for the year ended 31 December 2010. The increase in finance costs was mainly due to the increase in interest-bearing borrowings which provided us with additional working capital as our business scales up.

Share of losses of jointly controlled entities

We recorded share of losses of jointly controlled entities of RMB1.9 million in 2010 and the amount decreased to RMB235,000 in 2011. We hold equity interest of 50% in Xiezhong Beijing and 51% in Xiezhong Hubei. We acquired 50% equity interests in Xiezhong Beijing from third parties in March 2010, while Xiezhong Hubei was established in April 2010. The two companies, Xiezhong Beijing and Xiezhong Hubei, were accounted for as our jointly controlled entities in 2010. On 26 January 2011, we obtained an effective control over the majority of the board of directors of Xiezhong Beijing and the equity holders of Xiezhong Beijing authorised its board of directors their power to govern the financial and operating policies of Xiezhong Beijing. As a result, we accounted for Xiezhong Beijing as our subsidiary since 26 January 2011. Therefore, in 2011, our share of losses of jointly controlled entities was mainly attributable to Xiezhong Hubei. Xiezhong Hubei incurred losses in 2011 because Xiezhong Hubei was just established in April 2010 and it was at its early stage of business development and had not yet achieved economies of scale. Xiezhong Beijing would engage in the business of manufacturing and sales of HVAC systems and components and we intend to commence construction of the production plant of Xiezhong Beijing in the second half of 2012. Xiezhong Hubei is also engaged in the business of manufacturing and sales of HVAC systems and components.

Profit before taxation

For the above reasons, our profit before taxation increased by RMB11.7 million, or 12.1% from RMB96.8 million in 2010 to a RMB108.5 million in 2011.

Income tax

Our income tax expenses increased by RMB5.4 million, or 33.5% from RMB16.1 million in 2010 to RMB21.5 million in 2011. Our effective tax rates calculated from income tax expenses over our profit before taxation was 19.8% in 2011, as compared to 16.7% in 2010. The increase in effective tax rate was because one of our subsidiaries, Xiezhong Nanjing, completed the 2 + 3 tax holiday in 2010, and was subject to income tax at 12.5% in 2009 and 2010, and at 15% in 2011.

Profit for the year

As a result of the foregoing, profit attributable to equity shareholders of the Company for the year increased by about 8.4%, from RMB79.4 million in 2010 to RMB86.1 million in 2011. Our net profit margin decreased from 14.6% in 2010 to 13.9% in 2011.

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Year ended 31 December 2010 compared with year ended 31 December 2009

Turnover

Turnover for the year ended 31 December 2010 was RMB545.5 million, an increase of RMB199.0 million, or 57.4%, from turnover of RMB346.5 million for the year ended 31 December 2009. The increase in turnover was mainly attributable to the increase in sale of automotive HVAC systems, which increased from approximately RMB327.5 million in 2009 to RMB521.9 million in 2010, representing an increase of 59.4%. The increase in sales of automotive HVAC systems was primarily due to the increase in demand of SUVs, pickup trucks, heavy trucks and construction machineries, which in turn increased the demand of our core products. According to Timer Auto Consulting, increasing automotive HVAC system penetration rate and the economic growth in 2010 in China led to the increase market demand for SUV and pickup trucks. Our Directors also believe that increase in infrastructure and construction work in China during 2010 has led to the increase in demand for construction machineries.

Cost of sales

Cost of sales increased by 58.1% from RMB249.6 million in 2009 to RMB394.5 million in 2010. The increase in cost of sales corresponded with our increase in sales.

Cost of sales as a percentage of turnover was relatively stable and was about 72.0% in 2009 and about 72.3% in 2010.

Gross profit

Gross profit for the year ended 31 December 2010 was RMB151.0 million, an increase of RMB54.1 million, or 55.8%, from the gross profit of RMB96.9 million for the year ended 31 December 2009. The gross profit margin of HVAC components decreased from 25.3% in 2009 to 19.9% in 2010 as the Group offered a competitive price to attract a new customer which generated more than 10% of the HVAC components sales in 2010. Overall gross profit margin of the Group was relatively stable and was about 28.0% in 2009 and about 27.7% in 2010.

Distribution costs

Distribution costs for the year ended 31 December 2010 were RMB28.8 million, an increase of RMB10.3 million, or 55.7%, from the distribution costs of RMB18.5 million for the year ended 31 December 2009. The increase was mainly due to (i) the increase in transportation cost by RMB3.3 million as a result of the increase in sales during the year ended 31 December 2010; and (ii) the increase in staff cost in respect of our sales and marketing employees by RMB3.7 million.

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Administrative expenses

Administrative expenses for the year ended 31 December 2010 were RMB26.9 million, an increase of RMB5.0 million, or 22.8%, from administrative expenses of RMB21.9 million for the year ended 31 December 2009. The increase was mainly due to the increase in research and development expenses by RMB2.5 million and the increase in impairment losses on trade debtors by RMB1.9 million.

Finance costs

Finance costs for the year ended 31 December 2010 were RMB1.9 million, an increase of RMB0.4 million, or 26.7%, from RMB1.5 million for the year ended 31 December 2009. The increase in finance costs was mainly due to the increase in interests of discounted bills in 2010.

Profit before taxation

For the above reasons, our profit before taxation increased by RMB38.7 million, or 66.6% from RMB58.1 million in 2009 to a RMB96.8 million in 2010.

Income tax

Our income tax expenses increased by RMB7.1 million, or 78.9% from RMB9.0 million in 2009 to RMB16.1 million in 2010. Our effective tax rates calculated from income tax expenses over our profit before taxation was relatively stable and were 15.6% and 16.7% in 2009 and 2010, respectively.

Profit for the year

As a result of the foregoing, profit attributable to equity shareholders of the Company for the year increased by about 134.9% from RMB33.8 million in 2009 to RMB79.4 million in 2010. Our net profit margin increased from 9.8% in 2009 to 14.6% in 2010.

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ANALYSIS OF FINANCIAL POSITION

The following table sets forth a summary of our combined balance sheets, position for the Track Record Period as extracted from the Accountants' Report included in Appendix I to this prospectus and you should read the entire financial statements included therein, including the notes thereto, for more details.

	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	81,321	134,438	197,201
Lease prepayments	26,674	35,309	56,050
Intangible assets	54,206	47,789	44,383
Goodwill	46,832	46,832	46,832
Interests in jointly controlled entities	—	27,111	4,659
Non-current prepayments	8,238	16,114	33,038
Deferred tax assets	—	1,654	5,012
	<u> </u>	<u> </u>	<u> </u>
Total non-current assets	<u>217,271</u>	<u>309,247</u>	<u>387,175</u>
Current assets			
Inventories	78,600	119,648	127,991
Trade and other receivables	211,514	331,083	390,745
Amounts due from related parties	600	31,035	3,607
Deposits with banks	—	—	50,961
Cash	39,148	4,969	28,063
	<u> </u>	<u> </u>	<u> </u>
Total current assets	<u>329,862</u>	<u>486,735</u>	<u>601,367</u>

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	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade and other payables	127,407	216,438	198,291
Amounts due to related parties	217,128	218,970	24,903
Interest-bearing borrowings	21,057	73,852	154,618
Income tax payables	4,479	8,729	11,361
Provision	<u>1,658</u>	<u>4,971</u>	<u>3,799</u>
Total current liabilities	<u>371,729</u>	<u>522,960</u>	<u>392,972</u>
Net current (liabilities)/assets	<u>(41,867)</u>	<u>(36,225)</u>	<u>208,395</u>
Total assets less current liabilities	<u>175,404</u>	<u>273,022</u>	<u>595,570</u>
Non-current liabilities			
Deferred income	—	5,020	21,695
Deferred tax liabilities	<u>19,525</u>	<u>21,322</u>	<u>25,918</u>
Total non-current liabilities	<u>19,525</u>	<u>26,342</u>	<u>47,613</u>
Net assets	<u>155,879</u>	<u>246,680</u>	<u>547,957</u>
Capital and reserves			
Share capital	—	7	7
Reserves	<u>62,187</u>	<u>241,932</u>	<u>520,049</u>
Total equity attributable to equity shareholders of the Company	62,187	241,939	520,056
Non-controlling interests	<u>93,692</u>	<u>4,741</u>	<u>27,901</u>
Total equity	<u>155,879</u>	<u>246,680</u>	<u>547,957</u>

Property, plant and equipment

Property, plant and equipment consist of plants and machinery and office equipment, motor vehicles and construction-in-progress. As at 31 December 2009, 2010 and 2011, the net book value of our property, plant and equipment amounted to RMB81.3 million, RMB134.4 million and RMB197.2 million, respectively. The increase was mainly brought by additions of machinery and equipments and construction cost incurred in building or expanding the Jiangning Plant and the Fushun Plant.

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Lease prepayments

Lease prepayments represent our payments for acquisition of land use rights in Nanjing, Beijing and Fushun, the PRC, on which our plant and buildings were built. The carrying amount of lease prepayments amounted to RMB26.7 million, RMB 35.3 million and RMB56.1 million as at 31 December 2009, 2010 and 2011 respectively. The increase in lease prepayments in 2010 was mainly due to acquisition of the land use right of a parcel of land with a total site area of 30,893.00 sq.m. located in Fushun in Liaoning by Xiezhong Liaoning. The increase in lease prepayments in 2011 was mainly due to consolidation of Xiezhong Beijing into our Group as a subsidiary.

Intangible assets

Our intangible assets mainly represent core technology for our automotive HVAC systems and customer relationships, the fair value of which were recognised using purchase method of accounting as a result of the acquisition of Xiezhong Nanjing by our Group in June 2008. The intangible assets are subject to straight line amortisation and both period and method of amortisation are reviewed annually. The estimated useful life of our core technology to manufacture HVAC systems is in line with the product life cycles for automotive products, such as SUVs, pickup trucks and heavy trucks, of our major customers. We have already sold certain types of HVAC systems for SUVs and pickup trucks to Foton and Zhongxing Auto for more than 10 years based on the historical sales information. Therefore, the average economic life of our core technology to manufacture HVAC systems is approximately 10 years based on our historical experience and the latest available information taking into account anticipated technological and other changes. As at 31 December 2009, 2010 and 2011, net book value of intangible assets amounted to RMB54.2 million, RMB47.8 million and RMB44.4 million respectively.

Goodwill

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, which is tested annually for impairment. In June 2008, we acquired Xiezhong Nanjing. Pursuant to the accounting standards, the purchase price has been allocated to tangible assets, identifiable intangible assets and goodwill. As at 31 December 2009, 2010 and 2011, carrying amount of goodwill amounted to RMB46.8 million. No impairment losses had been recognised.

Non-current prepayments

Non-current prepayments mainly represent the prepayments for procurement of machinery and equipment as we are expanding our operation in Nanjing and Fushun, the PRC. As at 31 December 2009, 2010 and 2011, we had non-current prepayments amounting to RMB8.2 million, RMB16.1 million and RMB33.0 million respectively. In 2010, the increase in non-current prepayments represented prepayments for purchase of our environment simulation laboratory equipment and construction of the research and development building at our existing production base at Nanjing. In 2011, the non-current prepayments further increased as we further made payments for purchase of of our

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environment simulation laboratory equipment. Besides, in 2011, we prepaid for additional moulds in preparation for new product models. As the equipments and moulds involved are relatively expensive, we are required to make prepayments for procurement. When the equipments and moulds are delivered to us, the total cost (including the prepayments made) will be accounted for as our fixed assets.

Inventories

Our inventories consist of raw materials, mainly aluminium raw materials and other HVAC components such as compressors, receiver driers, expansion valves and HVAC control units, work in progress and finished products.

The following table sets forth a summary of our inventory balances as at the end of each reporting period indicated, as well as the turnover days of our inventory for the periods indicated:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	19,920	36,785	34,821
Work in progress	7,204	14,351	20,305
Finished goods	<u>51,476</u>	<u>68,512</u>	<u>72,865</u>
Total inventories	<u><u>78,600</u></u>	<u><u>119,648</u></u>	<u><u>127,991</u></u>
	Years ended 31 December		
	2009	2010	2011
Inventory turnover days	96	92	101

Our inventory balance increased by RMB41.0 million, or 52.2%, from 2009 to 2010. This was mainly because of our significant increase of about 57.4% in turnover in 2010 as driven by market demand. Due to such increase in market demand and as our production capacity also increased in 2010, we increased the stock level of raw materials to cater our production needs and we increase our stock of finished goods to ensure that we could meet the demand of our customers in time. Our inventory balance increased by RMB8.3 million, or 7.0%, from 2010 to 2011. This was mainly because we have increased our stock of work in progress and finished goods in preparation for meeting the market demand in the first quarter of 2012. In 2012, the Chinese New Year was in January which was earlier than the Chinese New Year in 2011 and 2010. As such, we stocked up more goods in December 2011 than in December 2010. In addition, during 2011, as our customer base expanded, we have to prepare more stock in various locations and warehouses to meet our customers' demand.

We review and monitor our inventory level on a periodical basis. This involves the maintenance of an appropriate level of inventory as well as any write-down or provision for any obsolete and slow-moving inventory items. During the Track Record Period, write

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down of inventories amounted to RMB81,000, RMB1.4 million and RMB1.3 million respectively. Generally, our sales are higher during the months of March to May and October to December each year. As such, we maintain considerable amount of stock of raw materials in December (which is our reporting period end) to meet our production needs. Besides, we also maintain a certain level of stock of finished goods to ensure that our customers' demands are fulfilled timely. Such inventory level of finished goods is monitored with reference to the monthly orders placed by our customers and changes in market demand as noted through our close communication with customers.

Inventory turnover days are derived by dividing the average of the beginning and ending balances of inventory for the relevant period by cost of sales of the corresponding period and multiplying by 365 days. The decrease in inventory turnover days from 96 days in 2009 to 92 days in 2010 was primarily attributable to the growth in sales in 2010 because of the substantial increase in sales during 2010 as driven by market demand and, as a result, our inventories were sold in a relatively shorter period of time. The increase in inventory turnover days from 92 days in 2010 to 101 days in 2011 was primarily attributable to the increase in stock level of work in progress and finished goods as explained above.

As at 25 May 2012, we used up 67.7% of the raw materials and work-in-progress outstanding as at 31 December 2011 and sold 70.3% of the finished goods outstanding as at as at 31 December 2011.

Trade and other receivables

The following table sets forth a breakdown of our trade and other receivables as of the dates indicated:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade debtors	139,204	185,676	252,450
Less: allowance for doubtful debts	<u>(1,172)</u>	<u>(3,482)</u>	<u>(3,646)</u>
	138,032	182,194	248,804
Bills receivable	<u>72,644</u>	<u>124,364</u>	<u>132,140</u>
	210,676	306,558	380,944
Other receivables, deposits and prepayments	<u>838</u>	<u>24,525</u>	<u>9,801</u>
	<u><u>211,514</u></u>	<u><u>331,083</u></u>	<u><u>390,745</u></u>

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Our trade debtors and bills receivable represent receivables from the sales of our products. We offer credit to our customers on a case-by-case basis, depending on our relationship with, and the location, credibility and volume of purchases of, each customer. We generally offer a credit of 90 days to our customers. We continuously monitor the status of the outstanding accounts receivable due to us from each customer.

Our trade debtors and bills receivable increased from RMB210.7 million as at 31 December 2009 to RMB306.6 million as at 31 December 2010, which was primarily due to the substantial increase in sales. Our trade debtors and bills receivable further increased to RMB380.9 million as at 31 December 2011 primarily because of our expansion in business scale. Besides, 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.

The following table sets forth the aging analysis of our trade debtors and bills receivable as at the end of each reporting period indicated, based on invoice date:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
1-90 days	162,239	222,262	300,040
91-180 days	34,990	65,628	61,195
181-360 days	2,458	14,727	18,923
Over 361 days	<u>10,989</u>	<u>3,941</u>	<u>786</u>
Total	<u>210,676</u>	<u>306,558</u>	<u>380,944</u>

The following table sets forth the aging analysis of our trade debtors and bills receivable as at the end of each reporting period indicated, based on the due date:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current	<u>183,530</u>	<u>255,125</u>	<u>323,413</u>
Less than 1 month past due	6,490	24,369	15,341
1 to 3 months past due	6,963	9,172	22,424
3 to 12 months past due	12,868	15,757	19,697
Over 12 months past due	<u>825</u>	<u>2,135</u>	<u>69</u>
Amounts past due	<u>27,146</u>	<u>51,433</u>	<u>57,531</u>
Total	<u>210,676</u>	<u>306,558</u>	<u>380,944</u>

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Our senior management and our credit control department would assess and approve such request for delay in settlement on a case-by-case basis based on the credit-worthiness, financial condition, repayment record and length of business relationship with us of such customers. We have strict credit policy on customers and seek to maintain strict control over our outstanding receivables and have a credit control team to minimise credit risk. Overdue balances are reviewed regularly by our senior management.

	Year ended 31 December		
	2009	2010	2011
Turnover days of trade debtors and bills receivable	202	173	202

Turnover days of trade debtors and bills receivable are derived by dividing the average of the opening and closing balances of trade debtors (net of allowance for doubtful debts) and bills receivable of the relevant period by turnover of the corresponding period and multiplying by 365 days for the three years ended 31 December 2009, 2010 and 2011. 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. Certain of our customers pay us with bank acceptance bills, which are generally of a valid term of 180 days. Without taking into account the bills receivable, our turnover days of trade debtors calculated by dividing the average of the opening and closing balances of trade debtors (net of allowance for doubtful debts) of the relevant period by revenue of the corresponding period and multiplying by 365 days for the three years ended 31 December 2009, 2010 and 2011, were 159 days, 107 days and 127 days respectively.

Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing. On average, the credit term that we generally grant to our customers is 90 days. Our trade debtors and bills receivable turnover days were longer than 90 days was because, firstly, a relatively large amount of sales were carried out in November and December. During the Track Record Period, our turnover in the fourth quarter accounted for 40.7%, 31.9% and 31.9% of our total turnover in the respective year. As set out in the aging analysis based on invoice date, substantial portion (being 77.0%, 72.5% and 78.8% as at 31 December 2009, 2010 and 2011 respectively) of our trade and bills receivable were aged within 90 days. As disclosed in the section headed “Business — Sales and Marketing — Seasonality”, November and December are months in which we usually record higher sales revenue. As our sales are directly related to sales trend in the automotive market, our seasonal fluctuation is similar to that in the automotive industry. In particular, vehicles dealers tend to offer sales promotions to stimulate sales during year-end time. Besides, in January to February, consumers tend to spend more during Chinese New Year time and may have higher purchasing power from their year-end bonus. As such, during November and December, automakers usually increase purchase of HVAC products from us for their production needs to meet the anticipated high consumer demand around Chinese New Year time. As a result, our trade receivable balance as at 31 December would be relatively high, leading to the number of turnover days being more than 90 days. Secondly, some of our customers use bills receivable to settle our invoices and bills receivable are generally of a longer term of 180 days. Thirdly, it takes some time for our customers to go through its

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internal process in checking the billings, arranging funding and processing payment. In particular, it is our understanding that some of our major customers process invoice settlement collectively once a month and this may have led to a longer time lag between our invoice date and payment date. Fourthly we sometimes grant temporary grace period to our major customers in respect of receivables that past due after the initial credit term. As at 31 December 2009, 2010 and 2011, about 12.9%, 16.8% and 15.1% of our trade and bills receivable were past due. In granting any grace period to our customers, our management considers, among other things, background information, asset base, financial resources, financial status, repayment record, future business plan and prospect and length of business relationship, specific circumstances of the customers, and categorise them according to their credit-worthiness. Based on such categorisation, we may grant grace period of one to six months to customers we consider with relatively low credit risk.

In general, the normal credit term that we offer to customers is three months and the maximum extended credit period granted to customers was six months. As at 31 December 2011, the trade and bills receivable is analysed as below:

	As at 31 December 2011	
	Trade and bills receivable	Amount with credit period extended after the initial term
	<i>RMB'000</i>	<i>RMB'000</i>
Current:		
Trade receivable (90 days credit term in general)	191,273	—
Bills receivable (180 days credit term in general)	<u>132,140</u>	<u>—</u>
	323,413	—
Less than 1 month past due	15,341	13,990
1 to 3 months past due	22,424	20,814
3 to 12 months past due	19,697	17,455
Over 12 months past due	<u>69</u>	<u>—</u>
	<u>57,531</u>	<u>52,259</u>
Total	<u>380,944</u>	<u>52,259</u>

As at 31 December 2011, out of the trade receivable which was past due which amounted to RMB57.5 million, approximately RMB52.3 million was receivable with extended credit period granted. Out of the trade receivable which was past due, RMB52.4 million had been settled up to 25 May 2012. The receivable with extended credit period comprised of receivable from 15 major customers of us, including ten large scale automakers and their affiliates in the PRC and five HVAC components manufacturers or

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suppliers. All of them were within top ten in term of transaction amount in our customers list having more than two years of business relationship with us, and seven of them have around nine years of business relationship with us.

In 2011, some of our customers requested us to extend credit period because they were affected by tightening monetary policies implemented by the PRC government and therefore they need more time to prepare working capital for settling our bills. Having considered the asset base, background and length of business relationship of such customers with us, our management estimated that the risk of such receivables being default or such customers going bankrupt is low, and therefore no impairment of such receivable is required. Furthermore, with a view to maintaining a stable and long-term business relationship with our major customers, we consider that it is appropriate to grant such extension. Up to the Latest Practicable Date, there had not been any incident of delay in payment by these customers after the extended credit period.

Number of turnover days decreased in 2010 as compared to 2009. The number of turnover days in 2009 was relatively high because China's economy was affected, though in a less severe manner than most western economies, by the sub-prime credit crises in the U.S. financial market in 2008 and the global financial crisis which followed. During such time, some customers requested temporary extension of settlement terms for in 2009. As China's economic growth regained the momentum in 2010, our customers settled trade debtors sooner than they did in 2009 and our trade receivables turnover days decreased as a result. Number of turnover days in 2011 increased because some of our customers were affected by the macro-control and tightening monetary policies implemented by the PRC government which aimed at stabilising economic development, and they had to temporarily slow down their settlement schedule. Nevertheless, we have been keeping close contact with our customers to assess their credit worthiness, latest financial status and prospects. Having considered (i) our collection progress up to 25 May 2012; (ii) the payment history of the customers; (iii) the current financial status, business and operation status of the customers and that the risk of liquidation of such customers is relatively low as noted by our management and sales team who keep close contact with the customers from time to time; and (iv) that provision has been made for nearly all of the trade receivables which aged over one year as at 31 December 2011, the Directors are of the view that adequate provision for trade receivables have been made.

As at 25 May 2012, about 83.7% of our trade debtors outstanding as at 31 December 2011 was subsequently settled.

Other receivables increased from RMB0.8 million as at 31 December 2009 to RMB24.5 million as at 31 December 2010. The increase was mainly because we advanced loans to certain entities which was in breach of Lending General Provision as disclosed in the paragraph headed "Legal Proceedings and Regulatory Compliance" in the "Business" section. Subsequent to 31 December 2010, the loans were fully settled and other receivables decreased to RMB9.8 million as at 31 December 2011 as a result.

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Trade and other payable

The following table sets forth the components of our trade and other payable as of the dates indicated:

	As at 31 December		
	2009	2010	2011
Trade payables	110,952	169,837	155,201
Bills payable	<u>4,979</u>	<u>15,100</u>	<u>9,559</u>
	115,931	184,937	164,760
Other payables	5,772	26,107	24,349
Other tax payables	<u>5,704</u>	<u>5,394</u>	<u>9,182</u>
	<u><u>127,407</u></u>	<u><u>216,438</u></u>	<u><u>198,291</u></u>

Trade and bills payable were mainly incurred for the purchase of raw materials from various suppliers. We generally receive credit terms of 90 days from our suppliers. It is generally accepted by our suppliers that we settle our trade balances by means of cash or endorsing bank acceptance bills upon the expiration of the credit terms.

The following table sets forth the aging analysis of our trade and bills payable as at the end of each reporting period indicated, based on the invoice date, as well as the turnover days of our trade and bills payable for the periods indicated:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	102,617	166,152	148,624
3 to 6 months	10,298	17,012	13,363
6 to 12 months	2,487	1,223	1,944
Over 12 months	<u>529</u>	<u>550</u>	<u>829</u>
	<u><u>115,931</u></u>	<u><u>184,937</u></u>	<u><u>164,760</u></u>
	Year ended 31 December		
	2009	2010	2011
Turnover days of trade and bills payable	136	139	143

Our trade and bills payable increased from RMB115.9 million as at 31 December 2009 to RMB184.9 million as at 31 December 2010. The increase was primarily due to the increase in purchase of raw materials as a result of increase in sales. Trade and bills payable decreased to RMB164.8 million as at 31 December 2011 we had to settle most of our trade payables before Chinese New Year which was in January 2012.

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Turnover days of trade and bills payable are derived by dividing the average of the beginning and ending balances of trade and bills payable for the relevant period by cost of sales of the corresponding period and multiplying by 365 days. The trade and bills payable turnover days increased from 136 days in 2009 to 139 days in 2010 and increased to 143 days in 2011. The average trade and bills payable turnover days throughout the Track Record Period of our Group were higher than the credit terms granted by our suppliers was mainly because (i) VAT-input of 17% was included in trade and bills payable while it was not included in cost of sales in the calculation of turnover days. The amounts set out on suppliers' invoices include the cost of materials plus a 17% VAT. The cost of materials is accounted for as cost of sales in the income statement. The 17% VAT paid is not accounted for in the income statement, but is accounted for as a balance sheet item "VAT-input" which is deductible against the VAT payable by us in respect of our sales income. As such, in calculating the trade and bills payable turnover days, the number of turnover days is lengthened by about 15%. Besides, as it normally takes some time for the materials as well as the suppliers' invoices to be delivered to us, the trade payable turnover days would be longer than the credit term; and (ii) we used commercial acceptance bills to settle certain of our trade payables and bills payable are generally of a longer term of 180 days.

As at 25 May 2012, 77.8% of our trade payables outstanding as at 31 December 2011 was subsequently settled.

Our other payables mainly represented equipment and machinery payables, accrued delivery cost and pension fund payables. The increase in other payables as at 31 December 2010 was mainly attributable to the increase in amounts payable for purchases of machinery and equipment and construction cost incurred in building or expanding the Jiangning Plant and the Fushun Plant.

Other tax payables mainly represented value added tax and individual income tax.

Provision for warranty

We generally provide warranty coverage for our products. Generally, the warranty period we provide ranges from 60,000 kilometres to 100,000 kilometres of mileage of the relevant vehicle or 1 year to 3 years. In other contracts for sales of HVAC systems or HVAC components for construction machineries, we provide a warranty period of 1 year or 2,000 hours of operation of the machinery of which the HVAC systems are used, whichever is sooner. The amount of the provision for product warranties is estimated based on sales volumes and past experience of the level of repairs and claims. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During each of the year ended 31 December 2009, 2010 and 2011, about 3%, 2% and 7% respectively of our total turnover were generated from sales without warranty terms. The provision utilised during the Track Record Period represents the actual settlement to customers for repairs or claims of products sold.

As at 31 December 2009, 2010 and 2011, our balance of provision for warranty claims amounted to RMB1.7 million, RMB5.0 million and RMB3.8 million, respectively. The increase in warranty provision balance in 2010 was mainly because of the increase in

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revenue. The decrease in warranty provision balance in 2011 was mainly because we have strengthened our quality control and as the proportion of our sales without warranty term increased, less provision for warranty was required.

Based on the past experience of the level of repairs and claims, our Directors are of the view that we have made adequate provisions for product quality warranties.

The following table sets forth the movement in our provision for product warranties provided by our Group as at the end of each reporting period indicated:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at the beginning of year	1,598	1,658	4,971
Additional provision	2,346	4,870	2,395
Provision utilised	<u>(2,286)</u>	<u>(1,557)</u>	<u>(3,567)</u>
Balance at the end of year	<u>1,658</u>	<u>4,971</u>	<u>3,799</u>

Deferred income

As at 31 December 2009, 2010 and 2011, we had deferred income amounting to RMB0, RMB5.0 million and RMB21.7 million respectively. The deferred income represented cash amounts received from government subsidizing the construction of the Fushun Plant and the Beijing Plant. Such government grants are recognised as income over the periods necessarily to match them with the related costs of assets constructed which they are intended to compensate over the periods and in the proportion in which depreciation on those assets is charged.

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Amounts due from/to related parties

The following table sets forth a breakdown of balances with related parties as at 31 December 2011:

	At 31 December 2011 RMB'000
Trade debtors from	
— Beijing Automotive Co., Ltd. (“Beijing Auto”)	<u>3,607</u>
	At 31 December 2011 RMB'000
Trade payables due to	
— Xiezhong Hubei	4,511
— Aotecar Nanjing	<u>20,392</u>
	<u>24,903</u>

The trade debtors due from Beijing Auto and the trade payables due to Xiezhong Hubei and Aotecar Nanjing are of trade nature arising from the normal course of business of the Group which will be continued after Listing.

LIQUIDITY AND CAPITAL RESOURCES

Financial resources

Based on our current and anticipated levels of operations and conditions in the markets and industry, we believe that our proceeds from the Share Offer, our cash and bank deposits, cash flow from operations, our banking relationships and future financings will enable us to meet our working capital, capital expenditures, and other funding requirements for the foreseeable future. However, our ability to fund our working capital needs, repay our indebtedness and finance other obligations depend on our future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms, if at all.

In general, we have the ability to generate adequate cash from our operations to fund our ongoing operating cash needs. We may use short-term bank borrowings to finance operations and repay bank borrowings once our funding position is in surplus. We have not

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experienced and do not expect to experience any difficulties meeting our obligations as they become due. We will use part of the proceeds from the Share Offer to fulfill our capital commitments for future expansion.

Our cash as at 31 December 2009, 2010 and 2011 were RMB39.1 million, RMB5.0 million and RMB28.1 million, respectively.

Cash flows

We conduct our operations mainly through our operating subsidiaries and jointly controlled entity in the PRC. Cash flows generated by our operating subsidiaries and jointly controlled entities on a stand-alone basis may differ significantly from that presented in our combined cash flow statements.

The following table sets forth a condensed summary of our combined statements of cash flows for the periods indicated. Such summary of our combined statements of cash flows is extracted from the Accountants' Report included in Appendix I to this prospectus and you should read the entire financial statements included therein, including the notes thereto, for more details.

	Year ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from operating activities	73,349	23,716	22,896
Net cash flows used in investing activities	(27,955)	(92,700)	(90,938)
Net cash flows (used in)/from financing activities	(15,800)	34,805	91,118
Cash at the beginning of the year	9,554	39,148	4,969
Effect of foreign exchange rate changes	—	—	18
	<u> </u>	<u> </u>	<u> </u>
Cash at the end of the year	<u>39,148</u>	<u>4,969</u>	<u>28,063</u>

Operating activities

We derive our net cash flows from operating activities primarily through the receipt of payments for the sale of our products. Our cash flows used in operating activities is used primarily for raw material purchases, payment of utilities, selling costs, and staff salaries.

Our net cash flows from operating activities of RMB22.9 million in 2011 mainly arose from profit before taxation of RMB108.5 million, adjusted for non-cash expenses such as depreciation and amortisation charges which increased in 2011 as we had more property, plant and equipment along with our business expansion. The operation profit was partially off-set by changes in our working capital including increase in trade and other receivables of RMB23.3 million, and decrease in trade and other payables of RMB53.9 million. The increase in trade and other receivables was mainly because we have increased sales while the number of trade receivables turnover days was relatively longer in 2011. The decrease in trade and other payables was mainly because we have to settle most of the trade payables before the Chinese New Year in January 2012.

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Our net cash flows from operating activities of RMB23.7 million in 2010 mainly arose from profit before taxation of RMB96.8 million, partially offset by an increase in inventories of RMB42.4 million, an increase in trade and other receivables of RMB121.9 million and income tax payment of RMB11.8 million. The increase in trade and other receivables was mainly due to the increase in sales of our products as a result of the rising market demand of our products as driven by increasing automotive HVAC system penetration rate and economic growth. The increase in inventories was mainly due to increase in purchase of raw materials for the production of our products as a result of the rising market demand.

Our net cash flows from operating activities of RMB73.3 million in 2009 mainly arose from profit before taxation of RMB58.1 million, an increase in trade and other payables of RMB44.5 million, and increase in amounts due to related parties and increase in discounted bank acceptance bills. The amount was partially offset by an increase in trade and other receivables of RMB39.9 million and income tax paid of RMB8.2 million. In 2009, PRC economy was affected by the global financial crisis in most western economies and therefore our trade debtor turnover days was longer during the year. In this light, we used more trade creditors, bank acceptance bills and amounts due to related parties to provide working capital for our operation.

Investing activities

Our net cash used in investing activities in 2011 was RMB90.9 million. This amount was primarily attributable to payment for purchases of property, plant and equipment and lease prepayments of RMB95.5 million, mainly for our production plant in Nanjing; and the increase in unrestricted bank deposits of RMB30.5 million. The cash outflow was partly off set by the increase in cash as a result of the consolidation of Xiezhong Beijing as our subsidiary in 2011.

Our net cash used in investing activities in 2010 was RMB92.7 million. This amount was primarily attributable to payment for acquisition of property, plant and equipment of RMB64.1 million as we expanded our production capacity during the year as part of our expansion plan and anticipated increase in market demand. In addition, during the year, we invested in our jointly controlled entities, Xiezhong Beijing and Xiezhong Hubei, which amounted to RMB29.1 million.

Our net cash used in investing activities in 2009 was RMB28.0 million. This amount was primarily attributable to payment for construction of plant and acquisition of machineries and equipment amounted to RMB28.3 million.

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Financing activities

Our net cash flows from financing activities in 2011 was RMB91.1 million, representing our net proceeds from bank borrowings.

Our net cash generated from financing activities in 2010 was RMB34.8 million. This amount was primarily attributable to net borrowing bank loans of RMB32.0 million, capital contributions from non-controlling equity holder of RMB2.8 million. During the year, we sought debt financing to fund our expansion of production capacity and investment in our jointly controlled entities of Xiezhong Beijing and Xiezhong Hubei.

Our net cash flows used in financing activities in 2009 was RMB15.8 million. This amount was primarily attributable to net repayment of bank loans of RMB17.0 million, and capital contributions from non-controlling equity holder of RMB1.2 million.

