



# 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 **2017**



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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. Han Yonggui (Resigned on 28 July 2017)

Mr. Chen Bao (Resigned on 28 July 2017)

Mr. Zhu Zhenghua (Resigned on 28 July 2017)

Mr. Huang Yugang

Ms. Kwok Chak Sheung (Appointed on 3 April 2017)

#### *Independent Non-Executive Directors*

Mr. Lau Ying Kit

Mr. Cheung Man Sang

Mr. Zhang Shulin

Mr. Lin Lei

### Committees

#### *Audit Committee*

Mr. Lau Ying Kit (*Chairman*)

Mr. Cheung Man Sang

Mr. Zhang Shulin

Mr. Lin Lei

#### *Nomination Committee*

Mr. Zhang Shulin (*Chairman*)

Mr. Lau Ying Kit

Mr. Cheung Man Sang

Mr. Lin Lei

#### *Remuneration Committee*

Mr. Cheung Man Sang (*Chairman*)

Mr. Lau Ying Kit

Mr. Zhang Shulin

Mr. Lin Lei

## 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 601,

New Landwide

Commercial Building

73 Kimberley Road, Kowloon

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. Xin Fangwei (alternate to Chen Cunyou)

Mr. Chui Wing Fai

### Headquarters in the PRC

389 Kening Road Science Park

Jiangning District, Nanjing

Jiangsu Province

PRC

### Hong Kong Share Registrar

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

### 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](http://www.xiezhonginternational.hk)

### PRC Legal Advisor

EY Chen & Co. Law Firm  
51/F, Shanghai World Financial Center  
100 Century Avenue, Shanghai  
PRC

### Principal Bankers

Construction Bank of Nanjing  
Jiangning Economic Development Zone Branch  
China Merchants Bank  
Agricultural Bank of China, Jiulonghu Branch  
China CITIC Bank International Limited

### Stock Code

3663

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

The Company and its subsidiaries (“the Group”) is one of the leading suppliers of automotive heating, ventilation and cooling (“HVAC”) systems for vehicles. We principally engage in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components, and provide technical testing and related services. Our automotive HVAC systems are mainly used in sport utility vehicles (“SUVs”), pickup trucks, sedans, heavy trucks and light trucks, as well as the supply of HVAC systems and HVAC components for new-energy vehicles, construction machineries and other types of vehicles such as buses.

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 2017 were 13,525,800 units and 13,353,900 units respectively, representing a growth of 4.6% and 3.8% respectively as compared against that of the previous corresponding period. Amongst those motor vehicles, the number of passenger vehicles manufactured and sold were 11,482,700 units and 11,253,000 units respectively, representing a growth of 3.2% and 1.6% respectively as compared against that of the previous corresponding period; the number of commercial vehicles manufactured and sold were 2,043,000 units and 2,100,900 units respectively, representing a growth of 13.8% and 17.4% respectively as compared against that of the previous corresponding period. In the first half year of 2017, overall revenue of the Group got a growth through the effort of our staff as compared against that of the previous corresponding period.

During the reporting period, the Group recorded revenue of RMB441.4 million, representing a growth of 19.4% compared against that of RMB369.8 million in the previous corresponding period. The gross profit of RMB57.4 million, representing a decrease of 17.4% compared against that of RMB69.5 million in the previous corresponding period. The loss attributable to equity shareholders was RMB33.8 million compared to the profit of RMB15.4 million in the previous corresponding period.



## FINANCIAL REVIEW

### Revenue

During the reporting period, the Group recorded a revenue of RMB441.4 million, representing a growth of 19.4% compared against that of RMB369.8 million in the previous corresponding period. Such increase in revenue was mainly due to the large increase in revenue from HVAC systems for Sedans, heavy trucks and light trucks compared against that in the previous corresponding period.

