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28 December 2015

New Product Development Agreement with Zhejiang Vision

与浙江远景签订新产品开发合同

- **On 23 December 2015, Xiezhong Nanjing, a subsidiary of Xiezhong International ("the Company" or "Xiezhong") entered into a new product development agreement with Zhejiang Vision.** The new product development consists of 1) HVAC; 2) condensers; 3) high-pressure and low-pressure pipelines of an automotive air-conditioner and 4) compression exhaust pipes. Zhejiang Vision conducts the business of procurement of automobile parts and components in the PRC and is a subsidiary of Geely Holdings (99% shareholdings).
- **We expect sales performance of Xiezhong will greatly benefit from the new product development agreement in the near future.** Since Zhejiang Vision is the major auto component procurement entity of Geely Holdings and mainly serves Geely Auto (00175 HK), the order demand from Zhejiang Vision will be considerable. As of Nov. 2015, YTD sales volume of Geely Auto has reached 456 thousand units and is expected to reach 2015 annual sales volume of 510 thousand units. With the product development agreement, Xiezhong will supply specialized HVAC or HVAC components to fit in vehicle models of Geely Auto through the procurement of Zhejiang Vision. The market size potential of Xiezhong's cooperation with Geely Auto will be huge if the cooperation is carried out smoothly in the future.
- **We are positive on the future cooperation with Xiezhong and Geely Auto, since the Company has accumulated abundant and mature HVAC production experience.** Current client base of the Company is strong and includes, for example, BAIC, Dong Feng PSA and Greet Wall Motor, etc. Additionally, previous cooperation with these companies has proven to be smooth and successful with low defective rate PPM (parts per million). Over the past couple of years, Xiezhong has developed a strong and advanced auto components laboratory to support its product development. With the laboratory, the Company greatly increased the overall quality of its products and greatly improved its product development ability to meet specialized and different standards from various clients. The final products for Geely Auto will come out as soon as late 2016, since it will take approximately nine months for R&D and production before selling to Zhejiang Vision. Therefore, we expect Xiezhong's sales volume will surge dramatically by 4Q2016 and will keep increasing dramatically after the cooperation is more tight and mature in 2017 and 2018.
- **Current Investment rating of Xiezhong is "Neutral" with target price of HK$2.50; we will likely upgrade our investment rating to "Accumulate" and will increase our target price.**

- **2015 年 12 月 23 日，协众南京，协众国际（"公司"或"协众"）的子公司，与浙江远景签订了新产品开发合同。**所开发新产品包括：1)HVAC；2)冷凝器；3）汽车空调高压及低压管；及 4）压缩排气管。浙江远景主要在中国从事汽车零部件及组件的采购业务，且为吉利控股的子公司（99%股份）。
- **我们预计协众的销售表现未来将会很大程度受益于此新产品开发合同。**因为浙江远景是吉利控股的主要零部件采购机构，且主要服务于吉利汽车（00175 HK），所以浙江远景的订单需求将会较为可观。截至 2015 年 11 月，吉利汽车的累计销量为 45.6 万台且预计 2015 年总销量将达到 51.0 万台。在此新产品开发合同下，协众将会提供专门为匹配吉利汽车而生产的汽车空调系统或汽车空调零部件，并通过浙江远景统一采购。如果未来合作能够顺利进行，公司与吉利汽车合作的市场规模前景将会非常巨大。
- **我们对公司与吉利汽车未来的合作持乐观态度，因为公司已经积累了较丰富和成熟的 HVAC 生产经验。**公司目前的客户群体较为强大，例如北京汽车，东风标致和长城汽车等。而且，公司之前与上述公司的合作都被证实较为顺利和成功，产品的每百万次品率非常低。 在过去几年，协众开发了强大而先进的汽车零部件实验室来支撑其产品开发。公司通过实验室极大地增加了产品的整体质量且提升了公司的产品开发能力，能根据不同客户的不同指标要求来研发产品。公司为吉利汽车研发的产品将最早在 2016 年末面市，因为研发和生产将会至少花费 9 个月左右的时间才能最终销售给浙江远景。因此，我们预计协众的销售量将会从 2016 年第四季度开始有大幅增长，且会继续在 2017 年和 2018 年两方合作较为稳固和成熟时保持较快增势。
- **公司目前投资评级为"中性"，目标价为 2.50 港元；我们预计可能会上调评级至"收集"，并会上调目标价。**

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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