Gearing ratio

Our gearing ratio is calculated as the debt (including the interest-bearing borrowings, bills payable and amounts due to related parties) divided by total equity attributable to equity shareholders of the Company and debt. As at 31 December 2009, 2010 and 2011, our gearing ratio was 79.6%, 56.0% and 26.7% respectively. The decrease in gearing ratio in 2010 and 2011 was mainly because of the strengthening of our financial position and that our amount due to CUAS of about RMB192 million was capitalised in 2011.

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Net current assets/liabilities

We had net current liabilities of RMB41.9 million and RMB36.2 million as at 31 December 2009 and 2010, respectively and net current assets of RMB208.4 million as at 31 December 2011. The net current liabilities as at 31 December 2009 and 2010 mainly resulted from the amount due to CUAS by Xiezhong BVI of approximately USD29 million (equivalent to approximately RMB198 million and RMB192 million as at 31 December 2009 and 2010 respectively). Such amount due to CUAS was arisen from the funding from CUAS to Xiezhong BVI in financing Xiezhong BVI to acquire equity interest in Xiezhong Nanjing through Xiezhong HK in 2008, and the amount was capitalized as fully paid-up capital and capital reserve of Xiezhong BVI as part of the Group's reorganisation on 7 November 2011 as mentioned in the paragraph headed "Reorganisation — (b) Capitalisation of debts due from Xiezhong BVI to CUAS and insurance of shares from Xiezhong BVI to Sunrise International" in the section headed "History and Development". The following table sets out the composition of our unaudited current assets and liabilities as at 30 April 2012, being the latest practicable date for determining our indebtedness:

	As at 30 April 2012 <i>RMB'000</i>
CURRENT ASSETS	
Inventories	164,146
Trade and other receivables	401,258
Amounts due from related parties	4,338
Deposits with banks	59,936
Cash	10,160
Total current assets	639,838
CURRENT LIABILITIES	
Trade and other payables	209,340
Amounts due to related parties	24,688
Interest-bearing borrowings	181,766
Income tax payable	6,677
Provision	3,636
Total current liabilities	426,107
NET CURRENT ASSETS	213,731

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Working capital

We have historically financed our operations through cash from operating activities, bank borrowings and shareholder contributions. In the future, we expect to use funds from a combination of sources to fund our operation and expansion plan, including bank loans, internally generated cash flows, and proceeds from the Share Offer.

Taking into account the financial resources available to us including internally generated funds, available banking facilities and the estimated net proceeds of the Share Offer, our Directors are of the opinion that we have sufficient working capital to meet our present requirements, and at least for the period ending 12 months from the date of this prospectus.

INDEBTEDNESS

Bank borrowings

We typically use short-term borrowings in the course of financing our business. The following table sets forth our short-term interest-bearing bank borrowings as at the dates indicated:

	Our Group			As at
	As at 31 December			30 April
	2009	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank loans	8,000	40,000	81,118	76,229
Unsecured bank loans	—	—	50,000	50,000
Bank advances under discounted bills	<u>13,057</u>	<u>33,852</u>	<u>23,500</u>	<u>55,537</u>
Total	<u><u>21,057</u></u>	<u><u>73,852</u></u>	<u><u>154,618</u></u>	<u><u>181,766</u></u>

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As at 31 December 2009, 2010 and 2011, our secured bank borrowings carried interest rates ranging from 2.64% to 5.84%, 4.78% to 5.94%, 4.16% to 9.36%, respectively, per annum and were secured by the following assets:

Our bank borrowings are secured by:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	10,054	9,457	8,861
Lease prepayments	26,674	26,056	25,438
Pledged deposits	—	—	6,200
Bills receivable	—	—	<u>37,133</u>
Total	<u>36,728</u>	<u>35,513</u>	<u>77,632</u>

We have not encountered any difficulty in obtaining bank borrowings during the Track Record Period.

Our bank borrowings are secured by mortgages over our Group's leasehold lands and buildings situated in the PRC. Sufficient level of security has been provided by our Group for obtaining and maintaining our bank borrowings. With the existing level of security, our Directors do not expect that we will have difficulty in renewing the existing loan facilities or obtaining new bank loan facilities. During the Track Record Period and up to the Latest Practicable Date, the Group has not experienced (i) any withdrawal of loan facilities, increase in interest rate, early payment of loans, difficulties in obtaining facilities; and (ii) cancellation of customer order and customer default.

As at 30 April 2012, being the latest practicable date for determining our indebtedness, we had outstanding bank borrowings of approximately RMB181.8 million, all of which were short-term. As at 30 April 2012, we had a total available banking facilities of approximately RMB186.2 million, of which approximately RMB126.2 million had been utilised. Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 30 April 2012, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 30 April 2012 and up to the date of the Prospectus.

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Capital commitments

The following table presents our capital commitments to make future contracted payments for the purchase of property, plant and equipment:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	1,172	47,600	28,172

CAPITAL EXPENDITURES

Capital expenditures during the Track Record Period

We historically financed our capital expenditure requirements primarily through cash generated from our operations and bank borrowings. During the Track Record Period, our capital expenditures primarily related to acquisition of land use rights, construction of production facilities and expenditures for plant, machinery and equipment for business expansion. The following table sets out our historical capital expenditures paid during the Track Record Period:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment and lease prepayments	28,305	64,068	95,548

Following the Share Offer, we will continue to incur capital expenditure to grow our business. Our intended capital expenditures mainly include those related to (i) our expansion plan, details of which are set out in the section headed “Business — Production Facilities and Production Capacities — Expansion of production plant” in this prospectus; and (ii) research and development expenditures. We estimate our total capital expenditures to be not less than RMB110 million for the year ending 31 December 2012.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we did not have any material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

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FINANCIAL RISKS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of our business.

Our financial assets include cash and trade and other receivables. Financial liabilities of the Group include interest-bearing borrowings and trade and other payables.

Our exposure to these risks and the financial risk management policies and practices used by us to manage these risks are described below.

(a) Credit risk

Our credit risk is primarily attributable to trade and other receivables. We have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on our customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. The industry in which our customers operate also influences its credit risks. The amounts due from the our largest customer and the five largest customers are as follows:

	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Largest customer	36,516	1,238	63,033
Five largest customers	85,349	116,139	151,424

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance. We not provide any guarantees, which would expose the us to credit risk.

(b) Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the our reputation.

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Our policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The following table details the remaining contractual maturities at balance sheet date of our financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date we can be required to pay:

At 31 December 2009

	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank loans	8,000	8,024	8,024	—
Bank advances under discounted bills	13,057	13,057	13,057	—
Trade and other payables	127,407	127,407	127,407	—
Amounts due to related parties	217,128	217,128	217,128	—
	<u>365,592</u>	<u>365,616</u>	<u>365,616</u>	<u>—</u>

At 31 December 2010

	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank loans	40,000	41,292	862	40,430
Bank advances under discounted bills	33,852	33,852	33,852	—
Trade and other payables	216,438	216,438	216,438	—
Amounts due to related parties	218,970	218,970	218,970	—
	<u>509,260</u>	<u>510,552</u>	<u>470,122</u>	<u>40,430</u>

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At 31 December 2011

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 6 months or on demand RMB'000	More than 6 months but less than 12 months RMB'000
Secured bank loans	81,118	84,671	32,374	52,297
Unsecured bank loans	50,000	52,676	1,640	51,036
Bank advances under discounted bills	23,500	23,500	23,500	—
Trade and other payables	198,291	198,291	198,291	—
Amounts due to related parties	<u>24,903</u>	<u>24,903</u>	<u>24,903</u>	<u>—</u>
	<u><u>377,812</u></u>	<u><u>384,041</u></u>	<u><u>280,708</u></u>	<u><u>103,333</u></u>

(c) Interest rate risk

(i) Interest rate profile

Cash at bank and interest-bearing borrowings are the major types of our financial instruments subject to interest rate risk.

Cash at bank is with variable interest rates ranging from 0.01% ~ 0.36%, 0.01% ~ 0.36% and 0.01% ~ 0.50% per annum as at 31 December 2009, 2010 and 2011, respectively. Deposit with banks are with interest rates ranging from 0.01% ~ 3.05% per annum as at 31 December 2011.

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Our interest-bearing borrowings and interest rates as at 31 December 2009, 2010 and 2011 are set out as follows:

	2009		At 31 December 2010		2011	
	<i>Interest rate %</i>	<i>RMB'000</i>	<i>Interest rate %</i>	<i>RMB'000</i>	<i>Interest rate %</i>	<i>RMB'000</i>
Fixed rate borrowings						
Bank loans	—	—	4.78-5.00	40,000	4.16-6.56	61,309
Bank advances under discounted bills	2.64	<u>13,057</u>	4.82-5.94	<u>33,852</u>	9.00-9.36	<u>23,500</u>
		<u><u>13,057</u></u>		<u><u>73,852</u></u>		<u><u>84,809</u></u>
Net variable rate borrowings						
Bank loans	5.84	<u>8,000</u>		—	7.22-7.32	<u>69,809</u>
		<u><u>8,000</u></u>		—		<u><u>69,809</u></u>
Total net borrowings		<u><u>21,057</u></u>		<u><u>73,852</u></u>		<u><u>154,618</u></u>
Net fixed rate borrowings as a percentage of total net borrowings		<u><u>62%</u></u>		<u><u>100%</u></u>		<u><u>55%</u></u>

(ii) Sensitivity analysis

We do not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

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The following table demonstrates the sensitivity to cash flow interest rate risk arising from variable rate borrowings held by us at the respective balance sheet dates in respect of a reasonably possible change in interest rates, with all other variables held constant. The impact on our profit after tax and retained profits is estimated as an annualised impact on interest expenses or income of such a change in interest rates. The analysis is performed on the same basis during the Track Record Period.

	Increase/ (decrease) in basis points	Increase/ (decrease) profit after tax and retained profits for the year <i>RMB'000</i>
At 31 December 2009		
Basis points	100	(70)
Basis points	(100)	70
At 31 December 2010		
Basis points	100	—
Basis points	(100)	—
At 31 December 2011		
Basis points	100	(593)
Basis points	(100)	593

This sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet and had been applied to the exposure to cash flow interest rate risk for non-derivative financial instruments.

(d) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the PBOC or other institutions authorised to buy and sell foreign currencies. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC, that are determined largely by supply and demand.

Our businesses are principally conducted in RMB and most of our monetary assets and liabilities are denominated in RMB. Accordingly, our Directors are of the view that our exposure to foreign currency risk is not significant. We do not employ any financial instruments for hedging purposes.

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On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent us from satisfying sufficient foreign currency demands and we may not be able to pay dividend in foreign currencies to our equity shareholders.

(e) Fair values

The carrying amounts of all financial assets and liabilities approximate their respective fair values as at 31 December 2009, 2010 and 2011 due to the short maturities of those instruments.

PROPERTY INTERESTS

Details relating to our property interests are set out in Appendix III to this prospectus. Savills Valuation and Professional Services Limited, an independent property valuation firm, has valued the properties owned and leased by us as at 30 April 2012. The text of their letters, summaries of values and valuation certificates are set out in Appendix III to this prospectus.

A reconciliation of the net book value of our Group's property interests as at 31 December 2011 to their fair value as at 30 April 2012 as stated in Appendix III to this prospectus is as follows:

	<i>RMB'000</i>
Net book value of our Group's property interests as at 31 December 2011	130,618
Additions	2,876
Depreciation and amortisation	<u>(1,106)</u>
Net book value of our Group's property interests as at 30 April 2012	132,388
Valuation surplus	<u>26,212</u>
Valuation amount as at 30 April 2012	<u><u>158,600</u></u>

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted combined net tangible assets of our Group which have been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out below to illustrate the effect of the Share Offer on our Group's net tangible assets as at 31 December 2011 as if they had taken place on that date.

The unaudited pro forma adjusted combined net tangible assets have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of our Group's net tangible assets had the Share Offer been completed as at 31 December 2011 or at any future date.

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The unaudited pro forma adjusted combined net tangible assets is based on the net assets of our Group as at 31 December 2011, as derived from our combined financial information set forth in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	Audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2011 RMB'000⁽¹⁾	Estimated net proceeds from the Share Offer RMB'000⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company RMB'000	Unaudited pro forma adjusted net tangible assets per Share RMB⁽³⁾	HK\$
Based on an Offer Price of HK\$0.93 per Share	430,298	131,828	562,126	0.70	0.86
Based on an Offer Price of HK\$1.32 per Share	430,298	193,581	623,879	0.78	0.96

Note:

- (1) The audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2011 is compiled based on the combined financial information included in the Accountants' Report set out in Appendix I to this prospectus, which is based on the combined net assets attributable to equity shareholders of the Company of RMB520,056,000 less goodwill of RMB46,832,000 and intangible assets of RMB44,383,000 and adjusting for the share of intangible assets attributable to non-controlling interests of RMB1,457,000.
- (2) The estimated net proceeds from the Share Offer are based on an Offer Price of HK\$0.93 and HK\$1.32 per Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.
- (3) The number of shares used for the calculation of unaudited pro forma adjusted net tangible assets per Share attributable to equity shareholders of the Company is based on 800,000,000 Shares in issue immediately after the Share Offer without taking into account any Share which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

DIVIDEND AND DIVIDEND POLICY

We currently do not have a dividend policy. The declaration, payment and amount of dividends in the future will be subject to the discretion of the Board and will depend on our results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Our Shareholders will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

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Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Our Group has not paid or declared any dividend during the Track Record Period and up to the Latest Practicable Date.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 30 September 2011. Our Company did not have any reserve available for distribution to our Shareholders as at 31 December 2011.

DISCLOSURE UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there had been no material adverse change in the financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 31 December 2011, the date to which the latest audited financial statements of our Group were made up, up to the date of the Prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the paragraph titled “Our strategies” in the “Business” section of this prospectus for a detailed description of future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$1.13 per Share (being the mid-point of the estimated price range), we estimate that the net proceeds to us from the Share Offer will be approximately HK\$200 million (equivalent to approximately RMB162 million), after deducting the underwriting commissions and other estimated expenses payable by us in relation to the Share Offer. We intend to use the net proceeds to us from the Share Offer as follows:

- approximately 69%, or approximately HK\$138 million (equivalent to approximately RMB112 million), will be used for the expansion of production plants and the upgrade of the existing facilities of the Group, in which
 - approximately 32% or approximately HK\$64 million (equivalent to approximately RMB52 million), will be applied as the purchase and upgrade of machinery, equipment and other fixed assets of the facilities in the Jiangning Plant.
 - approximately 27% or approximately HK\$54 million (equivalent to approximately RMB44 million), will be applied to build the New Nanjing Plant (which includes the cost of land, construction of relevant factory premises and purchase of machinery, equipment and other fixed assets of the manufacturing facilities). As at the Latest Practicable Date, we have not entered into any legally binding agreement for the acquisition of land.
 - approximately 6.7% or approximately HK\$13 million (equivalent to approximately RMB11 million), will be applied as capital contribution to Xiezhong Beijing for the construction of the Beijing Plant.
 - approximately 3.3% or approximately HK\$7 million (equivalent to approximately RMB5 million), will be applied as capital contribution to Xiezhong Liaoning for the upgrade and addition of production facilities for Fushun Plant.

Further details about our expansion plan are set out in the section headed “Business — Production facilities and production capacities — Expansion of production plant”.

- approximately 23%, or approximately HK\$46 million (equivalent to approximately RMB37 million) will be used to fund our research and development for enhancing the performance of our existing products and exploring potential new products, including HVAC systems for electric vehicles and HVAC systems for sedans with enhanced performance in different types of

FUTURE PLANS AND USE OF PROCEEDS

weather conditions. In line with the development trend of the automotive HVAC system industry, lightening the weight and improving the performance of our products will be our research focuses. For example, we will research on making our evaporator and condenser thinner (hence, lighter) without affecting their functionality and efficiency. Additionally, we will use our environment simulation laboratory equipment to evaluate the performance of our HVAC systems in different environment conditions and seek to improve their performance and energy efficiency.

- approximately 8%, or approximately HK\$16 million (equivalent to approximately RMB13 million) will be used for working capital and other general purposes.

In the event that the net proceeds from the Share Offer is insufficient to finance the capital expenditure as mentioned above, the shortfall will be financed by internal resources of the Group.

If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Share Offer will increase or decrease by approximately HK\$39 million, respectively. In such event, we will increase or decrease the allocation of the net proceeds to the above purpose on a pro-rata basis.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, our Directors currently intend that such proceeds will be placed in short-term interest-bearing instruments such as bank deposits or money market funds with licensed banks or financial institutions.

UNDERWRITING

HONG KONG UNDERWRITERS

Lead Manager

Guotai Junan Securities (Hong Kong) Limited

Co-Managers

Ever-Long Securities Company Limited
Hong Kong International Securities Limited
Huatai Financial Holdings (Hong Kong) Limited
South China Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

1. Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is initially offering 20,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of Hong Kong Public Offering on and subject to the terms and conditions of this prospectus and the related Application Forms. It is expected that the Company will enter into the International Underwriting Agreement pursuant to which the Company will initially offer 180,000,000 International Placing Shares (subject to any reallocation as described in the section headed “Structure of the Share Offer” in this prospectus) for subscription by way of International Placing on and subject to the terms and conditions of this prospectus.

Subject to (i) the Listing Committee granting listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus (including the Shares to be issued under the Share Offer and any options up to 10% of the Shares in issue on the Listing Date that may be granted under the Share Option Scheme), subject only to allotment and/or despatch of Share certificates for the Offer Shares and/or other usual conditions, on or before the Business Day preceding the Listing Date (or such later date as Guotai Junan Securities (on behalf of the Hong Kong Underwriters) may agree in writing) and such approval and permission not having been subsequently revoked prior to 8:00 a.m. on the Listing Date and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have

UNDERWRITING

severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the related Application Forms, for the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of Guotai Junan Securities:
 - (i) that any statement, considered by Guotai Junan Securities to be material, contained in this prospectus and/or the Application Forms in relation to the Share Offer was when the same was issued, or has become, untrue, incorrect or misleading in any material respect; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by Guotai Junan Securities to be material to the Share Offer; or
 - (iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than obligations imposed on any of the Underwriters, the Sponsor or the Lead Manager); or
 - (iv) any adverse change or development involving a prospective adverse change in the conditions, business affairs, prospects or the financial or trading position of the Group as a whole; or
 - (v) any breach by the Company, the executive Directors or the Covenantors, reasonably considered by Guotai Junan Securities to be material, of any of the warranties under the Hong Kong Underwriting Agreement or the International Underwriting Agreement;
- (b) there shall develop, occur, exist or come into effect:
 - (i) any event, or series of events, beyond the reasonable control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockouts, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism, riot, public disorder, economic sanctions, outbreak of diseases or epidemics including SARS and avian influenza and such related/mutated forms or interruption or delay in transportation); or

UNDERWRITING

- (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory or market conditions and matters and/or disaster or any monetary or trading settlement systems (including any moratorium or suspension on or material fluctuations in trading prices of the securities generally traded on the Stock Exchange, the New York Stock Exchange, the NASDAQ National Market or any of the stock exchanges in China, a material fluctuation in the exchange rate of Hong Kong dollars against any foreign currency or any interruption in securities settlement or clearance service or procedures in Hong Kong or anywhere in the world); or
- (iii) any new law or regulation or change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdictions other than Hong Kong relevant to any member of the Group (the “Specific Jurisdictions”); or
- (iv) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for the U.S. or by the European Union (or any member thereof) on Hong Kong or any of the Specific Jurisdictions; or
- (v) a change or development occurs involving a prospective change in taxation or currency exchange control (or the implementation of any exchange control) in Hong Kong or any of the Specific Jurisdictions; or
- (vi) any change or development involving a prospective change, or an actual occurrence of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (vii) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group; or
- (viii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (ix) any material loss or damage sustained by any member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (x) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group

UNDERWRITING

or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

- (xi) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or other competent authority) or any of the Specific Jurisdictions,

which in the sole opinion of Guotai Junan Securities (for itself and on behalf of the Hong Kong Underwriters) (1) is or will have or could be expected to have a material adverse effect on the business, financial or other condition or prospects of the Group as a whole; or (2) has or will have or could reasonably be expected to have material adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or (3) makes it inadvisable, inexpedient or impracticable for the Share Offer to proceed.

Undertakings to the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement

The Company has undertaken to the Hong Kong Underwriters and each of them that it will not, and each of the Covenantors and executive Directors has jointly and severally undertaken to the Hong Kong Underwriters and each of them to procure, except pursuant to the Share Offer (including the issue of new Shares pursuant to the Capitalization Issue), the grant of options under the Share Option Scheme and the issue of new Shares pursuant to the exercise of options that may be granted under the Share Option Scheme or save as mentioned in this prospectus or with the prior written consent of Guotai Junan Securities (on behalf of the Hong Kong Underwriters), and unless in compliance with the requirements of the Listing Rules, the Company shall not, and shall procure that its subsidiaries shall not, allot or issue, or agree to allot or issue any Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) (including warrants or other convertible or exchangeable securities), or grant or agree to grant any options, warrants or other rights to subscribe for or otherwise acquire any securities or convertible or exchangeable into Shares or other securities of the Company, or repurchase Shares or other securities of the Company, or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership in any Shares, or offer to or agree to do any of the foregoing or announce any intention to do so, within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) and in the event of the Company doing any of the foregoing by virtue of the aforesaid consent or exceptions or during the period of six months immediately following the expiry of the first six months period after the Listing Date, the Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

UNDERWRITING

Each of Sunrise International and Mr. Chen Hao has jointly and severally undertaken to the Company and the Hong Kong Underwriters and each of them that without the prior written consent of Guotai Junan Securities (on behalf of the Hong Kong Underwriters), he or it shall not and shall procure that the relevant registered Shareholder(s) shall not in the period commencing on the Listing Date and ending on a date which is twelve months from the Listing Date:

- (a) transfer or dispose of, nor enter into any agreements to transfer or dispose of or otherwise create any options, rights, interests or encumbrances (including the creation or entry into of any agreement to create any pledge or charge) in respect of any of those securities in respect of which they are shown by this prospectus to be the beneficial owner(s) or any interest in such securities (which includes any interest in a company which holds any such securities) or securities that constitute or confer the right to receive such securities or securities convertible into or exercisable or exchangeable for or repayable with such securities; or
- (b) enter into a swap agreement or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of such securities, whether any such swap agreement or other agreement or transaction is to be settled by delivery of such securities or other securities, in cash or otherwise; or
- (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) and (b) above; or
- (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above.

Pursuant to rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders (other than Mr. Chen Cunyou) and their respective shareholders (namely Mr. Chen Hao, 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 given certain undertakings to us, the Sponsor, the Global Coordinator and the Stock Exchange in relation to restrictions on disposal of their Shares. Please refer to the paragraph headed “Restrictions on disposal of Shares undertaking by Our Controlling Shareholders” in the “Relationship with Controlling Shareholders” section in this prospectus for further information.

UNDERWRITING

2. International Placing

International Underwriting Agreement

In connection with the International Placing, the Company is expected to enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Placing Shares being offered pursuant to the International Placing or procure purchasers for such International Placing Shares. The International Underwriting Agreement is conditional upon and subject to the Hong Kong Underwriting Agreement having been signed and becoming unconditional.

3. Underwriting Commission

The Hong Kong Underwriters will receive an underwriting commission of 2.5% on the aggregate Offer Price of all the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commission. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the relevant International Underwriters subject to the terms and conditions of the Underwriting Agreements. The commission payable to the Underwriters, together with the Stock Exchange listing fees, legal and other professional fees, printing and other expenses relating to the Share Offer which are currently estimated to be approximately HK\$25.0 million in aggregate (based on an Offer Price of HK\$1.13 per Share, being the mid-point of the stated range of the Offer Price of between HK\$0.93 and HK\$1.32 per Share) is to be borne by the Company.

4. Underwriters' interests in the Company

Other than its obligations pursuant to the Underwriting Agreements, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

STRUCTURE OF THE SHARE OFFER

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.32 and is expected to be not less than HK\$0.93 per Offer Share. Based on the maximum Offer Price of HK\$1.32 per Offer Share, plus 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee, one board lot of 4,000 Shares will amount to a total of HK\$5,333.22.

The Offer Price is expected to be determined by the Company and the Lead Manager (acting for itself and on behalf of the Underwriters) on Tuesday, 12 June 2012, or such later date as may be agreed by the Company and the Lead Manager (acting for itself and on behalf of the Underwriters) but in any event no later than 5:00 p.m. (Hong Kong time) Wednesday, 13 June 2012.

If, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, the Lead Manager (for itself and on behalf of the Underwriters, and with the consent of the Company) thinks it appropriate (for instance, if the level of interest is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction of the indicative Offer Price range. Such notice will also include any financial information which may change as a result of any such reduction. If, for any reason, the Offer Price is not agreed between the Company and the Lead Manager (on behalf of the Underwriters) on or before the Price Determination Date (or such later day as agreed), the Share Offer will not proceed and will lapse.

CONDITIONS

Acceptance of all applications for the Share Offer will be conditional upon:

- (a) the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue and the Share Offer (including Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme);
- (b) the Offer Price having been duly determined and the execution and delivery of the Price Determination Agreement on or about the Price Determination Date; and
- (c) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Lead Manager for itself and on behalf of the Underwriters) and not being terminated in accordance with the terms of the respective Underwriting Agreements or otherwise,

STRUCTURE OF THE SHARE OFFER

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent that such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in “How to Apply for the Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong.

Share certificates for the Hong Kong Offer Shares are expected to be issued on Friday, 15 June 2012 but will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date, provided that (i) the Share Offer has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

OFFER MECHANISM — BASIS OF ALLOCATION OF SHARES

The Share Offer

The Share Offer consists of the International Placing and the Hong Kong Public Offering. The 200,000,000 Shares initially offered will comprise 180,000,000 Shares being offered under the International Placing and 20,000,000 Shares being offered under the Hong Kong Public Offering. The 200,000,000 Shares being offered under the Share Offer will represent approximately 25% of the Company’s enlarged share capital immediately after completion of the Share Offer.

Subject to possible reallocation on the basis set forth below, 20,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Share Offer, will be offered to the public in Hong Kong under the Hong Kong Public Offering. The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors.

Out of the total 200,000,000 Shares offered pursuant to the Share Offer, 180,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Share Offer, will be placed with professional and institutional investors in Hong Kong and other jurisdictions under the International Placing. The International Placing Shares will be offered in Hong Kong and other jurisdictions outside the United States in offshore transactions, as defined in, and in reliance on, Regulation S.

STRUCTURE OF THE SHARE OFFER

The levels of indication of interest in the International Placing and the basis of allotment and the results of application under the Hong Kong Public Offering are expected to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) on or before Friday, 15 June 2012 and the websites of the Stock Exchange at www.hkexnews.hk and of our Company at www.xiezhonginternational.hk on or before Friday, 15 June 2012.

The International Placing

The Company is initially offering 180,000,000 International Placing Shares, representing 90% of the total number of Shares initially being offered in the Share Offer, for subscription by way of the International Placing. The International Placing is fully underwritten by the International Underwriters, subject to the terms and conditions of the International Underwriting Agreement. The International Underwriters are soliciting from prospective professional and institutional investors indications of interest in acquiring International Placing Shares in the International Placing. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective professional and institutional investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as “book building”. In Hong Kong, retail investors should apply for Offer Shares in the Hong Kong Public Offering, as retail investors applying for International Placing Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any International Placing Shares.

Allocation of the International Placing Shares pursuant to the International Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its Shareholders as a whole.

If the Hong Kong Public Offering is not fully subscribed, the Lead Manager may reallocate all or any unsubscribed Shares originally included in the Hong Kong Public Offering to the International Placing.

STRUCTURE OF THE SHARE OFFER

The International Underwriters or selling agents nominated by the International Underwriters shall, on behalf of the Company, conditionally place the International Placing Shares with professional and institutional investor in Hong Kong and other jurisdictions outside the United States in offshore transactions as defined in, and in reliance on, Regulation S. The International Placing of the International Placing Shares shall be subject to the Share Offer restrictions set out under the section “Information about this Prospectus and the Share Offer” in this prospectus.

The total number of International Placing Shares to be allotted and issued pursuant to the International Placing may change as a result of the clawback arrangement referred to in the paragraph headed “The Hong Kong Public Offering” below and any reallocation of unsubscribed Shares originally included in the Hong Kong Public Offering.

The Hong Kong Public Offering

The Company is initially offering 20,000,000 Hong Kong Offer Shares, representing 10% of the total number of Shares initially being offered in the Share Offer, for subscription by way of a Hong Kong Public Offering in Hong Kong. The Hong Kong Offer Shares are being offered at the Offer Price. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters, subject to the terms and conditions of the Hong Kong Underwriting Agreement.

The total number of Shares available for subscription under the Hong Kong Public Offering (after taking into account any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Shares in pool A will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Shares in pool B will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Shares in one (but not both) of the pools are under-subscribed, the surplus Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly.

Applicants can only receive an allocation of Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Shares originally allocated to each pool (i.e. 10,000,000 Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not received any Shares under the International Placing, and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

STRUCTURE OF THE SHARE OFFER

The allocation of the Hong Kong Offer Shares between the International Placing and the Hong Kong Public Offering is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 60,000,000 Shares, representing 30% of the Shares initially available for subscription under the Share Offer. If the number of Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of Shares available for subscription under the Hong Kong Public Offering will be 80,000,000 Shares, representing 40% of the Shares initially available for subscription under the Share Offer. If the number of Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 100,000,000 Shares, representing 50% of the Shares initially available for subscription under the Share Offer. In each such case, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced.

In addition, if the Hong Kong Public Offering is not fully subscribed, the Lead Manager (acting for itself and on behalf of the Underwriters) in its discretion may reallocate all or any unsubscribed Hong Kong Offer Shares originally included in the Hong Kong Public Offering to the International Placing. If the International Placing is not fully subscribed, the Lead Manager (acting for itself and on behalf of the Underwriters) in its discretion may reallocate all or any unsubscribed International Placing Shares originally included in the International Placing to the Hong Kong Public Offering.

Guotai Junan Securities is the Sole Global Coordinator, Bookrunner and Lead Manager of the Hong Kong Public Offering which is underwritten at the Offer Price by the Hong Kong Underwriters, on and subject to the terms and conditions of the Hong Kong Underwriting Agreement.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant.

This could, where appropriate, consist of balloting which means that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

METHODS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are three ways to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by (i) using a **WHITE** or **YELLOW** Application Form; (ii) apply online through the designated website of the designated **HK eIPO White Form** Service Provider, referred to in this section as the “**HK eIPO White Form** service” or; (iii) by giving **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, **you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying using a WHITE or YELLOW Application Form or applying online through HK eIPO White Form service or by giving electronic application instructions to HKSCC via CCASS.**

WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); and
- are not a U.S. Person (as defined in Regulation S).

If you wish to apply for Hong Kong Offer Shares online through the designated website at www.hkeipo.hk under the **HK eIPO White Form** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **HK eIPO White Form** service.

If the applicant is a firm, the application must be in the names of the individual members, not the firm’s name. If the applicant is a body corporate, the application form must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Lead Manager (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The number of joint applicants may not exceed four.

Our Company, the Lead Manager (for itself and on behalf of the Hong Kong Underwriters) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, our Directors, or chief executive officers or their respective associates or any other connected persons (as defined in Chapter 1 of the Listing Rules) of our Company or persons who will become connected persons (as defined in Chapter 1 of the Listing Rules) of our Company immediately upon completion of the Share Offer.

You should also note that you may apply for Shares under the Hong Kong Public Offering or indicate an interest for Shares under the International Placing, but may not do both.

WHICH APPLICATION METHOD YOU SHOULD USE

Use a **WHITE** Application Form or apply online through the **HK eIPO White Form** Service if you want the Hong Kong Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: Except in the circumstances permitted under the Listing Rules, the Offer Shares are not available for subscription by existing beneficial owners of the Shares, the Directors or chief executive of our Company or any of its subsidiaries or the associates of any of them, or any other connected persons (as defined in Chapter 1 of the Listing Rules) of our Company or persons who will become connected persons (as defined in Chapter 1 of the Listing Rules) of our Company immediately upon completion of the Share Offer.

WHERE TO COLLECT THE APPLICATION FORMS

Copies of this prospectus, together with the **WHITE** Application Forms, may be obtained during normal business hours from 9:00 a.m. on Wednesday, 6 June 2012 until 12:00 noon on Monday, 11 June 2012 from:

Guotai Junan Securities (Hong Kong) Limited

27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Ever-Long Securities Company Limited

18th Floor, Dah Sing Life Building
99–105 Des Voeux Road Central
Hong Kong

Hong Kong International Securities Limited

23rd Floor, Arion Commercial Centre
2–12 Queen's Road West
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited

Room 5808–12, The Centre
99 Queen's Road Central
Hong Kong

South China Securities Limited

28/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

or any of the following branches of DBS Bank (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island:	Head Office	G/F, The Center, 99 Queen's Road Central, Central
	United Centre Branch	Shops 1015–1018 on 1/F, United Centre, 95 Queensway, Admiralty
	Des Voeux Road Central Branch	B/F, G/F, 1/F, 39–41 Des Voeux Road Central, Central
	North Point Branch	G/F, 391 King's Road, North Point
	Causeway Bay Branch	12–14 Yee Wo Street, Causeway Bay
Kowloon:	Nathan Road Branch	G/F, Wofoo Commercial Building, 574– 576 Nathan Road, Mongkok, Kowloon
	Tsimshatsui Branch	G/F, 22–24 Cameron Road, Tsimshatsui
	Hoi Yuen Road	Unit 2, G/F, Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong, Kowloon
	Amoy Plaza Branch	G45–48, Amoy Plaza, 77 Ngau Tau Kok Road, Ngau Tau Kok
New Territories:	Yuen Long Branch	G/F, 1–5 Tai Tong Road, Yuen Long
	Shatin Plaza Branch	Shop 47 & 48, Level 1, Shatin Plaza, No. 21–27 Sha Tin Centre Street, Shatin, New Territories
	Tsuen Wan Branch	G/F, 23 Chung On Street, Tsuen Wan

The **YELLOW** Application Forms, together with copies of this prospectus, may be obtained during normal business hours from 9:00 a.m. on Wednesday, 6 June 2012 until 12:00 noon on Monday, 11 June 2012 at the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong. Your stockbroker may also have the **YELLOW** Application Forms and this prospectus available.

HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated in the Application Form.

If your application is made through a duly authorised attorney, our Company, the Sponsor, the Lead Manager and/or their respective agents or nominees may accept it at their respective discretion, and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney.