	Six months ended 30 June			
	2017		2016	
	RMB'000	% of total revenue	RMB'000	% of total revenue
<b>HVAC systems</b>				
SUVs and pickup trucks	131,812	29.9	138,472	37.5
Sedans	95,396	21.6	78,869	21.3
Heavy trucks	63,568	14.4	34,833	9.4
Vans	51,848	11.8	67,075	18.1
Light trucks	45,576	10.3	6,761	1.8
Construction machineries	12,106	2.7	6,705	1.8
Other vehicles <sup>(1)</sup>	3,744	0.8	74	0.1
HVAC components <sup>(2)</sup>	34,447	7.8	29,135	7.9
<b>Service income<sup>(3)</sup></b>	<b>2,910</b>	<b>0.7</b>	7,900	2.1
<b>Total</b>	<b>441,407</b>	<b>100.0</b>	369,824	100.0

<sup>(1)</sup> Other vehicles mainly comprise buses.

<sup>(2)</sup> HVAC components mainly comprise evaporator, condensers and other HVAC components (such as heater core, radiator, intercooler, oil cooler, HVAC hoses and HVAC housing) for all types of vehicles.

<sup>(3)</sup> Service income mainly represents revenue from rendering of the testing and experiment services relating to the manufacturing of automotive air-conditioner.

### Gross profit and gross profit margin

During the reporting period, the gross profit was RMB57.4 million, representing a decrease of 17.4% compared against RMB69.5 million in the previous corresponding period. The gross profit margin was 13% compared against 18.8% in the previous corresponding period. Such decrease was due to the decrease in sales prices and changes in product structure resulting from changes in market demand.

### Other income

Other income primarily include government grants, interest income and net foreign exchange loss, which decreased to RMB1.8 million during the reporting period from RMB5.0 million in the previous corresponding period. Such decrease was mainly due to increase of foreign exchange loss.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW (continued)

#### Distribution costs

Distribution costs increased by 39.5% or RMB6.5 million to RMB22.8 million during the reporting period from RMB16.3 million in the previous corresponding period. During the reporting period, distribution costs increased in line with the growth of revenue.

#### Administrative expenses

During the reporting period, administrative expenses were RMB61.7 million, representing a growth of RMB32.2 million or 109% compared against that of RMB29.5 million in the previous corresponding period. Such increase during the reporting period was mainly due to the increase in provision of doubtful debts brought by the credit risk arises from certain customers and the increase in spending on research and development recorded in income statement.

#### Finance costs

During the reporting period, finance costs were RMB15.2 million, representing a growth of RMB7.7 million or 103% compared against that of RMB7.5 million in the previous corresponding period. In the reporting period, finance costs increased in line with the increasing bank loans and other borrowings.

#### Income tax

During the reporting period, income tax benefit was RMB4.7 million, representing a decrease of RMB10.1 million compared against the income tax expenses of RMB5.4 million in the previous corresponding period. Such change was mainly resulted from the loss before taxation during the reporting period.

#### (Loss)/profit for the period

As a result of the foregoing, loss attributable to equity shareholders of the Company was RMB33.8 million for the reporting period as compared to the profit of RMB15.4 million in the previous corresponding period.

### Liquidity and Financial Resources

#### Inventories

As at 30 June 2017, the Group's inventory balance increased to RMB220.9 million (31 December 2016: RMB219.4 million), which was due to the increase of inventory level maintained at various warehouses with the increase of revenue during the reporting period.

The average inventory turnover days, calculated as cost of sales divided by average inventory and multiplied by 181 days slightly increased from 103 days during the twelve months ended 31 December 2016 to 104 days during the six months ended 30 June 2017.

## Liquidity and Financial Resources (continued)

### Trade debtors and bills receivable/Amounts due from related parties

As at 30 June 2017, the Group's trade debtors and bills receivable increased to RMB647.5 million (31 December 2016: RMB561.3 million) which was mainly due to the increase of revenue during the reporting period. The Group's amounts due from related parties decreased to RMB117.6 million (31 December 2016: RMB217.8 million) which was mainly due to the settlement from related parties during the reporting period.

