



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

2013
INTERIM REPORT



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CORPORATE INFORMATION

Board of Directors and Committees

Board of Directors

Executive Directors

Mr. Chen Cunyou (*Chairman*)

Mr. Ge Hongbing

Non-Executive Directors

Mr. Fang Kenneth Hung

Mr. Liu Xiaoping

Mr. Wang Zhenyu

Mr. Zhang Yichen

Independent Non-Executive Directors

Mr. Cheung Man Sang

Mr. Lau Ying Kit

Mr. Zhang Shulin

Committees

Audit Committee

Mr. Lau Ying Kit (*Chairman*)

Mr. Cheung Man Sang

Mr. Zhang Shulin

Nomination Committee

Mr. Zhang Shulin (*Chairman*)

Mr. Cheung Man Sang

Mr. Lau Ying Kit

Mr. Liu Xiaoping

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, KY1-1104, Cayman Islands

Principal Place of Business in Hong Kong

Room 2912, Tower 2, Times Square

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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

Headquarters in the PRC

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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

Hong Kong Legal Advisor

Li & Partners
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Hong Kong

Auditors

KPMG
Certified Public Accountants
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10 Chater Road, Central
Hong Kong

Company's Website

www.xiezhonginternational.hk

PRC Legal Advisor

Chen & Co
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Shanghai Stock Exchange Building
528 Pudong Nan Road, Shanghai
PRC

Principal Bankers

Construction Bank of Nanjing
Jiangning Economic Development Zone Branch
China Merchants Bank
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 automotive heating, ventilation and air-conditioning (“HVAC”) systems for sport utility vehicles (“SUVs”), pickup trucks and heavy trucks. 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 SUVs, pickup trucks, sedans and heavy trucks. We also supply HVAC systems and HVAC components for construction machineries and other types of vehicles such as light trucks, multiple-purpose vehicles (“MPVs”), 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).

According to the statistical data of 中國汽車工業協會 (China Association of Automobile Manufacturers), the number of motor vehicles manufactured and sold in the first half of 2013 were 10,751,700 units and 10,782,200 units respectively, representing a growth of 12.8% and 12.3% respectively as compared against that of the previous corresponding period. Amongst those motor vehicles, the number of passenger vehicles manufactured and sold were 8,664,500 units and 8,665,100 units respectively, representing a growth of 14.0% and 13.8% respectively as compared against that of the previous corresponding period; the number of commercial vehicles manufactured and sold were 2,087,200 units and 2,117,100 units respectively, representing a growth of 8.2% and 6.7% respectively as compared against that of the previous corresponding period. In the first half year of 2013, the Company strived to develop the market of HVAC systems for sedans, and achieved a significant growth. Overall turnover had a decent growth accordingly as compared against that of the previous corresponding period.

During the reporting period, the Group recorded turnover of RMB353.8 million, representing a growth of 18.7% compared against that of RMB298.0 million in the previous corresponding period. The gross profit of RMB83.1 million, representing a drop of 0.6% compared against that of RMB83.6 million in the previous corresponding period. The profit attributable to equity shareholders of RMB32.5 million, representing a decrease of 17.7% compared against that of RMB39.5 million in the previous corresponding period.

It is one of our core strategies to strengthen the capabilities of research and development continuously. During the reporting period, the Company established the institute for research and development of motor vehicle air-conditioning, and we will put more resources in order to enhance the level of research and development. The new research and development building will be put into use before the end of the year, including advanced environment simulation laboratory.

Financial Review

Turnover

During the reporting period, the Group recorded turnover of RMB353.8 million, representing a growth of 18.7% compared against that of RMB298.0 million in the previous corresponding period. Such increase in turnover was mainly due to significant increase in turnover from HVAC systems for sedans compared against that in the previous corresponding period.

