



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

INTERIM REPORT

2012

Contents

Corporate Information	2
Management Discussion and Analysis	4
Report on Review of Interim Financial Report	10
Consolidated Income Statement	11
Consolidated Statement of Comprehensive Income	12
Consolidated Balance Sheet	13
Consolidated Statement of Changes in Equity	15
Condensed Consolidated Cash Flow Statement	16
Notes to the Unaudited Interim Financial Report	17
Corporate Governance and Other Information	32

Corporate Information

Board of Directors and Committees

Board of Directors

Executive Directors

Mr. Chen Cunyou
Mr. Ge Hongbing

Non-Executive Directors

Mr. Zhang Yichen
Mr. Fang Kenneth Hung
Mr. Liu Xiaoping
Mr. Wang Zhenyu

Independent Non-Executive Directors

Mr. Zhang Shulin
Mr. Lau Ying Kit
Mr. Cheung Man Sang

Committees

Audit Committee

Mr. Lau Ying Kit (*Chairman*)
Mr. Cheung Man Sang
Mr. Zhang Shulin

Nomination Committee

Mr. Zhang Shulin (*Chairman*)
Mr. Lau Ying Kit
Mr. Cheung Man Sang
Mr. Liu Xiao Ping

Remuneration Committee

Mr. Cheung Man Sang (*Chairman*)
Mr. Fang Kenneth Hung
Mr. Lau Ying Kit
Mr. Zhang Shulin

Other Corporate Information

Company Secretary

Mr. Chui Wing Fai, CPA

Registered Office

c/o Maples Corporate Services Limited
PO Box 309, Ugland House, Grand Cayman
Cayman Islands, KY1-1104

Principal Place of Business in Hong Kong

Room 2912, Tower 2, Times Square
1 Matheson Street
Causeway Bay
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

Authorised Representatives

Mr. Chen Cunyou
Mr. Dai Zumian (alternate to Chen Cunyou)
Mr. Chui Wing Fai

Headquarter in The PRC

389 Kening Road
Science Park
Jiangning District, Nanjing
Jiangsu Province
PRC

Hong Kong Share Registrar

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

Compliance Advisor

Guotai Junan Capital Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Corporate Information

Hong Kong Legal Advisor

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

Auditors

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

Company's Website

www.xiezhonginternational.hk

PRC Legal Advisor

Chen & Co
Suit 1901 North Tower,
Shanghai Stock Exchange Building
528 Pudong Nan Road, Shanghai, PRC

Principal Bankers

Construction Bank of Nanjing,
Jiangning Economic Development Zone Branch
China Merchants Bank, Hanzhongmen Branch
Agricultural Bank of China, Jiulonghu Branch
DBS Bank Ltd, Hong Kong Branch

Stock Code

3663

Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with the unaudited interim financial report of Xiezhong International Holdings Limited (the “Company”) and its subsidiaries (the “Group”, “we” or “us”). The Group’s interim financial report has been prepared in accordance with International Accounting Standard 34, *Interim financial reporting*.

Business review

The Group is one of the leading suppliers of heating, ventilation and air-conditioning (“HVAC”) systems for vehicles 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 are mainly used in sport utility vehicles (“SUVs”), pickup trucks and heavy trucks, in addition to the supply of HVAC systems and HVAC components for construction machineries and other types of vehicles such as light trucks, multiple-purpose vehicles (“MPVs”), sedans, and buses. Currently, we have two production bases. One is located at Jiangning District, Nanjing, Jiangsu, for the manufacture of HVAC systems and HVAC components. The other production base is located at Fushun Economic Development Zone, Fushun, Liaoning, for the manufacture of HVAC systems (without installing the compressors).

During the reporting period, which was the critical moment for the Company’s listing, we capitalize on this opportunity to restructure the shareholding structure of the Company, while reviewing and improving all various specific systems. In addition, the Company established an effective system of corporate governance to constantly improve the internal control. As at 18 June 2012, the successful listing of the Company on the Main Board of the Stock Exchange did not merely provide sufficient fund required by the expansion of production plants, upgrade of the existing facilities, and research and development, but also laid a solid foundation for the future development of the Group.

In the first half of 2012, the growth of national domestic economic slowed down. With the adjustment in the state’s macroeconomic policies, the automobile sales volume for the first half of 2012 was only up by 2.9% as compared against that of the previous corresponding period according to recent release by China Association of Automobile Manufacturers. In particular, sales volume of commercial vehicles for the first half of 2012 slid down by 10.4% as compared against that of the previous corresponding period. In response towards the automobile market, the management of the Group proactively formulated the countermeasures. As a result of great effort taken by all employees, the Group’s turnover basically remained at the same level compared against the previous corresponding period when the overall growth slowed down in the auto sector.

During the reporting period, the Group recorded turnover of RMB298.0 million, representing a slight decrease of 0.8% compared against that of RMB300.4 million in the previous corresponding period; gross profit of RMB83.6 million, representing a drop of 5.5% compared against that of RMB88.5 million in the previous corresponding period; profit attributable to equity shareholders of RMB39.5 million, representing a decrease of 16.1% compared against that of RMB47.1 million in the previous corresponding period. The Company recorded listing expenses of RMB5.0 million in the consolidated income statement during the reporting period, which was nil in the corresponding period in 2011.