You should note that by completing and submitting an Application Form, among other things:

- (a) you confirm that you have received and/or read a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and have not and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (b) you agree that none of our Company, the Sponsor, the Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Share Offer is or will be liable for any information and representations not contained in this prospectus (and any supplement thereto) and the Application Forms;
- (c) you undertake and confirm that you (if the application is made for your benefit) or the person(s) or whose benefit you have made the application have not applied for or taken up, or indicated an interest for or received or been placed or allocated (including conditionally and/or provisionally), and will not apply for, take up, or indicate an interest for or received or been placed or allocated, any International Placing Shares nor otherwise participated in the International Placing; and
- (d) you agree to disclose to our Company, and/or the share registrars, receiving bankers, the Sponsor, the Lead Manager, the Underwriters and their respective officers, advisors and agents any personal data and any information which they require about you and the person(s) for whose benefit you have made the application.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signature will be accepted.

(a) if the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

- the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant ID in the appropriate box in the Application Form.

(b) if the application is made by an individual CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's full name and Hong Kong identity card number; and
- (ii) the individual CCASS Investor Participant must insert its CCASS Participant ID in the appropriate box in the Application Form.

(c) if the application is made by joint individual CCASS Investor Participants:

- (i) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all of the joint CCASS Investor Participants; and
- (ii) the CCASS Participant ID must be inserted in the appropriate box in the Application Form.

(d) if the application is made by a corporate CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's company name and the Hong Kong business registration certificate number; and
- (ii) the CCASS Participant ID must be inserted and the company chop (bearing the CCASS Investor Participant's company name) chopped in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (include participant ID and/or company chop bearing its company name) or other similar matters may render your application invalid.

If your application is made through a duly authorised attorney, our Company, the Sponsor, the Lead Manager and/or their respective agents or nominees may accept the application at their absolute discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Our Company, the Sponsor, the Lead Manager and/or their respect agents or nominees will have full discretion to reject or accept any application, in full or in part, without assigning any reasons.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked “For nominees” account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

HOW TO APPLY THROUGH THE HK eIPO WHITE FORM SERVICE

General

- (a) If you are an individual and meet the criteria set out in the paragraph headed “Who can apply for the Hong Kong Offer Shares” of this section, you may apply through the **HK eIPO White Form** service by submitting an application online through the designated website at www.hkeipo.hk. If you apply through the **HK eIPO White Form** service, our Shares will be issued in your own name. You may only apply by means of the **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **HK eIPO White Form** service.
- (b) Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **HK eIPO White Form** Service Provider and may not be submitted to our Company.
- (c) By submitting an application online to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you are deemed to have authorised the designated **HK eIPO White Form** Service Provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **HK eIPO White Form** service.
- (d) In addition to the terms and conditions set out in this prospectus, the designated **HK eIPO White Form** Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (e) By submitting an application to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you are deemed to have authorised the designated **HK eIPO White Form** Service Provider to transfer the details of your application to our Company and our Hong Kong Branch Share Registrar.
- (f) You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 4,000 Hong Kong Offer Shares. Each application in respect of more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (g) You should submit an application online through the **HK eIPO White Form** service at the times set out in the paragraph headed “Time for applying for the Hong Kong Offer Shares — **HK eIPO White Form**” below.
- (h) You should make payment for your application made through the **HK eIPO White Form** service in accordance with the methods and instructions set out on the designated website at **www.hkeipo.hk**. If you do not make complete payment of the application monies (including any related fees) at or before 12:00 noon on Monday, 11 June 2012, or such later time as described in the paragraph headed “Effect of bad weather on the opening of the application lists” of this section, the designated **HK eIPO White Form** Service Provider will reject your application and your application monies will be returned to you in the manner described on the designated website at **www.hkeipo.hk**.
- (i) **Warning: The application for Hong Kong Offer Shares through the HK eIPO White Form service is only a facility provided by the designated HK eIPO White Form Service Provider to public investors. Our Company, our Directors, the Lead Manager, the Sponsor, the Underwriters and the designated HK eIPO White Form Service Provider take no responsibility for any such applications and provide no assurance that applications through the HK eIPO White Form service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form** service, you are advised not to wait until the last minute for submitting applications in the Hong Kong Public Offering to submit your applications online. In the event that you have problems connecting to the designated website at **www.hkeipo.hk** for the **HK eIPO White Form** service, you should submit a **WHITE** Application Form. However, once you have submitted applications online and completed payment in full using the application reference number provided to you on the designated website at **www.hkeipo.hk**, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please refer to the paragraph headed “How many applications you may make for the Hong Kong Offer Shares” below.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant submitting applications online through the **HK eIPO White Form** service to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** Service Provider, the designated **HK eIPO White Form** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form** Service Provider on the designated website at **www.hkeipo.hk**.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Otherwise, any monies payable to you due to a refund shall be made pursuant to the arrangements described in the paragraph headed “Despatch/Collection of Share certificates and refund of application money” below.

HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2nd Floor, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Copies of this prospectus are available for collection from the above address. If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your broker or custodian to our Company and our Hong Kong branch share registrar and transfer office.

Application for the Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (ii) HKSCC Nominees does the following things on behalf of each such person:
- **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has input **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - **undertakes** and **confirms** that that person has not applied for or taken up any Offer Shares under the International Placing nor otherwise participated in the International Placing;
 - (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
 - (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
 - **understands** that the above declaration will be relied upon by our Company, the Directors, the Sponsor and the Lead Manager in deciding whether or not to make any allotment of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
 - **authorises** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
 - **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
 - **confirms** that that person has only relied on the information and representations in this prospectus (and any supplement thereto) in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
 - **agrees** that our Company, the Sponsor, the Lead Manager, the Underwriters, their respective directors, officers, employees, advisers and any other parties involved in the Share Offer are not liable for the information and representations not so contained in this prospectus and any supplement thereto;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- **agrees** to disclose that person's personal data to our Company, its registrars, receiving banker, advisor and agents, and any information which they may require about that person;
- **agrees** (without prejudice to any other rights which that person may have) that once the application is accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before Friday, 6 July 2012, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Friday, 6 July 2012 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may only revoke the application on or before Friday, 6 July 2012 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instruction** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares;
- **agrees** with our Company (for itself and for the benefit of each of the Shareholders) that the Shares are freely transferable by the holders thereof; and
- **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and constructed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, you each jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- **instructed and authorised** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for Hong Kong Offer Shares on your behalf;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- **instructed and authorised** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the Offer Price is less than the maximum offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account;
- **instructed and authorised** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Minimum subscription amount and permitted multiples

You may give or cause your broker or a custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 4,000 Hong Kong Offer Shares. Such instructions in respect of more than 4,000 Hong Kong Offer Shares must be in one of the numbers or multiples set out in the table in the Application Forms. No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. Further information in this regard is set forth under “How many applications you may make for the Hong Kong Offer Shares” below.

Allocation of the Hong Kong Offer Shares

For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company and the registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Warning

The subscription of Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Sponsor, the Lead Manager and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participants will be allotted any Hong Kong Offer Shares. To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit the **WHITE** or **YELLOW** Application Form (as appropriate), or (ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form before 12:00 noon on Monday, 11 June 2012 or such later time as described under the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

HOW MANY APPLICATIONS YOU MAY MAKE FOR THE HONG KONG OFFER SHARES

There is only one situation where you may make more than one application for the Hong Kong Offer Shares. You may make more than one application for the Hong Kong Offer Shares if you are a nominee, in which case you may make an application by using a **WHITE** or **YELLOW** Application Form or by way of giving **electronic application instructions** to HKSCC via CCASS, and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the relevant Application Form marked "For nominee(s)" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being for your own benefit. **Otherwise, multiple applications are not allowed.**

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

It will be a term and condition of all applications that by completing and delivering an Application Form or by giving **electronic application instructions** to HKSCC via CCASS, you:

- if the application is made for your own benefit, warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by means of the **HK eIPO White Form** service or through giving **electronic application instructions** to HKSCC via CCASS;
- if you are an agent for another person, warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by means of the **HK eIPO White Form** service or through giving **electronic application instructions** to HKSCC via CCASS, and that you are duly authorised to sign the relevant Application Form or apply by means of the **HK eIPO White Form** service or give **electronic application instructions** as that other person's agent.

Multiple applications or suspected multiple applications are liable to be rejected. All of your applications are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by means of the **HK eIPO White Form** service or by way of giving **electronic application instructions** to HKSCC via CCASS;
- both apply (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or one **WHITE** or **YELLOW** Application Form and by means of the **HK eIPO White Form** service or by way of giving **electronic application instructions** to HKSCC via CCASS;
- apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form or by means of the **HK eIPO White Form** service or by way of giving **electronic application instructions** to HKSCC via CCASS for more than 100% of the Hong Kong Offer Shares initially available in either pool A or pool B for subscription under the Hong Kong Public Offering; or
- have applied for or taken up, or indicated an interest in or received or been placed or allocated (including, conditionally and/or provisionally) and will not apply for or take up or indicate an interest in or receive or be placed or allocated International Placing Shares under the International Placing or otherwise participated in the International Placing and make application on **WHITE** or **YELLOW** Application Form or by means of the **HK eIPO White Form** service or by way of giving **electronic application instructions** to HKSCC via CCASS.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

All of your applications will also be rejected as multiple applications if more than one application on **WHITE** or **YELLOW** Application Form or by means of the **HK eIPO White Form** service or by way of giving **electronic application instructions** to HKSCC via CCASS is made for your benefit or you have applied for or taken up or otherwise indicated an interest for Offer Shares under the International Placing. If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise “statutory control” over that company,

then the application will be treated as being for your benefit.

An unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half the voting power of that company; or
- hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$1.32 per Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. This means that for every board lot of 4,000 Hong Kong Offer Shares, you will pay HK\$5,333.22. Each Application Form has a table showing the exact amount payable for certain multiples of the Hong Kong Offer Shares. You must pay the maximum Offer Price, the brokerage, the Stock Exchange trading fee and the SFC transaction levy in full when you apply for the Hong Kong Offer Shares.

Your payment must be made by one cheque or one banker’s cashier order and must comply with the terms of the related Application Forms (if you apply by an Application Form). Your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Monday, 11 June 2012. If your application is successful, the brokerage is paid to participants of the Stock Exchange, the transaction levy is paid to the Stock Exchange collecting on behalf of the SFC, and the trading fee is paid to the Stock Exchange. If the Offer Price as finally determined is less than HK\$1.32 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the surplus application monies) will be made to applicants, without interests. Details of the procedures for refund are contained below in the section headed “Despatch/Collection of Share certificates and refund of application money”.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Our Company will not issue temporary documents of title, evidence of title or receipt for payment.

TIME FOR APPLYING FOR THE HONG KONG OFFER SHARES

WHITE and YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Monday, 11 June 2012, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” of this section.

Your completed Application Form, with payment in Hong Kong dollars for the full amount payable on application attached, should be deposited in the special collection boxes provided at any one of the branches of DBS Bank (Hong Kong) Limited listed under the paragraph headed “Where to collect the Application Forms” above at the following times:

Wednesday, 6 June 2012 — 9:00 a.m. to 5:00 p.m.
Thursday, 7 June 2012 — 9:00 a.m. to 5:00 p.m.
Friday, 8 June 2012 — 9:00 a.m. to 5:00 p.m.
Saturday, 9 June 2012 — 9:00 a.m. to 1:00 p.m.
Monday, 11 June 2012 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 11 June 2012.

HK eIPO White Form

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk from 9:00 a.m. on Wednesday, 6 June 2012, until 11:30 a.m. on Monday, 11 June 2012, or such later time as described in the paragraph headed “Effect of bad weather on the opening of the application lists” of this section (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 11 June 2012, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” of this section.

You will not be permitted to submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Giving Electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 6 June 2012	— 9:00 a.m. to 8:30 p.m. ⁽¹⁾
Thursday, 7 June 2012	— 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Friday, 8 June 2012	— 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Saturday, 9 June 2012	— 8:00 a.m. to 1:00 p.m. ⁽¹⁾
Monday, 11 June 2012	— 8:00 a.m. ⁽¹⁾ to 12:00 noon

Note (1):

These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 6 June 2012 until 12:00 noon on Monday, 11 June 2012 (24 hours daily, except the last application date).

The latest time for inputting your **electronic application instructions** (if you are a CCASS Participant) is 12:00 noon on Monday, 11 June 2012 or, if the application lists are not open on that day, by the time and date stated under “Effects of bad weather on the opening of the application lists” below.

Application lists

Subject to the events as described in the paragraph headed “Effect of bad weather on the opening of the application lists” below, the application lists will open at 11:45 a.m. and close at 12:00 noon on Monday, 11 June 2012.

No proceedings will be taken on application for the Shares and no allotment of any such Shares will be made until the closing of the application lists.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 11 June 2012.

Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED THE HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allocated the Hong Kong Offer Shares are set out in the notes attached to the related Application Forms, and you should read them carefully. You should note, in particular, the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked

By depositing the **WHITE** or **YELLOW** Application Form or by applying online through **HK eIPO White Form** service or submitting **electronic application instructions** to HKSCC via CCASS, you agree that your application or the application made by HKSCC Nominees cannot be revoked on your behalf on or before Friday, 6 July 2012.

This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or by applying online through **HK eIPO White Form** service or submit your **electronic application instructions** to HKSCC via CCASS and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Friday, 6 July 2012 except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before Friday, 6 July 2012, if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been so notified but have not withdrawn their applications in accordance with the procedure(s) to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made, is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. Acceptance of application which are not rejected will be constituted by notification in the announcement of the results of allocation and, where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to satisfaction of such conditions or the results of such ballot, respectively.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Full discretion of our Company or its agents to reject or accept your application

Our Company and its agents have full discretion to reject or accept any application, or to accept only part of an application, and do not have to give any reason for any rejection or acceptance.

If your application is rejected

Your application will be rejected if:

- it is a multiple application or a suspected multiple application; or
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the International Placing Shares. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received the International Placing Shares; and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering; or
- your Application Form is not completed correctly in accordance with the instructions printed thereon (if you apply by an Application Form); or
- your payment is not made correctly; or
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation; or
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the International Placing Shares; or
- our Company or any of its agents believes that by accepting your application, our Company would violate the applicable laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been, completed and/or signed or of any other jurisdiction, or would result in our Company not being able to satisfy the public float requirements under the Listing Rules applicable to our Company; or
- your application is for more than 100% of the Hong Kong Offer Shares initially available in pool A or pool B for public subscription under the Hong Kong Public Offering.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If your application is not accepted

Your application (including the part of an application made by HKSCC Nominees acting upon **electronic application instructions**) will not be accepted if either:

- the Hong Kong Underwriting Agreement does not become unconditional; or
- the Hong Kong Underwriting Agreement is terminated in accordance with its terms and conditions; or
- no agreement has been reached on the Offer Price on or before the Price Determination Date.

If the allotment of Hong Kong Offer Shares is void

Any allotment of the Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant the approval of the listing of, and permission to deal in, the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing of the application lists.

PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest under the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares under the Hong Kong Public Offering on or before Friday, 15 June 2012 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on our Company's website at **www.xiezhonginternational.hk** and the website of the Stock Exchange at **www.hkexnews.hk**.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by applying online through **HK eIPO White Form** service or by giving **electronic application instructions** to HKSCC via CCASS will be made available at the times and dates and in the manner specified below:

- on the website of Tricor Investor Services Limited at **www.tricor.com.hk/ipo/result** on a 24-hour basis from 8:00 a.m. on Friday, 15 June 2012 to 12:00 midnight on Thursday, 21 June 2012. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its Application Form to search for his/her/its own allocation result;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- from our Company's results allocation telephone enquiry hotline. Applicants may find out whether or not their applications have been successful and the number of Offer Shares allocated to them, if any, by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 15 June 2012 to Wednesday, 20 June, 2012 (excluding Saturday, Sunday and public holidays);
- on our Company's website at **www.xiezhonginternational.hk** and the website of the Stock Exchange at **www.hkexnews.hk** on Friday, 15 June 2012 onwards; and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches of the receiving bank from Friday, 15 June 2012 to Tuesday, 19 June 2012 at the addresses set out in the paragraph headed "Where to collect the Application Forms" of this section.

You should note that our website and all information contained in our website, does not form part of this prospectus.

DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONEY

No temporary documents of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Monday, 11 June 2012. Our Company will keep any interest accrued on your application monies (up till, in the case of monies to be refunded, the date of despatch of refund cheque).

Any certificate relating to the Offer Shares issued by our Company or deposited into CCASS prior to 8:00 a.m. on the Listing Date will only become valid certificate of title at 8:00 a.m. on the Listing Date if the Hong Kong Public Offering has become unconditional in all aspects and the Underwriting Agreements have not been terminated in accordance with its terms on or before 8:00 a.m. on the Listing Date.

Your application money, or an appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee and the SFC transaction levy, will be refunded, without interest if:

- your application is rejected, not accepted or only accepted in part;
- the Offer Price as finally determined is less than the maximum indicative Offer Price;
- the conditions of the Share Offer are not fulfilled in accordance with the section headed "Structure of the Share Offer" in this prospectus;
- any application is revoked or any allocation pursuant thereto has become void; or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- any of the reasons set forth under “Circumstances in which you will not be allotted the Hong Kong Offer Shares”.

It is intended that special efforts will be made to avoid any undue delay in refunding application money where appropriate.

If you applied through the **HK eIPO White Form** service and paid the application monies from a single bank account, refund monies (where applicable) will be despatched to your application payment bank account in the form of e-Auto Refund payment instructions on Friday, 15 June 2012. If you apply through **HK eIPO White Form** service and paid the application monies from multiple bank accounts, refund monies (where applicable) in the form of refund cheque(s) will be despatched on Friday, 15 June 2012 by ordinary post at your own risk.

If you have given **electronic application instructions** to HKSCC, your refund (if any) will be credited to your designated bank account or the designated bank account of the designated CCASS Participant through which you are applying on Friday, 15 June 2012. If you have instructed your designated CCASS Participant (other than CCASS Investor Participant) to give **electronic application instructions** on your behalf, you can check the amount of refund (if any) payable to you with that designated CCASS Participant. If you have applied as CCASS Investor Participant, you can check the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Friday, 15 June 2012 or in the activity statement showing the amount of refund money credited to your designated bank account made available to you by HKSCC immediately after the credit of refund money to your bank account. All refunds of your application monies (including the related brokerage, the Stock Exchange trading fee and SFC transaction levy) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 15 June 2012.

You will receive one Share certificate for all the Hong Kong Offer Shares issued to you (except pursuant to applications made on **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC where the Share certificate will be deposited into CCASS as described below under “Deposit of Share certificates into CCASS” below).

Subject to the provisions mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on your Application Form:

- for applicants on **WHITE** Application Forms or applying online through the **HK eIPO White Form Service**: (i) Share certificate for all the Hong Kong Offer Shares applied for, if your application is wholly successful; or (ii) Share certificate for the number of Hong Kong Offer Shares successfully applied for, if your application is partially successful; and/or
- for applicants on **WHITE** and **YELLOW** Application Forms or applying online through the **HK eIPO White Form Service**, a refund cheque crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the excess application money for the Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application money, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price as determined and the maximum indicative Offer Price, payable upon application, in the event that the Offer Price is lower than the maximum indicative Offer Price, in each case including related brokerage of 1%, the Stock Exchange trading fee of 0.005% and the SFC transaction levy of 0.003%, without interest. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

In a contingency situation involving a very high level of over-subscription, at the discretion of our Company and the Lead Manager, applications for certain small denominations of the Hong Kong Offer Shares may be eliminated in a pre-balloting. In such circumstances, the cheques or banker's cashier orders accompanying such applications on the Application Forms will not be presented for clearing.

Subject as mentioned below, refund cheques (if any) under **WHITE** or **YELLOW** Application Forms and Share certificates for successful applicants under **WHITE** Application Forms are expected to be despatched on Friday, 15 June 2012. We reserve the right to retain any Share certificates and any excessive application money pending clearance of cheque(s) or banker's cashier order(s).

If you have applied for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form or through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk and have indicated your intention in your application to collect your refund cheque (where applicable) and/or Share certificate (where applicable) from our Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, and have provided all information required for your application, and your application is wholly or partially successful, you may collect (where applicable) your refund cheque and/or (where applicable) Share certificate from our Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on Friday, 15 June 2012 from 9:00 a.m. to 1:00 p.m. or any other date notified by us in the newspapers as the date of despatch of Share certificates/refund cheques.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you are an individual who opts for collection in person, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for collection in person, the authorised representative bearing a letter of authorisation from the corporation stamped with the corporation's chop must be presented for collection. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Company's Hong Kong branch share registrar and transfer office. If you do not collect your Share certificate and/or refund cheque during the above period, they will be despatched promptly to you by ordinary post to the address as specified in your Application Form or the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider at your own risk.

If you have applied for less than 1,000,000 Hong Kong Offer Shares by **WHITE** Application Form or through **HK eIPO White Form** service or if you have applied for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form but have not indicated in your Application Form that you wish to collect your Share certificate (where applicable) and/or refund cheque in person, the Share certificate and/or refund cheque (if applicable) will be sent to the address as stated on your Application Form or the address specified in your application instruction to the designated **HK eIPO White Form** Service Provider on Friday, 15 June 2012 or any other date notified by us in the newspapers as the date of despatch of Share certificates/refund cheques by ordinary post and at your own risk.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque(s) (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your **YELLOW** Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (if any) will be sent to the address on your Application Form on the date of dispatch which is expected to be on Friday, 15 June 2012, by ordinary post and at your own risk.

Deposit of Share certificates into CCASS

If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form or by giving **electronic application instructions** via CCASS, and your application is wholly or partially successful, your Share certificate will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant's stock account or the stock account of your designated CCASS Participant as instructed by you on Friday, 15 June 2012, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

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We expect to publish the application results of CCASS Investor Participants using **YELLOW** Application Form and the application results of CCASS Participants applying by giving **electronic application instructions** (and where the CCASS Participant is a broker or custodian, we shall include information relating to the beneficial owner, the Hong Kong identity card numbers, passport numbers or other identification code (Hong Kong business registration certificate number for corporations), if supplied) on Friday, 15 June 2012. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 15 June 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Applicants applying as CCASS Investor Participant by using **YELLOW** Application Form or by giving **electronic application instructions** can also check the result of application via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) using **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, you can check your new account balance via the CCASS Phone System and CCASS Internet System immediately after the credit of the Hong Kong Offer Shares to your stock account. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

COMMENCEMENT OF DEALINGS IN THE SHARES

The application for the Offer Shares will commence on Wednesday, 6 June 2012 up to Monday, 11 June 2012. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicants without interest on Friday, 15 June 2012. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Monday, 18 June 2012. Shares will be traded in board lots of 4,000 Shares.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

All necessary arrangements have been made for the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbroker or other professional adviser for details of settlement arrangements and how such arrangements will affect their rights and interests.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

6 June 2012

The Directors
Xiezhong International Holdings Limited

Guotai Junan Capital Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Xiezhong International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2009, 2010 and 2011 (the “Relevant Period”), and the combined balance sheets of the Group as at 31 December 2009, 2010 and 2011, together with the explanatory notes thereto (the “Financial Information”), for inclusion in the prospectus of the Company dated 6 June 2012 (the “Prospectus”).

The Company was incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 20 January 2012 (the “Reorganisation”) as detailed in the section headed “History and Development” in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company as it is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 32 of

Section C. The financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) or the relevant accounting rules and regulations applicable to entities in the People’s Republic of China (the “PRC”).

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the “Underlying Financial Statements”). The Underlying Financial Statements for the Relevant Period were audited by us in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2011.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group’s combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2009, 2010 and 2011.

A. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 30 September 2011. To rationalise the corporate structure in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("SEHK"), the Company underwent the Reorganisation as detailed in the section headed "History and Development" in the Prospectus. The Group is principally engaged in the development, production and sale of automotive heating, ventilation and cooling ("HVAC") systems and a range of automotive HVAC components.

Upon completion of the group reorganisation on 20 January 2012, the Company became the holding company of Xiezhong Holdings Limited ("Xiezhong BVI"), and the companies now comprising the Group are owned by the same equity shareholders, i.e. CITIC Capital China Limited ("CITIC Capital China"), Fang Brothers (China) Limited ("Fang Brothers"), CDH Cool Limited ("CDH Cool"), CDH Auto Limited ("CDH Auto") and Sunrise International Investment Management Inc. ("Sunrise International"), both before and after the group reorganisation mentioned above. As the Company was formed for the sole purpose of the Reorganisation and had no operations prior to the acquisition of Xiezhong BVI, no business combination has occurred and there were no changes in the economic substance of the ownership and the business of the Group. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition as set out in International Financial Reporting Standard 3, Business combinations ("IFRS 3"). The combined financial statements of the Company are considered as a continuation of the consolidated financial statements of Xiezhong BVI with the assets and liabilities of Xiezhong BVI and its subsidiaries recognised and measured at their historical carrying amounts prior to the Reorganisation.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Details of the principal subsidiaries, in which the Company has direct and indirect interests as at the date of this report, are set out in note 32 of Section C of this report.

B. COMBINED FINANCIAL INFORMATION

1. Combined income statements

	Section C <i>Note</i>	Years ended 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Turnover	4	346,539	545,502	619,904
Cost of sales		<u>(249,614)</u>	<u>(394,516)</u>	<u>(447,727)</u>
Gross profit		96,925	150,986	172,177
Other revenue and net income	5	3,169	5,444	6,835
Distribution costs		(18,521)	(28,785)	(24,730)
Administrative expenses		(21,948)	(26,856)	(37,767)
Other operating expenses		<u>(37)</u>	<u>(71)</u>	<u>(186)</u>
Profit from operations		59,588	100,718	116,329
Finance costs	6(a)	(1,529)	(1,930)	(7,554)
Share of losses of jointly controlled entities	16	<u>—</u>	<u>(1,939)</u>	<u>(235)</u>
Profit before taxation		58,059	96,849	108,540
Income tax	7(a)	<u>(9,031)</u>	<u>(16,144)</u>	<u>(21,531)</u>
Profit for the year		<u>49,028</u>	<u>80,705</u>	<u>87,009</u>
Attributable to:				
Equity shareholders of the Company		33,821	79,441	86,066
Non-controlling interests		<u>15,207</u>	<u>1,264</u>	<u>943</u>
Profit for the year		<u>49,028</u>	<u>80,705</u>	<u>87,009</u>
Earnings per share (<i>RMB</i>)				
Basic	11	<u>0.056</u>	<u>0.132</u>	<u>0.143</u>

2. Combined statements of comprehensive income

	Years ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	49,028	80,705	87,009
Other comprehensive income for the year			
Exchange differences on translation of financial statements of entities outside mainland China, net of nil tax	<u>185</u>	<u>5,957</u>	<u>8,756</u>
Total comprehensive income for the year	<u>49,213</u>	<u>86,662</u>	<u>95,765</u>
Attributable to:			
Equity shareholders of the Company	34,006	85,398	94,822
Non-controlling interests	<u>15,207</u>	<u>1,264</u>	<u>943</u>
Total comprehensive income for the year	<u>49,213</u>	<u>86,662</u>	<u>95,765</u>

3. Combined balance sheets

	Section C <i>Note</i>	At 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Non-current assets				
Property, plant and equipment	12	81,321	134,438	197,201
Lease prepayments	13	26,674	35,309	56,050
Intangible assets	14	54,206	47,789	44,383
Goodwill	15	46,832	46,832	46,832
Interests in jointly controlled entities	16	—	27,111	4,659
Non-current prepayments	17	8,238	16,114	33,038
Deferred tax assets	25(b)	—	1,654	5,012
		<u>217,271</u>	<u>309,247</u>	<u>387,175</u>
Current assets				
Inventories	18	78,600	119,648	127,991
Trade and other receivables	19	211,514	331,083	390,745
Amounts due from related parties	31(c)	600	31,035	3,607
Deposits with banks	20	—	—	50,961
Cash	21(a)	39,148	4,969	28,063
		<u>329,862</u>	<u>486,735</u>	<u>601,367</u>
Current liabilities				
Trade and other payables	22	127,407	216,438	198,291
Amounts due to related parties	31(c)	217,128	218,970	24,903
Interest-bearing borrowings	23	21,057	73,852	154,618
Income tax payables	25(a)	4,479	8,729	11,361
Provision	26	1,658	4,971	3,799
		<u>371,729</u>	<u>522,960</u>	<u>392,972</u>
Net current (liabilities)/assets		<u>(41,867)</u>	<u>(36,225)</u>	<u>208,395</u>
Total assets less current liabilities		<u>175,404</u>	<u>273,022</u>	<u>595,570</u>

	Section C <i>Note</i>	At 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Non-current liabilities				
Deferred income	27	—	5,020	21,695
Deferred tax liabilities	25(b)	<u>19,525</u>	<u>21,322</u>	<u>25,918</u>
		<u>19,525</u>	<u>26,342</u>	<u>47,613</u>
Net assets		<u>155,879</u>	<u>246,680</u>	<u>547,957</u>
Capital and reserves				
Share capital	28(a)	—	7	7
Reserves		<u>62,187</u>	<u>241,932</u>	<u>520,049</u>
Total equity attributable to equity shareholders of the Company		62,187	241,939	520,056
Non-controlling interests		<u>93,692</u>	<u>4,741</u>	<u>27,901</u>
Total equity		<u>155,879</u>	<u>246,680</u>	<u>547,957</u>

4. Combined statements of changes in equity

(Expressed in RMB'000)

	Attributable to equity shareholders of the Company						Total	Non-controlling interests	Total equity
	PRC								
	Share capital (Note 28(a))	statutory reserves (Note 28(b))	Capital reserve (Note 28(c))	Other reserve (Note 28(d))	Exchange reserve (Note 28(e))	Retained earnings			
At 1 January 2009	—	7,772	27,420	—	2,206	(13,614)	23,784	75,400	99,184
Changes in equity for 2009:									
Capital injections	—	—	—	—	—	—	—	1,200	1,200
Equity settled share-based transactions (note 6(b)(ii))	—	—	4,397	—	—	—	4,397	1,885	6,282
Total comprehensive income for the year	—	—	—	—	185	33,821	34,006	15,207	49,213
Appropriation to reserves	—	6,677	—	—	—	(6,677)	—	—	—
At 31 December 2009	<u>—</u>	<u>14,449</u>	<u>31,817</u>	<u>—</u>	<u>2,391</u>	<u>13,530</u>	<u>62,187</u>	<u>93,692</u>	<u>155,879</u>
At 1 January 2010	—	14,449	31,817	—	2,391	13,530	62,187	93,692	155,879
Changes in equity for 2010:									
Capital injections	6	—	75,094	—	—	—	75,100	2,800	77,900
Equity settled share-based transactions (note 6(b)(ii))	—	—	1,334	—	—	—	1,334	—	1,334
Exercise of options (note 24(a))	1	—	—	—	—	—	1	—	1
Acquisition of non-controlling interests (note 33(a))	—	—	—	17,919	—	—	17,919	(93,015)	(75,096)
Total comprehensive income for the year	—	—	—	—	5,957	79,441	85,398	1,264	86,662
Appropriation to reserves	—	9,445	—	—	—	(9,445)	—	—	—
At 31 December 2010	<u>7</u>	<u>23,894</u>	<u>108,245</u>	<u>17,919</u>	<u>8,348</u>	<u>83,526</u>	<u>241,939</u>	<u>4,741</u>	<u>246,680</u>
At 1 January 2011	7	23,894	108,245	17,919	8,348	83,526	241,939	4,741	246,680
Changes in equity for 2011:									
Deemed acquisition of a subsidiary (note 33(b))	—	—	—	—	—	—	—	22,217	22,217
Capital injection	—	—	183,295	—	—	—	183,295	—	183,295
Total comprehensive income for the year	—	—	—	—	8,756	86,066	94,822	943	95,765
At 31 December 2011	<u>7</u>	<u>23,894</u>	<u>291,540</u>	<u>17,919</u>	<u>17,104</u>	<u>169,592</u>	<u>520,056</u>	<u>27,901</u>	<u>547,957</u>

5. Combined cash flow statements

	Section C <i>Note</i>	Years ended 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Operating activities				
Cash generated from operating activities	21(b)	83,123	37,397	49,758
Finance costs paid		(1,529)	(1,930)	(7,554)
Income tax paid	25(a)	<u>(8,245)</u>	<u>(11,751)</u>	<u>(19,308)</u>
Net cash generated from operating activities		<u>73,349</u>	<u>23,716</u>	<u>22,896</u>
Investing activities				
Acquisition of property, plant and equipment and lease prepayments		(28,305)	(64,068)	(95,548)
Payment for the investment in jointly controlled entities		—	(29,050)	—
Additions through deemed acquisition of a subsidiary	33(b)	—	—	33,465
Proceeds from disposal of property, plant and equipment		—	215	—
Increase in unrestricted bank deposits	20	—	—	(30,463)
Interest received		<u>350</u>	<u>203</u>	<u>1,608</u>
Net cash used in investing activities		<u>(27,955)</u>	<u>(92,700)</u>	<u>(90,938)</u>
Financing activities				
Proceeds from bank loans		8,000	40,000	149,159
Repayment of bank loans		(25,000)	(8,000)	(58,041)
Capital contributions from non-controlling equity holder		1,200	2,800	—
Capital contribution from equity holders		—	75,101	—
Acquisition of non-controlling interests		<u>—</u>	<u>(75,096)</u>	<u>—</u>

	Section C <i>Note</i>	Years ended 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Net cash (used in)/generated from financing activities		<u>(15,800)</u>	<u>34,805</u>	<u>91,118</u>
Net increase/(decrease) in cash		29,594	(34,179)	23,076
Cash at the beginning of the year	21(a)	9,554	39,148	4,969
Effect of foreign exchange rate changes		<u>—</u>	<u>—</u>	<u>18</u>
Cash at the end of the year	21(a)	<u>39,148</u>	<u>4,969</u>	<u>28,063</u>

C. NOTES TO COMBINED FINANCIAL INFORMATION**1. SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes International Accounting Standards (“IAS”) and related interpretations, promulgated by the International Accounting Standards Board (the “IASB”). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2011. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2011 are set out in note 35.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on SEHK.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries and the Group’s interest in jointly controlled entities and has been prepared based on the consolidated financial statements of Xiezhong BVI and its subsidiaries, as further explained in Section A.

(c) Basis of measurement

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

Items included in the Financial Information of each of the Group’s entities are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (“functional currency”). The Financial Information is presented in Renminbi (“RMB”), rounded to the nearest thousand except per share data.