	Six months ended 30 June			
	2013		2012	
	RMB'000	% of total turnover	RMB'000	% of total turnover
HVAC systems				
SUVs and pickup trucks	127,803	36.1%	142,233	47.7%
Sedans	63,365	17.9%	15,670	5.3%
Heavy trucks	53,407	15.1%	37,466	12.6%
Vans	46,913	13.3%	42,089	14.1%
Construction machineries	25,875	7.3%	26,428	8.9%
Other vehicles ⁽¹⁾	9,044	2.6%	6,102	2.0%
HVAC components ⁽²⁾	27,373	7.7%	28,033	9.4%
Total	353,780	100.0%	298,021	100.0%

(1) Other vehicles mainly comprise of light trucks and buses.

(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 RMB83.1 million, representing a decrease of 0.6% compared against RMB83.6 million in the previous corresponding period. The gross profit margin was 23.5% compared against 28.1% in the previous corresponding period. Such decrease was due to the selling price deduction from HVAC systems for some vehicles, and an increase in turnover from HVAC systems for sedans which have a lower gross profit margin compared against that in the previous corresponding period.

Other revenue and net income

Other revenue and net income primarily include government grants and interest income, which dropped to RMB4.3 million during the reporting period from RMB6.9 million in the previous corresponding period. Such decrease was due to grants of RMB2.0 million from local government as rewards for the successful listing of the Group (the "Listing") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in the previous corresponding period, which was not available in the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution costs

Distribution costs increased by 48.6% or RMB5.4 million to RMB16.5 million during the reporting period from RMB11.1 million in the previous corresponding period. During the reporting period, for the purpose of reducing the loss of goods in transit and enhancing customer service levels, the Company changed some transport routes from indirect transportation into direct transportation, which increased the transportation costs. Moreover, transportation costs went up due to the increase of turnover. With the increase of sales offices and the increase in turnover, storage costs went up compared against that in the previous corresponding period. Soaring labor costs and other expenses for the development of new markets also contributed to the increase of distribution costs.

Administrative expenses

During the reporting period, administrative expenses were RMB25.8 million, representing an increase of RMB0.5 million or 2.0% compared against that of RMB25.3 million in the previous corresponding period. Such increase during the reporting period was mainly due to additional expenditure in research and development, and soaring labor costs.

Finance costs

During the reporting period, finance costs were RMB3.9 million, representing a decrease of RMB2.7 million or 40.9% compared against that of RMB6.6 million in the previous corresponding period. During the reporting period, the Company optimized the use of funds, reduced the bill discounting, and capitalised the interest expenses of RMB1.1 million relating to the construction of research and development building which mainly contributed to the decrease of finance costs.

Income tax

During the reporting period, income tax was RMB8.3 million, representing an increase of RMB0.7 million or 9.2% compared against that of RMB7.6 million in the previous corresponding period. Such change was due to decrease of deferred tax liabilities in the previous corresponding period.

Profit for the period

As a result of the foregoing, profit attributable to equity shareholders of the Company decreased by RMB7.0 million or 17.7% from RMB39.5 million in the previous corresponding period to RMB32.5 million during the reporting period.

Liquidity and Financial Resources

Inventories

As at 30 June 2013, the Group's inventory balance increased to RMB208.3 million (31 December 2012: RMB176.5 million), which was due to the higher inventory level maintained at various warehouses for the purpose of meeting the need of our customers with the increase of turnover during the reporting period.

The average inventory turnover days increased from 128 days during the twelve months ended 31 December 2012 to 129 days during the six months ended 30 June 2013, which was due to the increase in inventory balance by the end of the reporting period.

Trade debtors and bills receivable

As at 30 June 2013, the Group's trade debtors and bills receivable were RMB393.2 million (31 December 2012: RMB382.2 million), which increased slightly compared against that in the end of 2012.

The average trade debtors and bills receivable turnover days decreased from 236 days during the twelve months ended 31 December 2012 to 199 days during the six months ended 30 June 2013, while without taking into account the bills receivable, the average turnover days of trade debtors decreased from 163 days during the twelve months ended 31 December 2012 to 149 days during the six months ended 30 June 2013. Such change was due to the increase of turnover.