We place high value on research and development, and constantly improve our capability of research and development to cope with the demands for development of new products by the customers. During the reporting period, we successfully developed HVAC systems for middle and high-end car model C70 of Beijing Automotive Group Co., Ltd., AUV passenger buses of Beiqi Foton Motor Co., Ltd., and other vehicles, which were expected to commence mass production in the second half of 2012 and further improve the profitability of the Group.

Management Discussion and Analysis

Financial review

Turnover

During the reporting period, the Group recorded turnover of RMB298.0 million, representing a slight decrease of 0.8% compared against that of RMB300.4 million in the previous corresponding period. Such decrease in turnover was mainly due to the decrease in turnover from HVAC systems for heavy trucks and construction machineries compared against that in the previous corresponding period.

	Six months ended 30 June			
	2012		2011	
	RMB'000	% of total turnover	RMB'000	% of total turnover
HVAC systems				
SUVs and pickup trucks	142,233	47.7%	117,511	39.1%
Heavy trucks	37,466	12.6%	66,976	22.3%
Construction machineries	26,428	8.9%	34,988	11.7%
Other vehicles ⁽¹⁾	63,861	21.4%	55,926	18.6%
HVAC components ⁽²⁾	28,033	9.4%	25,035	8.3%
Total turnover	298,021	100.0%	300,436	100.0%

(1) Other vehicles mainly comprise 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.

Gross profit and gross profit margin

During the reporting period, the gross profit was RMB83.6 million, representing a decrease of 5.5% compared against RMB88.5 million in the previous corresponding period. The gross profit margin was 28.1% compared against 29.5% in the previous corresponding period. Such decrease was due to a drop in turnover from HVAC systems for heavy trucks that have high gross profit margin compared against that in the previous corresponding period.

Other revenue and net income

Other revenue and net income primarily include interest income and government grants, which increased to RMB6.9 million during the reporting period from RMB3.6 million in the previous corresponding period. Such increase was due to government grants of RMB1.0 million from each of Nanjing Municipal Government and Jiangning District People's Government, Nanjing, Jiangsu Province to the Group as rewards for the successful listing of the Group on the Stock Exchange.

Distribution costs

Distribution costs decreased by 30.8% or RMB4.9 million to RMB11.1 million during the reporting period from RMB15.9 million in the previous corresponding period. During the reporting period, we improved quality control over our products, resulting in relatively significant reduction in the expenses of product warranty provisions. On the other hand, we strove hard to ratchet up the logistics efficiency, thus lowering the transport costs.

Management Discussion and Analysis

Administrative expenses

During the reporting period, administrative expenses were RMB25.3 million, representing an increase of RMB9.3 million or 58.1% compared against that of RMB16.0 million in the previous corresponding period. Such increase during the reporting period was mainly due to the listing expenses of RMB5.0 million, additional expenditure in research and development, and soaring labor costs arising from increases in our employee salary and number.

Finance costs

During the reporting period, finance costs were RMB6.6 million, representing an increase of RMB3.0 million or 83.3% compared against that of RMB3.6 million in the previous corresponding period. Such increase in finance costs was mainly due to increase in interests on interest-bearing borrowings which provided us with additional working capital as our business scales up.

Income tax

During the reporting period, income tax was RMB7.6 million, representing a decrease of RMB1.4 million or 15.6% compared against that of RMB9.0 million in the previous corresponding period. Such decrease was due to decrease in total profit.

Profit for the period

As a result of the foregoing, profit attributable to equity shareholders of the Company decreased by RMB7.6 million or 16.1% from RMB47.1 million in the previous corresponding period to RMB39.5 million during the reporting period. The Group recorded listing expenses of RMB5.0 million in the income statement during the reporting period, which was nil in the corresponding period in 2011.

Liquidity and financial resources

Trade debtors and bills receivable

As at 30 June 2012, the Group's trade debtors and bills receivable were RMB380.8 million (31 December 2011: RMB380.9 million), which basically remained the same level as that in the end of 2011.

The average trade debtors and bills receivable turnover days increased from 202 days during the twelve months ended 31 December 2011 to 233 days during the six months ended 30 June 2012, while without taking into account the bills receivable, the average turnover days of trade debtors increased from 127 days during the twelve months ended 31 December 2011 to 162 days during the six months ended 30 June 2012. Such increase was due to the increasing proportion of customers granted with longer credit terms.

Inventories

As at 30 June 2012, the Group's inventory balance increased to RMB176.4 million (31 December 2011: RMB128.0 million), which was due to more inventories to meet customers' needs during the reporting period.

The average inventory turnover days increased from 101 days during the twelve months ended 31 December 2011 to 129 days during the six months ended 30 June 2012, which was due to the increase in inventory balance by the end of the reporting period.

Management Discussion and Analysis

Trade creditors and bills payable

As at 30 June 2012, the Group's trade creditors and bills payable were RMB212.6 million (31 December 2011: RMB164.8 million), which was due to increase in purchase of raw materials during the reporting period.

The average trade creditors and bills payable turnover days increased from 143 days during the twelve months ended 31 December 2011 to 160 days during the six months ended 30 June 2012, which was due to substantial amount of trade creditors and bills payable incurred near the reporting period end.

Cash and deposits with banks and borrowings

As at 30 June 2012, the Group's cash and deposits with banks were RMB191.0 million (31 December 2011: RMB79.0 million). The increase in cash flow was mainly due to the fund raised from the listing during the reporting period.