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined income statements and the combined statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

(f) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the combined financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(g) and (k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the combined income statement, whereas the Group's share of the post-acquisition, post tax items of the investees' other comprehensive income is recognised in the combined statement of comprehensive income.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss.

(g) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings	15–20 years
— Machinery and equipment	3–10 years
— Furniture, fixtures and office equipment	5 years
— Motor vehicles	5 years
— Leasehold improvement	Over the term of lease

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(k)(ii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful life are amortised from the date they are available for use and their estimated useful lives are as follows:

Core technology	10 years
Customer relationships	5–10 years
Software and patent	5–10 years

The estimated useful life of the Group's core technology to manufacture automotive HVAC systems is determined after taking into account the product life cycles for automotive products and anticipated technological and other changes.

Both the period and method of amortisation are reviewed annually.

(j) Leased assets

(i) Lease prepayments

Lease prepayments represent cost of land use right paid to the PRC governmental authorities.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see note 1(k)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the periods of the rights which are 50 years.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(k) Impairment of assets*(i) Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries and jointly controlled entities (including those recognised using the equity method (see note 1(f))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).
- For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash

Cash comprises cash at bank and on hand and demand deposits with banks and other financial institutions.

(q) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Defined contribution retirement plan*

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) *Share-based payments*

The fair value of share options granted to employees is recognised as staff costs with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(s)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(s)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(u) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(ii) Foreign operations

The balance sheet items of foreign operations are translated to RMB at the exchange rates at the end of the reporting period. The results of foreign operations are translated to RMB at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item is recognised in the statement of comprehensive income.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the Financial Information are described as follows:

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(c) Impairment of trade and other receivables

Management determines the impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade and other receivables at the end of reporting period.

(d) Warranty provision

As explained in note 26, the Group makes provision under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(e) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3. SEGMENT REPORTING

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the production and sale of automotive air-conditioners.

(a) Information about geographical area

All of the Group's revenue is derived from the sale of automotive HVAC systems and a range of automotive HVAC components in mainland China and the principal non-current assets employed by the Group are located in mainland China. Accordingly, no analysis by geographical segments has been provided for the Relevant Period.

(b) Information about major customers

The Group's customer base is diversified and included only 3–4 customers with whom transactions have exceeded 10% of the Group's annual revenue during the Relevant Period. Details of concentrations of credit risk arising from the Group's largest customer and the five largest customers are set out in note 29(a).

Revenues of a customer which amounted to 10 percent or more of the Group's revenue for the year is set out below:

	Years ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	154,846	111,380	180,910
Customer B	44,419	76,561	73,776
Customer C	*	60,626	63,603
Customer D	*	60,838	*
Customer E	47,422	*	*

* Less than 10 percent of the Group's revenue for the corresponding year.

4. TURNOVER

The principal activities of the Group are manufacturing and sale of automotive HVAC systems and a range of automotive HVAC components.

Turnover represents the sales value of goods supplied to customers.

5. OTHER REVENUE AND NET INCOME

	Years ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other revenue			
Government grants	1,807	3,987	2,677
Interest income	350	203	1,608
Others	<u>1,012</u>	<u>1,187</u>	<u>2,550</u>
	3,169	5,377	6,835
Other net income			
Gains on disposal of property, plant and equipment	<u>—</u>	<u>67</u>	<u>—</u>
	<u><u>3,169</u></u>	<u><u>5,444</u></u>	<u><u>6,835</u></u>

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Years ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Interest on bank loans	953	465	4,116
Interest on discounted bills	<u>576</u>	<u>1,465</u>	<u>3,438</u>
	<u>1,529</u>	<u>1,930</u>	<u>7,554</u>

(b) Staff costs

	Note	Years ended 31 December		
		2009	2010	2011
		RMB'000	RMB'000	RMB'000
Salaries, wages, and other benefits		25,970	39,751	49,103
Equity settled share-based payment expenses	(ii)	6,282	1,334	—
Contributions to defined contribution retirement plan	(i)	<u>1,520</u>	<u>1,620</u>	<u>1,643</u>
		<u>33,772</u>	<u>42,705</u>	<u>50,746</u>

Note:

- (i) Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement benefit schemes (the "scheme") organised by the PRC government authorities whereby the Group is required to make contributions to the scheme at the rate of 18% to 20% of the eligible employees' salaries.

The government is responsible for the entire pension obligation payable to the retired employees. The Group has no other material obligation for the payment of pension benefits associated with the scheme referred to above beyond the annual contributions described above.

- (ii) The Group recognised an expense of RMB6,282,000 and RMB1,334,000 for the year ended 31 December 2009 and 2010 respectively, in relation to share option granted to certain directors and employees of Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. ("Xiezhong Nanjing") pursuant to a share incentive plan (see note 24(b)).

(c) Other items

	<i>Note</i>	Years ended 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Amortisation				
— lease prepayments	13	618	618	1,213
— intangible assets	14	6,409	6,417	7,265
Depreciation of property, plant and equipment	12	10,530	12,631	18,578
Impairment losses on trade debtors	19(b)	414	2,310	164
Auditors' remuneration				
— audit services		672	1,398	1,109
— other services		173	263	717
Research and development costs ("R&D")		4,077	6,559	9,886
Increase in provision for product warranties	26	2,346	4,870	2,395
Cost of inventories	18(b), (i)	249,614	394,516	447,727

Note:

- (i) Cost of inventories includes RMB25,458,000, RMB33,341,000 and RMB45,902,000 relating to staff costs, depreciation and amortisation for the years ended 31 December 2009, 2010 and 2011 respectively, which amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7. INCOME TAX

(a) Income tax in the combined income statements represents:

	Years ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Current tax			
Under/(over)-provision in respect of prior year	67	(69)	(139)
Provision for current year	<u>8,987</u>	<u>16,070</u>	<u>17,318</u>
	9,054	16,001	17,179
Deferred tax			
Origination and reversal of temporary differences	<u>(23)</u>	<u>143</u>	<u>4,352</u>
	<u>9,031</u>	<u>16,144</u>	<u>21,531</u>

(b) Reconciliation between income tax and profit before taxation at applicable tax rate:

	Note	Years ended 31 December		
		2009	2010	2011
		RMB'000	RMB'000	RMB'000
Profit before taxation		<u>58,059</u>	<u>96,849</u>	<u>108,540</u>
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	(i)	14,516	24,214	28,450
Effect of tax concessions	(ii)	(8,987)	(14,170)	(10,855)
Under/(over)-provision in respect of prior year		67	(69)	(139)
Effect of non-deductible expenses		1,703	1,404	927
R&D bonus deduction	(iii)	—	(820)	(1,236)
Effect of unused tax losses not recognised		—	—	75
Effects of change in tax rate	(ii)	(775)	—	—
Tax rate differential on deferred tax balances		851	1,511	(903)
Effect of PRC dividend withholding tax	(iv)	<u>1,656</u>	<u>4,074</u>	<u>5,212</u>
Actual income tax		<u>9,031</u>	<u>16,144</u>	<u>21,531</u>

- (i) Under the Corporate Income Tax Law of the PRC (the “new CIT Law”) which was passed by the Fifth Plenary Session of the Tenth National People’s Congress, effective from 1 January 2008, the PRC’s statutory income tax rate is 25%. The Group’s PRC subsidiaries are subject to income tax at the statutory tax rate unless otherwise specified.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not derive any income which was subject to Hong Kong Profit Tax during the Relevant Period.

- (ii) Xiezhong Nanjing was entitled to a tax holiday of two-year full exemption from income tax followed by three-year 50% reduction of the applicable income tax rate commencing from the first profit-making year from PRC income tax perspective (“2+3 tax holiday”) based on the then effective tax regulations prior to 1 January 2008. Xiezhong Nanjing started its tax holiday in 2006.

The 2+3 tax holiday is grandfathered under the new CIT Law and its relevant regulations. Further, Xiezhong Nanjing is recognised as a High and New Technology Enterprise under the new CIT Law and is subject to income tax at a reduced rate of 15% for a period of 3 years from 2009 to 2011. According to the grandfathering regulations, Xiezhong Nanjing cannot enjoy multiple preferential policies during the grandfathering period. As such, Xiezhong Nanjing has chosen to complete the 2+3 tax holiday until its expiry in 2010. Accordingly, Xiezhong Nanjing is subject to income tax at 12.5% for 2009 and 2010, at 15% for 2011, and at 25% from 2012 onwards.

- (iii) Under the new CIT Law and its relevant regulations, qualified R&D expenses are subject to income tax deductions at 150% on the amount actually incurred.
- (iv) Under the new CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the tax arrangement between the mainland China and Hong Kong Special Administration Region, a qualified Hong Kong tax resident which is the “beneficial owner” and holds 25% or more of the equity interest of a PRC resident enterprise is entitled to a reduced dividend withholding tax rate of 5%. The Group has recognised deferred tax liabilities on PRC dividend withholding tax at 5%.

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2009						Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (note 24(b)) RMB'000	
<i>Executive Directors</i>							
Mr. Chen Cunyou	—	76	30	3	109	2,148	2,257
Mr. Ge Hongbing	—	75	32	3	110	1,256	1,366
<i>Non-executive Directors</i>							
Mr. Fang Kenneth Hung	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
Mr. Zhang Yichen	—	—	—	—	—	—	—
<i>Independent non-executive directors</i>							
Mr. Zhang Shulin	—	—	—	—	—	—	—
Mr. Lau Ying Kit	—	—	—	—	—	—	—
Mr. Cheung Man Sang	—	—	—	—	—	—	—
	—	151	62	6	219	3,404	3,623

	Year ended 31 December 2010						Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (note 24(b)) RMB'000	
<i>Executive Directors</i>							
Mr. Chen Cunyou	—	103	300	3	406	457	863
Mr. Ge Hongbing	—	96	380	3	479	267	746
<i>Non-executive Directors</i>							
Mr. Fang Kenneth Hung	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
Mr. Zhang Yichen	—	—	—	—	—	—	—
<i>Independent non-executive Directors</i>							
Mr. Zhang Shulin	—	—	—	—	—	—	—
Mr. Lau Ying Kit	—	—	—	—	—	—	—
Mr. Cheung Man Sang	—	—	—	—	—	—	—
	—	199	680	6	885	724	1,609

Year ended 31 December 2011

	Directors' fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Share-based payments <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Executive Directors</i>							
Mr. Chen Cunyou	—	126	320	12	458	—	458
Mr. Ge Hongbing	—	119	400	12	531	—	531
<i>Non-executive Directors</i>							
Mr. Fang Kenneth Hung	—	—	—	—	—	—	—
Mr. Liu Xiaoping	—	—	—	—	—	—	—
Mr. Wang Zhenyu	—	—	—	—	—	—	—
Mr. Zhang Yichen	—	—	—	—	—	—	—
<i>Independent non-executive Directors</i>							
Mr. Zhang Shulin	—	—	—	—	—	—	—
Mr. Lau Ying Kit	—	—	—	—	—	—	—
Mr. Cheung Man Sang	—	—	—	—	—	—	—
	—	245	720	24	989	—	989

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two are directors of the Company for the Relevant Period whose remunerations are disclosed in note 8 above. The aggregate of the emoluments in respect of the other three individuals are as follows:

	Note	Years ended 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Salaries and other emoluments		186	260	275
Discretionary bonuses		66	690	750
Retirement scheme contributions		8	10	36
Equity settled share-based payment expenses	24(b)	1,194	214	—
		<u>1,454</u>	<u>1,174</u>	<u>1,061</u>

The emoluments of these three individuals with the highest emoluments are within the band Nil to HKD1 million for the Relevant Period.

10. DIVIDENDS

No dividend was declared or paid by the Company during the Relevant Period to its equity shareholders.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company during the Relevant Period and on the 600,000,000 shares of the Company in issue or issuable, comprising 100,000 ordinary shares in issue as at the date of the Prospectus, 599,900,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in the section headed "History and Development" in the Prospectus, as if the shares were outstanding throughout the Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period, and therefore, diluted earnings per share are not presented.

12. PROPERTY, PLANT AND EQUIPMENT — THE GROUP

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Construction in progress "CIP" RMB'000	Total RMB'000
<i>Cost:</i>							
At 1 January 2009	13,212	69,464	2,121	4,513	—	14,515	103,825
Additions	—	6,971	1,646	199	—	13,076	21,892
Transfer from CIP	17,984	6,188	—	—	—	(24,172)	—
At 31 December 2009	31,196	82,623	3,767	4,712	—	3,419	125,717
At 1 January 2010	31,196	82,623	3,767	4,712	—	3,419	125,717
Additions	—	44,095	2,209	1,931	222	17,439	65,896
Transfer from CIP	992	5,935	—	—	—	(6,927)	—
Disposals	—	—	—	(553)	—	—	(553)
At 31 December 2010	32,188	132,653	5,976	6,090	222	13,931	191,060
At 1 January 2011	32,188	132,653	5,976	6,090	222	13,931	191,060
Additions through deemed acquisition of a subsidiary (note 33(b))	—	686	85	208	—	—	979
Additions	—	35,165	3,375	1,277	—	40,545	80,362
Transfer from CIP	11,669	4,648	—	—	—	(16,317)	—
At 31 December 2011	43,857	173,152	9,436	7,575	222	38,159	272,401
<i>Accumulated depreciation:</i>							
At 1 January 2009	(2,010)	(27,104)	(1,567)	(3,185)	—	—	(33,866)
Charge for the year	(632)	(9,129)	(257)	(512)	—	—	(10,530)
At 31 December 2009	(2,642)	(36,233)	(1,824)	(3,697)	—	—	(44,396)
At 1 January 2010	(2,642)	(36,233)	(1,824)	(3,697)	—	—	(44,396)
Charge for the year	(1,468)	(10,356)	(271)	(492)	(44)	—	(12,631)
Written back on disposals	—	—	—	405	—	—	405
At 31 December 2010	(4,110)	(46,589)	(2,095)	(3,784)	(44)	—	(56,622)
At 1 January 2011	(4,110)	(46,589)	(2,095)	(3,784)	(44)	—	(56,622)
Charge for the year	(1,582)	(15,623)	(601)	(594)	(178)	—	(18,578)
At 31 December 2011	(5,692)	(62,212)	(2,696)	(4,378)	(222)	—	(75,200)

	Plant and buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improvement <i>RMB'000</i>	Construction in progress "CIP" <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Net book value:</i>							
At 31 December 2011	<u>38,165</u>	<u>110,940</u>	<u>6,740</u>	<u>3,197</u>	<u>—</u>	<u>38,159</u>	<u>197,201</u>
At 31 December 2010	<u>28,078</u>	<u>86,064</u>	<u>3,881</u>	<u>2,306</u>	<u>178</u>	<u>13,931</u>	<u>134,438</u>
At 31 December 2009	<u>28,554</u>	<u>46,390</u>	<u>1,943</u>	<u>1,015</u>	<u>—</u>	<u>3,419</u>	<u>81,321</u>

Property, plant and equipment with carrying amounts of RMB10,054,000, RMB9,457,000 and RMB8,861,000 were pledged as collateral for the Group's bank loans as at 31 December 2009, 2010 and 2011, respectively (see note 23).

13. LEASE PREPAYMENTS

	The Group <i>RMB'000</i>
Cost:	
At 1 January 2009	27,884
Additions	<u>—</u>
At 31 December 2009	..... 27,884
At 1 January 2010	27,884
Additions	<u>9,253</u>
At 31 December 2010	..... 37,137
At 1 January 2011	37,137
Additions	30
Additions through deemed acquisition of a subsidiary (<i>note 33(b)</i>)	<u>21,924</u>
At 31 December 2011	..... 59,091
Accumulated amortisation:	
At 1 January 2009	(592)
Charge for the year	<u>(618)</u>
At 31 December 2009	..... (1,210)
At 1 January 2010	(1,210)
Charge for the year	<u>(618)</u>
At 31 December 2010	..... (1,828)
At 1 January 2011	(1,828)
Charge for the year	<u>(1,213)</u>
At 31 December 2011	..... (3,041)
Carrying amount:	
At 31 December 2011	<u>56,050</u>
At 31 December 2010	<u>35,309</u>
At 31 December 2009	<u>26,674</u>

Lease prepayments represented cost of land use rights in respect of land located in the PRC, on which the Group's plant and building were built. The Group was granted land use rights for a period of 50 years.

Land use right with a carrying amount of RMB26,674,000, RMB26,056,000 and RMB25,438,000 was pledged as collateral for the Group's bank loans as at 31 December 2009, 2010 and 2011 (see note 23).

14. INTANGIBLE ASSETS

	The Group			
	Customer relationships <i>RMB'000</i>	Core technology <i>RMB'000</i>	Software & patent <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At 1 January 2009	49,597	13,835	303	63,735
Additions	<u>—</u>	<u>—</u>	<u>125</u>	<u>125</u>
At 31 December 2009	<u>49,597</u>	<u>13,835</u>	<u>428</u>	<u>63,860</u>
At 1 January 2010	49,597	13,835	428	63,860
Additions	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2010	<u>49,597</u>	<u>13,835</u>	<u>428</u>	<u>63,860</u>
At 1 January 2011	49,597	13,835	428	63,860
Additions through deemed acquisition of a subsidiary (note 33(b))	3,759	—	—	3,759
Additions	<u>—</u>	<u>—</u>	<u>100</u>	<u>100</u>
At 31 December 2011	<u>53,356</u>	<u>13,835</u>	<u>528</u>	<u>67,719</u>
Accumulated amortisation:				
At 1 January 2009	(2,480)	(692)	(73)	(3,245)
Charge for the year	<u>(4,960)</u>	<u>(1,383)</u>	<u>(66)</u>	<u>(6,409)</u>
At 31 December 2009	<u>(7,440)</u>	<u>(2,075)</u>	<u>(139)</u>	<u>(9,654)</u>
At 1 January 2010	(7,440)	(2,075)	(139)	(9,654)
Charge for the year	<u>(4,960)</u>	<u>(1,383)</u>	<u>(74)</u>	<u>(6,417)</u>
At 31 December 2010	<u>(12,400)</u>	<u>(3,458)</u>	<u>(213)</u>	<u>(16,071)</u>
At 1 January 2011	(12,400)	(3,458)	(213)	(16,071)
Charge for the year	<u>(5,803)</u>	<u>(1,384)</u>	<u>(78)</u>	<u>(7,265)</u>
At 31 December 2011	<u>(18,203)</u>	<u>(4,842)</u>	<u>(291)</u>	<u>(23,336)</u>
Net book value:				
At 31 December 2011	<u>35,153</u>	<u>8,993</u>	<u>237</u>	<u>44,383</u>
At 31 December 2010	<u>37,197</u>	<u>10,377</u>	<u>215</u>	<u>47,789</u>
At 31 December 2009	<u>42,157</u>	<u>11,760</u>	<u>289</u>	<u>54,206</u>

The amortisation charge for the year is included in “distribution costs” and “cost of sales” in the combined income statements.

15. GOODWILL

	The Group <i>RMB'000</i>
<i>Cost:</i>	
At 31 December 2009, 2010 and 2011	46,832
<i>Accumulated impairment losses:</i>	
At 31 December 2009, 2010 and 2011	—
<i>Carrying amount:</i>	
At 31 December 2011	46,832
At 31 December 2010	46,832
At 31 December 2009	46,832

Pursuant to the equity share transfer agreements dated 30 May 2008 entered into among Xiezhong Auto-Airconditioner (Hong Kong) Limited (“Xiezhong Hong Kong”), Mr. Chen Cunyou and two other then equity holders of Xiezhong Nanjing, Xiezhong Hong Kong acquired 70% equity interests in Xiezhong Nanjing on 12 June 2008 and Mr. Chen Cunyou owned the remaining 30% equity interests in Xiezhong Nanjing after the acquisition. Goodwill was recognised as a result of the above acquisition.

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group’s cash-generating units (“CGU”) identified according to country of operation and reportable segment as follows:

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Xiezhong Nanjing	46,832	46,832	46,832

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The discount rates applied to the cash flow projections are 17.5%, 17.5%, and 18% as at 31 December 2009, 2010 and 2011. The discount rates used are pre-tax and are determined based on the weighted average cost of capital for comparable companies, adjusted for specific risks relating to the relevant segment.

16. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Share of net assets	—	27,111	4,659

The following contains the particulars for the jointly controlled entities during the Relevant Period, which are unlisted corporate entities:

Name of joint venture	Notes	Form of business structure	Place of establishment and operation	Registered capital	Group's effective interest	Principal activities
Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd. ("Xiezhong Beijing") (from 2 March 2010 to 25 January 2011)	(i)	Acquired	PRC	RMB43,000,000	50%	Sale of automotive air-conditioners
Hubei Leidite Xiezhong Automobile Air-conditioning System Co., Ltd. ("Xiezhong Hubei")	(ii)	Established	PRC	RMB10,000,000	51%	Sale of automotive air-conditioners

Summary financial information on jointly controlled entities:

	The Group's effective interest		
	At 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Non-current assets	—	14,999	115
Current assets	—	38,208	5,057
Non-current liabilities	—	(7,369)	—
Current liabilities	—	(18,727)	(513)
Net assets	—	27,111	4,659
	Years ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Income	—	32,600	7,156
Expenses	—	(34,539)	(7,391)
Loss for the year	—	(1,939)	(235)

- (i) The Group acquired 50% equity interests in Xiezhong Beijing from third parties on 2 March 2010. Prior to 26 January 2011, the Group exercised joint control over the financial and operating policies of Xiezhong Beijing with the joint venture partner in accordance with Xiezhong Beijing's articles of association. As a result, the Group's equity interests in Xiezhong Beijing were accounted for in the Financial Information under the equity method up to 25 January 2011.

On 26 January 2011, the Group obtained an effective control over the majority of the board of directors of Xiezhong Beijing and the equity holders of Xiezhong Beijing authorised its board of directors their power to govern the financial and operating policies of Xiezhong Beijing. As a result, Xiezhong Beijing became a subsidiary of the Group on 26 January 2011.

- (ii) Pursuant to the articles of association of Xiezhong Hubei, all decisions (including participation in the financial and operating policy decisions) need to be unanimously passed by either all the equity holders or the equity holders representing two-thirds of equity interests in Xiezhong Hubei. The Group holds 51% equity interests in Xiezhong Hubei, and therefore, is unable to control Xiezhong Hubei.

17. NON-CURRENT PREPAYMENTS

As at 31 December 2009, 2010 and 2011, non-current prepayments mainly represented the prepayments for procurement of machinery and equipment.

18. INVENTORIES

- (a) Inventories in the combined balance sheets comprised:

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	19,920	36,785	34,821
Work in progress	7,204	14,351	20,305
Finished goods	<u>51,476</u>	<u>68,512</u>	<u>72,865</u>
	<u>78,600</u>	<u>119,648</u>	<u>127,991</u>

- (b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group		
	Years ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount of inventories sold	249,533	393,148	446,425
Write down of inventories	<u>81</u>	<u>1,368</u>	<u>1,302</u>
	<u>249,614</u>	<u>394,516</u>	<u>447,727</u>

19. TRADE AND OTHER RECEIVABLES

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade debtors	139,204	185,676	252,450
Less: allowance for doubtful debts	<u>(1,172)</u>	<u>(3,482)</u>	<u>(3,646)</u>
	138,032	182,194	248,804
Bills receivable	<u>72,644</u>	<u>124,364</u>	<u>132,140</u>
	210,676	306,558	380,944
Other receivables, deposits and prepayments	<u>838</u>	<u>24,525</u>	<u>9,801</u>
	<u>211,514</u>	<u>331,083</u>	<u>390,745</u>

All of the trade and other receivables are expected to be recovered or recognised as expense within one year, or for certain expenses incurred for the proposed listing exercise, to be offset against the share premium account upon listing.

Bills receivable with carrying amounts of RMB4,979,000, RMB15,100,000 and RMB2,759,000 were pledged as collateral for the Group's bills payable as at 31 December 2009, 2010 and 2011, respectively (see note 22(b)).

Bills receivable with carrying amounts of RMB37,133,000 were pledged as collateral for the Group's bank loans as at 31 December 2011 (see note 23).

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as at 31 December 2009, 2010 and 2011.

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current	183,530	255,125	323,413
Less than 1 month past due	6,490	24,369	15,341
1 to 3 months past due	6,963	9,172	22,424
3 to 12 months past due	12,868	15,757	19,697
Over 12 months past due	<u>825</u>	<u>2,135</u>	<u>69</u>
Amounts past due	<u>27,146</u>	<u>51,433</u>	<u>57,531</u>
Total	<u>210,676</u>	<u>306,558</u>	<u>380,944</u>

Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 29(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the Relevant Period, including both specific and collective loss components, is as follows:

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	758	1,172	3,482
Impairment loss recognised	<u>414</u>	<u>2,310</u>	<u>164</u>
At end of the year	<u><u>1,172</u></u>	<u><u>3,482</u></u>	<u><u>3,646</u></u>

At 31 December 2009, 2010 and 2011, the Group's trade debtors of RMB1,484,000, RMB3,482,000 and RMB4,100,000 were individually determined to be impaired. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB1,172,000, RMB3,482,000 and RMB3,646,000 were recognised at 31 December 2009, 2010 and 2011. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired:

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	<u>183,530</u>	<u>255,125</u>	<u>323,413</u>
Less than 1 month past due	6,490	24,369	15,341
1 to 3 months past due	6,963	9,172	21,970
3 to 12 months past due	12,868	15,757	19,697
Over 12 months past due	<u>513</u>	<u>2,135</u>	<u>69</u>
	<u><u>26,834</u></u>	<u><u>51,433</u></u>	<u><u>57,077</u></u>
Total	<u><u>210,364</u></u>	<u><u>306,558</u></u>	<u><u>380,490</u></u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20. DEPOSITS WITH BANKS

	<i>Note</i>	The Group At 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Unrestricted deposits		—	—	30,463
Restricted deposits		—	—	7,498
Pledged deposits	(i)	—	—	13,000
		<u>—</u>	<u>—</u>	<u>50,961</u>

(i) The Group's certain bank deposits were pledged as securities in respect of:

	<i>Note</i>	The Group At 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Bank loans	23(i)	—	—	6,200
Bills payable	22(b)	—	—	6,800
		<u>—</u>	<u>—</u>	<u>13,000</u>

The pledged deposits are to be released upon settlement of the relevant bank loans and bank acceptance bills.

21. CASH

(a) Cash comprise:

	The Group At 31 December		
	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Cash on hand	1,152	737	798
Cash at bank	<u>37,996</u>	<u>4,232</u>	<u>27,265</u>
	<u>39,148</u>	<u>4,969</u>	<u>28,063</u>

Cash include cash at bank and on hand of RMB39,144,000, RMB4,961,000 and RMB27,676,000 held in mainland China as at 31 December 2009, 2010 and 2011, respectively. The conversion of RMB denominated balance into foreign currencies and the remittance of bank balance and cash out of the mainland China is subject to the relevant rules and regulations of foreign exchange restriction imposed by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations:

	<i>Note</i>	The Group		
		Years ended 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation		58,059	96,849	108,540
Adjustments for:				
Impairment losses on trade debtors	19(b)	414	2,310	164
Impairment loss on inventories	18(b)	81	1,368	1,302
Depreciation of property, plant and equipment	12	10,530	12,631	18,578
Amortisation of lease prepayments	13	618	618	1,213
Amortisation of intangible assets	14	6,409	6,417	7,265
Interest income	5	(350)	(203)	(1,608)
Share of losses of jointly controlled entities	16	—	1,939	235
Gains on disposal of property, plant and equipment	5	—	(67)	—
Finance costs	6(a)	1,529	1,930	7,554
Equity settled share-based payment expenses	6(b)(ii)	6,282	1,334	—
Changes in working capital:				
Increase in inventories		(25,794)	(42,416)	(9,645)
Increase in trade and other receivables		(39,883)	(121,879)	(23,306)
(Increase)/decrease in amounts due from related parties		(600)	(30,435)	27,428
Increase in pledged/restricted deposits with banks		—	—	(20,498)
Increase/(decrease) in trade and other payables		44,511	75,095	(53,906)
Increase/(decrease) in amounts due to related parties		12,029	7,798	(2,034)
Increase/(decrease) in discounted bank acceptance bills		9,228	20,795	(10,352)
Increase/(decrease) in provision		60	3,313	(1,172)
Cash generated from operating activities		<u>83,123</u>	<u>37,397</u>	<u>49,758</u>

22. TRADE AND OTHER PAYABLES

	<i>Note</i>	The Group At 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Trade payables		110,952	169,837	155,201
Bills payable	(b)	<u>4,979</u>	<u>15,100</u>	<u>9,559</u>
		115,931	184,937	164,760
Other payables		5,772	26,107	24,349
Other tax payable		<u>5,704</u>	<u>5,394</u>	<u>9,182</u>
		<u>127,407</u>	<u>216,438</u>	<u>198,291</u>

(a) An ageing analysis of trade and bills payable of the Group is as follows:

	The Group At 31 December		
	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Within 3 months	102,617	166,152	148,624
Over 3 months but less than 6 months	10,298	17,012	13,363
Over 6 months but less than 12 months	2,487	1,223	1,944
Over 12 months	<u>529</u>	<u>550</u>	<u>829</u>
	<u>115,931</u>	<u>184,937</u>	<u>164,760</u>

(b) As at 31 December 2009, 2010 and 2011, bills payable of RMB4,979,000, RMB15,100,000 and RMB9,559,000 were secured by the following assets:

	<i>Note</i>	The Group At 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Pledged deposits	20	—	—	6,800
Bills receivable	19	<u>4,979</u>	<u>15,100</u>	<u>2,759</u>
		<u>4,979</u>	<u>15,100</u>	<u>9,559</u>

23. INTEREST-BEARING BORROWINGS

		The Group		
		At 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans				
— Secured	(i)	8,000	40,000	81,118
— Unsecured		—	—	50,000
Bank advances under discounted bills	(ii)	<u>13,057</u>	<u>33,852</u>	<u>23,500</u>
		<u>21,057</u>	<u>73,852</u>	<u>154,618</u>

- (i) As at 31 December 2009, 2010 and 2011, secured bank loans of RMB8,000,000, RMB40,000,000 and RMB81,118,000 were secured by the following assets:

		The Group		
		At 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment		10,054	9,457	8,861
Lease prepayments		26,674	26,056	25,438
Pledged deposits		—	—	6,200
Bills receivable		<u>—</u>	<u>—</u>	<u>37,133</u>
		<u>36,728</u>	<u>35,513</u>	<u>77,632</u>

- (ii) The Group's discounted bank acceptance bills have been accounted for as collateralised bank advance, and the corresponding discounted bills receivable are included in "bills receivable" (see note 19).

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Equity shares of Xiezhong BVI issued to Sunrise International

Pursuant to the supplemental agreements dated 15 September 2008 to the equity share transfer agreements dated 30 May 2008 entered into among Xiezhong Hong Kong, Mr. Chen Cunyou and two other then equity holders of Xiezhong Nanjing, an option was granted to Mr. Chen Cunyou on 15 September 2008 for Mr. Chen Cunyou, or an entity authorised by him, to subscribe for 100 shares of Xiezhong BVI by cash of USD100 on the condition that the net profit of Xiezhong Nanjing for the year ended 31 December 2008 achieved a targeted amount (the "Option").

Given that the net profit of Xiezhong Nanjing for the year ended 31 December 2008 achieved the targeted amount, Mr. Chen Cunyou authorised Sunrise International to exercise the Option. The fair value of the Option, which amounted to RMB22,600,000 at 15 September 2008 (grant date), was recognised as an expense during the year ended 31 December 2008 with a corresponding increase in the capital reserve (see note 28(c)). On 1 February 2010, Sunrise International subscribed for 100 shares of Xiezhong BVI by cash of USD100.

(b) Share incentive plan

Pursuant to a resolution of the board of directors of Xiezhong Nanjing passed on 29 October 2008, a share incentive plan was adopted by Xiezhong Nanjing. In accordance with the share incentive plan, the board of directors of Xiezhong Nanjing is authorised to invite its employees of Xiezhong Nanjing to take up options at nil consideration to acquire the shares of the Company from existing equity shareholders, i.e. CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto, Sunrise International, as incentives or rewards if certain conditions are met.

The total number of shares to be acquired upon the exercise of all options granted under the share incentive plan is 30,000,000.

Since the Group does not have an obligation to settle the transaction with these employees, this arrangement has been accounted for by the Group as an equity-settled award.

(i) The terms and conditions of the share options granted are as follows:

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors- on 29 October 2008	16,260,000	40%, 40% and 20% of share options granted to directors subject to Xiezhong Nanjing's net profit for the years ended 31 December 2008, 2009 and 2010 achieving targeted amounts, respectively	10 years
Options granted to employees- on 29 October 2008	13,740,000	40%, 40% and 20% of share options granted to employees subject to Xiezhong Nanjing's net profit for the years ended 31 December 2008, 2009 and 2010 achieving targeted amounts, respectively	10 years
Total	<u>30,000,000</u>		

(ii) As at 31 December 2009, 2010 and 2011, the number of options which were exercisable was 24,000,000, 30,000,000 and 30,000,000, respectively. No options were exercised during the Relevant Period.

(iii) Inputs for measurement of grant-date fair value

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of share options granted is measured based on the binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

• Fair value of share options at grant date	RMB14.5 million
• Fair value per share at grant date	RMB0.48
• Expected volatility	49.0%
• Option life	10 years
• Expected dividends	—
• Risk-free interest rate	5.14%

The expected volatility is based on the historical volatility of the stock return of certain comparative listed companies, adjusted for any expected changes to future volatility due to publicly available information. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimation. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a performance condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

- (c) The Group recorded total equity settled share-based payment expenses of RMB6,282,000 and RMB1,334,000 for the year ended 31 December 2009 and 2010, respectively (see note 6 (b)(ii)).