Trade payables and bills payable

As at 30 June 2013, the Group's trade payables and bills payable were RMB231.4 million (31 December 2012: RMB162.7 million), which was due to increase in purchase of raw materials during the reporting period.

The average trade payables and bills payable turnover days decreased from 138 days during the twelve months ended 31 December 2012 to 132 days during the six months ended 30 June 2013, which was due to increase in purchase of raw materials in line with the increase of turnover in the reporting period.

Cash, deposits with banks and interest-bearing borrowings

As at 30 June 2013, the Group's cash and deposits with banks were RMB94.0 million (31 December 2012: RMB123.7 million). The decrease in cash flow was mainly due to the increase of capital expenditure during the reporting period.

As at 30 June 2013, we had outstanding bank borrowings of RMB215.1 million (31 December 2012: RMB182.8 million), all of which were short-term and intended to meet the working capital of the Group. As at 30 June 2013, our bank borrowings carried fixed interest rates ranging from 4.0% to 7.0% per annum.

As at 30 June 2013, the banking facilities available to us were RMB259.0 million (31 December 2012: 194.0 million), of which RMB164.0 million (31 December 2012: 125.7 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 30 June 2013, 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.

Gearing ratio

As at 30 June 2013, the Group's gearing ratio, calculated based on debt (including interest-bearing borrowings and bills payable) divided by the total of equity attributable to equity shareholders of the Company and debt, increased to 23.8%, compared against 21.5% as at 31 December 2012, which was due to the slight increase in bank borrowings during the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of proceeds

The net proceeds of Company's Listing in June 2012 were approximately HKD165.5 million (approximately RMB134.4 million). According to the intended usages as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 6 June 2012 (the "Prospectus"), the application of such proceeds as at 30 June 2013 was as follow:

Items	Net Proceeds (RMB million)		
	Available	Utilised	Unutilised
Expanding of Production Plants and Upgrading Existing Facilities of the Group	92.7	43.0	49.7
Funding for Research and Development	30.9	30.9	—
Working Capital and Other General Purposes	10.8	10.8	—
Total	134.4	84.7	49.7

Contingent liabilities

As at 30 June 2013, the Group did not incur any material contingent liabilities (31 December 2012: nil).

Significant investments held

Except for investment in subsidiaries and interest in joint venture, during the six months ended 30 June 2013, the Group did not hold any significant investment in equity interest in any company (six months ended 30 June 2012: nil).

Future plans for material investments or capital assets

Save as disclosed by the Company in the annual report for the year ended 31 December 2012, the Group did not have other plans for material investments and capital assets.

Material acquisitions and disposals of subsidiaries and joint venture

The Group did not have any material acquisitions and disposals of subsidiaries and joint venture during the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

Capital commitments

As at 30 June 2013, the Group's capital commitments to make contracted payments amounted to RMB44.1 million (31 December 2012: RMB30.4 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 RMB101.9 million (six months ended 30 June 2012: RMB35.3 million) primarily representing additions of new machineries and equipment and the construction cost incurred by the research and development building.

Foreign exchange risk

The Group's businesses are principally operated in China and substantially all of its transactions are conducted in RMB and most of the Group's assets and liabilities are also denominated in RMB. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than RMB. As at 30 June 2013, the Group's cash and deposits with banks balance denominated in HKD was HKD13.0 million (31 December 2012: HKD40.1 million) and consequently we have foreign exchange risk exposure from conversion of amount denominated in foreign currencies as at the balance sheet date. During the six months ended 30 June 2013, the Group did not employ any financial instrument for hedging purposes.

Employees

As at 30 June 2013, the Group had 1008 employees in total (31 December 2012: 869), which were remunerated by the Group with reference to their performance, qualifications and prevailing market conditions. During the reporting period, the Group's total expenditure in respect of staff cost was RMB33.6 million (six months ended 30 June 2012: RMB28.7 million), representing 9.5% of the total turnover of the Group (six months ended 30 June 2012: 9.6%). The Group provided regular training to its staff to enhance their knowledge and skills.