As at 30 June 2012, we had outstanding bank borrowings of RMB159.4 million (31 December 2011: RMB154.6 million), all of which were short-term and intended to meet the working capital of the Group. And as at 30 June 2012, our bank borrowings carried interest rates ranging from 4.16% to 8.40% per annum.

As at 30 June 2012, we had a total available banking facilities of RMB167.4 million, of which RMB107.4 million had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 30 June 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.

We typically use short-term borrowings in the course of financing our business. Our policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that the Group 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 terms.

As at 30 June 2012, the Group's gearing ratio, calculated based on debt (including interest-bearing borrowings, bills payable and amounts due to related parties) divided by the total of equity attributable to equity shareholders of the Company and debt, decreased to 21.0%, compared against 26.7% as at 31 December 2011, which was due to the net proceeds of HKD165.5 million raised from listing of the Company during the reporting period.

Use of proceeds

The net proceeds from the initial public offering ("IPO") of the Company in June 2012 were approximately HKD165.5 million. No net proceeds raised from the IPO were applied up to (and including) 30 June 2012. The future plans as stated in the Prospectus were derived from the Group's reasonable estimation of the future market conditions based on the information available at the time of preparing the prospectus of the Company dated 6 June 2012 (the "Prospectus"). As of the date of this report, the Directors are not aware of material change to the planned use of the proceeds from the plan as stated in the Prospectus.

Contingent liabilities

As at 30 June 2012, the Group did not incur any material contingent liabilities.

Management Discussion and Analysis

Significant investments held

Except for investment in subsidiaries and interests in a jointly controlled entity, during the six months ended 30 June 2012, the Group did not hold any significant investment in equity interest in any company.

Future plans for material investments or capital assets

Save as disclosed in the Company's Prospectus, the Group did not have other plans for material investments and capital assets.

Material acquisitions and disposals of subsidiaries and affiliated companies

During the six months ended 30 June 2012, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Capital commitments

As at 30 June 2012, the Group's capital commitments to make contracted payments amounted to RMB28.6 million (31 December 2011: RMB28.2 million). Such capital commitments were used for the purchase of property, plant and equipment. They will be financed by the Group's internal resources and/or external bank financing, as appropriate.

Capital expenditures

During the reporting period, the Group incurred capital expenditures of RMB35.3 million primarily representing additions in machinery and equipment as well as construction cost for building and expansion of our production base in Nanjing.

Foreign exchange risk

The Group's operations are mainly located in Mainland China, and most of its transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for the net proceeds of HKD165.5 million raised from listing of the Company denominated in a foreign currency. As at 30 June 2012, the Group's cash balance denominated in HKD was HKD169.1 million. During the six months ended 30 June 2012, the Group did not adopt any financial instrument for hedging purposes.

Employees

As at 30 June 2012, the Group's employees was 882 in total. The Group compensates the employees in reference with their performance, experience, and the prevailing market conditions. During the reporting period, the total salary expense amounted to RMB28.7 million, representing 9.6% of our total turnover. We regularly provide training programs to the employees in view to broaden their knowledge and sharpen their expertise.

Events after the reporting period

No significant event took place subsequent to 30 June 2012.

Dividends

The Board did not propose any payment of interim dividend for the six months ended 30 June 2012 (2011: nil).

Management Discussion and Analysis

Outlook

Looking ahead, the Group will constantly consolidate its leading position in the Chinese market of automotive HVAC systems for SUVs, pick-up trucks, and heavy trucks, and penetrate into the market of air-conditioning systems for sedan and construction machineries. The Group will continuously commit itself to developing its core operation of automotive HVAC systems, thus ensuring the core competitive strength of the Group. The Group will further develop the following aspects so as to sharpen its competitive edges in the market.

1) Research and development of products

As always, the strong capability of research and development plays a major role in the successes of the Group. 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. In addition, we will cement cooperation ties with universities, automotive plants, and our suppliers for air-conditioner components. Furthermore, we are currently constructing a research and development facility in Jiangning District Nanjing with a gross floor area of 15,631 square meters. The construction of the research and development building is expected to be completed at the end of 2012.

On the other hand, as a result of the growing environmental protection concerns in recent years, the Ministry of Science and Technology of the PRC also promulgated 《電動汽車科技發展“十二五”專項規劃》(the “Twelfth Five-year” Plan Specialized in the Development of Electrical Automotive Technologies*) in March 2012, heralding the future trend for new-energy vehicles in the automotive industry. In 2008, we commenced the research and development of air-conditioning systems for electrical vehicles, and started providing air-conditioning systems for electrical vehicles to Foton in 2010. We will continue our collaboration with all parties on the development of air-conditioning systems for electrical vehicles.

2) Cost advantage

In order to maintain our long-term competitiveness and stable profit margins, we will endeavor to maintain our cost advantages. We will improve the economic benefits through research and development of new products, optimization of the manufacturing process and efficiency by upgrading our production lines and improving the level of automation, and increasing market share.

3) More production bases

To further improve our service to our customers, reduce the distribution cost and strengthen our strategic cooperation with our major customers, in addition to our presence in Jiangsu, we intend to strengthen our current presence in Liaoning and Beijing, with a view to lowering transport costs and further improve our standards for services rendered to the customers.