The average trade debtors and bills receivable turnover days, calculated as revenue divided by average trade debtors, bills receivable and amounts due from related parties and multiplied by 181 days, increased from 274 days during the twelve months ended 31 December 2016 to 317 days during the six months ended 30 June 2017, while without taking into account the bills receivable, the average turnover days of trade debtors and amounts due from related parties, calculated as revenue divided by average trade debtors and amounts due from related parties and multiplied by 181 days, increased from 192 days during the twelve months ended 31 December 2016 to 220 days during the six months ended 30 June 2017. The increase of turnover days is mainly due to delay settlement from some customers.

### Trade payables and bills payable

As at 30 June 2017, the Group's trade payables and bills payable were RMB506.9 million (31 December 2016: RMB440.1 million). Such increase was mainly due to the increase of purchase in line with the increase of revenue.

The average trade payables and bills payable turnover days, calculated as cost of sales divided by average trade payables and bills payables and multiplied by 181 days, increased from 192 days during the twelve months ended 31 December 2016 to 223 days during the six months ended 30 June 2017. The increase of turnover days of trade payables and bills payables is mainly due to the slow down of payment pace.

### Cash and deposits with banks and borrowings

As at 30 June 2017, the Group's cash and deposits with banks were RMB115.5 million (31 December 2016: RMB78.7 million). The increase was mainly due to increased cash inflow from operation during the reporting period.

As at 30 June 2017, we had outstanding bank borrowings of RMB597.4 million (31 December 2016: RMB568.1 million). And as at 30 June 2017, our bank borrowings carried interest rates ranging from 3.7% to 5.4% per annum.

As at 30 June 2017, the banking facilities available to us were RMB470.5 million (31 December 2016: RMB575.6 million), of which RMB463.8 million (31 December 2016: RMB522.6 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 30 June 2017, 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.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Financial Resources (continued)

#### Cash and deposits with banks and borrowings (continued)

We typically use short-term borrowings in the course of financing and also use long-term borrowings to adjust the debt structure. 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 2017, the short-term interest-bearing borrowings included a bank borrowing amounting to USD32,000,000 (RMB equivalent: approximately 216,776,000). In respect of this bank borrowing, the Group has failed to fulfil several financial covenant requirements at the reporting date. Therefore, the loan lenders have the right at any time by notice to the Group to immediately cancel the total loan commitment and require the outstanding loan to be immediately repaid. As at 30 June 2017, the entire outstanding amount of the loan was reclassified as current liabilities. The Company initially agreed with the lenders to repay the outstanding loan amounting to USD6,000,000, USD9,000,000, USD9,000,000 and USD8,000,000 on 31 August 2017, 25 September 2017, 31 October 2017 and 31 December 2017, respectively. In the opinion of the directors, the Group has sufficient financial resources to repay the above outstanding amounts in Hong Kong according to the agreed payment schedule, and a settlement fee of USD96,000. The Directors believe that the payment arrangement of the loan has no material effect on the operations of the Company.

#### Gearing ratio

As at 30 June 2017, 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 45.9%, compared against 42.0% as at 31 December 2016, which was due to the increase of bank loans and other borrowings during the reporting period.

#### Use of proceeds

The net proceeds of Company's listing in June 2012 were approximately HKD165.5 million (equivalent to 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 2017 was as follows:

Items	Net Proceeds (RMB million)		
	Available	Utilised	Unutilised
Expanding production plants and upgrading existing facilities of the Group	92.7	92.7	—
Funding for research and development	30.9	30.9	—
Working capital and other general purposes	10.8	10.8	—
Total	134.4	134.4	—

### Liquidity and Financial Resources (continued)

#### Contingent liabilities

As at 30 June 2017, the Group did not incur any material contingent liabilities.

#### Significant investments held

Except for investment in subsidiaries, during the six months ended 30 June 2017, 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 note 20 to the interim financial report and the paragraph headed “Capital commitments” of this report, the Group does not have other plans for material investments or capital assets.

#### Material acquisitions and disposals of subsidiaries and affiliated companies

Save as disclosed in note 20 to the interim financial report, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the six months ended 30 June 2017.