The Board may exercise its discretion to grant share options under the share option scheme adopted by the Company on 21 May 2012 and revised on 30 May 2012 (the "Share Option Scheme") to the executive directors and employees as an incentive to their contribution to the Group. During the reporting period, no share options had been granted by the Group to the employees in accordance with the share option scheme.

Events after the reporting period

In July 2013, Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. decided to dispose of its 51% equity interest in Hubei Leidite Xiezhong Automobile Air-conditioning System Co., Ltd. ("Xiezhong Hubei"), a joint venture of the Group, by liquidation of this entity. As at 30 June 2013, the carrying amount of the Group's interest in Xiezhong Hubei was RMB4,275,000. Up to the date of issue of this interim financial report, the liquidation of Xiezhong Hubei was still in progress. The directors of the Group consider that the liquidation of Xiezhong Hubei would not have a significant financial impact on the Group.

Dividends

The Board did not propose any payment of interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

Outlook

Looking ahead, China's economy will adhere to the general tone to make progress while maintaining stability, improve the quality and efficiency of economic growth as the center, and accelerate the transformation and upgrading and structural adjustment. We expect that Chinese government will maintain a stable GDP growth, which creates better conditions for steady growth in the automotive market. Besides, domestic demand arising from urbanization and rigid demand of the auto consumption will provide a good environment for the development of automotive industry.

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 strive to explore the market of HVAC systems for sedans. Being an integral part of the automotive industry, the market of HVAC systems for sedans is immense. We will actively serve

MANAGEMENT DISCUSSION AND ANALYSIS

existing customers well and continue to develop new customers and new models. We hope that the growth trend of HVAC systems for sedans in first half year of 2013 can be sustained, and strive to achieve significant growth in the whole year.

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 with a gross floor area of 15,631 square meters in Jiangning District, Nanjing City. The construction of the research and development building is expected to be put into use before the end of 2013.

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 co-operation with our major customers, in addition to our presence in Jiangsu Province, we intend to strengthen our current presence in Liaoning Province and Beijing City, with a view to lowering transport costs and further improve our standards for services rendered to the customers. The plant in Beijing City is expected to complete in 2013.

4) *Business expansion*

We will actively seek favorable and potential business expansion and acquisition opportunities, thus achieving long-term business growth, while further increase the Company's turnover, improve profitability, and thus maximize the returns of the shareholders.

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 12 to 29 which comprises the consolidated balance sheet of Xiezhong International Holdings Limited as at 30 June 2013 and the related consolidated income statement, statement of comprehensive income and 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 2013 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 2013

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2013 — unaudited

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Turnover	4	353,780	298,021
Cost of sales		(270,658)	(214,408)
Gross profit		83,122	83,613
Other revenue and net income	5	4,260	6,853
Distribution costs		(16,461)	(11,052)
Administrative expenses		(25,769)	(25,259)
Other operating expenses		(37)	(100)
Profit from operations		45,115	54,055
Finance costs	6(a)	(3,887)	(6,587)
Share of losses of joint venture		(186)	(113)
Profit before taxation		41,042	47,355
Income tax	7	(8,311)	(7,578)
Profit for the period		32,731	39,777
Attributable to:			
Equity shareholders of the Company		32,497	39,461
Non-controlling interests		234	316
Profit for the period		32,731	39,777
Earnings per share (RMB)			
Basic and diluted	8	0.041	0.064

The notes on pages 18 to 29 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 16.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013 — unaudited

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Profit for the period	32,731	39,777
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside mainland China, net of nil tax	(270)	486
Total comprehensive income for the period	32,461	40,263
Attributable to:		
Equity shareholders of the Company	32,227	39,947
Non-controlling interests	234	316
Total comprehensive income for the period	32,461	40,263

The notes on pages 18 to 29 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