4) Market penetration

By capitalizing on our own advantages, we will progressively expand the market shares in the middle and high-end markets. In the first half of 2012, the Group successfully secured orders of car model T91/T93 components placed by 神龍汽車有限公司(Dongfeng Peugeot Citroen Automobile Co., Ltd.*), laying a solid foundation to our further step into the middle and high-end markets.

Report on Review of Interim Financial Report



**Review report to the board of directors of
Xiezhong International Holdings Limited**
(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 11 to 31 which comprises the consolidated balance sheet of Xiezhong International Holdings Limited as at 30 June 2012 and the related consolidated income statement, statement of comprehensive income, statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 August 2012

Consolidated Income Statement

for the six months ended 30 June 2012 — unaudited

	Note	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Turnover	4	298,021	300,436
Cost of sales		(214,408)	(211,925)
Gross profit		83,613	88,511
Other revenue and net income	5	6,853	3,565
Distribution costs		(11,052)	(15,943)
Administrative expenses		(25,259)	(15,983)
Other operating expenses		(100)	(90)
Profit from operations		54,055	60,060
Finance costs	6(a)	(6,587)	(3,629)
Share of losses of jointly controlled entities		(113)	(174)
Profit before taxation		47,355	56,257
Income tax	7	(7,578)	(9,006)
Profit for the period		39,777	47,251
Attributable to:			
Equity shareholders of the Company		39,461	47,101
Non-controlling interests		316	150
Profit for the period		39,777	47,251
Earnings per share (RMB)			
Basic and diluted	8	0.064	0.079

The notes on pages 17 to 31 form part of this interim financial report.

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2012 — unaudited

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Profit for the period	39,777	47,251
Other comprehensive income for the period		
Exchange differences on translation of financial statements of entities outside mainland China, net of nil tax	486	4,380
Total comprehensive income for the period	40,263	51,631
Attributable to:		
Equity shareholders of the Company	39,947	51,481
Non-controlling interests	316	150
Total comprehensive income for the period	40,263	51,631

The notes on pages 17 to 31 form part of this interim financial report.

Consolidated Balance Sheet

as at 30 June 2012 — unaudited

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment	9	221,173	197,201
Lease prepayments		55,421	56,050
Intangible assets		40,713	44,383
Goodwill		46,832	46,832
Interests in a jointly controlled entity		4,546	4,659
Non-current prepayments		46,723	33,038
Deferred tax assets		4,953	5,012
		420,361	387,175
Current assets			
Inventories	10	176,431	127,991
Trade and other receivables	11	399,073	390,745
Amounts due from related parties	18(b)	15,055	3,607
Deposits with banks	12	43,400	50,961
Cash	13	147,571	28,063
		781,530	601,367
Current liabilities			
Trade and other payables	14	234,986	198,291
Amounts due to related parties	18(b)	22,874	24,903
Interest-bearing borrowings	15	159,365	154,618
Income tax payables		11,179	11,361
Provision		3,785	3,799
		432,189	392,972
Net current assets		349,341	208,395
Total assets less current liabilities		769,702	595,570
Non-current liabilities			
Deferred income		21,569	21,695
Deferred tax liabilities		25,555	25,918
		47,124	47,613
Net assets		722,578	547,957

The notes on pages 17 to 31 form part of this interim financial report.

Consolidated Balance Sheet

as at 30 June 2012 — unaudited

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Capital and reserves			
Share capital	16(a)	6,496	7
Reserves		687,865	520,049
Total equity attributable to equity shareholders of the Company		694,361	520,056
Non-controlling interests		28,217	27,901
Total equity		722,578	547,957

Approved and authorised for issue by the board of directors on 27 August 2012.

Chen Cunyou
Director

Ge Hongbing
Director

The notes on pages 17 to 31 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2012 — unaudited

	Attributable to equity shareholders of the Company							Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	PRC statutory reserves RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000			
	(Note 16(a))	(Note 16(b))	(Note 16(c))	(Note 16(d))	(Note 16(e))	(Note 16(f))				
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 the six months ended 30 June 2011:										
Deemed acquisition of a subsidiary	—	—	—	—	—	—	—	—	22,217	22,217
Total comprehensive income for the period	—	—	—	—	—	4,380	47,101	51,481	150	51,631
At 30 June 2011 and 1 July 2011	7	—	23,894	108,245	17,919	12,728	130,627	293,420	27,108	320,528
Changes in equity for the six months ended 31 December 2011:										
Capital injection	—	—	—	183,295	—	—	—	183,295	—	183,295
Total comprehensive income for the period	—	—	—	—	—	4,376	38,965	43,341	793	44,134
At 31 December 2011	7	—	23,894	291,540	17,919	17,104	169,592	520,056	27,901	547,957
At 1 January 2012	7	—	23,894	291,540	17,919	17,104	169,592	520,056	27,901	547,957
Changes in equity for the six months ended 30 June 2012:										
Elimination of paid-in capital on reorganisation	(7)	—	—	7	—	—	—	—	—	—
Issue of shares upon reorganisation	1	—	—	(1)	—	—	—	—	—	—
Capitalisation issue	4,871	(4,871)	—	—	—	—	—	—	—	—
Share issued under public offering and placing, net of issuing expenses	1,624	132,734	—	—	—	—	—	134,358	—	134,358
Total comprehensive income for the period	—	—	—	—	—	486	39,461	39,947	316	40,263
At 30 June 2012	6,496	127,863	23,894	291,546	17,919	17,590	209,053	694,361	28,217	722,578

The notes on pages 17 to 31 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2012 — unaudited

	Note	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Cash generated from operations		69,362	66,557
Income tax paid		(8,064)	(11,751)
Net cash generated from operating activities		61,298	54,806
Net cash used in investing activities		(52,928)	(12,722)
Net cash generated from financing activities		110,549	—
Net increase in cash		118,919	42,084
Cash at 1 January	13	28,063	4,969
Effect of foreign exchange rate changes		589	—
Cash at 30 June	13	147,571	47,053

The notes on pages 17 to 31 form part of this interim financial report.