25. INCOME TAX IN THE COMBINED BALANCE SHEETS — THE GROUP**(a) Current tax in the combined balance sheets represents:**

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	3,670	4,479	8,729
Under/(over)-provision in respect of prior year	67	(69)	(139)
Provision for PRC income tax (<i>note 7(a)</i>)	8,987	16,070	17,318
Addition through deemed acquisition of a subsidiary (<i>note 33(b)</i>)	—	—	4,761
PRC income tax paid	<u>(8,245)</u>	<u>(11,751)</u>	<u>(19,308)</u>
At end of the year	<u>4,479</u>	<u>8,729</u>	<u>11,361</u>

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

	Property, Plant and equipment RMB'000	Inventories RMB'000	Lease prepayments RMB'000	Allowance for bad debt RMB'000	Accruals RMB'000	Intangible assets RMB'000	Provision for product warranties RMB'000	Deferred income RMB'000	Unrealised profit from intra-group transaction RMB'000	PRC dividend withholding tax RMB'000	Total RMB'000
Deferred tax arising from:											
At 1 January 2009	(1,725)	70	(4,696)	95	876	(13,479)	200	—	—	(889)	(19,548)
Charged/(credited) to profit or loss	304	10	98	52	(197)	1,427	(15)	—	—	(1,656)	23
At 31 December 2009	<u>(1,421)</u>	<u>80</u>	<u>(4,598)</u>	<u>147</u>	<u>679</u>	<u>(12,052)</u>	<u>185</u>	<u>—</u>	<u>—</u>	<u>(2,545)</u>	<u>(19,525)</u>
At 1 January 2010	(1,421)	80	(4,598)	147	679	(12,052)	185	—	—	(2,545)	(19,525)
Charged/(credited) to profit or loss	184	221	55	376	469	793	179	1,255	399	(4,074)	(143)
At 31 December 2010	<u>(1,237)</u>	<u>301</u>	<u>(4,543)</u>	<u>523</u>	<u>1,148</u>	<u>(11,259)</u>	<u>364</u>	<u>1,255</u>	<u>399</u>	<u>(6,619)</u>	<u>(19,668)</u>
At 1 January 2011	(1,237)	301	(4,543)	523	1,148	(11,259)	364	1,255	399	(6,619)	(19,668)
Addition through deemed acquisition of a subsidiary (note 33(b))	—	370	—	—	—	(940)	—	3,684	—	—	3,114
(Credited)/charged to profit or loss	(19)	152	65	389	(948)	1,162	25	(15)	49	(5,212)	(4,352)
At 31 December 2011	<u>(1,256)</u>	<u>823</u>	<u>(4,478)</u>	<u>912</u>	<u>200</u>	<u>(11,037)</u>	<u>389</u>	<u>4,924</u>	<u>448</u>	<u>(11,831)</u>	<u>(20,906)</u>

(ii) Reconciliation to combined balance sheets:

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net deferred tax assets recognised in the combined balance sheets	—	1,654	5,012
Net deferred tax liabilities recognised in the combined balance sheets	<u>(19,525)</u>	<u>(21,322)</u>	<u>(25,918)</u>
	<u><u>(19,525)</u></u>	<u><u>(19,668)</u></u>	<u><u>(20,906)</u></u>

26. PROVISION

Provision for product warranties

	The Group
	<i>RMB'000</i>
At 1 January 2009	1,598
Additional provision made	2,346
Provision utilised	<u>(2,286)</u>
At 31 December 2009	1,658
Additional provision made	4,870
Provision utilised	<u>(1,557)</u>
At 31 December 2010	4,971
Additional provision made	2,395
Provision utilised	<u>(3,567)</u>
At 31 December 2011	<u><u>3,799</u></u>

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising mainly within two years of the date of sale. Provision is therefore made based on the best estimate of the expected settlement under those agreements in respect of sales made within two years prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

27. DEFERRED INCOME**Government grants**

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	—	—	5,020
Additions	—	5,020	16,737
Released to the income statement	—	—	(62)
At end of the year	—	5,020	21,695

During the years ended 31 December 2010 and 2011, cash amounts of RMB5,020,000 and RMB16,737,000 were respectively received from the government for the construction of the Group's plants. The government grants are recognised as income over the periods necessarily to match them with the related costs of assets constructed which they are intended to compensate over the periods and in the proportion in which depreciation on those assets is charged.

28. CAPITAL, RESERVES AND DIVIDENDS**(a) Authorised and issued share capital of the Company**

The Company was incorporated on 30 September 2011 with an authorised share capital of HKD390,000 comprising 39,000,000 shares of HKD0.01 each. On 30 September 2011, one share was allotted and issued as nil paid to the initial subscriber. Such nil paid share was transferred to China United Air System Limited ("CUAS"), which is owned by CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto, on 23 November 2011. On the same date, 4 and 5 shares were allotted and issued to Sunrise International and CUAS, respectively, as nil paid.

Pursuant to a share swap agreement dated 16 January 2012 among CUAS, Sunrise International and the Company, CUAS and Sunrise International transferred all their respective interests in Xiezhong BVI to the Company in consideration of the Company (a) allotting and issuing 59,994 and 39,996 shares to CUAS and Sunrise International respectively credited as fully paid; (b) crediting the previously issued 6 nil paid shares held by CUAS as fully paid; and (c) crediting the previously issued 4 nil paid shares held by Sunrise International as fully paid on 20 January 2012. On the same date, CUAS made a distribution in specie by transferring 30,858, 6,000, 7,458, 15,684 shares of the Company (60,000 shares in total) to CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto, respectively.

Since the Reorganisation was not completed until 20 January 2012, the capital in the combined balance sheets as at 31 December 2009, 2010 and 2011 represented the amount of capital of Xiezhong BVI which was the then holding company of the companies now comprising the Group.

(b) PRC statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to equity holders.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of equity holders, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(c) Capital reserve

The capital reserve comprises the following:

- the recognition of the Option granted to Mr. Chen Cunyou to subscribe for 100 shares in Xiezhong BVI by cash of USD100 during the year ended 31 December 2008 amounting to RMB22,600,000 (see note 24(a));
- the portion of the grant date fair value of unexercised share options granted to employees and director of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(q)(iii) (see note 24(b));
- the contribution by Sunrise International when it subscribed for additional 300 shares in Xiezhong BVI by cash of USD11,000,000 (equivalent to RMB75,096,000) during the year ended 31 December 2010 amounting to RMB75,094,000; and
- the capitalisation of the Group's other payables due to CUAS of USD28,997,000 (equivalent to RMB183,295,000) as fully paid-up capital and capital reserve of Xiezhong BVI during the year ended 31 December 2011 amounting to RMB183,295,000.

(d) Other reserve

The other reserve represents the gain on acquisition of 30% equity interests in Xiezhong Nanjing from non-controlling interests (see note 33(a)).

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside mainland China which are dealt with in accordance with the according policies set out in note 1(u)(ii).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the debt-to-capital ratio. Net debt is calculated as interest-bearing borrowings and bills payable less cash and deposits with banks. Capital represents total equity attributable to equity shareholders of the Company.

During the Relevant Period, the Group's strategy was to maintain the debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders or raise new debt financing.

The net debt-to-capital ratio at 31 December 2009, 2010 and 2011 was as follows:

	<i>Note</i>	The Group At 31 December		
		2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Interest-bearing borrowings	23	21,057	73,852	154,618
Bills payable	22	<u>4,979</u>	<u>15,100</u>	<u>9,559</u>
Total debt		26,036	88,952	164,177
Less: Cash	21	(39,148)	(4,969)	(28,063)
Deposits with banks	20	<u>—</u>	<u>—</u>	<u>(50,961)</u>
Net debt		<u>(13,112)</u>	<u>83,983</u>	<u>85,153</u>
Capital		62,187	241,939	520,056
Debt-to-capital ratio		(21%)	35%	16%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

Financial assets of the Group include cash, deposits with banks and trade and other receivables. Financial liabilities of the Group include interest-bearing borrowings and trade and other payables.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The industry in which the customers operate also influences its credit risks. The amounts due from the Group's largest customer and the five largest customers are as follows:

	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Largest customer	36,516	1,238	63,033
Five largest customers	85,349	116,139	151,424

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance. The Group does not provide any guarantees, which would expose the Group to credit risk.

(ii) *Deposits with banks*

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, the Group does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the balance sheet date) and the earliest date the Group can be required to pay:

At 31 December 2009

	Carrying amount	Total contractual undiscounted cash flow	Within 6 months or on demand	More than 6 months but less than 12 months
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank loans	8,000	8,024	8,024	—
Bank advances under discounted bills	13,057	13,057	13,057	—
Trade and other payables	127,407	127,407	127,407	—
Amounts due to related parties	217,128	217,128	217,128	—
	<u>365,592</u>	<u>365,616</u>	<u>365,616</u>	<u>—</u>

At 31 December 2010

	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 6 months or on demand <i>RMB'000</i>	More than 6 months but less than 12 months <i>RMB'000</i>
Secured bank loans	40,000	41,292	862	40,430
Bank advances under discounted bills	33,852	33,852	33,852	—
Trade and other payables	216,438	216,438	216,438	—
Amounts due to related parties	—	—	—	—
	<u>218,970</u>	<u>218,970</u>	<u>218,970</u>	<u>—</u>
	<u>509,260</u>	<u>510,552</u>	<u>470,122</u>	<u>40,430</u>

At 31 December 2011

	Carrying amount <i>RMB'000</i>	Total contractual undiscounted cash flow <i>RMB'000</i>	Within 6 months or on demand <i>RMB'000</i>	More than 6 months but less than 12 months <i>RMB'000</i>
Secured bank loans	81,118	84,671	32,374	52,297
Unsecured bank loans	50,000	52,676	1,640	51,036
Bank advances under discounted bills	23,500	23,500	23,500	—
Trade and other payables	198,291	198,291	198,291	—
Amounts due to related parties	—	—	—	—
	<u>24,903</u>	<u>24,903</u>	<u>24,903</u>	<u>—</u>
	<u>377,812</u>	<u>384,041</u>	<u>280,708</u>	<u>103,333</u>

(c) Interest rate risk*(i) Interest rate profile*

Cash at bank, deposits with banks and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk.

Cash at bank is with variable interest rates ranging from 0.01%~0.36%, 0.01%~0.36% and 0.01%~0.50% per annum as at 31 December 2009, 2010 and 2011, respectively. Deposits with banks are with interest rates ranging from 0.01%~3.05% per annum as at 31 December 2011.

The Group's interest-bearing borrowings and interest rates as at 31 December 2009, 2010 and 2011 are set out as follows:

	2009		At 31 December 2010		2011	
	<i>Interest rate %</i>	<i>RMB'000</i>	<i>Interest rate %</i>	<i>RMB'000</i>	<i>Interest rate %</i>	<i>RMB'000</i>
Fixed rate borrowings						
Bank loans	—	—	4.78–5.00	40,000	4.16–6.56	61,309
Bank advances under discounted bills	2.64	<u>13,057</u>	4.82–5.94	<u>33,852</u>	9.00–9.36	<u>23,500</u>
		<u>13,057</u>		<u>73,852</u>		<u>84,809</u>
Net variable rate borrowings						
Bank loans	5.84	<u>8,000</u>	—	—	7.22–7.32	<u>69,809</u>
		<u>8,000</u>		<u>—</u>		<u>69,809</u>
Total net borrowings		<u>21,057</u>		<u>73,852</u>		<u>154,618</u>
Net fixed rate borrowings as a percentage of total net borrowings		<u>62%</u>		<u>100%</u>		<u>55%</u>

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

The following table demonstrates the sensitivity to cash flow interest rate risk arising from variable rate borrowings held by the Group at the respective balance sheet dates in respect of a reasonably possible change in interest rates, with all other variables held constant. The impact on the Group's profit after tax and retained profits is estimated as an annualised impact on interest expenses or income of such a change in interest rates. The analysis is performed on the same basis during the Relevant Period.

	Increase/ (decrease) in basis points	Increase/ (decrease) profit after tax and retained profits for the year <i>RMB'000</i>
At 31 December 2009		
Basis points	100	(70)
Basis points	(100)	70
At 31 December 2010		
Basis points	100	—
Basis points	(100)	—
At 31 December 2011		
Basis points	100	(593)
Basis points	(100)	593

This sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to cash flow interest rate risk for non-derivative financial instruments.

(d) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China, that are determined largely by supply and demand.

The Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the directors considered the Group's exposure to foreign currency risk is not significant. The Group does not employ any financial instruments for hedging purposes.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands and the Group may not be able to pay dividend in foreign currencies to its equity shareholders.

(e) Fair values

The carrying amounts of all financial assets and liabilities approximate their respective fair values as at 31 December 2009, 2010 and 2011 due to the short maturities of those instruments.

30. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2009, 2010 and 2011 not provided for in the Financial Information were as follows:

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	<u>1,172</u>	<u>47,600</u>	<u>28,172</u>

(b) Lease commitments

At 31 December 2009, 2010 and 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		
	At 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	—	246	1,005
After 1 year but within 5 years	<u>—</u>	<u>87</u>	<u>35</u>
	<u>—</u>	<u>333</u>	<u>1,040</u>

31. MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

During the Relevant Period, transactions with the following parties are considered as related party transactions:

Name of related party	<i>Note</i>	Relationship
CUAS		The ultimate holding company of the Group before the completion of the Reorganisation on 20 January 2012
Xiezhong Beijing	16	Jointly controlled enterprise of the Group before 26 January 2011
Xiezhong Hubei	16	Jointly controlled enterprise of the Group
Nanjing Aotecar Refrigerating Co., Ltd. ("Aotecar Nanjing")		Owned by the same ultimate equity shareholders, i.e. CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto
Chen Cunyou		Executive director of the Company, Director and the General Manager of Xiezhong Nanjing
Ge Hongbing		Executive director of the Company and director of Xiezhong Nanjing
Nanjing Xiezhong Automobile Co., Ltd. ("Xiezhong Auto")		Controlled by Chen Hao, son of Chen Cunyou and controlling shareholder of Sunrise International
Xiezhong Youxu Automobile Co., Ltd. ("Xiezhong Youxu")		Controlled by Chen Cunyou
Beijing Automobile Co., Ltd. ("Beijing Auto")		Fellow subsidiary of Beijing Hainachuan Automobile Parts Co., Ltd. ("Beijing Hainachuan"), the non-controlling equity holder of Xiezhong Beijing since 26 January 2011

(b) Transactions with related parties

Transactions with related parties during the Relevant Period are as follows:

	Note	The Group		
		Years ended 31 December		
		2009	2010	2011
		RMB'000	RMB'000	RMB'000
Recurring transactions:				
Sales of goods				
— Beijing Auto		—	—	7,349
— Xiezhong Beijing		—	60,838	—
— Xiezhong Hubei		—	192	703
		—	61,030	8,052
Purchase of goods				
— Aotecar Nanjing		31,869	38,579	33,871
— Xiezhong Hubei		—	—	1,272
		31,869	38,579	35,143
Non-recurring transactions:				
Purchase of property, plant and equipment				
— Xiezhong Youxu		—	360	—
— Xiezhong Auto		—	358	—
		—	718	—
Loans to related party				
— Aotecar Nanjing	(i)	37,000	15,179	—
Repayment of loans to related party				
— Aotecar Nanjing	(i)	37,000	15,179	—
Advances to related parties				
— Chen Cunyou	(ii)	600	—	770
— Ge Hongbing	(ii)	—	200	130
		600	200	900
Repayment of advances to related parties				
— Chen Cunyou	(ii)	—	200	1,170
— Ge Hongbing	(ii)	—	—	330
		—	200	1,500

	Note	The Group		
		Years ended 31 December		
		2009	2010	2011
		RMB'000	RMB'000	RMB'000
Advances from related parties				
— Xiezhong Beijing	(ii)	—	125	—
— Xiezhong Hubei		—	4,080	—
		—	4,205	—
Repayment of advances from related party				
— Xiezhong Youxu	(ii)	1,800	—	—
Interest income received from related party				
— Aotecar Nanjing	(i)	263	110	—

(i) The loans lent to Aotecar Nanjing during the Relevant Period were at an annual interest rate of 6.1065% for a term varying from 7 days to 2 months.

(ii) The transactions with these related parties during the Relevant Period were interest-free.

Other than notes (i) and (ii) mentioned above, the directors consider that the above related party transactions during the Relevant Period were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

(c) Amounts due from/to related parties

At 31 December 2009, 2010 and 2011, the Group had the following balances with related parties:

	The Group		
	At 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Trade debtors from			
— Xiezhong Beijing	—	30,211	—
— Beijing Auto	—	—	3,607
— Xiezhong Hubei	—	224	—
	—	30,435	3,607
Other receivables from			
— Chen Cunyou	600	400	—
— Ge Hongbing	—	200	—
	600	600	—
	600	31,035	3,607

	<i>Note</i>	The Group		
		At 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables due to				
— Xiezhong Hubei		—	4,080	4,511
— Aotecar Nanjing		19,218	22,800	20,392
		<u>19,218</u>	<u>22,800</u>	<u>20,392</u>
		.....19,218	.....26,880	.....24,903
Other payables due to				
— CUAS	28(c)	197,910	191,965	—
— Xiezhong Beijing		—	125	—
		<u>197,910</u>	<u>192,090</u>	<u>—</u>
		.....197,910	.....192,090—
		<u>217,128</u>	<u>218,970</u>	<u>24,903</u>
		.....217,128	.....218,970	.....24,903

Amounts due from/to the above related parties are unsecured and interest-free.

(d) Transactions with management

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	<i>Note</i>	The Group		
		Years ended 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits		479	2,150	3,061
Equity settled share-based payment expenses	24(b)	4,598	977	—
		<u>5,077</u>	<u>3,127</u>	<u>3,061</u>
Total		.....5,077	.....3,127	.....3,061

The above remuneration is disclosed in "staff costs" (see note 6(b)).

32. PARTICULARS OF SUBSIDIARIES

At the date of this report, the Company had direct and indirect interests in the following subsidiaries, which principally affected the results, assets and liabilities of the Group:

Name	Place of incorporation and operation	Date of incorporation/ establishment/ acquisition	Particulars of issued share capital/paid-in capital	Attributable equity interests	Principal activities	Auditor	Year of audit
Xiezhong BVI	British Virgin Islands	14 May 2008	1,005 shares of USD1 each	100%	Investment holding	Messrs.Heng&Tan	2009 2010 2011
Xiezhong Hong Kong	Hong Kong	21 May 2008	2 share of HKD1 each	100%	Investment holding	Messrs.Heng&Tan	2009 2010 2011
Xiezhong Nanjing	P.R. China	Acquired on 12 June 2008	RMB50 million	100%	Production and sale of automotive air-conditioner	南京中元聯合會計師事務所 Nanjing Zhongyuan Certified Public Accountants Co., Ltd.*	2009 2010 2011
Liaoning Chenyou Automobile Air-conditioning System Co., Ltd.	P.R. China	29 September 2009	RMB10 million	60%	Production and sale of automotive air-conditioner	遼寧華安會計師事務所有限責任公司 Liaoning Huan Certified Public Accountants Co., Ltd.* 江蘇華夏天中會計師事務所 Jiangsu Chinazhongtian Certified Public Accountants Co., Ltd.*	2010 2011
Xiezhong Beijing	P.R. China	Acquired on 26 January 2011	RMB43 million	50%	Sale of automotive air-conditioner	華寅會計師事務所有限責任公司 Huayin Certified Public Accountants Ltd.*	2011

* The English translation of these names is for reference only. The official names of these entities are in Chinese.

33. ACQUISITION OF NON-CONTROLLING INTERESTS AND BUSINESS COMBINATION

(a) Acquisition of non-controlling interests in Xiezhong Nanjing

On 10 February 2010, the Group acquired additional 30% equity interests in Xiezhong Nanjing from Mr. Chen Cunyou for a cash consideration of USD11,000,000 (equivalent to RMB75,096,000), which increased its equity interests in Xiezhong Nanjing from 70% to 100%. At the acquisition date, the carrying amount of Xiezhong Nanjing's net assets in the Financial Information was RMB310,049,000; and the Group recognised a decrease in non-controlling interests of RMB93,015,000 and an increase in other reserve of RMB17,919,000.

The following table summarises the effect of the Group's share of equity interests in Xiezhong Nanjing during the years ended 31 December 2009 and 2010 respectively:

	Years ended 31 December	
	2009	2010
	RMB'000	RMB'000
The Group's share of equity interests at the beginning of the year	175,933	215,814
Effect of increase in the Group's share of equity interests	—	93,015
Share of capital reserve	4,397	1,334
Share of total comprehensive income	35,484	83,527
The Group's share of equity interests at the end of the year	<u>215,814</u>	<u>393,690</u>

(b) Deemed acquisition of Xiezhong Beijing

- (i) As mentioned in Note 16(i), the Group acquired 50% equity interests in Xiezhong Beijing from third parties on 2 March 2010 and exercised joint control over the financial and operating policies of Xiezhong Beijing with Beijing Hainachuan, the joint venture partner, in accordance with Xiezhong Beijing's articles of association. Since 2 March 2010, Xiezhong Beijing mainly sells automotive HVAC systems manufactured by Xiezhong Nanjing to certain subsidiaries and associates of Beijing Automotive Group Co., Ltd., the parent company of Beijing Hainachuan.

According to the shareholders' resolution of Xiezhong Beijing dated 26 January 2011, Xiezhong Beijing amended the articles of association and changed the composition of board of directors. As a result, the Group obtained an effective control over the majority of the board of directors of Xiezhong Beijing and power to govern the financial and operating policies of Xiezhong Beijing without the transfer of any consideration. Xiezhong Beijing was then accounted for and combined into the Financial Information of the Group as a subsidiary through deemed acquisition which has been accounted for using the acquisition accounting method under IFRS 3.

RMB'000

Consideration

Fair value of previously held equity interests in Xiezhong Beijing at the deemed acquisition date ⁽²⁾	<u>22,217</u>
--	---------------

Recognised identifiable assets acquired and liabilities assumed

Property, plant and equipment	979
Lease prepayments	21,924
Intangible assets	3,759
Deferred tax assets	3,114
Trade and other receivables	36,520
Cash	33,465
Income tax payables	(4,761)
Trade and other payables	(35,829)
Other non-current liabilities	<u>(14,737)</u>
Total net identifiable assets ⁽¹⁾	44,434
Non-controlling interests, based on its proportionate equity interests in the net identifiable assets of Xiezhong Beijing	(22,217)
Goodwill ⁽²⁾	<u>—</u>
	<u>22,217</u>

- (1) Xiezhong Beijing is a trading company during the Relevant Period. Management of the Group assessed that there was no difference between the fair values of the identifiable assets and liabilities of Xiezhong Beijing as at the date of deemed acquisition and the corresponding carrying amounts, taking into account the fair value adjustments from the date that joint control commenced, immediately before the deemed acquisition.

- (2) Management of the Group assessed that no significant synergies expected to be achieved from the above deemed acquisition and there was no material difference between the fair value and the net carrying amount of the Group's previously held equity interests in

Xiezhong Beijing at the deemed acquisition date. As a result, no goodwill on the deemed acquisition and no gain or loss on the disposal of the Group's previously held equity interests in Xiezhong Beijing was recognised during the year ended 31 December 2011.

Analysis of the net inflow of cash in respect of the deemed acquisition of a subsidiary:

RMB'000

Cash acquired and cash inflow on the deemed acquisition 33,465

(ii) Supplementary pre-acquisition financial information of Xiezhong Beijing

The following pre-acquisition financial information of Xiezhong Beijing from the beginning of the Relevant Period to the date of acquisition ("Pre-acquisition Periods") presented in accordance with Rule 4.05A of the Listing Rules is disclosed below. The accounting policies adopted in the preparation of the pre-acquisition financial information is consistent with those adopted in the preparation of the Financial Information.

Income statements

		Years ended 31 December		Period from
		2009	2010	1 January
		RMB'000	RMB'000	2011 to
	Note			25 January
				2011
				RMB'000
Turnover	(1)	649	63,958	12,279
Cost of sales		<u>(827)</u>	<u>(63,516)</u>	<u>(11,924)</u>
Gross (loss)/profit		(178)	442	355
Other income		6	1,899	—
Distribution costs	(2)	(67)	(67)	(74)
Administrative expenses		(1,420)	(1,339)	(144)
Other operating expenses	(5)	<u>(5)</u>	<u>(8)</u>	<u>—</u>
(Loss)/profit before taxation	(2)	(1,599)	927	137
Income tax	(3)	<u>—</u>	<u>(211)</u>	<u>(46)</u>
(Loss)/profit for the year/period		<u>(1,599)</u>	<u>716</u>	<u>91</u>

Balance sheets

		At 31 December		At
		2009	2010	25 January
	Note	RMB'000	RMB'000	2011
				RMB'000
Non-current assets				
Property, plant and equipment	(4)	950	995	979
Lease prepayments	(5)	—	21,960	21,924
Deferred tax assets	(10)	—	4,054	4,054
		<u>950</u>	<u>27,009</u>	<u>26,957</u>
Current assets				
Inventories	(6)	2,334	—	—
Trade and other receivables	(7)	592	31,327	36,520
Cash	(8)	<u>103</u>	<u>34,004</u>	<u>33,465</u>
		<u>3,029</u>	<u>65,331</u>	<u>69,985</u>
Current liabilities				
Trade and other payables	(9)	4,784	31,277	35,829
Income tax payables	(10)	—	4,802	4,761
		<u>4,784</u>	<u>36,079</u>	<u>40,590</u>
Net current (liabilities)/assets		<u>(1,755)</u>	<u>29,252</u>	<u>29,395</u>
Total assets less current liabilities		<u>(805)</u>	<u>56,261</u>	<u>56,352</u>
Non-current liabilities				
Other non-current liabilities	(11)	—	14,737	14,737
		<u>—</u>	<u>14,737</u>	<u>14,737</u>
Net (liabilities)/assets		<u>(805)</u>	<u>41,524</u>	<u>41,615</u>
Capital and reserves				
Paid-in capital		3,000	43,000	43,000
Reserves		<u>(3,805)</u>	<u>(1,476)</u>	<u>(1,385)</u>
Total equity		<u>(805)</u>	<u>41,524</u>	<u>41,615</u>

Statements of changes in equity

	Paid-in capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2009	3,000	—	(2,206)	794
Changes in equity for the year:				
Total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>(1,599)</u>	<u>(1,599)</u>
At 31 December 2009	<u>3,000</u>	<u>—</u>	<u>(3,805)</u>	<u>(805)</u>
At 1 January 2010	3,000	—	(3,805)	(805)
Changes in equity for the year:				
Capital injection	40,000	—	—	40,000
Contribution by equity holder	—	1,613	—	1,613
Total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>716</u>	<u>716</u>
At 31 December 2010	<u>43,000</u>	<u>1,613</u>	<u>(3,089)</u>	<u>41,524</u>
At 1 January 2011	43,000	1,613	(3,089)	41,524
Changes in equity for the period:				
Total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>91</u>	<u>91</u>
At 25 January 2011	<u>43,000</u>	<u>1,613</u>	<u>(2,998)</u>	<u>41,615</u>

Statements of cash flows

		Years ended 31 December		Period from
		2009	2010	1 January
	Note	RMB'000	RMB'000	2011 to
				25 January
				2011
				RMB'000
Operating activities				
Cash generated from/(used in) operating activities		24	1,275	(452)
Income tax paid	(10)	—	—	(87)
Net cash generated from/(used in) operating activities		<u>24</u>	<u>1,275</u>	<u>(539)</u>
Investing activities				
Acquisition of property, plant and equipment and lease prepayments		—	(7,437)	—
Interest received		<u>1</u>	<u>63</u>	<u>—</u>
Net cash generated from/(used in) investing activities		<u>1</u>	<u>(7,374)</u>	<u>—</u>
Financing activities				
Capital contribution from equity holders		—	40,000	—
Net cash generated from financing activities		<u>—</u>	<u>40,000</u>	<u>—</u>
Net increase/(decrease) in cash		25	33,901	(539)
Cash at the beginning of the year/period	(8)	<u>78</u>	<u>103</u>	<u>34,004</u>
Cash at the end of the year/period	(8)	<u>103</u>	<u>34,004</u>	<u>33,465</u>

Notes to the financial information of Xiezhong Beijing(1) Turnover

The principal activities of Xiezhong Beijing are sales of automotive HVAC systems.

Turnover represents the sales value of goods supplied to customers.

(2) Loss/(profit) before taxation

Loss/(profit) before taxation is arrived at after charging:

	Years ended 31 December		Period from
	2009	2010	1 January 2011 to 25 January 2011
	RMB'000	RMB'000	RMB'000
— Staff costs			
Salaries, wages, and other benefits	318	447	49
Contributions to defined contribution retirement plan	<u>62</u>	<u>60</u>	<u>2</u>
	<u>380</u>	<u>507</u>	<u>51</u>
— Other items			
Amortisation of lease prepayments <i>(note 33(b)(ii)(5))</i>	—	—	36
Depreciation of property, plant and equipment <i>(note 33(b)(ii)(4))</i>	172	169	16
Auditors' remuneration	6	6	—
Cost of inventories <i>(note 33(b)(ii)(6))</i>	827	63,516	11,924

(3) Income tax

Income tax in the income statements represents:

	Years ended 31 December		Period from
	2009	2010	1 January 2011 to 25 January 2011
	RMB'000	RMB'000	RMB'000
Current tax			
Provision for current year/period <i>(note 33(b)(ii)(10))</i>	—	4,265	46
Deferred tax			
Origination and reversal of temporary differences	<u>—</u>	<u>(4,054)</u>	<u>—</u>
	<u>—</u>	<u>211</u>	<u>46</u>

Reconciliation between income tax and (loss)/profit before taxation at applicable tax rate:

	Years ended 31 December		Period from
	2009	2010	1 January 2011 to
	RMB'000	RMB'000	25 January 2011
			RMB'000
(Loss)/profit before taxation	<u>(1,599)</u>	<u>927</u>	<u>137</u>
Tax at the PRC's statutory income tax rate of 25%	(400)	232	34
Effect of non-deductible expenses	9	7	12
Others	<u>391</u>	<u>(28)</u>	<u>—</u>
Actual income tax	<u>—</u>	<u>211</u>	<u>46</u>

(4) Property, plant and equipment

	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Cost:</i>				
At 1 January 2009 and 31 December 2009	1,134	265	—	1,399
At 1 January 2010	1,134	265	—	1,399
Additions	—	—	214	214
At 31 December 2010 and 25 January 2011	1,134	265	214	1,613
<i>Accumulated depreciation:</i>				
At 1 January 2009	(198)	(79)	—	(277)
Charge for the year	<u>(123)</u>	<u>(49)</u>	<u>—</u>	<u>(172)</u>
At 31 December 2009	(321)	(128)	—	(449)
At 1 January 2010	(321)	(128)	—	(449)
Charge for the year	<u>(116)</u>	<u>(49)</u>	<u>(4)</u>	<u>(169)</u>
At 31 December 2010	(437)	(177)	(4)	(618)
At 1 January 2011	(437)	(177)	(4)	(618)
Charge for the period	<u>(10)</u>	<u>(4)</u>	<u>(2)</u>	<u>(16)</u>
At 25 January 2011	<u>(447)</u>	<u>(181)</u>	<u>(6)</u>	<u>(634)</u>
<i>Net book value:</i>				
At 25 January 2011	<u>687</u>	<u>84</u>	<u>208</u>	<u>979</u>
At 31 December 2010	<u>697</u>	<u>88</u>	<u>210</u>	<u>995</u>
At 31 December 2009	<u>813</u>	<u>137</u>	<u>—</u>	<u>950</u>

(5) Lease prepayments

RMB'000

Cost:

At 1 January 2009 and 31 December 2009	-----	—
At 1 January 2010		—
Additions	-----	21,960
At 31 December 2010 and 25 January 2011	-----	21,960

Accumulated amortisation:

At 1 January 2009, 31 December 2009 and 31 December 2010	-----	—
At 1 January 2011		—
Charge for the period	-----	(36)
At 25 January 2011	-----	(36)

Carrying amount:

At 25 January 2011	-----	21,924
At 31 December 2010	-----	21,960
At 31 December 2009	-----	—

Lease prepayments represented cost of land use rights in respect of land located in the PRC. The amortisation period of land use rights is 50 years.

(6) Inventories

Inventories in the balance sheets comprised:

	At 31 December		At
	2009	2010	25 January
	RMB'000	RMB'000	2011
			RMB'000
Raw materials	1,745	—	—
Finished goods	589	—	—
	-----	-----	-----
	2,334	—	—
	-----	-----	-----

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Years ended 31 December		Period from
	2009	2010	1 January
	RMB'000	RMB'000	2011 to
Carrying amount of inventories sold	827	62,037	25 January
Write down of inventories	—	1,479	2011
			RMB'000
	<u>827</u>	<u>63,516</u>	<u>11,924</u>
<u>(7) Trade and other receivables</u>			

	At 31 December		At
	2009	2010	25 January
	RMB'000	RMB'000	2011
Trade debtors	—	31,125	36,293
Bills receivable	—	50	50
	—	31,175	36,343
Amounts due from related parties (note 33(b)(ii)(12))	128	73	73
Other receivables, deposits and prepayments	228	79	104
Other tax recoverable	236	—	—
	<u>592</u>	<u>31,327</u>	<u>36,520</u>

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as at 31 December 2009, 2010 and 25 January 2011.

	At 31 December		At
	2009	2010	25 January
	RMB'000	RMB'000	2011
Current	—	31,175	34,016
Less than 1 month past due	—	—	2,327
Total	<u>—</u>	<u>31,175</u>	<u>36,343</u>

Trade debtors and bills receivable are due within 30 days to 180 days from the date of billing.

As at 31 December 2009, 2010 and 25 January 2011, there were no trade debtors individually determined to be impaired.