As at 30 June 2013 — unaudited

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Non-current assets			
Property, plant and equipment	9	377,720	291,435
Lease prepayments		54,569	55,157
Intangible assets		33,439	37,107
Goodwill		46,832	46,832
Interest in joint venture		4,275	4,461
Non-current prepayments		58,547	52,027
Deferred tax assets		5,882	5,994
		581,264	493,013
Current assets			
Inventories	10	208,261	176,469
Trade and other receivables	11	404,836	388,903
Amounts due from a related party	18(b)	16,058	10,240
Deposits with banks	12	27,632	25,368
Cash	13	66,383	98,354
		723,170	699,334
Current liabilities			
Trade and other payables	14	263,840	185,381
Amounts due to related parties	18(b)	2,502	13,706
Interest-bearing borrowings	15	215,060	182,757
Income tax payables		7,759	7,133
Provision		3,656	3,656
		492,817	392,633
Net current assets		230,353	306,701
Total assets less current liabilities		811,617	799,714
Non-current liabilities			
Deferred income		21,318	21,444
Deferred tax liabilities		27,485	27,237
		48,803	48,681
Net assets		762,814	751,033

The notes on pages 18 to 29 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

As at 30 June 2013 — unaudited

		At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
	Note		
Capital and reserves	16		
Share capital		6,496	6,496
Reserves		727,964	716,417
Total equity attributable to equity shareholders of the Company		734,460	722,913
Non-controlling interests		28,354	28,120
Total equity		762,814	751,033

Approved and authorised for issue by the board of directors on 27 August 2013.

Chen Cunyou
Director

Ge Hongbing
Director

The notes on pages 18 to 29 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013 — unaudited

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserves	Capital reserve	Other reserve	Exchange reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 share 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	—	—	—	—	—	486	39,461	39,947	316	40,263
At 30 June 2012 and 1 July 2012	6,496	127,863	23,894	291,546	17,919	17,590	209,053	694,361	28,217	722,578
Changes in equity for the six months ended 31 December 2012:										
Total comprehensive income	—	—	—	—	—	1	28,551	28,552	(97)	28,455
Appropriation to statutory reserves	—	—	7,641	—	—	—	(7,641)	—	—	—
At 31 December 2012	6,496	127,863	31,535	291,546	17,919	17,591	229,963	722,913	28,120	751,033
At 1 January 2013	6,496	127,863	31,535	291,546	17,919	17,591	229,963	722,913	28,120	751,033
Changes in equity for the six months ended 30 June 2013:										
Total comprehensive income	—	—	—	—	—	(270)	32,497	32,227	234	32,461
Dividends approved in respect of the previous year (note 16(a))	—	(20,680)	—	—	—	—	—	(20,680)	—	(20,680)
At 30 June 2013	6,496	107,183	31,535	291,546	17,919	17,321	262,460	734,460	28,354	762,814

The notes on pages 18 to 29 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2013 — unaudited

	Note	Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Cash generated from operations		56,259	69,362
Income tax paid		(6,022)	(8,064)
Net cash generated from operating activities		50,237	61,298
Net cash used in investing activities		(105,258)	(52,928)
Net cash generated from financing activities		23,320	110,549
Net (decrease)/increase in cash		(31,701)	118,919
Cash at 1 January	13	98,354	28,063
Effect of foreign exchange rate changes		(270)	589
Cash at 30 June	13	66,383	147,571

The notes on pages 18 to 29 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 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 2012 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”).

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. KPMG’s independent review report to the Board of Directors is included on page 11.

The financial information relating to the financial year ended 31 December 2012 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 2012 are available from the Company’s registered office. The independent auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2013.