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

1. General information and basis of preparation

Xiezhong International Holdings Limited (“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. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the design, production and sale of automotive heating, ventilation and cooling (“HVAC”) systems and a range of automotive HVAC components.

Pursuant to a reorganisation (the “Reorganisation”) of the Group which was completed on 20 January 2012 to rationalise the group structure in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), 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 Reorganisation. Details of the Reorganisation are set out in the prospectus of the Company dated 6 June 2012. The Company’s shares were listed on the Stock Exchange on 18 June 2012 (the “Listing Date”).

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*. The consolidated 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.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Stock Exchange, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”). It was authorised for issue on 27 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

1. General information and basis of preparation *(Continued)*

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 10.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company’s registered office. The independent auditors have expressed an unqualified opinion on those financial statements in their report dated 6 June 2012.

2. Changes in accounting policies

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group’s financial statements:

Amendments to IFRS 7, *Financial instruments: Disclosures — Transfers of financial assets*

The amendments to IFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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.

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.

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

5. Other revenue and net income

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Other revenue		
Government grants	5,726	2,612
Interest income	741	829
Others	380	124
	6,847	3,565
Other net income		
Gains on disposal of property, plant and equipment	6	—
	6,853	3,565

6. Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Interest on bank loans	4,198	1,004
Interest on discounted bills	2,389	2,625
	6,587	3,629

(b) Staff costs

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Salaries, wages and other benefits	27,268	24,323
Contributions to defined contribution retirement plan	1,434	1,286
	28,702	25,609

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

6. Profit before taxation *(Continued)*

(c) Other items

	Note	Six months ended 30 June	
		2012 RMB'000	2011 RMB'000
Amortisation			
— lease prepayments		599	523
— intangible assets		3,670	3,593
Depreciation of property, plant and equipment		11,307	8,713
Impairment losses on trade debtors		—	46
Research and development costs		5,915	4,799
Increase in provision for product warranties		23	2,745
Cost of inventories	10(b),(i)	214,408	211,925

Note:

- (i) Cost of inventories includes RMB 25,040,000 (2011: RMB 20,905,000) relating to staff costs, depreciation and amortisation for the six months ended 30 June 2012, 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

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Current tax		
Over-provision in respect of prior year	(528)	(139)
Provision for current period	8,410	9,513
	7,882	9,374
Deferred tax		
Origination and reversal of temporary differences	(304)	(368)
	7,578	9,006

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

7. Income tax *(Continued)*

- (i) Under the Corporate Income Tax Law of the PRC (the “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 the British Virgin Islands.

Hong Kong profits tax rate for 2012 is 16.5% (2011: 16.5%). No provision for Hong Kong profits tax is made for the six months ended 30 June 2012 as the subsidiary located in Hong Kong did not earn any income subject to Hong Kong profits tax.

Taxation for the Group’s PRC subsidiaries is calculated using the estimated annual effective rates of taxation that are expected to be applicable.

- (ii) Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. (“Xiezhong Nanjing”) was recognised as a High and New Technology Enterprise under the CIT Law and is subject to income tax at a preferential rate of 15% for a period of three years from 2009 to 2011. Xiezhong Nanjing is now applying for an extension of such preferential income tax treatment for another three years from 2012 to 2014. The directors of the Company believe that Xiezhong Nanjing will continue to enjoy such preferential tax rate of 15% from 2012 to 2014 pursuant to the current applicable PRC tax laws and regulations.
- (iii) Under the 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. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company of RMB 39,461,000 (2011: RMB 47,101,000) and the weighted average number of 614,285,714 shares (2011: 600,000,000 shares) in issue during the six months ended 30 June 2012.

The weighted average number of shares in issue during the six months ended 30 June 2012 is based on the assumption that 600,000,000 shares of the Company are in issue, comprising 100,000 shares in issue and 599,900,000 shares issued pursuant to the capitalisation issue, as if the shares were outstanding throughout the period from 1 January 2012 to the Listing Date, and 200,000,000 shares issued under initial public offering and placing. The weighted average number of shares in issue during the six months ended 30 June 2011 is based on the assumption that 600,000,000 shares of the Company are in issue, comprising 100,000 shares in issue and 599,900,000 shares issued pursuant to the capitalisation issue, as if the shares were outstanding throughout that period.

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

8. Earnings per share *(Continued)*

Weighted average number of shares

	Six months ended 30 June	
	2012	2011
Effect of shares issued on 20 January 2012	100,000	100,000
Effect of capitalisation issue on 18 June 2012	599,900,000	599,900,000
Effect of shares issued by public offering and placing on 18 June 2012	14,285,714	—
Weighted average number of shares	614,285,714	600,000,000

There were no dilutive potential ordinary shares during the six months ended 30 June 2012, and therefore, diluted earnings per share is the same as the basic earnings per share.