(8) Cash

	At 31 December		At
	2009	2010	25 January
	RMB'000	RMB'000	2011
			RMB'000
Cash on hand	—	10	6
Cash at bank	<u>103</u>	<u>33,994</u>	<u>33,459</u>
	<u>103</u>	<u>34,004</u>	<u>33,465</u>

Reconciliation of (loss)/profit before taxation to cash generated from/(used in) operations:

		Years ended 31 December		Period from
		2009	2010	1 January
	Note	RMB'000	RMB'000	2011 to
				25 January
				2011
				RMB'000
(Loss)/profit before taxation		(1,599)	927	137
Adjustments for:				
Impairment loss on inventories	(6)	—	1,479	—
Depreciation of property, plant and equipment	(4)	172	169	16
Amortisation of lease prepayments	(5)	—	—	36
Interest income		(1)	(63)	—
Changes in working capital:				
(Increase)/decrease in inventories		(141)	855	—
Increase in trade and other receivables		(321)	(30,735)	(5,193)
Increase in trade and other payables		<u>1,914</u>	<u>28,643</u>	<u>4,552</u>
Cash generated from/(used in) operating activities		<u>24</u>	<u>1,275</u>	<u>(452)</u>

(9) Trade and other payables

	At 31 December		At
	2009	2010	25 January
	RMB'000	RMB'000	2011
			RMB'000
Trade payables	2	205	140
Amounts due to related parties (note 33(b)(ii)(12))	4,746	30,211	34,971
Other payables	36	—	—
Other tax payables	—	861	718
	<u>4,784</u>	<u>31,277</u>	<u>35,829</u>

An ageing analysis of trade payables of Xiezhong Beijing is as follows:

	At 31 December		At
	2009	2010	25 January
	RMB'000	RMB'000	2011
			RMB'000
Within 3 months	2	—	—
Over 3 months but less than 6 months	—	—	—
Over 6 months but less than 12 months	—	205	140
	<u>2</u>	<u>205</u>	<u>140</u>

(10) Income tax in the balance sheets

Current tax in the balance sheets represents:

	At 31 December		At 25
	2009	2010	January
	RMB'000	RMB'000	2011
			RMB'000
At beginning of the year/period	—	—	4,802
Provision for PRC income tax (note 33(b)(ii)(3))	—	4,265	46
Income tax recognised directly in equity	—	537	—
PRC income tax paid	—	—	(87)
	<u>—</u>	<u>4,802</u>	<u>4,761</u>

Deferred tax assets recognised:

The components of deferred tax assets recognised in the balance sheets and the movements during the Pre-acquisition Periods are as follows:

	Inventories <i>RMB'000</i>	Other non-current payables <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009 and 31 December 2009	—	—	—
At 1 January 2010	—	—	—
Charged to profit or loss	370	3,684	4,054
At 31 December 2010 and 25 January 2011	370	3,684	4,054

(11) Other non-current liabilities

At 31 December 2010 and 25 January 2011, other non-current liabilities represented the cash amounts of RMB14,737,000 received from the government for the construction of Xiezhong Beijing's plants.

(12) Material related party transactions

Name and relationship with related parties

During the Pre-acquisition Periods, transactions with the following parties are considered as related party transactions:

Name of related party	Relationship
Xiezhong Nanjing	Exercising joint control over Xiezhong Beijing from 2 March 2010 to 25 January 2011; the holding company of Xiezhong Beijing since 26 January 2011
Shanghai Delphi Automobile Air-conditioning System Co., Ltd. ("Shanghai Delphi")	The equity holder of Xiezhong Beijing before 2 March 2010
Beijing Auto	Fellow subsidiary of Beijing Hainachuan, the equity holder of Xiezhong Beijing

Transactions with related parties

Transactions with related parties during the Pre-acquisition Periods are as follows:

	Years ended 31 December		Period from
	2009	2010	1 January 2011 to 25 January 2011
	RMB'000	RMB'000	RMB'000
<i>Recurring transactions:</i>			
Sales of goods			
— Beijing Auto	478	381	—
— Shanghai Delphi	<u>171</u>	<u>853</u>	<u>—</u>
	<u>649</u>	<u>1,234</u>	<u>—</u>
Purchase of goods			
— Xiezhong Nanjing	—	60,838	11,567
— Shanghai Delphi	<u>1,513</u>	<u>71</u>	<u>—</u>
	<u>1,513</u>	<u>60,909</u>	<u>11,567</u>

Amounts due from/to related parties

At 31 December 2009, 2010 and 25 January 2011, Xiezhong Beijing had the following balances with related parties:

	At 31 December		At
	2009	2010	25 January 2011
	RMB'000	RMB'000	RMB'000
Trade debtors from			
— Beijing Auto	<u>128</u>	<u>73</u>	<u>73</u>
Trade payables due to			
— Xiezhong Nanjing	—	30,211	34,971
— Shanghai Delphi	<u>4,746</u>	<u>—</u>	<u>—</u>
	<u>4,746</u>	<u>30,211</u>	<u>34,971</u>

(13) Segment reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by Xiezhong Beijing's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, Xiezhong Beijing has determined that it only has one operating segment which is the sale of automotive HVAC systems.

34. NON-ADJUSTING POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 31 December 2011:

Group reorganisation

The companies now comprising the Group underwent and completed a group reorganisation on 20 January 2012 in preparation for the listing of the shares of the Company on the SEHK. Further details of the group reorganisation are set out in the section headed "History and Development" in the Prospectus. As a result of the group reorganisation, the Company became the holding company of the companies now comprising the Group.

Share option scheme

Pursuant to the written resolution of the shareholders of the Company passed on 21 May 2012, the Company has conditionally approved and adopted a share option scheme which was revised on 30 May 2012. The principal terms of the share option scheme are set out in the section headed "E. Share Option Scheme" of Appendix VI "Statutory and General Information" to the Prospectus.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of the Financial Information, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in preparing the Financial Information. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IFRS 7, Financial instruments: Disclosures — Transfers of financial assets	1 July 2011
Amendments to IAS 12, Income taxes — Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income	1 July 2012
IFRS 10, Consolidated financial statements	1 January 2013
IFRS 11, Joint arrangements	1 January 2013
IFRS 12, Disclosure of interests in other entities	1 January 2013
IFRS 13, Fair value measurement	1 January 2013
IAS 27, Separate financial statements (2011)	1 January 2013
IAS 28, Investments in associates and joint ventures (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013
Amendments to IFRS 7, Financial instruments: Disclosures — Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32, Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
IFRS 9, Financial instruments (2009)	1 January 2015
IFRS 9, Financial instruments (2010)	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D. FINANCIAL INFORMATION OF THE COMPANY

	<i>Note</i>	At 31 December 2011 RMB'000
Current assets		
Trade and other receivables		4,589
Current liabilities		
Trade and other payables		4,840
Amounts due to subsidiaries	(i)	4,847
		<u>9,687</u>
Net current liabilities		<u>(5,098)</u>
Net liabilities		<u>(5,098)</u>
Capital and reserve		
Share capital		—
Accumulated loss		<u>(5,098)</u>
Total equity		<u>(5,098)</u>

- (i) The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2011.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" in this prospectus and the accountants' report set forth in Appendix I to this prospectus.

REPORT ON PRO FORMA FINANCIAL INFORMATION

For illustrative purpose, the financial information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules, is set out here to provide prospective investors with further information about how the financial information of Xiezhong International Holdings Limited and its subsidiaries (the "Group") might be affected by completion of the Share Offer as if the Share Offer had been completed as at 31 December 2011. The statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the Group's financial condition on the completion of the Share Offer.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Group, which has been prepared for the purpose of illustrating the effect of the Share Offer as if it had taken place on 31 December 2011. It is prepared based on our net assets as at 31 December 2011 as derived from our combined financial information set forth in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountants' Report in Appendix I to this prospectus. The pro forma financial information has been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position of the Group had the Share Offer been completed as at 31 December 2011 or any future dates.

	Audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2011 RMB'000⁽¹⁾	Estimated net proceeds from the Share Offer RMB'000⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to equity shareholders of the Company RMB'000	Unaudited pro forma adjusted net tangible assets per Share RMB⁽³⁾ HK\$	
Based on an Offer Price of HK\$0.93 per Share	430,298	131,828	562,126	0.70	0.86
Based on an Offer Price of HK\$1.32 per Share	430,298	193,581	623,879	0.78	0.96

Note:

- (1) The audited combined net tangible assets of the Group attributable to equity shareholders of the Company as at 31 December 2011 is compiled based on the combined financial information included in the Accountants' Report set out in Appendix I to this prospectus, which is based on the combined net assets attributable to equity shareholders of the Company of RMB520,056,000 less goodwill of RMB46,832,000 and intangible assets of RMB44,383,000 and adjusting for the share of intangible assets attributable to non-controlling interests of RMB1,457,000.
- (2) The estimated net proceeds from the Share Offer are based on an Offer Price of HK\$0.93 and HK\$1.32 per Share, respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme.
- (3) The number of shares used for the calculation of unaudited pro forma adjusted net tangible assets per Share attributable to equity shareholders of the Company is based on 800,000,000 Shares in issue immediately after the Share Offer without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information for the purpose of incorporation in this prospectus.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

6 June 2012

The Directors
Xiezhong International Holdings Limited

Dear Sirs

Xiezhong International Holdings Limited (the "Company")

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of the Company and its subsidiaries (the "Group") set out on page II-2 in Appendix II of the prospectus dated 6 June 2012 (the "Prospectus"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the share offer might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out on page II-2 of the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our procedures on the unaudited Pro Forma Financial Information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2011 or any future date.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company’s shares, the application of those net proceeds, or whether such use will actually take place as described under “Use of Proceeds” set out in “Future Plans and Use of Proceeds” of the Prospectus.

Opinion

In our opinion:

- a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

KPMG
Certified Public Accountants
Hong Kong

The following is a text of the letter, summary of values and valuation certificates, prepared for inclusion in this prospectus, received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their valuations as of 30 April 2012 of the properties held by the Group.



Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T: (852) 2801 6100
F: (852) 2530 0756

EA Licence: C-023750
savills.com

The Directors
Xiezhong International Holdings Limited
No. 389 Kening Road
Science Park
Jiangning District
Nanjing
Jiangsu Province
PRC

6 June 2012

Dear Sirs,

In accordance with your instructions for us to value the properties situated in the People's Republic of China (the "PRC") in which Xiezhong International Holdings Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") have interests, we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such properties as at 30 April 2012 ("date of valuation") for inclusion in a Public Offering Document.

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In valuing the properties in Group I, which are held for owner occupation in the PRC, due to the specific purpose for which the buildings and structures of the properties have been constructed, there are no readily available market comparables and thus the buildings and structures of the properties cannot be valued on the basis of direct comparison. The properties have been valued on the basis of the depreciated replacement cost (“DRC”). We would define DRC to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including professional fees and finance charges, from which deductions are then made to allow for physical deterioration and all relevant forms of obsolescence and optimization. For the portion of Property No. 1 which is under construction, we have also taken into account the construction cost incurred and the outstanding construction cost to be expended to complete the development as at the date of valuation. The DRC is subject to adequate potential profitability of the concerned business.

In valuing the property in Group II, which is held for future development in the PRC, we have valued the property by direct comparison approach by making reference to comparable sales transactions as available in the market assuming sale with the benefit of vacant possession.

In valuing the properties in Group III, which are leased by the Group in the PRC, we have assigned no commercial value to these properties due to prohibition against assignment or sub-letting or otherwise due to lack of substantial profit rent.

We have been provided with copies of extracts of title documents relating to the properties in the PRC. However, we have not searched the original documents to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and its legal advisers, Chen & Co. Law Firm (“PRC Legal Advisers”), regarding the titles to the properties in the PRC.

We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, development proposal, expended and outstanding construction costs, particulars of occupancy, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided by the Group to us and are therefore only approximations. No on-site measurements have been taken. We have had no

reason to doubt the truth and confirmation from the Group that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exterior and where possible, the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made, we are therefore unable to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

The site inspection was carried out in November 2011 by Mr. James Woo, who is a chartered surveyor and Miss Zhou Lou Pui, who is China Registered Real Estate Appraiser and Land Valuer.

In preparing our valuation report, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts stated are in Renminbi.

Our summary of values and valuation certificates are attached.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Anthony C K Lau
MHKIS MRICS RPS(GP)
Director

Note: Mr Anthony C K Lau is a qualified surveyor and has over 19 years' post-qualification experience in the valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 30 April 2012 (RMB)	Interest attributable to the Group (%)	Capital value attributable to the Group as at 30 April 2012 (RMB)
Group I — Properties held by the Group for owner occupation in the PRC				
1.	An industrial complex located at No. 389 Kening Road, Science Park, Jiangning District, Nanjing, Jiangsu Province, PRC	120,300,000	100%	120,300,000
2.	An industrial complex located at east of Wangli Street and south of Chendong Road, Fushun Economic Development Zone, Fushun, Liaoning Province, PRC	16,200,000	60%	9,720,000
	Sub-total:	136,500,000		130,020,000
Group II — Property held by the Group for future development in the PRC				
3.	A parcel of land located at east of Sanzhi Road, Caiyu Town, Daxing District, Beijing, PRC	22,100,000	50%	11,050,000
	Sub-total:	22,100,000		11,050,000

No.	Property	Capital value in existing state as at 30 April 2012 (RMB)	Interest attributable to the Group (%)	Capital value attributable to the Group as at 30 April 2012 (RMB)
Group III — Properties leased by the Group in the PRC				
4.	No. 268 Xifa Village, Yujia Town, Tongzhou District, Beijing, PRC	No commercial value		No commercial value
5.	An office unit on Level 2, Dongjun Industrial Park, No. 88 Houguanhu Avenue, Wuhan Economic Technology Development District, Wuhan, Hubei Province, PRC	No commercial value		No commercial value
6.	A unit, No. 20 Yuzheng Street, Daxing District, Beijing, PRC	No commercial value		No commercial value
	Sub-total:	Nil		Nil
	Grand-total:	<u>158,600,000</u>		<u>141,070,000</u>

VALUATION CERTIFICATE

Group I — Properties held by the Group for owner occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012
1.	An industrial complex located at No. 389 Kening Road, Science Park, Jiangning District, Nanjing, Jiangsu Province, PRC	<p>The property comprises an industrial complex erected upon a parcel of land with a site area of approximately 60,133.90 sq.m. (647,281 sq.ft.) completed in phases between 2004 and 2012</p> <p>The property comprises five single to 3-storey workshop, office buildings and warehouse with a total gross floor area of approximately 34,689.10 sq.m. (373,393 sq.ft.) and various structures.</p> <p>Moreover, a building with a total gross floor area of 15,631.00 sq.m. (168,252 sq.ft.) is being constructed. It is scheduled to be completed in 2012.</p> <p>The land use rights of the property were granted for a term expiring on 24 December 2052 for industrial use.</p>	The property is occupied by the Group for workshop, office and storage uses except for a building with a total gross floor area of approximately 15,631.00 sq.m. is under construction.	RMB120,300,000 (100% interest attributable to the Group: RMB120,300,000)

Notes:

- Pursuant to the Land Use Rights Certificate No. Ning Jiang Guo Yong (2010) Di 00873, the land use rights of a parcel of land with a site area of 60,133.90 sq.m. were granted to Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. ("Xiezhong Nanjing"), which is wholly-owned by Xiezhong Auto-Airconditioner (Hong Kong) Limited, for a term expiring on 24 December 2052 for industrial use.
- Pursuant to four Building Ownership Certificates Nos. Jiang Ning Fang Quan Zheng Dong Shan Zi Di 01080776, JH0000574, JN00150466 and Ning Fang Quan Zheng Jiang Chu Zi No. JN00246615, the building ownership of the buildings with a total gross floor area of approximately 34,589.10 sq.m. is vested in Xiezhong Nanjing.
- Pursuant to the Construction Works Planning Permit No. Jian Zi Di 320115201081371, the construction project with a construction scale of 15,631.00 sq.m. is approved for construction.
- Pursuant to the Construction Works Commencement Permit No. 3201152011072200003A, the construction works of the property with a construction scale of 15,631.00 sq.m. have been permitted to commence.

5. We have been provided with a legal opinion on the title to the property issued by the Group's PRC Legal Advisers, which contains, inter-alia, the following information:
 - i. Xiezhong Nanjing is the legal owner of the land use rights of the property and a building with a gross floor area of 3,116.32 sq.m. and during the valid period of land use rights, Xiezhong Nanjing is entitled to use, make profit, transfer, lease, mortgage or by any other legal means dispose of such portion of the property;
 - ii. Xiezhong Nanjing is the legal owner of three buildings of the property with a total gross floor area of approximately 31,472.78 sq.m. and is entitled to use, make profit, lease and mortgage of such portion of the property;
 - iii. portion of the buildings of the property with a total gross floor area of approximately 31,472.78 sq.m. are subject to mortgage and Xiezhong Nanjing is entitled to transfer or by any other legal means dispose of such portion of the property after obtaining the consent from the mortgagee; and
 - iv. an ancillary building and a shed with areas of 100 sq.m. and 1,400 sq.m. respectively were built without obtaining Construction Works Planning Permits nor Construction Works Commencement Permits. There is a risk that the relevant authority may order Xiezhong Nanjing to demolish such building and structure and impose fines ranging from RMB5,000 to RMB30,000 plus 2–10% of the contracted construction cost.
6. As advised by the Group, the estimated total construction cost for the completion of the proposed development is approximately RMB67,000,000 of which RMB49,400,000 was spent as at the date of valuation. We have taken into account the said amounts in our valuation.
7. In the course of our valuation, we have not assigned any commercial value to the building and structure as mentioned in Note 5 (iv).
8. In our opinion, the capital value of the proposed development as if completed as at the date of valuation was RMB75,700,000.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012
2.	An industrial complex located at east of Wangli Street and south of Chendong Road, Fushun Economic Development Zone, Fushun, Liaoning Province, PRC	<p>The property comprises an industrial complex erected upon a parcel of land with a site area of approximately 30,893.00 sq.m. (332,532 sq.ft.) completed in 2011.</p> <p>The property comprises a 3-storey workshop/office building with a gross floor area of approximately 5,656.56 sq.m. (60,887 sq.ft.).</p> <p>The land use rights of the property were granted for a term expiring on 25 December 2060 for industrial use.</p>	The property is occupied by the Group for workshop and office uses.	RMB16,200,000 (60% interest attributable to the Group: RMB9,720,000)

Notes:

1. Pursuant to the State-owned Construction Land Use Rights Grant Contract No. 2113052010ak072 dated 26 December 2010, a parcel of land with a site area of 30,893.00 sq.m. was contracted to be granted to Liaoning Chenyou Xiezhong Auto-Airconditioner System Co., Ltd. ("Xiezhong Liaoning"), which is owned as to 60% by Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. and 40% by Shengyang Special Solder Co., Ltd., for a total consideration of RMB8,897,200.
2. Pursuant to the Land Use Rights Certificate No. Fu Kai Guo Yang (2011) Di 051, the land use rights of a parcel of land with a site area of 30,893.00 sq.m. were granted to Xiezhong Liaoning for a term expiring on 25 December 2060 for industrial use.
3. Pursuant to the Building Ownership Certificate No. Fu Kai Fang Quan Zheng Li Shi Zi Di G1205121057, the building ownership of the property with a gross floor area of 5,656.56 sq.m. is vested in Xiezhong Liaoning.
4. We have been provided with a legal opinion on the title to the property issued by the Group's PRC Legal Advisers, which contains, inter-alia, the following information:
 - i. Xiezhong Liaoning is the legal owner of the land use rights of the property and during the valid period of land use rights, Xiezhong Liaoning is entitled to use, make profit, transfer, lease, mortgage or by any other legal means dispose of the land use rights of the property; and
 - ii. the property is free from any encumbrances.

Group II — Property held by the Group for future development in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2012
3.	A parcel of land located at east of Sanzhi Road, Caiyu Town, Daxing District, Beijing, PRC	<p>The property comprises a parcel of land with a site area of approximately 45,178.23 sq.m. (486,298 sq.ft.).</p> <p>As advised, the property is proposed to be developed into an industrial complex with a total gross floor area of approximately 28,533.83 sq.m. (307,138 sq.ft.). Construction works are scheduled to be commenced in second half of 2012 and to be completed in 2015.</p> <p>The land use rights of the property were granted for a term of 50 years expiring on 25 November 2060 for industrial use.</p>	The property is vacant.	<p>RMB22,100,000 (50% interest attributable to the Group: RMB11,050,000)</p>

Notes:

1. Pursuant to the State-owned Construction Land Use Rights Grant Contract No. Jing Xing Di Chu [He] Zi (2010) No. 023 and a supplementary agreement both dated 26 November 2010, a parcel of land with a site area of 45,178.28 sq.m. was contracted to be granted to Beijing Hainachuan Xiezhong Auto-Airconditioner Co., Ltd. (“Xiezhong Beijing”), which is owned as 50% by Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. and 50% by Beijing Hainachuan Automotive Parts Co., Ltd., for a total consideration of RMB21,320,000.
2. Pursuant to the Land Use Rights Certificate No. Jing Xing Guo Yong (2011) Chu Di 00070, the land use rights of a parcel of land with a site area of 45,178.23 sq.m. were granted to Xiezhong Beijing for a term expiring on 25 November 2060 for industrial use.
3. Pursuant to the Construction Works Planning Permit No. Jian Zi Di 110115201100198/2011Gui (Da) Jian Zi 0088, the construction project with a construction scale of 17,343.17 sq.m. is approved for construction.
4. We have been provided with a legal opinion on the title to the property issued by the Group’s PRC Legal Advisers, which contains, inter-alia, the following information:
 - i. Xiezhong Beijing is the legal owner of the land use rights of the property and during the valid period of land use rights, Xiezhong Beijing is entitled to use, make profit, transfer, lease, mortgage or by any other legal means dispose of such portion of the property; and
 - ii. the property is free from any encumbrances.

Group III — Properties leased by the Group in the PRC

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 30 April 2012
4.	No. 268 Xifa Village, Yujia Town, Tongzhou District, Beijing, PRC	<p>The property comprises a single-storey warehouse building completed in 2008.</p> <p>The gross floor area of the property is approximately 674.20 sq.m. (7,257 sq.ft.).</p> <p>The property is leased from an independent third party for a term expiring on 1 January 2013 at a monthly rental of RMB6,536.70.</p>	The property is occupied by the Group for storage use.	No commercial value

Notes:

1. We have been provided with a legal opinion on the legality of the tenancy agreement issued by the Group's PRC Legal Advisers, which contains, inter-alia, the following information:
 - i. the land of the property is collective-owned land and cannot be used for non-agriculture purpose; and
 - ii. Beijing Jinlu Shunda Keji Company Limited (北京金路順達科技有限公司) leased the land on which the property is erected from Yujiawuhuizuxiang Xifacun Committee (於家務回族鄉西堡村村委會) and leased the property to Beijing Hainachuan Xiezhong Auto-Airconditioner (Group) Co., Ltd. ("Xiezhong Beijing"), which is owned as to 50% by Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. and 50% by Beijing Hainachuan Automotive Parts Co., Ltd.. Xiezhong Beijing may be required to stop occupying the property because the building of the property was illegally built by Beijing Jinlu Shunda Keji Company Limited.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 30 April 2012
5.	An office unit on Level 2, Dongjun Industrial Park, No. 88 Houguanhu Avenue, Wuhan Economic Technology Development District, Wuhan, Hubei Province, PRC	The property comprises an office unit on Level 2 of a 2-storey office building completed in 2004. The gross floor area of the property is approximately 140.00 sq.m. (1,507 sq.ft.). The property is leased for an independent third party from a term expiring on 31 December 2012 at a monthly rental of RMB2,660.	The property is occupied by the Group for office use.	No commercial value

Notes:

1. We have been provided with a legal opinion on the legality of the tenancy agreement issued by the Group's PRC Legal Advisers, which contains, inter-alia, the following information:
 - i. the owner of the property has agreed to lease the property to Hubei Leidite Xiezhong Auto-Airconditioner System Co., Ltd. ("Xiezhong Hubei"), which is owned as to 51% by Xiezhong Nanjing and 49% by Hubei Leidite Automobile Cooling System Co., Ltd.;
 - ii. the Group has applied for the registration of the tenancy agreement, but the relevant government authority has confirmed that the said application would not be processed at the moment; and
 - iii. the non-registration of the tenancy agreement does not affect its validity.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 30 April 2012
6.	A unit, No. 20 Yuzheng Street, Daxing District, Beijing, PRC	<p>The property comprises a unit of a single-storey building completed in 2011.</p> <p>The gross floor area of the property is approximately 33.39 sq.m. (359 sq.ft.).</p> <p>The property is leased from an independent third party from 1 November 2011 until the lessee's industrial building has been completed and moved into the new building and this term is free from rental payment.</p>	The property is occupied by the Group for office use.	No commercial value

Notes:

1. We have been provided with a legal opinion on the legality of the tenancy agreement issued by the Group's PRC Legal Advisers, which contains, inter-alia, the following information:
 - i. The lessee of the property, Beijing Hainachuan Xiezhong Auto-Airconditioner Co., Ltd ("Xiezhong Beijing"), which is owned as to 50% by Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. and 50% by Beijing Hainachuan Automotive Parts Co., Ltd., is entitled to occupy the property.

OVERVIEW

We are principally engaged in the automotive HVAC systems and HVAC components industry which is subject to various regulations in the PRC. The regulations focus on various aspects including but not limited to production, quality control, and environment protection. Below is a summary of some regulations which are important to our Group.

LAWS AND REGULATIONS RELATING TO THE AUTOMOTIVE COMPONENTS INDUSTRY

The PRC government administers its regulation of the automotive components industry primarily through:

- NDRC;
- AQSIQ;
- MIIT and
- 中華人民共和國環境保護部 (the Ministry of Environmental Protection of the PRC*).

Each of the above government agencies has a different mandate to regulate the PRC automotive components industry. The NDRC is in charge of making the overall policy and mid-term to long-term development plan of the automotive components industry in China; the AQSIQ focuses on product quality control; the MIIT acts as a management department which stipulate policies and standards to guide the development of this industry; and the Ministry of Environmental Protection regulates environmental protection affairs relating to the investment in and construction of automotive manufacturing facilities and the manufacturing processes.

On 12 March 1994, the former 國家計劃委員會 (State Planning Commission*) issued 汽車工業產業政策 (the Industrial Policy for the Automotive Industry*) as an overall policy guideline for the automotive industry (including the automotive components industry) in China. Although the Industrial Policy for the Automotive Industry did not constitute a “law” or “regulation” in its formal sense, it constituted the cornerstone of the overall regulatory regime of the PRC automotive industry. On 21 May 2004, the NDRC issued 汽車產業發展政策 (the Automotive Industry Development Policy*) to replace the Industrial Policy for the Automotive Industry. On 15 August 2009, the Automotive Industry Development Policy was further amended by the MIIT and the NDRC.

The Automotive Industry Development Policy sets forth some guidelines regarding the automotive components industry, including:

- to make a special development plan for automotive components, to guide and support production of automotive components through classification of products, to guide public funds to invest into the production of automotive components, and to impel enterprises with comparative advantages in producing automotive components to form the ability of specialization, mass production and the modularization of the supply of products;
- to give priority to automotive components enterprises which are able to supply components to several independent enterprises that produce whole cars, and which are integrated into the international system of procurement of automotive components, in aspects of technology introduction, technological transformation, financing and mergers and reorganisation;
- to encourage manufacturers of whole cars to further specialize in production and gradually change their internal parts manufacturing units into independent and specialized components manufacturing enterprises;
- to encourage enterprises that produce whole cars to procure components from third parties via electronic commerce or online procurement, on a step-by-step basis;
- to support automotive components manufacturers in establishing product research institutions to form innovative and self-development capabilities. Investment amount in the construction of research facilities of self-developed products shall be tax-deductible as long as such investment complies with the relevant tax provisions on promotion of enterprise technological progress; to support large automobile components manufacturers to develop components assembly with proprietary intellectual property and at an advanced level; and
- to subject the investment projects of automotive components to the filing procedures with the investment administration departments of the provincial governments.

On 20 March 2009, the General Office of PRC State Council issued 汽車產業調整和振興規劃 (the Restructuring and Rejuvenation Program of the Automotive Industry*) (the “**Program**”), as an action plan for omnibus response measures of the automotive industry from 2009 to 2011. The Program specifies certain objectives, policies and measures in relation to the automotive components industry as follows:

- to boost the restructuring of the automotive industry. The key automotive components manufacturers are encouraged to expand their scale through merger, acquisition and reorganisation, and to increase their market share in the domestic and overseas markets;

- to realize the technological independence of key parts in engine, transmission, steering system, braking system, drive train system, suspension system and vehicle bus control system; to encourage the development of key parts that can improve the performance of whole cars;
- to implement automobile products export strategies; the construction of national export bases for automobiles and automotive components shall be accelerated;
- to improve the automobile enterprise reorganisation policies and to encourage automobile production enterprises to jointly develop and manufacture new automobile products and key parts and assemblies; and
- to make more investments in technological progress and innovation and to develop key parts and assemblies which fill the domestic vacancies, build the platforms for the research, development and testing of common technologies of automobiles and spare parts.

LAWS AND REGULATIONS RELATING TO THE AUTOMOTIVE INDUSTRY

Consumption Tax and Purchase Tax on Vehicles

The PRC Government has implemented the following tax policies applicable to the PRC automobile industry:

Consumption Tax on Vehicles

Pursuant to 關於調整和完善消費稅政策的通知 (the Notice on Adjusting and Perfecting Consumption Tax Policies*) jointly promulgated by the PRC Ministry of Finance and the SAT on 20 March 2006, effective on 1 April 2006, an automobile consumption tax for passenger vehicles was adopted on 1 April 2006 as amended in 2008 and 2009. And pursuant to 關於調整乘用車消費稅政策的通知 (the Notice on Adjusting the Policy of the Consumption Tax on Passenger Vehicles*) promulgated by the PRC Ministry of Finance and SAT on 1 August 2008 and effective on 1 September 2008, the automobile consumption tax rate for passenger vehicles with emission on or below 1 litre was reduced from 3% to 1%, whereas the automobile consumption tax rate applicable for those with emission 3 litres to 4 litres was increased from 15% to 25% and the automobile consumption tax rate applicable for those with emission above 4 litres was increased from 20% to 40%.

Purchase Tax on Vehicles

Pursuant to 中華人民共和國車輛購置稅暫行條例 (the PRC Tentative Regulations on Vehicle Purchase Tax*) promulgated by the State Council on 22 October 2000, effective on 1 January 2001, the PRC Government adopted an automobile purchase tax at the rate of 10%.

To stimulate growth in the domestic automobile industry, according to the Program, the automobile purchase tax rate applicable to passenger vehicles with emission on or below 1.6 litres is reduced to 5% for vehicles purchased during the period from 20 January 2009 to 31 December 2009.

However, pursuant to 關於減徵1.6升及以下排量乘用車車輛購置稅的通知 (the Notice on Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 Litres*), promulgated by the PRC Ministry of Finance and SAT on 22 December 2009 and effective on 1 January 2010, the automobile purchase tax rate increased from 5.0% to 7.5% for such vehicles purchased during the period from 1 January 2010 to 31 December 2010.

Starting from 1 January 2011, pursuant to 關於1.6升及以下排量乘用車車輛購置稅減徵政策到期停止執行的通知 (the Notice on the Discontinuation of the Reduction of Purchase Tax for Passenger Vehicle with Emission On or Below 1.6 Litres*), this reduced automobile purchase tax rate was discontinued and the automobile purchase tax rate applicable to such small displacement vehicles has been resumed to 10%.

Preferential Policies on Energy-efficient Vehicles

Ministry of Finance, Ministry of Science and Technology jointly promulgated 關於開展節能與新能源汽車示範推廣試點工作的通知 (the Notice on the Demonstration and Promotion Pilot Project for Energy-Saving and New Energy Vehicles*), which became effective on 23 January 2009. Pursuant to this Notice, the Ministry of Finance and Ministry of Science and Technology decided to carry out the demonstration and promotion pilot project for energy-saving and new energy vehicles in 13 cities such as Beijing, Shanghai, Chongqing, Changchun, Dalian, Hangzhou, Jinan, Wuhan, Shenzhen, Hefei, Changsha, Kunming, Nanchang, with a aim to expanding automobile consumption, speeding up the restructuring of the auto industry, promoting the industrialization of energy-saving and new energy vehicles; and the Ministry of Finance and Ministry of Science and Technology will use fiscal policies to encourage promoting the use of energy-saving and new energy vehicles in the public transportation, rental, sanitation, postal and other public service areas and grant subsidies to such entity which buys energy-saving and new energy vehicles.

On 14 October 2011, the Office of Ministry of Finance, the Office of Ministry of Science and Technology, the Office of Industry and Information Technology and the Office of the Development and Reform Commission have issued 關於進一步做好節能與新能源汽車示範推廣試點工作的通知 (the Notice on the Further Demonstration and Promotion Pilot Project for Energy-Saving and New Energy Vehicles*), emphasizing that the pilot cities shall grant the subsidies to the manufacturers or users of energy-saving and new energy vehicles timely without delay.

Trade-in Policies on Automobile Vehicles

On 13 July 2009, the Ministry of Finance, the Ministry of Commerce, the Ministry of Propaganda, the State Development and Reform Commission, the MIIT, the Ministry of Public Security, the Ministry of Environmental Protection, the Ministry of Transportation,

the State Administration of Industry and Commerce, the General Administration of Quality Supervision, Inspection and Quarantine have jointly promulgated 汽車以舊換新實施辦法 (the Implementing Measures of the Trade-in of Automobiles*), pursuant to which, during the period from 1 June 2009 to 31 May 2010, the early scrap old cars, “consists car” can be sold to the specified scrap car recovery and disassembling enterprises, and changed to a new car. Pursuant to 關於延長實施汽車以舊換新政策的通知 (the Notice on the Extension of the Trade-in Policies of Automobiles*), which is promulgated by the Ministry of Finance, the Ministry of Commerce and the Ministry of Environmental Protection on 18 June 2010, the trade-in policies of automobiles was extended to 31 December 2010.

LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Foreign investors shall abide by 外商投資產業指導目錄 (Guidance Catalogue of Industries for Foreign Investment*) (the “**Catalogue**”). The Catalogue was promulgated on 28 June 1995 and was revised from time to time. The currently effective Catalogue was promulgated by MOFCOM and NDRC on 24 December 2011 and became effective on 30 January 2012. The Catalogue classifies industries into three categories: Encouraged, Restricted and Prohibited. Except otherwise stipulated by other laws and regulations, foreign investors are permitted to invest in industries not listed in the Restricted or Prohibited categories. Part of industries in the Restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese shareholder as the controlling shareholder. Foreign investors shall not invest in industries in Prohibited category.

MOFCOM or the local authorities are responsible for approving the relevant joint venture contracts, articles of association of foreign invested enterprises and other substantial changes to foreign invested enterprises, including changes to capital, equity transfer and consolidation. As advised by our PRC Legal Advisers, the industries in which Xiezhong Nanjing, Xiezhong Beijing, Xiezhong Liaoning and Xiezhong Hubei are engaged did not fall within any of the 3 categories in the Catalogue and are permitted for foreign investment.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal law governing foreign currency exchange in the PRC is 中華人民共和國外匯管理條例 (the Foreign Exchange Administration Regulations of the PRC*) (the “**Foreign Exchange Administration Regulations**”). The Foreign Exchange Administration Regulations was enacted by PRC State Council on 29 January 1996 and implemented on 1 April 1996. On 14 January 1997 and 5 August 2008, PRC State Council amended the Foreign Exchange Administration Regulations. According to the currently effective Foreign Exchange Administration Regulations, international payment in foreign exchange and transfer of foreign exchange under current items shall not be restricted. Foreign exchange income of a domestic institution or an individual may be transferred back into the PRC or deposited overseas, specific conditions and/or term requirements of which shall be determined by the competent foreign exchange administrative department of PRC State Council in light of the balance of international payments and the needs for foreign exchange control. An overseas institution or individual that makes direct investments in the

PRC shall handle the registration formalities at a foreign exchange administrative organ upon the approval of the competent department. A domestic institution or individual that makes direct investments or issues or trades negotiable securities or derivative products overseas shall handle the registration formalities in accordance with provisions of the foreign exchange administrative department of PRC State Council. If the relevant state provisions require the approval of or filing with the competent department, such approval or filing shall be obtained before handling the registration formalities.