2. Changes in accounting policies

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

- Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 11, *Joint arrangements*
- IFRS 12, *Disclosure of interests in other entities*

2. Changes in accounting policies (continued)

- IFRS 13, *Fair value measurement*
- *Annual Improvements to IFRSs 2009–2011 Cycle*
- Amendments to IFRS 7 — *Disclosures* — *Offsetting financial assets and financial liabilities*

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

Amendments to IAS 1, *Presentation of financial statements* — *Presentation of items of other comprehensive income*

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS 10, *Consolidated financial statements*

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation — Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 11, *Joint arrangements*

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The Group has reclassified the investment from jointly controlled entity to joint venture. The investment continues to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial result of the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

2. Changes in accounting policies (continued)

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The adoption of IFRS 13 does not have any material impact on the disclosure of the Group's financial instruments in the interim financial reports because the Group does not have financial instruments carried at fair value at the balance sheet date. The adoption of IFRS 13 also does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to IFRSs 2009–2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group does not have any reportable segments with total assets or total liabilities materially different from the amounts reported in the last annual financial statements.

Amendments to IFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

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 CODM 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

4. Turnover

The principal activities of the Group are manufacturing and sale of automotive heating, ventilation and cooling ("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

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Other revenue		
Government grants	2,552	5,726
Interest income	470	741
Others	1,238	380
	4,260	6,847
Other net income		
Gains on disposal of property, plant and equipment	—	6
	4,260	6,853

6. Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Interest on bank loans	3,759	4,198
Interest on discounted bills	1,204	2,389
Less: interest expenses capitalised into property, plant and equipment	(1,076)	—
	3,887	6,587

(b) Staff costs

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Salaries, wages and other benefits	30,772	27,268
Contributions to defined contribution retirement plan	2,850	1,434
	33,622	28,702

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	
		2013 RMB'000	2012 RMB'000
Amortisation			
— lease prepayments		628	599
— intangible assets		3,671	3,670
Depreciation of property, plant and equipment		14,649	11,307
Impairment losses on trade debtors		209	—
Research and development costs (other than depreciation)		6,983	5,586
Provision for product warranties		1,338	23
Cost of inventories	10(b),(i)	270,658	214,408

Note:

- (i) Cost of inventories includes RMB31,435,000 (six months ended 30 June 2012: RMB25,040,000) relating to staff costs, depreciation and amortisation for the six months ended 30 June 2013, 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	
	2013 RMB'000	2012 RMB'000
Current tax		
Under/(over) provision in respect of prior year	603	(528)
Provision for current period	7,348	8,410
	7,951	7,882
Deferred tax		
Origination and reversal of temporary differences	360	(304)
	8,311	7,578

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 People's Republic of China ("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.

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 six months ended 30 June 2013.

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") renewed its certificate as a High and New Technology Enterprise in 2012 and it is entitled to a preferential tax rate of 15% for the three years from 2012 to 2014 pursuant to the current applicable CIT Law and its 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 2013 is based on the profit attributable to equity shareholders of the Company of RMB32,497,000 (six months ended 30 June 2012: RMB39,461,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2012: 614,285,714 shares) in issue during the six months ended 30 June 2013.

There were no dilutive potential ordinary shares during the six months ended 30 June 2013, and therefore, diluted earnings per share is the same as the basic earnings per share.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

9. Property, plant and equipment

	2013 RMB'000	2012 RMB'000
Net book value, at 1 January	291,435	197,201
Additions	100,934	119,263
Disposals	—	(605)
Depreciation charge for the period/year	(14,649)	(24,989)
Written back on disposals	—	565
At 30 June/31 December	377,720	291,435

10. Inventories

(a) Inventories in the consolidated balance sheet comprised:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Raw materials	36,468	34,710
Work in progress	23,575	26,408
Finished goods	148,218	115,351
	208,261	176,469

(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 2013 RMB'000	2012 RMB'000
Carrying amount of inventories sold	270,105	214,408
Write down of inventories	553	—
	270,658	214,408

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

11. Trade and other receivables

As of the balance sheet date, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the due date and net of allowance for doubtful debts, is as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Current	277,508	265,675
Less than 1 month past due	51,009	45,284
1 to 3 months past due	40,295	36,196
3 to 12 months past due	11,520	32,533
Over 12 months past due	12,869	2,475
Trade debtors and bills receivable, net of allowance for doubtful debts	393,201	382,163
Other receivables, deposits and prepayments	11,635	6,740
	404,836	388,903