9. Property, plant and equipment

	2012 RMB'000	2011 RMB'000
Net book value, at 1 January	197,201	134,438
Additions	35,279	80,362
Additions through deemed acquisition of a subsidiary	—	979
Depreciation charge for the period/year	(11,307)	(18,578)
At 30 June/31 December	221,173	197,201

10. Inventories

(a) Inventories in the consolidated balance sheets comprised:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Raw materials	44,140	34,821
Work in progress	23,001	20,305
Finished goods	109,290	72,865
	176,431	127,991

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

10. Inventories *(Continued)*

- (b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Carrying amount of inventories sold	214,408	211,903
Write down of inventories	—	22
	214,408	211,925

11. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis, based on the date of billing, as of the balance sheet date:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Current	272,952	323,413
Less than 1 month past due	36,305	15,341
1 to 3 months past due	39,109	22,424
3 to 12 months past due	31,696	19,697
Over 12 months past due	765	69
Trade debtors and bills receivable, net of allowance for doubtful debts	380,827	380,944
Other receivables, deposits and prepayments	18,246	9,801
	399,073	390,745

Trade debtors and bills receivable are mainly due within 30 days to 180 days from the date of billing.

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

12. Deposits with banks

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Unrestricted deposits	30,951	30,463
Restricted deposits	249	7,498
Pledged deposits	12,200	13,000
	43,400	50,961

13. Cash

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Cash on hand	63	798
Cash at bank	147,508	27,265
	147,571	28,063

14. Trade and other payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Within 3 months	185,169	148,624
Over 3 months but less than 6 months	23,360	13,363
Over 6 months but less than 12 months	2,901	1,944
Over 12 months	1,190	829
Total trade creditors and bills payable	212,620	164,760
Other payables	20,093	24,349
Other tax payable	2,273	9,182
	234,986	198,291

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

15. Interest-bearing borrowings

		At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Bank loans			
— Secured	(i)	57,413	81,118
— Unsecured		50,000	50,000
Bank advances under discounted bills	(ii)	51,952	23,500
		159,365	154,618

(i) At 30 June 2012, assets of the Group secured against bank loans were analysed as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Property, plant and equipment	8,562	8,861
Lease prepayments	25,129	25,438
Pledged deposits	12,200	6,200
Bills receivable	7,780	37,133
	53,671	77,632

(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 "trade debtors and bills receivable" (see note 11).

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

16. Capital, reserves and dividends

(a) Share capital

(i) Authorised and issued share capital of the Company

	Par value HKD	Number of shares '000	Nominal value of ordinary shares HKD'000
Authorised:			
On 30 September 2011	0.01	39,000	390
Increase in share capital on 10 February 2012	0.01	1,961,000	19,610
At 30 June 2012		2,000,000	20,000

	Note	Par value HKD	Number of shares '000	Nominal value of ordinary shares HKD'000	RMB'000
Issued and fully paid:					
Arising from the					
Reorganisation	(a)(ii)	0.01	100	1	1
Capitalisation issue	(a)(iii)	0.01	599,900	5,999	4,871
Issue of shares under public offering and placing	(a)(iv)	0.01	200,000	2,000	1,624
			800,000	8,000	6,496

The Company was incorporated on 30 September 2011 with an authorised share capital of HKD 390,000 comprising 39,000,000 shares of HKD 0.01 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 the written resolution dated 10 February 2012, the authorised share capital of the Company was increased to HKD 20,000,000, comprising 2,000,000,000 shares of HKD 0.01 each.

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

16. Capital, reserves and dividends *(Continued)*

(a) Share capital *(Continued)*

(ii) *Elimination of paid-in capital on reorganisation and issue of shares upon reorganisation*

Share capital presented in the consolidated statement of changes in equity at 1 January 2012 and reporting periods before that date represented the amount of paid-in capital of Xiezhong BVI, which was the then holding company of the companies now comprising the Group.

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.

Upon completion of the Reorganisation on 20 January 2012, the Company became the holding company of Xiezhong BVI and the issued share capital of Xiezhong BVI amounting to RMB 7,000 (that comprised the share capital of the Group before such transaction) was deducted from the share capital presented in the consolidated statement of changes in equity with a corresponding credit to capital reserve.

(iii) *Capitalisation issue*

Pursuant to the written resolution dated 21 May 2012, the Company allotted and issued 599,900,000 shares of HKD 0.01 each to the then existing shareholders of the Company. This resolution was conditional upon the share premium account being credited as a result of the Company's public offering and placing and pursuant to this resolution, a sum of HKD 5,999,000 (equivalent to RMB 4,871,000) standing to the credit of the share premium account as of 18 June 2012 was subsequently applied in paying up this capitalisation in full.

(iv) *Issue of shares under public offering and placing*

On 18 June 2012, the Company issued 200,000,000 shares with a par value of HKD 0.01 each, at a price of HKD 0.93 per share by way of a public offering and placing to Hong Kong and overseas investors. Net proceeds from such issues amounted to HKD 165,466,000, equivalent to RMB 134,358,000, (after offsetting expenses directly attributable to the issue of shares of RMB 16,674,000), out of which RMB 1,624,000 and RMB 132,734,000 were recorded in share capital and share premium respectively.