The dividends paid by the subsidiary in the PRC to its overseas shareholders are deemed income of the shareholders and are taxable in China. Pursuant to 結匯、售匯及付匯管理規定(1996年) (the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996)*), foreign-invested enterprises in China may purchase or remit foreign currency, subject to a cap approved by SAFE, for settlement of current account transactions without the approval of SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities.

Under Foreign Exchange Administration Regulations and various regulations issued by SAFE, and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, interests and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriations of investments, require prior approval from SAFE or its local branch. Payments for transactions which take place in the PRC may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local branch. Unless otherwise approved, domestic enterprises must convert all of their foreign currency proceeds into Renminbi.

On 29 August 2008, SAFE promulgated 國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知 (the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises*) (the “SAFE Circular 142”), regulating the conversion by a foreign-invested enterprise with registered capital in foreign currency in Renminbi by restricting how the converted Renminbi may be used. The SAFE Circular 142 provides that the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its control of the flow and use of the Renminbi capital converted from foreign currency registered capital of a foreign-invested enterprise. The use of such Renminbi capital may not be altered without SAFE’s approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of the SAFE Circular 142 could result in severe monetary penalties.

LAWS AND REGULATIONS RELATING TO TAXATION

EIT

Prior to 1 January 2008, EIT payable by foreign-invested enterprises in the PRC was governed by 中華人民共和國外商投資企業和外國企業所得稅法 (the Foreign-Invested Enterprise and Foreign Enterprise EIT Law of the PRC*) (the “**FIE Tax Law**”) promulgated on 9 April 1991 and became effective on 1 July 1991. According to the FIE Tax Law and its implementation rules, foreign-invested enterprises (engaging in the production of goods/services with an expected business life of over 10 years) from the year beginning to make profit were to enjoy full exemption from EIT in the first and second years and a 50% reduction in the third to fifth years. Foreign-invested enterprises operating in special economic development zones, especially those involving areas such as energy, transportation, port infrastructure and other State encouraged projects, were subject to EIT rate of 15% (before any exemption).

However, under the EIT Law, which was promulgated on 16 March 2007, EIT rates applicable to both domestic and foreign-invested enterprises were unified at 25% effective from 1 January 2008. On 26 December 2007, PRC State Council issued 國務院關於實施企業所得稅過渡優惠政策的通知 (the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the PRC Enterprise Income Tax Law*) (the “**Transition Preferential Policy Circular**”). According to the EIT Law and the Transition Preferential Policy Circular, Enterprises which enjoyed EIT rates of lower than the standard rate 33% are given a five-year transitional period. Such enterprises will continue to enjoy the lower tax rate before they are gradually subject to the tax rate of 25% within the transitional period. In particular, enterprises which were subject to an EIT rate of 15% would be subject to an EIT rate of 18% in 2008, increasing to 20% in 2009, 22% in 2010, 24% in 2011, and 25% in 2012. Enterprises which are enjoying two years of 100% exemption and three years of 50% reduction on tax payments may continue to enjoy such exemption and reduction until the term of such privilege expires.

The EIT Law and its implementing rule permit certain high and new technology enterprises strongly supported by the State which hold independent ownership of core intellectual property and simultaneously meet a list of other criteria, financial or non-financial, as stipulated in the implementation rule, to enjoy a reduced 15% enterprise income tax rate subject to certain new qualification criteria.

According to the Circular on Issues concerning 國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知 (the Implementation of Preferential Enterprise Income Tax Treatment for High and New Technology Enterprise*), promulgated by SAT on 22 April 2009 and effective retrospectively as at 1 January 2008, upon the accreditation/re-examination of qualified high and new enterprise, such high and new enterprise can apply to enjoy the preferential enterprise income tax as at the current year beginning from the valid period approved by the accreditation/re-examination. The enterprises, upon obtaining the Certificate of High and New Technology Enterprise issued by the administrative departments for accreditation of high and new technology enterprises of province,

autonomous region, municipality or municipality with independent planning status, can apply to the competent tax authorities for tax reduction and exemption; upon fulfillment of those procedures, the high and new technology enterprise can make advance enterprise income tax declaration at a rate of 15% or enjoy a transitional preferential tax treatment.

VAT

Pursuant to 中華人民共和國增值稅暫行條例 (the Provisional Regulations on Value-Added Tax of the PRC*) and its implementation rules, both of which were amended in late 2008 and became effective from 1 January 2009 and the latter was further amended on 28 October 2011, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the import of goods are required to pay VAT. VAT payable is calculated as “output VAT for the current period” minus “input VAT for the current period”.

According to 國家稅務總局關於印發《出口貨物退(免)稅管理辦法(試行)》的通知 (the Circular of the State Administration of Taxation on Printing and Distributing the Measures for the Administration of Tax Refund (Exemption) for Export Goods (For Trial Implementation)*) promulgated on 16 March 2005 and became effective on 1 May 2005, unless otherwise provided by law, for the goods as exported either directly by an exporter or via an export agency, the exporter may, after the export declaration and the conclusion of financial settlement for sales, file a report to the local office of SAT for the approval of refund or exemption of VAT or consumption tax on the strength of the relevant certificates. The scope of tax refund (exemption) for export goods, the tax refund rate and the measures of tax refund (exemption) shall be governed by the relevant provisions of the State.

LAWS AND REGULATIONS RELATING TO PATENT

Protection under patent law

According to 中華人民共和國專利法 (the PRC Patent Law*) promulgated on 12 March 1984 and amended on 4 September 1992, 25 August 2000 and 27 December 2008 and 中華人民共和國專利法實施細則 (the Implementing Rules of the Patent Law of the PRC*) promulgated on 15 June 2001 and amended on 28 December 2002 and 9 January 2010, patent protection is divided into three categories: invention patent, utility patent and design patent. Invention patent is intended to protect new technology or measures for a product, method or its improvement. Utility patent is intended to protect new technology or measures to increase the utility of a product shape, structure or its combination. Design patent is intended to protect new designs by combination of product shape, graphic or color with aesthetic and industrial application value.

- *Invention patent*

The products seeking invention patent protection must possess such characteristics as novelty, innovation and practicability and the grant of invention patent is subject to disclosure and publication requirement. Normally, the patent administrative authority publishes the application 18 months after application is filed, which may be shortened upon request by the applicant. The patent administrative authority conducts a substantive review as required by applicant within three years from publication or, if necessary, at its discretion to grant the invention patent, issue the certificate of invention patent and announce and register it if there is no cause of rejection of the application of the invention patent after substantive review. The term of protection is 20 years from the date of application.

Once an invention patent is granted, unless otherwise provided by law, no individuals or entities is permitted to engage in the manufacture, use, offer to sell, sale or import of the product protected by such patent or otherwise engage in the manufacture, use, offer to sell, sale or import of the product directly derived from applying the production technology or method protected by such patent for production and business purposes, without consent of the patent holder.

- *Utility patent*

The products seeking utility patent protection must also possess such characteristics as novelty, innovation and practicability. Utility patent is granted and registered upon application unless there are reasons for the patent administrative authority to reject the application after its preliminary review. The utility patent is also subject to the disclosure and publication requirement upon application. The term of protection is ten years from the date of application.

Once an utility patent is granted, unless otherwise provided by law, no individuals or entities is permitted to engage in the manufacture, use, offer to sell, sale or import of the product protected by such patent or otherwise engage in the manufacture, use, offer to sell, sale or import of the product directly derived from applying the production technology or method protected by such patent for production and business purposes, without consent of the patent holder.

- *Design patent*

The products seeking design patent protection must not be the same as or similar to those previously released in domestic or overseas publications, publicly used in the country or infringe upon third parties' legal rights. The application procedure and term of protection is the same as for utility patent.

Once a design patent is granted, no individuals or entities is permitted to engage in the manufacture, use, offer to sale or import of the product protected by such patent without consent of the patent holder for production and business purposes.

LAWS AND REGULATIONS RELATING TO TRADEMARKS

中華人民共和國商標法 (the PRC Trademark Law*) was promulgated on 23 August 1982 and amended on 22 February 1993 and 27 October 2001 and 中華人民共和國商標法實施條例 (the Implementing Regulation of the Trademark Law of the PRC*) was promulgated on 3 August 2002. These laws provide the basic legal framework for the regulation of trademarks in China. The Trademark Office of SAIC (the “**Trademark Office**”) is responsible for the registration and administration of trademarks throughout the country.

PRC law provides that the following acts constitute infringement of the exclusive right to use a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark in respect of the same kind of or similar commodities without the authorization of the trademark registrant;
- sale of commodities infringing upon the exclusive right to use the registered trademark;
- counterfeiting or making, without authorization, representations of a registered trademark of another person, or sale of such representations of a registered trademark;
- changing a registered trademark and selling products on which the changed registered trademark is used without the consent of the trademark registrant; and
- otherwise infringing upon the exclusive right of another person to use a registered trademark.

LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY

On 22 February 1993, the Standing Committee of NPC enacted 中華人民共和國產品質量法 (the Product Quality Law of the PRC*), which was revised on 8 July 2000 and 27 August 2009 by the Standing Committee of NPC. The said law stipulates that producers shall be liable for compensation if its defective products cause damages to the person or property (other than the defective product itself) except that the producers can prove that the products have not been put into circulation; the defects are non-existent when the products are put into circulation; or the defects cannot be found at the time of circulation due to scientific and technological reasons. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

On 31 October 1993, the Standing Committee of NPC enacted 中華人民共和國消費者權益保護法 (the Law on Protection of Consumers Rights and Interests of the PRC*), which became effective on 1 January 1994 and was revised by the Standing Committee of NPC on 27 August 2009. The rights and interests of consumers in purchasing and using commodities or receiving services for daily consumption shall be under the protection of the said law.

Business operators shall guarantee that commodities and services supplied conform to the requirements of personal and property safety. Where damages occur, business operators shall make compensations. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

All the products produced and sold in the PRC shall abide by these laws and regulations.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to 中華人民共和國環境保護法 (the Environmental Protection Law of the PRC*) promulgated and effective on 26 December 1989, the environmental protection department of PRC State Council (the “**State Environmental Protection Department**”) is in charge of promulgating national standards for environment quality. The local governments of provinces, autonomous regions and municipalities may also promulgate local standards for environment quality on matters not specified under national standards and the local governments must report such standards to the State Environmental Protection Department for record.

Pursuant to 中華人民共和國環境影響評價法 (the Law on Appraising of Environmental Impacts of the PRC*) promulgated on 28 October 2002 and effective on 1 September 2003, manufacturers must prepare environmental impact appraisal report setting forth the impact the proposed construction project may have on the environment and the measures to prevent or mitigate the impact for approval by the government authority prior to commencement of construction of the relevant project. New facilities built pursuant to this approval are not permitted to operate until the relevant environmental bureau has performed an inspection and is satisfied that the facilities are in compliance with environmental standards.

Pursuant to 建設項目環境保護管理條例 (the Administrative Regulations on Environmental Protection for Construction Project*) promulgated and effective on 29 November 1998 by PRC State Council, construction projects shall conduct assessment of environmental impact, obtain approval on such assessment and be examined and considered up to the environmental protection standard. Prior to the construction of new facilities or expansion or transformation of existing facilities that may cause a significant impact on the environment, a report on the environmental impact of the construction project shall be submitted to the relevant environmental protection authority. The newly constructed production facilities cannot operate until the relevant department is satisfied that such facilities are in compliance with all relevant environmental protection standards. Environmental protection facilities shall be designed, constructed and put into use simultaneously with the main project construction.

Pursuant to the requirements under 中華人民共和國水污染防治法 (the Law on Prevention and Control of Water Pollution of the PRC*), which was promulgated on 11 May 1984 and amended on 15 May 1996 and 28 February 2008 and became effective on 1 June 2008, and 中華人民共和國大氣污染防治法 (the Law on Prevention and Control of Atmospheric Pollution of the PRC*), which was promulgated on 5 September 1987 and

amended on 29 August 1995 and 29 April 2000 and became effective on 1 September 2000 and 排污費徵收使用管理條例 (the Administrative Regulations on Levy and Utilisation of Sewage Charge*), which became effective on 1 July 2003, enterprises which discharge water or air pollutants shall pay discharge fees pursuant to the types and volume of pollutants discharged. The discharge fees are calculated by the local environmental protection authority, which shall review and verify the types and volume of pollutants discharged. Once the discharge fees have been calculated, a notice on payment of discharge fees shall be issued to the relevant enterprises.

Pursuant to 中華人民共和國固體廢物污染環境防治法 (the Law on Prevention and Control of Environmental Pollution Caused by Solid Wastes of the PRC*), which was revised on 29 December 2004 and became effective on 1 April 2005, entities and individuals collecting, storing, transporting, utilising, or disposing of solid wastes shall take precautions against the spread, loss, and leakage of such solid wastes or adopt such other measures for preventing such solid wastes from polluting the environment.

中華人民共和國環境噪聲污染防治法 (the Law on Prevention and Control of Noise Pollution of the PRC*), promulgated on October 29, 1996 and effective on March 1, 1997, establishes the framework for noise pollution prevention in the PRC. Under the Law on Prevention and Control of Noise Pollution of the PRC, any person undertaking a construction, renovation or expansion project which might cause environmental noise pollution must prepare and submit an environmental impact statement to the competent environmental protection department for approval. Facilities for the prevention and control of environmental noise pollution must be designed, approved by the competent environmental protection department prior to commencement of the project, built and placed into use simultaneously when the project commences work. Facilities for the prevention and control of environmental noise pollution may not be dismantled or left idle without the approval of the competent environmental protection department.

The penalties for any breach of the environmental protection laws vary from warnings, fines, decisions to impose deadlines for cure, orders to stop production and imposition of administrative actions against relevant responsible individuals. Any entity whose construction projects fail to satisfy the requirements of pollution prevention may be ordered to suspend its production or operation and be subject to a fine. The responsible person of the entity may be subject to criminal liabilities for serious breaches resulting in significant damage to private or public property or personal death or injury.

LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

On 5 July 1994, the Standing Committee of NPC promulgated 中華人民共和國勞動法 (the Labor Law of the PRC*), which became effective on 1 January 1995 and was revised by the Standing Committee of NPC on 27 August 2009. On 29 June 2007, the Standing Committee of NPC promulgated 中華人民共和國勞動合同法 (the Labor Contract Law of the PRC*), which became effective on 1 January 2008. On 18 September 2008, PRC State Council promulgated 中華人民共和國勞動合同法實施條例 (the Implementing Regulation of Labor Contract Law of the PRC*), which became effective on the day of promulgation. Pursuant to the said Laws, a written labor contract shall be concluded within one month from the date when the employee commences working; otherwise the employer shall pay twice of the monthly wage. Labor contract is divided into two types, namely labor contract with fixed term and labor contract without fixed term. Where the employee has already worked for the employer for 10 full years consecutively or the labor contract is to be renewed after two fixed-term labor contracts have been concluded consecutively, unless otherwise required by the employee or provided by the said Laws, a labor contract without fixed term shall be concluded.

中華人民共和國就業促進法 (the PRC Law for Promotion of Employment*), promulgated by NPC Standing Committee on 30 August 2007 and effective as of 1 January 2008, provides that no employee can be discriminated in employment by reason of race, ethnic, gender, or religion. The employer should neither refuse nor request higher conditions for the employment of any woman because of their gender, except where the types of work or posts are not suitable for women as prescribed by the State; and no provision limiting any woman employee in marriage and child-bearing is allowed in the labor contract. The employer should not refuse the employment of anyone for the reason that the individual is a pathogen carrier, unless regulated otherwise. Moreover, enterprises should allocate the employee education fund for occupational training and further education of employees, violation of which may result in punishment imposed by the labor administration.

Pursuant to 中華人民共和國社會保險法 (the Social Insurance Law of the PRC*) promulgated by the Standing Committee of NPC on 28 October 2010 and effective on 1 July 2011, 社會保險費徵繳暫行條例 (the Provisional Regulations concerning Levy of Social Insurance Fees*) promulgated and implemented on 22 January 1999 by PRC State Council, 企業職工生育保險試行辦法 (the Interim Measures Concerning the Maternity Insurance of Enterprise Employees*) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labor, 住房公積金管理條例 (the Regulation Concerning the Administration of Housing Fund*) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by PRC State Council, 工傷保險條例 (the Regulation on Work-Related Injury Insurance*) promulgated on 27 April 2003 by PRC State Council and implemented on 1 January 2004 and amended on 20 December 2010 by PRC State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing fund for the employees.

LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

On 29 June 2002, the Standing Committee of NPC promulgated 中華人民共和國安全生產法 (the Production Safety Law of the PRC*), which became effective on 1 November 2002 and revised by the Standing Committee of NPC on 27 August 2009. The production and business operation entities shall observe the said law and other relevant laws, regulations concerning the production safety, strengthen the administration of production safety, establish and perfect the system of responsibility for production safety, perfect the conditions for safe production, and ensure the safety in production. The major person-in-charge of the production and business operation of the entities shall take charge of the overall work of the production safety of the entity concerned.

Pursuant to 中華人民共和國工業產品生產許可證管理條例 (the Regulations of the PRC on the Administration of Production Licence for Industrial Products*) which were promulgated by PRC State Council on 9 July 2005 and came into effect on 1 September 2005, and 中華人民共和國工業產品生產許可證管理條例實施辦法 (the Measures for the Implementation of the Regulations of the PRC on the Administration of Production Licence for Industrial Products*) which were promulgated by the AQSIQ on 15 September 2005 and came into effect on 1 November 2005 and amended on 21 April 2010, enterprises producing industrial products that may affect production safety and public safety are subject to the requirements of production licences.

實行生產許可證制度管理的產品目錄 (the Catalogue of Industrial Products Implementing Production Licence*) (the “**Catalogue of Industrial Products**”) which is subject to the system of production licence by PRC State Council shall be formulated, evaluated and adjusted from time to time by the competent department of production licence for industrial products of PRC State Council together with the relevant departments of PRC State Council, and be promulgated to the public after an approval is granted by PRC State Council. Any enterprise that fails to obtain the production licence shall not produce the products listed in the Catalogue of Industrial Products, and no unit or individual is allowed to sell or use such products which do not obtain the production licence in operating activities.

LAWS AND REGULATIONS RELATING TO OVERSEAS LISTING

On 8 August 2006, MOFCOM, SASAC, SAT, SAIC, CSRC, and SAFE, jointly promulgated 關於外國投資者併購境內企業的規定 (the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors*) (the “**M&A Rules**”), which was effective on 8 September 2006 and repromulgated by MOFCOM on 22 June 2009. According to Article 2 of the M&A Rules, acquisition of a domestic enterprise by a foreign investor refers to the circumstance where a foreign investor purchases by agreement the equity interests of a domestic non-foreign enterprise (the “**Domestic Enterprise**”) or subscribes the increased capital of the domestic enterprise, and thus changes such domestic enterprise into a foreign-invested enterprise; or a foreign investor establishes a foreign invested enterprise, through which it purchases by agreement the assets of a domestic

enterprise and operates such assets; or a foreign investor purchases by agreement the assets of a domestic enterprise, and then uses such assets to invest in and establish foreign invested enterprise through which it operates such assets.

In addition, M&A Rules provides that an offshore special purpose vehicle (the “SPV”) established for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange in the event that the SPV acquires shares of or equity interests in Domestic Enterprise by way of share swap.

Since Xiezhong Nanjing was changed into a sino-foreign joint venture enterprise in February 2006, not a Domestic Enterprise, the reorganisations in connection with Xiezhong Nanjing by Xiezhong Hong Kong acquiring its equity interests in 2008 and 2010 are not equity acquisition or asset acquisition as defined in M&A Rules, thus M&A Rules are not applicable to the equity interests transfer of Xiezhong Nanjing in 2008 and 2010.

According to the Section (iii) headed “Special Rules of Special Purpose Vehicle” under the Chapter (IV) of the M&A Rules and our PRC Legal Advisers’ understanding to the PRC laws, a SPV formed for overseas listing purpose and directly and/or indirectly controlled by PRC enterprise(s) or individual(s), is required to obtain approval from the CSRC for its overseas listing in the event that the SPV acquires shares of or equity interests in Domestic Enterprise by way of share swap. As there is no circumstance where a foreign investor acquires equity interests in our PRC subsidiaries by way of share swap, our PRC Legal Advisers have advised that the M&A Rules do not apply to the listing of the Company and the approval of CSRC is not required.

Pursuant to the SAFE Circular No. 75 promulgated on 21 October 2005 by the SAFE and implemented since 1 November 2005, domestic residents engaged in stock right financing and roundtrip investment via overseas SPVs shall apply to the local branch or department of foreign exchange administration for foreign exchange registration of overseas investments. Pursuant to SAFE Circular No. 19, domestic residents who engaged in stock right financing and roundtrip investment via overseas SPVs as defined in the SAFE Circular No. 75 but have not undergone the foreign exchange registration shall make up the formalities of foreign exchange registration of overseas investment. The SAFE Circular No. 75 further provides that, where a SPV experiences a “major capital modification event” such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guarantee to another party, etc., and is not involved in any roundtrip investment, the domestic resident shall, within 30 days of the major event, apply to the foreign exchange office for modification or archival filing of the foreign exchange registration of the overseas investments.

As advised by our PRC Legal Advisers, one of our beneficial shareholders who is a PRC resident, namely Mr. Chen Hao needs to submit application to the SAFE Jiangsu Branch for making up foreign exchange registration. On 30 December 2011, the SAFE Jiansu Branch imposed a fine of RMB50,000 on Mr. Chen Hao as a result of his failure to make foreign exchange registration. Mr. Chen Hao paid such fine on 30 December 2011 and made his registrations with the SAFE Jainsu Branch on 31 December 2011.

As advised by our PRC Legal Advisers, considering the fact that the SAFE Jiangsu Branch has imposed the fine on Mr. Chen Hao and Mr. Chen Hao has duly and fully paid such fine, the SAFE Jiangsu Branch shall not impose administrative penalty on Mr. Chen Hao and Xiezhong Nanjing once again for Mr. Chen Hao's roundtrip investment via overseas SPVs. Furthermore, since Mr. Chen Hao has completed the foreign exchange registration, it is compliant with the relevant laws and regulations for his indirect holding of equity of the domestic enterprises by way of holding the shares of Sunrise International.

1 MEMORANDUM OF ASSOCIATION

The Memorandum of Association was conditionally adopted on 21 May 2012 and states, *inter alia*, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VII in the section headed “Documents available for inspection”.

2 ARTICLES OF ASSOCIATION

The Articles of Association were conditionally adopted on 21 May 2012 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is HK\$20,000,000 divided into 2,000,000,000 shares of par value HK\$0.01 each.

2.2 Directors*(a) Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of

being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any

Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (v) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission, or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to Constitutional Documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of Rights of Existing Shares or Classes of Shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special Resolution — Majority Required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of

the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting Rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

2.8 Annual General Meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.9 Accounts and Audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 clear days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the

Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of Meetings and Business to be Conducted Thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by notice of not less than 21 clear days and any other extraordinary general meeting shall be called by not less than 14 clear days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;

- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to Purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase, unless the directors resolve prior to the repurchase that upon the repurchase the shares shall be held in the name of the Company as treasury shares.

2.13 Power of any Subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and Other Methods of Distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing, or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on Shares and Forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of Register of Members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement

published on the Stock Exchange's website, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 Quorum for Meetings and Separate Class Meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

2.19 Rights of Minorities in Relation to Fraud or Oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on Liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable Members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION**1 Introduction**

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 September 2011 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premium on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premium on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect

such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by either (a) a special resolution of each constituent company or (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of twenty years from 1 November 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable,

from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made to or by the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 30 September 2011. Our Company has established a place of business in Hong Kong at Room 2912, Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, and has been registered with the Companies Registry of Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance. Mr. Chui Wing Fai has been appointed as the agent of our Company for acceptance of service of process and notices in Hong Kong at the principal place of business of our Company in Hong Kong.

Our Company's corporate affairs are subject to its constitutive documents comprising the Memorandum of Association and the Articles and, as our Company was incorporated in the Cayman Islands, to the Cayman Companies Law. A summary of various provisions of our Company's constitutive documents and relevant aspects of the Cayman Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

At the time of its incorporation, our Company had an authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each.

On 30 September 2011, one nil paid Share was allotted and issued to Mapcal Limited, the initial subscriber. On 23 November 2011, such nil paid Share was transferred to CUAS and, on the same date, our Company issued five nil paid Shares to CUAS and four nil paid Shares to Sunrise International.

On 20 January 2012, pursuant to a share swap agreement dated 16 January 2012 among CUAS, Sunrise International and our Company, in consideration of the transfer by CUAS and Sunrise International of all their respective interests in Xiezhong BVI to our Company, our Company issued 59,994 and 39,996 Shares to CUAS and Sunrise International respectively, credited as fully paid, and credited the previously issued six nil paid Shares held by CUAS and four nil paid Shares held by Sunrise International as fully paid.

On 10 February 2012, the authorised share capital of our Company was increased from HK\$390,000 divided into 39,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,961,000,000 Shares.

Save as disclosed in this paragraph and the paragraph headed "Reorganisation" of the section headed "History and Development" in this prospectus, our Company does not have any changes in its share capital since its incorporation.

3. Resolutions of the Shareholders passed on 21 May 2012

The resolutions of the Shareholders passed on 21 May 2012 include, among others:

- (a) our Company conditionally approved and adopted the Articles, the provisions of which are summarised in Appendix V to this prospectus;
- (b) conditional upon the conditions stated in the paragraph headed “Conditions” of the section headed “Structure of the Share Offer” in this prospectus having been fulfilled:
 - (i) the Share Offer and Capitalisation Issue were approved and our Directors were authorised to allot and issue the new Shares pursuant to the Share Offer and Capitalisation Issue, on and subject to such terms and conditions as they may in their absolute discretion decide;
 - (ii) the rules of the Share Option Scheme (subject to such amendments as may be approved by our Directors or a committee thereof) were approved and adopted and our Directors were authorised to grant options to subscribe for the Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options granted under the Share Option Scheme and do such acts and things as it may consider necessary or expedient to give effect to the transactions contemplated under the Share Option Scheme;
 - (iii) a general unconditional mandate was given to our Directors to allot, issue and deal whether pursuant to an option or otherwise with additional Shares (including the power to make or grant offers, agreements and options which would or might require the exercise of such powers), otherwise than pursuant to (ww) a rights issue; (xx) the exercise of rights of subscription, exchange or conversion under the terms of any warrants or convertible securities issued by our Company or any securities which are exchangeable into Shares; (yy) the exercise of the subscription rights under options granted under the Share Option Scheme or any other similar arrangement of our Company from time to time adopted for the grant or issue to officers and/or employees and/or consultants and/or advisors of our Company and/or any of its subsidiaries and/or other persons of Shares or rights to acquire Shares; or (zz) any scrip dividend or similar arrangement providing for allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles, with an aggregate nominal amount not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue; and (bb) the aggregate nominal amount of the share capital of our Company which may be repurchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph (iv)

below, until the conclusion of the next annual general meeting of our Company or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any other applicable laws or the date of passing of an ordinary resolution by the Shareholders at general meeting revoking or varying the authority given to our Directors, whichever occurs first;

- (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or other stock exchange on which Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules or of any other stock exchange as amended from time to time, with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Share Offer and Capitalisation Issue until the conclusion of the next annual general meeting of our Company or the expiration of the period within which the next annual general meeting of our Company is required to be held by the Articles or any other applicable laws or the date of passing of an ordinary resolution by the Shareholders at general meeting revoking or varying the authority given to our Directors, whichever occurs first; and
- (v) the general unconditional mandate mentioned in paragraph (iii) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (iv) above.

4. Reorganisation

Our Group underwent certain share capital changes and reorganisation steps to rationalise our corporate and shareholding structure in preparation for the Listing. Please refer to the paragraph headed “Reorganisation” of the section headed “History and Development” in this prospectus for details.

5. Changes in share capital of subsidiaries

Save as mentioned in the paragraph headed “Corporate History of Our Subsidiaries” of the section headed “History and Development” in this prospectus, there has been no change in the share capital of the subsidiaries of our Company during the two years immediately prior to the date of this prospectus.

6. Repurchase by our Company of its own securities

This section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval of a particular transaction.

Our Directors were granted a general unconditional mandate (the "Repurchase Mandate") authorising the repurchase of Shares by our Company on the Stock Exchange or on any other stock exchange on which Shares may be listed and recognised by the SFC and the Stock Exchange, as referred to in the paragraph headed "A. Further Information about our Company — 3. Resolutions of the Shareholders passed on 21 May 2012" above in this Appendix. The Repurchase Mandate will be exercisable upon Listing and will expire at the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Cayman Companies Law or any other applicable laws to be held, or when revoked or varied by ordinary resolution of the Shareholders, whichever shall first occur.

(ii) Source of Funds

Repurchases must be funded out of funds legally available for such purpose in accordance with the Listing Rules, the Memorandum of Association and the Articles and the applicable laws of the Cayman Islands. Our Company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by our Company may be made out of our Company's funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for the purpose of the repurchase or out of our Company's share premium account. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of our Company's share premium account.

(iii) Trading Restrictions

The total number of Shares which our Company may repurchase on the Stock Exchange is the number of Shares representing up to a maximum of 10% of the aggregate number of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue. Our Company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring our Company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, our Company is prohibited from repurchasing its Shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its Shares were traded on the Stock Exchange. The Listing Rules also prohibit our Company from repurchasing its securities which will result in Shares held by the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of Repurchase

Our Company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (aa) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (bb) the deadline for publication of an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), our Company may not repurchase its Shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if our Company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, our Company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

(vii) Connected Persons

Our Company is prohibited from knowingly repurchasing securities on the Stock Exchange from our connected person and our connected person is prohibited from knowingly selling his securities to our Company.

(b) Reasons for Repurchases

Our Directors believe that it is in the best interests of our Company and the Shareholders as a whole for our Directors to have general authority from Shareholders to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and the Shareholders as a whole.

(c) Funding of Repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum of Association and the Articles, the applicable laws of Cayman Islands and the Listing Rules.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(d) General

Exercise in full of the Repurchase Mandate, on the basis of 800,000,000 Shares in issue immediately after the completion of the Share Offer and the Capitalisation Issue, could accordingly result in up to 80,000,000 Shares being repurchased by our Company.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell Shares to our Company or its subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Memorandum of Association and the Articles and the applicable laws of the Cayman Islands.