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

12. Deposits with banks

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Unrestricted deposits	23,941	20,143
Restricted deposits	241	245
Pledged deposits	3,450	4,980
	27,632	25,368

13. Cash

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Cash on hand	77	229
Cash at bank	66,306	98,125
	66,383	98,354

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

14. Trade and other payables

As of the balance sheet date, the ageing analysis of trade and other creditors and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 3 months	166,302	153,729
Over 3 months but less than 6 months	59,884	6,035
Over 6 months but less than 12 months	3,999	1,923
Over 12 months	1,166	967
Total trade creditors and bills payable	231,351	162,654
Other payables	31,506	21,879
Other tax payable	983	848
	263,840	185,381

15. Interest-bearing borrowings

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Bank loans		
— Secured (i)	84,000	74,000
— Unsecured	80,000	46,000
Bank advances under discounted bills (ii)	51,060	62,757
	215,060	182,757

- (i) At 30 June 2013, the carrying amounts of the assets of the Group secured against bank loans were analysed as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Property, plant and equipment	28,645	29,473
Lease prepayments	24,512	24,821
Trade and other receivables	15,813	26,795
	68,970	81,089

- (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) Dividends

- (i) Dividends payable to equity shareholders attributable to the interim period

The Directors of the Company do not propose the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: HKD nil).

- (ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HKD 0.032 per ordinary share (six months ended 30 June 2012: HKD nil per ordinary share)	20,680	—

(b) 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 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"), the equity shareholders of the Company. 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 2013, 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. No options were exercised during the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

17. Commitments

(a) Capital commitments

Capital commitments outstanding at 30 June 2013 not provided for in the interim financial report are as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Contracted for	44,124	30,398
Authorised but not contracted for	49,534	49,712
	93,658	80,110

(b) Lease commitments

At 30 June 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 1 year	1,099	581
After 1 year but within 5 years	—	76
	1,099	657

18. Material related party transactions

(a) Transactions with related parties

Transactions with related parties during the six months ended 30 June 2013 are as follows:

	Note	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Sales of goods			
— Beijing Automobile Co., Ltd. ("Beijing Auto")		32,849	17,662
— Hubei Leidite Xiezhong Automobile Air-conditioning System Co., Ltd. ("Xiezhong Hubei")		279	1,847
		33,128	19,509
Purchase of goods			
— Nanjing Aotecar Refrigerating Co., Ltd. ("Aotecar Nanjing")	(i)	4,054	14,516
— Xiezhong Hubei		—	1,156
		4,054	15,672

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

18. Material related party transactions (continued)

(a) Transactions with related parties (continued)

- (i) Aotecar Nanjing ceased to be a related party of the Group from 27 March 2013 because CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto have transferred all of their equity interests in Aotecar Nanjing to a third party.

The directors consider that the above related party transactions during the six months ended 30 June 2013 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

(b) Amounts due from/to related parties

At 30 June 2013, the Group had the following balances with related parties:

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Trade debtors from			
— Beijing Auto		16,058	10,240
Trade payables due to			
— Xiezhong Hubei		2,502	2,684
— Aotecar Nanjing	18(a)(i)	—	11,022
		2,502	13,706

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 2013 RMB'000	2012 RMB'000
Short-term employee benefits	1,735	1,327

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

19. Non-adjusting post balance sheet event

In July 2013, Xiezhong Nanjing decided to dispose of its 51% equity interest in Hubei Leidite Xiezhong Automobile Air-conditioning System Co., Ltd. ("Xiezhong Hubei"), a joint venture of the Group, by liquidation of this entity. As at 30 June 2013, the carrying amount of the Group's interest in Xiezhong Hubei was RMB4,275,000. Up to the date of issue of this interim financial report, the liquidation of Xiezhong Hubei was still in progress. The directors of the Group consider that the liquidation of Xiezhong Hubei would not have a significant financial impact on the Group.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate governance

The Company has all along committed to fulfilling its responsibilities to its shareholders by ensuring that the proper processes for supervision and management of the Group's businesses are duly operated and reviewed and that good corporate governance practices and procedures are established throughout the six months ended 30 June 2013.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited ("Listing Rules") as its own code of corporate governance.