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

16. Capital, reserves and dividends *(Continued)*

(b) Share premium

Share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the public offering and placing in June 2012. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(c) 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.

(d) Capital reserve

Addition for the year ended 31 December 2011 represented the capitalisation of the Group's other payables due to CUAS of USD 28,997,000 (equivalent to RMB 183,295,000) as fully paid-up capital and capital reserve of Xiezhong BVI amounting to RMB 183,295,000.

(e) Other reserve

The other reserve represents the gain on acquisition of 30% equity interests in Xiezhong Nanjing from non-controlling interests.

(f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside mainland China.

(g) Dividends

No final dividend in respect of the financial year 2011 was approved during the period (financial year 2010: RMB nil). The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (2011: RMB nil).

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

16. Capital, reserves and dividends *(Continued)*

(h) Equity settled share-based transactions

Pursuant to a resolution of the board of directors of Xiezhong Nanjing passed on 29 October 2008, 30,000,000 share options were granted for nil consideration to certain employees of the Group under a share incentive plan adopted by Xiezhong Nanjing, among which 10,260,000 share options and 6,000,000 share options were granted to Mr. Chen Cunyou and Mr. Ge Hongbing, the directors of the Company, respectively. Each option gives the holder the right to subscribe for one ordinary share of HKD 0.01 each of the Company from CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto and Sunrise International. Such rights can be exercisable for a period of 10 years from the date of grant. As certain conditions were met during the three years ended 31 December 2010, each of CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto and Sunrise International agreed to transfer a total of 30,000,000 shares to the grantees at nil consideration in proportion to their respective interests in the Company upon the grantees exercising their rights under the share incentive plan. As at 30 June 2012, all of these share options were exercisable.

The grantees have agreed that they would not exercise any of their rights before 18 June 2013 and that any exercise of their rights before 18 June 2014 would be subject to a limit of 50% with their remaining rights to be exercised from 18 June 2014 onwards. Therefore, no options were exercised during the six months ended 30 June 2012 (2011: nil).

17. Commitments

(a) Capital commitments

Capital commitments for the acquisition of property, plant and equipment outstanding at 30 June 2012 not provided for in the interim financial report are as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Contracted for	28,551	28,172

(b) Lease commitments

At 30 June 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Within 1 year	580	1,005
After 1 year but within 5 years	156	35
	736	1,040

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

18. Material related party transactions

(a) Transactions with related parties

Transactions with related parties during the six months ended 30 June 2012 are as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Sales of goods		
— Beijing Automobile Co., Ltd. (“Beijing Auto”)	17,662	1,295
— Hubei Leidite Xiezhong Automobile Air-conditioning System Co., Ltd. (“Xiezhong Hubei”)	1,847	—
	19,509	1,295
Purchase of goods		
— Nanjing Aotecar Refrigerating Co., Ltd. (“Aotecar Nanjing”)	14,516	19,516
— Xiezhong Hubei	1,156	453
	15,672	19,969
Repayment of advances to related parties		
— Chen Cunyou	—	400
— Ge Hongbing	—	200
	—	600

The directors consider that the above related party transactions during the six months ended 30 June 2012 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

Notes to the unaudited interim financial report

(Expressed in RMB unless otherwise indicated)

18. Material related party transactions *(Continued)*

(b) Amounts due from/to related parties

At 30 June 2012, the Group had the following balances with related parties:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Trade debtors from — Beijing Auto	15,055	3,607
Trade payables due to — Xiezhong Hubei	4,186	4,511
— Aotecar Nanjing	18,688	20,392
	22,874	24,903

Amounts due from/to the above related parties are unsecured and interest-free.

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Short-term employee benefits	1,327	1,152

The above remuneration is disclosed in “staff costs” (see note 6(b)).

Corporate Governance and Other Information

Corporate governance

From the Listing Date to 30 June 2012, the Company has complied with the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), except for the deviation from code provision A.2.1, which is explained below.

Code provision A.2.1 of CG Code requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chen Cunyou, the Chairman of the Company, was also acting as the chief executive officer of the Company. The board of directors (the “Board”) believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors.

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, totaled 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, CDH Cool, CDH Auto, CITIC Capital China 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 in 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%

Corporate Governance and Other Information

Share option scheme

The Company adopted a share option scheme on 21 May 2012 and revised on 30 May 2012 for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

During the reporting period, no share options were granted, exercised, lapsed or cancelled in accordance with the terms of the share option scheme.

Directors' interests

Save as disclosed below, none of our Directors or chief executive of our Company who held office on 30 June 2012 had 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 Securities and Futures Ordinance (the "SFO") which 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 be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will 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 ("Model Code") contained in the Listing Rules.

Long positions (L) and short positions (S) in the Ordinary shares of HKD0.01 each (the "Shares") of the Company

Name of Directors	Nature of interest	Number of shares	Approximate percentage of shareholding in our Company
Mr. Fang Kenneth Hung (Note 1)	Interest of controlled corporation	36,000,000 (L)	4.5%
		1,800,000 (S)	0.225%
Mr. Chen Cunyou (Note 2)	Beneficial owner	10,260,000 (L)	1.2825%
Mr. Ge Hongbing (Note 3)	Beneficial owner	6,000,000 (L)	0.75%
Mr. Zhang Yichen (Note 4)	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" above, 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. Fang Kenneth Hung has a 50% interest in Fang Brothers Holdings Limited, which wholly owns Fang Brothers. Therefore, Mr. Fang Kenneth Hung is deemed to be interested in all the shares held by and short positions in shares of Fang Brothers by virtue of the SFO.