No connected person has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

No purchase of Shares has been made by our Company within six months prior to the date of this prospectus.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within two years preceding the date of this prospectus and are or may be material:

- (a) a sale and purchase agreement dated 16 January 2012 entered into among Sunrise International, CUAS and our Company, pursuant to which CUAS and Sunrise International transferred all their respective interests in Xiezhong BVI to our Company in consideration of our Company (a) allotting and issuing 59,994 and 39,996 Shares to CUAS and Sunrise International respectively credited as fully paid; (b) crediting the previously

issued six nil paid Shares held by CUAS as fully paid; and (c) crediting the previously issued four nil paid Shares held by Sunrise International as fully paid;

- (b) the Deed of Non-competition;
- (c) the Deed of Indemnity; and
- (d) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

The following intellectual property rights are material in relation to our Group's business:

(a) Patents

- (i) As at the Latest Practicable Date, our Group had registered the following patents in the PRC:


Type	Patent Description	Registered Owner	Patent Number	Expiry Date
Invention	Defrosting device for automobile air-conditioning evaporator (轎車空調蒸發器除霜裝置)	Xiezhong Nanjing	ZL 03129515.0	25 June 2023
Utility Model	Co-current condenser for automobile air-conditioner (一種汽車空調用平行流冷凝器)	Xiezhong Nanjing	ZL 2010 2 0243022.8	28 June 2020
Invention	Co-current evaporator (平行流蒸發器)	Xiezhong Nanjing	ZL 2009 1 0028354.6	21 January 2029
Utility Model	Collecting tube of co-current evaporator for automobile air-conditioner (一種汽車空調用平行流蒸發器集流管)	Xiezhong Nanjing	ZL 2009 2 0283129.2	28 December 2019
Utility Model	Sealing device for automobile air-conditioning air doors (汽車空調風門密封裝置)	Xiezhong Nanjing	ZL 2009 2 0037694.0	21 January 2019
Utility Model	Cooling system for automobile engine (一種汽車發動機冷卻系統)	Xiezhong Nanjing	ZL 2009 2 0037695.5	21 January 2019
Utility Model	Cascading evaporator (一種層疊式蒸發器)	Xiezhong Nanjing	ZL 2009 2 0038109.9	15 January 2019
Design	Auto-controller of automobile air-conditioning system (汽車空調自動控制器)	Xiezhong Nanjing	ZL 2011 3 0306432.2	1 September 2021
Design	Manual-controller of automobile air-conditioning system (汽車空調手動控制器)	Xiezhong Nanjing	ZL 2011 3 0306431.8	1 September 2021

- (ii) As at the Latest Practicable Date, our Group had applied for the registration of the following patents in the PRC and such registration had not yet been granted:



Type	Patent Description	Application Owner	Application Number	Application Date
Utility Model	Assembling Structure of the air blower in automobile air-conditioning system (一種汽車空調鼓風機的安裝結構)	Xiezhong Nanjing	201120400663.4	20 October 2011
Utility Model	Electrical-controller of automobile air-conditioning system (一種汽車空調控制電路)	Xiezhong Nanjing	201120358818.2	23 September 2011
Utility Model	Assembly of automobile air-conditioning system with heater and water tank (一種汽車空調暖風水箱總成)	Xiezhong Nanjing	201120359309.1	23 September 2011
Design	Electrical-controller of automobile air-conditioning system (汽車空調電動控制器)	Xiezhong Nanjing	201130306424.8	2 September 2011
Utility Model	Enclosed shell device of automobile air-conditioning system (汽車空調HVAC殼體密封裝置)	Xiezhong Nanjing	201120308092.1	23 August 2011
Utility Model	Cooling System for automobile air-conditioning system (一種汽車空調冷卻裝置)	Xiezhong Nanjing	201120287853.X	9 August 2011

(b) Trademarks

- (i) As at the Latest Practicable Date, our Group had registered the following trademark in the PRC:

Trademark	Registered Owner	Registration No.	Class	Expiry Date
	Xiezhong Nanjing	3685726	11	13 February 2016

- (ii) As at the Latest Practicable Date, our Group had applied for the registration of the following trademarks in Hong Kong and such registration had not yet been granted:

Trademark	Applicant	Application No.	Class	Application Date
	Xiezhong HK	302070305	11	27 October 2011
	Xiezhong HK	302080971	11	9 November 2011
协众 XIEZHONG	Xiezhong HK	302080962	11	9 November 2011

- (iii) As at the Latest Practicable Date, our Group had applied for the registration of the following trademarks in the PRC and such registration had not yet been granted:

Trademark	Applicant	Application No.	Class	Application Date
协众 XIEZHONG	Xiezhong Nanjing	9771453	11	27 July 2011
协众 XIEZHONG	Xiezhong Nanjing	9771472	12	27 July 2011

(c) Domain names

As at the Latest Practicable Date, our Group had registered the following domain names:

Domain Name	Registered Owner	Expiry Date
njxiezhong.com	Xiezhong Nanjing	13 August 2013
XIEZHONGINTERNATIONAL.HK	Xiezhong HK	15 July 2014
XIEZHONGHOLDINGS.HK	Xiezhong HK	15 July 2014
XIEZHONG.HK	Xiezhong HK	15 July 2014

C. FURTHER INFORMATION ABOUT OUR GROUP'S ENTERPRISES IN THE PRC

Brief particulars of the subsidiaries of our Company established in the PRC are set out below:

(1) Xiezhong Nanjing

Name:	Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. 南京協眾汽車空調集團有限公司
Date and place of establishment:	15 April 2002, Nanjing
Term of operation:	15 April 2002 to 14 April 2022
Nature:	Limited liability company (Solely funded by Taiwan, Hong Kong or Macao corporate body)
Shareholder:	Xiezhong HK
Scope of business:	permitted business: none general business: production of automobile air-conditioners and accessories, automobile parts; sale of self-manufactured products and provision of related services
Registered capital:	RMB50,000,000
Total investment:	RMB100,000,000
Attributable interest to our Group:	100%
Legal representative:	Mr. Chen Cunyou (陳存友)

(2) Xiezhong Beijing

Name:	北京海納川協眾汽車空調有限公司 (Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd.*)
Date and place of establishment:	25 October 2006, Beijing
Term of operation:	25 October 2006 to 24 October 2026
Nature:	Limited liability company
Shareholders:	Xiezhong Nanjing (50%) Beijing Hainachuan (50%)
Scope of business:	permitted business: none general business: sale of automobile air-conditioners and accessories; development of technology; provision of technological consultation and services
Registered capital:	RMB43,000,000
Attributable interest to our Group:	50%
Legal representative:	Mr. Xu Xiaojiang (許小江)

(3) Xiezhong Liaoning

Name:	遼寧晨友汽車空調系統有限公司 (Liaoning Chenyou Automobile Air-conditioning System Co., Ltd.*)
Date and place of establishment:	29 September 2009, Liaoning
Term of operation:	29 September 2009 to 29 September 2029
Nature:	Limited liability company
Shareholders:	Xiezhong Nanjing (60%) 瀋陽特種焊料有限公司 (Shenyang Special Solder Co., Ltd.*) (40%)
Scope of business:	Production of automobile air-conditioners, accessories and automobile parts; sale of self-manufactured products and provision of related services
Registered capital:	RMB10,000,000
Attributable interest to our Group:	60%
Legal representative:	Mr. Ge Hongbing (葛紅兵)

(4) Xiezhong Hubei

Names:	湖北雷迪特協眾汽車空調系統有限公司 (Hubei Leidite Xiezhong Automobile Air-conditioning System Co., Ltd.*)
Date and place of establishment:	13 April 2010, Hubei
Term of operation:	13 April 2010 to 12 April 2030
Nature:	Limited liability company
Shareholders:	Xiezhong Nanjing (51%) 湖北雷迪特汽車冷卻系統有限公司(Hubei Leidite Automobile Cooling System Co., Ltd.*) (49%)
Scope of business:	Research and development, production, sale and export of automobile engine cooling systems, air-conditioning systems, modules and accessories and thermal systems; provision of after-sales services (projects which are subject to special governmental provisions shall be operated after approval or in accordance with the certificate within the approved period)
Registered capital:	RMB10,000,000
Attributable interest to our Group:	51%
Legal representative:	Mr. Li Xiangping (李湘平)

D. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of interests — interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company and its associated corporations

Save as disclosed below, none of our Directors or chief executive of our Company has any interests or short positions in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will, upon Listing, have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) or which will, upon Listing, be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will, upon Listing, be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Long positions (L) and short positions (S) in the Shares

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Kenneth Fang <i>(Note 1)</i>	Interest of controlled corporation	36,000,000 (L)	4.5%
Mr. Chen Cunyou <i>(Note 2)</i>	Beneficial owner	1,800,000 (S)	0.225%
Mr. Ge Hongbing <i>(Note 3)</i>	Beneficial owner	10,260,000 (L)	1.2825%
Mr. Ge Hongbing <i>(Note 3)</i>	Beneficial owner	6,000,000 (L)	0.75%
Mr. Zhang Yichen <i>(Note 4)</i>	Interest of controlled corporation	185,148,000 (L)	23.14%
		9,257,400 (S)	1.16%

Notes:

- As mentioned in the paragraph headed “Share Incentive Plan” in the section headed “History and Development” in this prospectus, each of Fang Brothers, CDH Cool, CDH Auto, CITIC Capital China and Sunrise International has an obligation to transfer a total of 30,000,000 Shares in proportion to their respective interests in the Company at nil consideration to the grantees under the Share Incentive Plan upon full exercise of the grantees’ rights thereunder. As a result, each of them has a short position in respect of the Shares to be so transferred under the Share Incentive Plan. Since Mr. Kenneth Fang has a 50% interest in Fang Brothers Holdings Limited, which wholly owns Fang Brothers. Therefore, Mr. Kenneth Fang is deemed to be interested in all the Shares held by and short positions in Shares of Fang Brothers by virtue of the SFO.
- Mr. Chen Cunyou was granted rights to acquire 10,260,000 Shares under the Share Incentive Plan.

3. Mr. Ge Hongbing was granted rights to acquire 6,000,000 Shares under the Share Incentive Plan.
4. Mr. Zhang Yichen is deemed to be interested in all the Shares held by and all short positions in Shares of CITIC Capital China by virtue of the SFO. For details of his deemed interest, please refer to the section headed “Substantial Shareholders”.

(b) Particulars of service agreements and appointment letters

Each of our Directors has entered into a service contract or is subject to an appointment letter (as the case may be) with our Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months’ notice in writing served by either party on the other.

There are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group.

(c) Directors’ remuneration

Our Company’s principal policies concerning remuneration of executive Directors are to enable our Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives. Under the policy, a Director is not allowed to approve his own remuneration. The principal elements of our Group’s executive remuneration package include salaries, discretionary bonuses and eligibility to participate in the Share Option Scheme.

The aggregate remuneration (comprising salaries, allowances, benefits in kind, discretionary bonuses, retirement scheme contributions and share-based payments) payable to our Directors for each of the three years ended 31 December 2011 were approximately RMB3.6 million, RMB1.6 million and RMB1.0 million, respectively.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments during the three years ended 31 December 2011.

Under the current arrangements, our Directors will be entitled to receive remuneration (including directors fees for independent non-executive Directors) which, for the financial year ending 31 December 2012, is expected to amount to HK\$0.4 million in aggregate.

Save for director’s fee and their eligibility to participate in the Share Option Scheme, none of the non-executive Directors is expected to receive any other remuneration from holding their office as non-executive Directors.

Further details as to the breakdowns of the Directors' remuneration for each of the three years ended 31 December 2011 are set out in Note 8 of the Accountants' Report headed "Directors' Remuneration" in Appendix I to this prospectus.

2. Substantial shareholders

Information on persons, not being Directors or chief executive of our Company, who will have, immediately following the Share Offer, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO is set out in the section headed "Substantial Shareholders" in this prospectus.

3. Competing interest

None of our Directors are interested in any business which competes or is likely to compete, directly or indirectly, with the business of our Group.

4. Disclaimers

Save as disclosed in this prospectus,

- (a) none of our Directors is interested in the promotion of, or in any assets which have been, within two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of our Group taken as a whole; and
- (c) insofar as our Directors are aware, none of our Directors or their associates, or the Shareholders who are expected to be interested in 5% or more of the issued share capital of our Company has any interest in the five largest customers or the five largest suppliers of our Group.

E. SHARE OPTION SCHEME

The principal terms of the Share Option Scheme conditionally adopted by our Company on 21 May 2012 and revised on 30 May 2012 are as follows:

(a) Purpose

The purpose of the Share Option Scheme is to attract and retain the best quality personnel for the development of our Group's businesses; to provide additional incentives to the Qualifying Grantees (as defined below); and to promote the long term financial success of our Group by aligning the interests of option holders to Shareholders.

(b) Who may join

On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules, the Board may offer to grant an option to any Qualifying Grantees as the Board may in its absolute discretion select. "Qualifying Grantee" means:

- (i) (1) any employee (whether full-time or part-time employee) of any members of our Group or any Affiliates and any person who is an officer of any members of our Group or any Affiliates ("Employee");
- (2) any person who is seconded to work for any member of our Group or any Affiliates ("Secondee");
- (3) any consultant, agent, representative, adviser, customer, contractor of our Group or any Affiliates;
- (4) any business partner/ally/alliance, joint venture partner, supplier of goods or services to our Group or any Affiliates or any employee thereof; or

(collectively the "Eligible Person")

- (ii) any trust for the benefit of an Eligible Person or his immediate family members or any company controlled by an Eligible Person or his immediate family members ("Related Trust and Company").

"Affiliate" means a company that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company and includes any company which is (a) the holding company of the Company; or (b) a subsidiary of holding company of the Company; or (c) a subsidiary of the Company; or (d) a fellow subsidiary of the Company; or (e) the controlling shareholder of the Company; or (f) a company controlled by the controlling shareholder of the Company; or (g) a company controlled by the Company; or (h)

an Associated Company of the holding company of the Company; or (i) an Associated Company of the Company; or (j) Associated Company of controlling shareholder of the Company;

“Associated Company” means a company in the equity share capital of which a company, directly or indirectly, has an 20% or greater beneficial interest but excluding the subsidiaries of that company;

“immediate family members” means a spouse or person co-habiting as the spouse of an Eligible Person, and any child or step-child, parent or step-parent, brother, sister, step-brother, step-sister, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law of an Eligible Person;

“officer” means company secretary or director (whether executive or non-executive); and

“subsidiary” has the meaning set out in the Listing Rules.

(c) Administration

The Share Option Scheme shall be subject to the administration of the Board whose decision shall (save as otherwise provided in the Share Option Scheme) be final and binding. Subject to the provisions of the Listing Rules and applicable law and other regulations from time to time in force, the Board’s powers include the authority, in its discretion:

- (i) to select Qualifying Grantees to whom options may be granted under the Share Option Scheme;
- (ii) to determine, subject to the requirements of the Listing Rules and the law, the time of the grant of options;
- (iii) to determine the number of Shares to be covered by each option granted under the Share Option Scheme;
- (iv) to approve forms of option agreements;
- (v) to determine the terms and conditions, not inconsistent with the terms of the Share Option Scheme, of any option based in each case on such factors as the Board, in its sole discretion, shall determine. Such terms and condition may include, but are not limited to:
 - the subscription price;
 - the option period, which shall be not greater than the period prescribed by the Listing Rules from time to time (which is, as at the date of adoption of the Share Option Scheme, a period of 10 years from the commencement date);

- the minimum period, if any, for which an option must be held before it vests or becomes exercisable in whole or in part;
 - the performance targets, if any, that must be achieved before the option can be exercised;
 - the amount, if any, payable on application or acceptance of the option and the period within which payments must be made; and
 - the period, if any, during which Shares allotted and issued upon exercise of the option shall be subject to restrictions on dealings, and the terms of such restrictions;
- (vi) to construe and interpret the terms of the Share Option Scheme and options granted pursuant to the Share Option Scheme;
- (vii) to prescribe, amend and rescind rules and regulations relating to the Share Option Scheme, including rules and regulations relating to sub-schemes established for the purpose of qualifying for preferred treatment under foreign laws and for benefits intended solely for any particular type of Qualifying Grantees; and
- (viii) subject to the provisions relating to grant to substantial shareholders and independent non-executive Directors and their respective associates in the Share Option Scheme, to vary the terms and conditions of any option agreement (provided that such variation is not inconsistent with the terms of the Listing Rules and the Share Option Scheme).

(d) Grant of options

On and subject to the terms of the Share Option Scheme and the requirements of the Listing Rules, the Board shall be entitled at any time within 10 years commencing on the Listing Date to make an offer for the grant of an option to any Qualifying Grantee as the Board may in its absolute discretion select.

An offer of the grant of an option shall be deemed to have been made on the date such offer is approved by the Board, notwithstanding that the letter or any other document containing the offer is sent to and received by the Qualifying Grantee on a later date.

(e) Restriction on time of grant of option

An offer of the grant of an option may not be made after a price sensitive event has occurred or a price sensitive matter in respect of our Group has been the subject of a decision, until such price sensitive information has been publicly disseminated in accordance with the Listing Rules. In particular, but only insofar as and for so long as the Listing Rules require, no offer of the option may be made during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange) for the approval of our Company's interim or annual results; and
- (ii) the deadline for our Company to publish its interim or annual results announcement,

and ending on the date of the results announcement.

(f) Acceptance and payment on acceptance of option offer

An offer shall remain open for acceptance by the Qualifying Grantee concerned for a period of 28 days from the date of the offer (or such period as the Board may specify in writing).

HK\$1 is payable by the grantee to our Company on acceptance of the option offer.

(g) Subscription price

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but the subscription price shall not be less than whichever is the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the granting of the option; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the granting of the option; and (iii) the nominal value of a Share.

For the purpose of determining the subscription price, if the Shares have been listed for less than five business days immediately preceding the date of the granting of the option, the new issue price per Share under the public offering in connection with such listing (excluding brokerage fee, trading fee and transaction levy payable thereon) shall be deemed to be the closing price for any business day falling within the period before such listing.

(h) Option period

The period as the Board may in its absolute discretion determine and specify in relation to any particular option holder in his option agreement during which the option may be exercised (subject to such restriction on exercisability specified therein), which shall be not greater than the period prescribed by the Listing Rules from time to time (which is, as at the date of adoption of the Share Option Scheme, a period of 10 years from the date of the granting of the option).

(i) Rights are personal to grantee

An option shall be personal to the option holder and shall not be assignable or transferable.

(j) Rights attaching to Shares allotted

The Shares to be allotted upon the exercise of an option shall be subject to all the provisions of the Articles of our Company for the time being in force and shall rank *pari passu* in all respects with the fully paid Shares in issue on the date of issue and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of issue, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date of issue.

(k) Rights on retirement, death or permanent physical or mental disability

If an option holder (or, in the case of an option holder which is a Related Trust and Company, the relevant Eligible Person) ceases to be a Qualifying Grantee attributable to the fact that he dies or becomes permanently physically or mentally disabled or in the case of an option holder being an Employee (or, in the case of an option holder which is a Related Trust and Company of an Employee, the relevant Employee), retires, unless otherwise provided in the option agreement, the option may be exercised within such period of time as is specified in the option agreement (but in no event later than the expiration of the term of such option as set forth in the option agreement).

In the absence of a specified time in the option agreement, the option shall remain exercisable for 12 months (or such longer period as the Board shall decide) following the relevant option holder's or Qualifying Grantee's or Employee's (as the case may be) retirement, death or permanent physical or mental disability. The option may be exercised within that period by the personal representatives of the option holder.

If the option is not so exercised within the time specified, the option shall lapse.

(l) Termination for misconduct

If an option holder being an Employee (or, in the event of an option holder which is a Related Trust and Company of the Employee, the relevant Employee) ceases to be an Employee for his conduct based on which the relevant employer can terminate his contract of employment without notice or payment in lieu, or having been convicted of any criminal offence involving his integrity or honesty, the option shall immediately lapse.

(m) Termination for bankruptcy cause

If an option holder (or, in the event of an option holder which is a Related Trust and Company of an Eligible Person, the relevant Eligible Person) ceases to be a Qualifying Grantee for having committed any act of bankruptcy or having become insolvent or having made any arrangements or composition with his creditors generally, the option shall immediately lapse.

(n) Rights on termination other than for retirement, death, permanent disability, termination resulting from misconduct or bankruptcy cause

If an option holder (or, in the event of an option holder which is a Related Trust and Company of an Eligible Person, the relevant Eligible Person) ceases to be a Qualifying Grantee other than in any of the circumstances described in paragraphs (k), (l) or (m), unless otherwise provided in the option agreement, an option holder may exercise his option within three months of such cessation (or such longer period as the Board shall decide, but in no event later than the expiration of the term of such option as set forth in the option agreement).

If the option is not so exercised within the time specified, the option shall lapse.

(o) Rights on takeover

If a takeover by way of general offer is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror), and the general offer becomes or is declared unconditional in all respects, the option holder shall be entitled to exercise the option (to the extent not already exercised) at any time within one month (or such longer period as the Board shall decide) or the expiry of the term of such option as set forth in the option agreement, whichever is earlier, after the date on which the general offer becomes or is declared unconditional.

If the option is not so exercised within the time specified, the option shall lapse.

(p) Rights on compromise or arrangement

If a compromise or arrangement between our Company and its members or creditors is proposed, our Company shall give notice to the option holder on the same date as it despatches the notice to each member or creditor of our Company

summoning the meeting to consider such a compromise or arrangement, and thereupon the option holder (or his personal representatives) may until the expiry of the period commencing with such date and ending with the earlier of the date two calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the court exercise any of his options (to the extent not already exercised) whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective, and upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. Our Company may require the option holder to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the option holder in the same position, as nearly as possible, as would have been the case had such Shares been subject to such compromise or arrangement.

If the option is not so exercised within the time specified, the option shall lapse.

(q) Rights on voluntary winding-up of our Company

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all option holders (together with a notice of the existence of the provisions of the Share Option Scheme relating to this paragraph (q)) and thereupon, each option holder (or his personal representatives) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the option holder credited as fully paid.

If the option is not so exercised within the time specified, the option shall lapse.

(r) Lapse of option

Subject to the discretion of the Board to extend the option period as referred to in paragraphs (c), (k), (n) and (w), and without prejudice to the authority of the Board to provide for additional situations where an option shall lapse in any option agreement, an option shall lapse and not be exercisable (to the extent not already exercised) on the earliest of: (i) the expiry of the option period; (ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n), (o), (p) and (q); and (iii) the date on which the Board or the two directors of our Company duly authorised by the Board certify that for the reason of a breach of paragraph (i).

(s) Cancellation of options

Options granted but not exercised or lapsed in accordance with the terms of the Share Option Scheme may be cancelled by our Company with the consent of the Qualifying Grantee provided that such consent shall not be required where an option lapses in accordance with paragraph (r) above. Where our Company cancels options and offers to issue new ones to the same Qualifying Grantee, the issue of such new options may only be made under the Share Option Scheme with available unissued options (excluding the cancelled options) within the limits set out in paragraph (t) below.

(t) Maximum number of Shares available under the Share Option Scheme***(i) Overriding Limit***

The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the Shares in issue from time to time. No options may be granted under any schemes of our Company if this will result in the limit being exceeded.

(ii) Mandate Limit

In addition to the limit set out in sub-paragraph (t)(i) above and prior to the approval of a Refreshed Mandate Limit as referred to in sub-paragraph (t)(iii) below, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company must not in aggregate exceed 10% of the Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (i.e. 80,000,000 Shares). Options lapsed in accordance with the terms of the Share Option Scheme or any other schemes will not be counted for the purpose of calculating the 10% limit.

(iii) Refreshing of Mandate Limit

Our Company may by ordinary resolutions of the Shareholders refresh the mandate limit provided our Company shall issue a circular containing such information as required by the Listing Rules to Shareholders before such approval is sought. However, the total number of Shares which may be issued upon exercise of all options to be granted under all of the schemes of our Company under the limit as refreshed (the “Refreshed Mandate Limit”) must not exceed 10% of the Shares in issue as at the date of approval of the Refreshed Mandate Limit. Options previously granted under the schemes (including those outstanding, cancelled, lapsed in accordance with any of the schemes or exercised options) will not be counted for the purpose of calculating the limit as refreshed.

(iv) Grant to specifically identified Qualifying Grantees

Specifically identified Qualifying Grantees may be granted options beyond the mandate limit. Our Company may in addition seek separate approval by its Shareholders in general meeting for granting options beyond the mandate limit provided the options in excess of the limit are granted only to Qualifying Grantees specifically identified by our Company and a circular containing such information as required by the Listing Rules is issued to Shareholders before such approval is sought.

(v) Limit for each Qualifying Grantee

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to each Qualifying Grantee must not exceed 1% of the Shares in issue. Where any further grant of options to a Qualifying Grantee would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be subject to separate approval by Shareholders in general meeting with the relevant Qualifying Grantee and his associates abstaining from voting. Prior to seeking such approval, our Company shall issue a circular containing such information as required by the Listing Rules to Shareholders.

(u) Grant of option to connected persons

Insofar as and for so long as the Listing Rules require, where any offer of an option is proposed to be made to a Director, chief executive or substantial shareholder of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding any independent non-executive director who is or whose associate is the Qualifying Grantee to whom the option is proposed to be granted). Insofar and for so long as the Listing Rules so require, no option may be granted to any substantial shareholder or an independent non-executive director of our Company, or any of their respective associates, which would result in the Shares issued and to be issued upon exercise of all options already granted or to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any other scheme(s) of our Company in the 12-month period up to and including the date of board meeting for proposing such further grant (i) representing in aggregate over 0.1% of the share capital of our Company in issue; and (ii) having an aggregate value, based on the closing price of the Shares at the date of the board meeting for proposing such further grant, in excess of HK\$5 million, unless such further grant is approved by Shareholders in general meeting. Prior to seeking such approval, our Company shall issue a circular containing such information as required by the Listing Rules to the Shareholders. At such general meeting, the grant of options to the substantial shareholder or independent non-executive Director of our Company, or any of their

respective associates shall, for so long and insofar as the Listing Rules so required, be approved by Shareholders by way of poll with all connected persons of our Company abstaining from voting, except that any connected person may vote against such resolution provided that he has informed our Company of his intention to do so and such intention has been stated in the relevant circular to Shareholders.

(v) Effects of reorganisation of capital structure

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend scheme), rights issue or other general offer of securities made by our Company to holders of its securities, consolidation, subdivision, reduction or similar reorganisation of the share capital of our Company, such corresponding alterations (if any) shall be made to: (a) the number or nominal amount of Shares subject to the option so far as unexercised; and/or (b) the subscription price; and/or (c) the maximum number of Shares subject to the Share Option Scheme, as the auditors or independent financial adviser shall certify in writing to the Board to be in their opinion fair and reasonable (except in the case of a capitalisation issue where no such certification shall be required), provided that: (i) any such alterations shall be made on the basis that the aggregate subscription price payable by an option holder on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; (iii) no such alterations shall be made the effect of which would be to increase the proportion of the issued share capital of our Company for which any option holder is entitled to subscribe pursuant to the options held by him; and (iv) any such adjustments shall be made in compliance with Chapter 17 of the Listing Rules, the supplemental guidance issued by the Stock Exchange dated 5 September 2005 and such other guidelines or supplementary guidance as may be issued by the Stock Exchange from time to time.

For the avoidance of doubt, the issue of securities by our Company as consideration in a transaction shall not be regarded as a circumstance requiring any such alterations.

(w) Alteration to the Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme relating to matters contained in Rule 17.03 of the Listing Rules shall not be altered to the advantage of option holders or proposed option holders except with the prior sanction of a resolution of our Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the option holders as would be required of Shareholders under the Articles for the time being of our Company for a variation of the rights attached to the Shares. Any alterations to the terms and conditions of the Share Option Scheme, which are of a

material nature and any change to the terms of the options granted, shall be approved by Shareholders, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall comply with the relevant requirements of Chapter 17 of the Listing Rules from time to time. Any change to the authority of the Board to alter the terms of the Share Option Scheme shall be approved by Shareholders. Subject to the Listing Rules and the terms of the Share Option Scheme, the Board may, at any time and in its absolute discretion, remove, waive or vary the conditions, restrictions or limitations imposed in an option agreement on compassionate or any other grounds.

(x) Termination of Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered after the Share Option Scheme is terminated but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. All options granted prior to such termination and not then exercised shall remain valid.

(y) Conditions of Share Option Scheme

The Share Option Scheme is conditional on:

- (i) the obtaining of the Company of the approval for listing on the Stock Exchange of Shares which may be issued pursuant to the exercise of the Options; and
- (ii) the commencement of dealings in the Shares on the Stock Exchange.

As at the date of this prospectus, no option has been granted under the Share Option Scheme. Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued following the exercise of the options granted under the Share Option Scheme. Our Directors confirm that the Share Option Scheme is in full compliance with Chapter 17 of the Listing Rules.

F. SHARE INCENTIVE PLAN

On 29 October 2008, the board of directors of Xiezhong Nanjing adopted the Share Incentive Plan, pursuant to which 33 grantees were granted rights to acquire at nil consideration, shares in Xiezhong Nanjing or its listing vehicle holding company, totalled 5% of the issued shares of such listing vehicle immediately before its listing, conditional upon Xiezhong Nanjing having achieved the targeted profits for each of the years 2008, 2009 and 2010 of RMB60 million, RMB63 million, and RMB80 million respectively. As Xiezhong Nanjing had achieved the targeted profits, each of Fang Brothers, CITIC Capital China, CDH Auto, CDH Cool and Sunrise International agreed to transfer a total of 30,000,000 Shares to the said grantees at nil consideration in proportion to their respective interests in the Company upon the grantees exercising their rights under the Share Incentive

Plan. Such rights can be exercised for a period of 10 years from the date of grant. The grantees have agreed that they would not exercise any of their rights before the first anniversary of the Listing Date and that any exercise of their rights before the second anniversary of the Listing Date would be subject to a limit of 50% with their remaining rights to be exercised from the second anniversary onwards.

Particulars of the grants under the Share Incentive Plan are set out below:

Grantees	Number of Shares to be acquired by the grantees	Approximate percentage of interest in our Company immediately after the Listing
Directors		
Mr. Chen Cunyou	10,260,000	1.2825%
Mr. Ge Hongbing	6,000,000	0.75%
Senior management		
Mr. Huang Yugang	3,000,000	0.375%
Others (30 Employees)	10,740,000	1.3425%

G. OTHER INFORMATION

1. Indemnity for tax and other matters

Sunrise International and Mr. Chen Hao have executed the Deed of Indemnity in favour of our Group to provide certain indemnities, including indemnity in respect of tax liabilities of our Group. Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries.

Under the Deed of Indemnity, Sunrise International and Mr. Chen Hao shall jointly and severally indemnify and at all times keep each member of our Group fully and effectively indemnified against (a) any taxation falling on any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the date on which the Share Offer becomes unconditional or any transactions, matters, things, event, act or omission occurring or deemed to occur on or before such date, whether alone or in conjunction with any other transaction, matter, thing, event, act, omission or circumstance whenever occurring, and whether or not such taxation is chargeable against or attributable to any other person, firm or company; and (b) all expenses, payments, sums, outgoings, fees, demands, claims, damages, losses, costs (including but not limited to legal and other professional costs), charges, liabilities, fines, penalties and tax which any member of our Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with the non-compliance incidents of the relevant PRC laws and regulations by any member of the Group in the

PRC as described in the paragraphs headed “Employee”, “Properties” and “Legal Proceedings and Regulatory Compliance” in the section headed “Business” in this prospectus and more particularly set out in the PRC Legal Opinions (“PRC Non-Compliance Matters), save:

- (a) to the extent that provision has been made in the audited consolidated accounts of our Group or the audited accounts of the relevant member of our Group for an accounting period ended on or before 31 December 2011;
- (b) for taxation falling on any member of our Group as a result of any transaction entered into by any member of our Group on or after 1 January 2012 in the ordinary course of business, or in the ordinary course of acquiring or disposing of capital assets, or in connection with the Reorganisation, on or before the date on which the Share Offer becomes unconditional;
- (c) to the extent that such liability arises or is incurred as a result of any change in the law, rules or regulations, or the interpretation or practice thereof by any Statutory or governmental authority in Hong Kong, PRC or any part of the world, including but without limitation the Inland Revenue Department, having retrospective effect coming into force after the date of the Deed of Indemnity or to the extent such liability arises or is increased by an increase in rates of taxation, payments, fines, fees or premium as required by the PRC laws and regulations (as the case may be) after such date with retrospective effect (except the imposition of or an increase in the rate of Hong Kong profits tax or any tax of any part of the world on the profits of companies for the current or any earlier financial period);
- (d) to the extent that such liability is discharged by another person who is not any member of our Group and that no member of our Group is required to reimburse such person in respect of the discharge of the liability; or
- (e) to the extent of any provision or reserve made for such liability in the audited accounts referred to in sub-paragraph (a) above which is finally established to be an over-provision or an excessive reserve, provided that the amount of any such provision or reserve applied to reduce the liability of Sunrise International and Mr. Chen Hao or any of them in respect of such liability shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, Sunrise International and Mr. Chen Hao further jointly and severally warrant that other than the PRC Non-Compliance Matters, the Group has not committed other non-compliance with applicable laws and regulations.

2. Litigation

Save as disclosed in this prospectus, as at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance, and no litigation, claim or arbitration of material importance was known to our Directors to be pending or threatened against any member of our Group.

3. Sponsor

The Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein, including any Shares falling to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

4. Preliminary expenses

The preliminary expenses of our Company are approximately HK\$57,000 and are borne by our Company.

5. Promoters

CUAS and Sunrise International are the promoters of our Company. Save as disclosed in this prospectus, no amount or benefit has been paid or given within two years preceding the date of this prospectus, or is intended to be paid or given, to any of the promoters in connection with the Share Offer or related transactions described in this prospectus.

6. Qualifications of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
Chen & Co. Law Firm	PRC legal advisers
Guotai Junan Capital Limited	Licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants
Maples and Calder	Cayman Islands legal advisers
Savills Valuation and Professional Services Limited	Property Valuer
Timer Auto Consulting (Shanghai) Co., Ltd.	Independent market research consultant

7. Consents and interests of experts

Each of the experts named in the above paragraph headed “G. Other information — 6. Qualifications of experts” has given and has not withdrawn their respective written consents to the issue of this prospectus with inclusion of their reports, valuation report, letters and/or opinions or summaries of opinions (as the case may be) and/or the references to their names included herein in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the experts named in the above paragraph headed “G. Other information — 6. Qualifications of experts” in this Appendix:

- (a) is interested in the promotion of, or in any assets which have been, within two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

- (c) is materially interested in any contract or arrangement subsisting as at the date of this prospectus which is significant in relation to the business of our Group taken as a whole.

8. Taxation

(a) Hong Kong

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty charged at an *ad valorem* rate of 0.2% of the consideration or, if higher, the adjudicated value of the Shares being sold or transferred. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required).

Profits from dealings in the Shares arising or derived from Hong Kong may also be subject to Hong Kong profits tax.

Estate duty has been abolished in Hong Kong by The Revenue (Abolition of Estate Duty) Ordinance which came into effect on 11 February 2006.

(b) Cayman Islands

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. None of our Company, our Directors, the Sponsor or the other parties involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, or dealing in, the Shares or exercise of any rights attaching to them.

9. Principal register of members and branch register of members

The principal register of members of our Company is maintained in the Cayman Islands by Maples Fund Services (Cayman) Limited and a branch register of members of our Company is maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfers of and other documents of title of the Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance of Hong Kong so far as applicable.

11. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the laws of Hong Kong). Unless the context otherwise requires, the English language version of this prospectus shall prevail.

12. Miscellaneous

- (a) Save as disclosed in this prospectus,
 - (i) within two years preceding the date of this prospectus, no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) our Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;
 - (iv) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
 - (v) our Company has no outstanding convertible debt securities or debentures;
 - (vi) within two years preceding the date of this prospectus, no commission has been paid or payable (except commission to underwriters) to any persons for subscription or purchase, agreeing to subscribe or purchase, procuring subscription or purchase or agreeing to procure subscription or purchase of any Shares in our Company;

- (vii) within two years preceding the date of this prospectus, no commissions, discounts, agency fees, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group; and
 - (viii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.
- (b) There is no restriction in Hong Kong affecting the remittance of profits or repatriation of capital of our Company into Hong Kong from outside Hong Kong.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** application forms, the written consents referred to in the paragraph headed “G. Other information — 7. Consents and interests of experts” of the section headed “Statutory and General Information” in Appendix VI to this prospectus, and copies of the material contracts referred to in the paragraph headed “B. Further information about the business — 1. Summary of material contracts” of the section headed “Statutory and General Information” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Mayer Brown JSM, 16th–19th Floors, Prince’s Building, 10 Chater Road, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of our Company;
- (b) the Accountants’ Report of our Group prepared by KPMG, the text of which is set out in the section headed “Accountants’ Report” in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information prepared by KPMG, the text of which is set out in the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus;
- (d) the audited combined financial statements of our Group for the three financial years ended 31 December 2011;
- (e) the letter, summary of valuations and valuation certificate prepared by Savills Valuation and Professional Services Limited, the text of which is set out in the section headed “Property Valuation” in Appendix III to this prospectus;
- (f) the rules of the Share Option Scheme;
- (g) the letters of advice prepared by Maples and Calder summarising certain aspects of the Cayman Islands company law;
- (h) the Companies Law;
- (i) the PRC Legal Opinions;
- (j) the Timer Auto Report;

- (k) the material contracts referred to in the paragraph headed “B. Further information about the business — 1. Summary of material contracts” in the section headed “Statutory and General Information” in Appendix VI to this prospectus; and
- (l) the written consents referred to in the paragraph headed “G. Other Information — 7. Consents and interest of experts” in the section headed “Statutory and General Information” in Appendix VI to this prospectus.



協眾國際控股有限公司
Xiezhong International Holdings Limited