During the six months ended 30 June 2013, the Company was in compliance with all code provisions set out in the CG Code except for the deviations as explained below:

- under code provision A.2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual, but for the purpose of our Group, the roles of the chairman and the chief executive of the Company are not separate and both are performed by Mr. Chen Cunyou. Since the Directors meet regularly to consider major matters regarding the operations of the Company, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that, with the effective operations of the Board which comprises experienced and high-calibre individuals, this structure will enable the Company to make and implement decisions promptly and efficiently.
- under code provision A.6.7 of the CG Code, all non-executive Directors are recommended to attend general meetings of the Company. All non-executive Directors of the Company (including independent non-executive Directors) attend the annual general meeting of the Company held on 8 May 2013 (the "AGM"), other than Mr. Zhang Yichen who was absent from the AGM due to pre-arranged business commitments.

As an enhancement of the Company's corporate governance practices and for the purpose of complying with the amendments to the CG Code regarding board diversity (which will become effective from 1 September 2013), on 27 August 2013, the Board adopted a board diversity policy, the revised terms of reference for the Company's nomination committee and the revised nomination procedures, process and criteria to select and recommend candidates for directorship.

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 (the "Share Incentive Plan"). 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 Company's Listing on 18 June 2012 (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 subject acquisition of Shares
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%

No options were exercised during the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

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' and Chief Executives' Interest in Securities

Save as disclosed below, none of our Directors or chief executive of our Company who held office on 30 June 2013 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 or any of its associated corporations

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) 1,800,000 (S)	4.5% 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) 9,257,400 (S)	23.14% 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.
- Mr. Chen Cunyou was granted rights to acquire 10,260,000 shares under the Share Incentive Plan.
- Mr. Ge Hongbing was granted rights to acquire 6,000,000 shares under the Share Incentive Plan.
- 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 Interests in Securities” below.

Substantial Shareholders’ Interests in Securities

So far as it is known to the Directors, save as disclosed below, our Directors are not aware of any person (other than Directors and chief executive of the Company) who, as at 30 June 2013, 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%
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%

Name of Shareholder	Nature of interest	Number of shares	Approximate percentage of shareholding in our Company
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%
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%
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.

- (e) CP Management Holdings Limited holds a 49% interest in CITIC Capital Partners Limited.
 - (f) Each of Mr. Zhang Yichen and Mr. Brian J. Doyle holds a 50% interest in CP Management Holdings Limited.
 - (g) CITIC Group Corporation, through various intermediary holding companies in aggregate holds a 55% interest in CITIC Capital Holdings Limited.
 - (h) CITIC Limited is a wholly-owned subsidiary of CITIC Group Corporation.
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 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed shares of the Company.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules ("Model Code") as its own code of conduct for securities transactions. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings as set out in the Model Code during the reporting period.

Remuneration committee

Our Company established a remuneration committee on 21 May 2012 with its written terms of reference in compliance with the CG 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 CG 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.

Audit committee

Our Company established an audit committee on 21 May 2012 with its written terms of reference in compliance with the CG 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 2013. 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 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 2013

As at the date of this report, the Board comprises two executive directors, namely Mr. Chen Cunyou, Mr. Ge Hongbing; four non-executive directors, namely Mr. Fang Kenneth Hung, Mr. Liu Xiaoping, Mr. Wang Zhenyu and Mr. Zhang Yichen; and three independent non-executive directors, namely Mr. Cheung Man Sang, Mr. Lau Ying Kit and Mr. Zhang Shulin.