Corporate Governance and Other Information

2. 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" below.

Substantial shareholders

Save as disclosed below, our Directors are not aware of any person (other than Directors and chief executive) who, as at 30 June 2012, had 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) 2,237,400 (S)	5.59% 0.28%
CDH China Growth Capital Fund II, L.P. ¹	Interest of controlled corporation	44,748,000 (L) 2,237,400 (S)	5.59% 0.28%
CDH China Growth Capital Holdings Company Limited ¹	Interest of controlled corporation	44,748,000 (L) 2,237,400 (S)	5.59% 0.28%
China Diamond Holdings II, L.P. ¹	Interest of controlled corporation	44,748,000 (L) 2,237,400 (S)	5.59% 0.28%
CDH Auto	Beneficial owner	94,104,000 (L) 4,705,200 (S)	11.76% 0.59%
CDH China Fund III, L.P. ²	Interest of controlled corporation	94,104,000 (L) 4,705,200 (S)	11.76% 0.59%
CDH III Holdings Company Limited ²	Interest of controlled corporation	94,104,000 (L) 4,705,200 (S)	11.76% 0.59%
China Diamond Holdings III, L.P. ²	Interest of controlled corporation	94,104,000 (L) 4,705,200 (S)	11.76% 0.59%
China Diamond Holdings Company Limited ^{1,2}	Interest of controlled corporation	138,852,000 (L) 6,942,600 (S)	17.36% 0.87%

Corporate Governance and Other Information

Name of Shareholder	Nature of interest	Number of shares	Approximate percentage of shareholding in our Company
CITIC Capital China	Beneficial owner	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Capital China Partners, L.P. ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CCP GP Ltd. ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CCP Ltd. ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Capital Partners Limited ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Capital Holdings Limited ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CP Management Holdings Limited ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
Brian J. Doyle ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
Warlord Investment Corporation ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CIC International Co. Limited ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
China Investment Corporation ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Limited ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Group Corporation ³	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%

Corporate Governance and Other Information

Name of Shareholder	Nature of interest	Number of shares	Approximate percentage of shareholding in our Company
Sunrise International ⁴	Beneficial owner	240,000,000 (L) 12,000,000 (S)	30% 1.50%
Mr. Chen Hao ⁴	Interest of controlled corporation	240,000,000 (L) 12,000,000 (S)	30% 1.50%

Notes:

- 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.
- 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.
- 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:
 - CITIC Capital China is wholly-owned by CITIC Capital China Partners, L.P., the general partner of which is CCP GP Ltd.
 - CCP GP Ltd. is wholly-owned by CCP Ltd., which is in turn a wholly-owned subsidiary of CITIC Capital Partners Limited.
 - CCP Ltd., is a wholly-owned subsidiary of CITIC Capital Partners Limited.
 - CITIC Capital Holdings Limited holds a 51% interest in CITIC Capital Partners Limited.
 - CP Management Holdings Limited holds a 49% interest in CITIC Capital Partners Limited.
 - Each of Mr. Zhang Yichen and Mr. Brian J. Doyle holds a 50% interest in CP Management Holdings Limited.
 - Warlord Investment Corporation holds a 40% interest in CITIC Capital Holdings Limited.
 - Warlord Investment Corporation is a wholly-owned subsidiary of CIC International Co. Limited.
 - CIC International Co. Limited is wholly-owned by China Investment Corporation.

Corporate Governance and Other Information

- (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” above, 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.

Purchase, sale or redemption of listed shares

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed shares of the Company (save in connection with the IPO).

Compliance with the model code for securities transactions by directors of listed issuers

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by directors. All directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code from 18 June 2012 being the listing date to 30 June 2012.

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.

As at the date of this report, the remuneration committee of the Company comprises four members, being Mr. Cheung Man Sang, Mr. Fang Kenneth Hung, 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.

As at the date of this report, the nomination committee of the Company comprises 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.

Corporate Governance and Other Information

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.

As at the date of this report, the audit committee of the Company comprises three independent non-executive directors of the Company, namely 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. The audit committee discussed with the management over internal control and financial reporting matters related to the preparation of the interim financial report for the six months ended 30 June 2012. The audit committee also reviewed the interim financial report together with the Company's external auditor.

Publication of the interim results and interim report

The interim results announcement and the interim report are also published on the websites of the Company at www.xiezhonginternational.hk and the Stock Exchange at www.hkex.com.hk.

By Order of the Board
Xiezhong International Holdings Limited
Chen Cunyou
Chairman

Hong Kong, 27 August 2012

As at the date hereof, the Executive Directors of the Company are Mr. Chen Cunyou, Mr. Ge Hongbing; the Non-executive Directors are Mr. Zhang Yichen, Mr. Fang Kenneth Hung, Mr. Liu Xiaoping, Mr. Wang Zhenyu; the Independent Non-executive Directors are Mr. Zhang Shulin, Mr. Lau Ying Kit and Mr. Cheung Man Sang.