#### Capital commitments

As at 30 June 2017, the Group’s capital commitments to make contracted payments amounted to RMB21.4 million (31 December 2016: RMB6.0 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 RMB58.5 million (six months ended 30 June 2016: RMB79.8 million) primarily representing additions of new machineries and equipment and development costs.

#### 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 and financing transactions and recognised assets and liabilities which are denominated in a currency other than RMB. During the reporting period, the Group did not employ any financial instrument for hedging purposes.

#### Important events after the reporting period

Details are disclosed in note 21 to the interim financial report.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Financial Resources (continued)

#### Employees

As at 30 June 2017, the Group had 1,143 employees in total (31 December 2016: 1,039 employees), 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 RMB47.5 million (six months ended 30 June 2016: RMB38.7 million), representing 10.8% (six months ended 30 June 2016: 10.5%) of the total revenue of the Group. 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 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.

#### Dividends

The Board did not propose any payment of interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

#### Outlook

On 14 July 2017, BHAP HK Investment Limited ("BHAP", an indirect subsidiary of Beijing Automotive Group Co., Ltd (北京汽車集團有限公司, "Beijing Automotive Group")) successfully placed 265,332,600 shares of the Company (the "Share(s)") (representing approximately 33.17% of the existing issued share capital of the Company) through a placing agent (the "Placing"). Upon the completion of the Placing, Hield International (H.K.) Limited and Forever Team Limited, as the placees, hold 224,000,000 Shares and 41,332,600 Shares, representing approximately 28% and 5.17% of the existing issued share capital of the Company. BHAP has ceased to be a shareholder of the Company.

The transfer of Shares by BHAP was resulted from its own strategic adjustment, which will neither affect the operation business and management of the Group, nor the current business between the Group and Beijing Automotive Group. Xiezhong Beijing, the subsidiary of the Group, is expected to commence the business of manufacturing and assembly of automobile air-conditioning system in Beijing during the second half of 2017, and thereby strengthening the production base in Beijing and further enhancing the competitiveness and profitability of the Group.



### Liquidity and Financial Resources (continued)

#### Outlook (continued)

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 the 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 automobile 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. On the other hand, the Chinese government released a series of policies to encourage the development of new-energy vehicles industry, which is expected to have a decent growth. The Group will strengthen the research and development ability of HVAC systems for new-energy vehicles, strive to expand the market, and try its best to become the leading supplier of HVAC systems for new-energy vehicles in China.

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. To achieve the objective to supply automotive HVAC system for foreign brand car manufacturers, the Group has hired a number of foreign experts to improve the company's research and development ability. We will continually strive to strengthen our research and development capabilities by recruiting more talents, increasing research and development expenditure and expanding our research and development facilities.

The Chinese government is planning to further accelerate the promotion of new-energy vehicles, push forward the industrial transformation of the automobile industry, and establish a long-term and stable policy regime for new-energy vehicles, which would all promote the healthy development of the new-energy automobile industry. Riding on the favorable national policies in promoting new-energy vehicles strenuously and the general development trend of the industry, the Group and Beijing Automotive Group will continue and further deepen their business relationships in the new-energy vehicles sector to carry out technical exchanges and strategic cooperation. The Group will launch more resource to develop HVAC systems for new-energy vehicles to achieve greater progress, thus strengthening our competitive advantage.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and Financial Resources (continued)

#### Outlook (continued)

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 current production bases, we are constructing new bases, with a view to lowering transport costs and further improve our standards for services rendered to the customers. Moreover, to enter the international market, we will also consider constructing overseas factories in the future.

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 Group's revenue, improve profitability, and thus maximize the returns of the shareholders of the Company.

# REPORT ON REVIEW OF INTERIM FINANCIAL REPORT



## **Review report to the board of directors of Xiezhong International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

### **Introduction**

We have reviewed the interim financial report set out on pages 14 to 38 which comprises the consolidated statement of financial position of Xiezhong International Holdings Limited as at 30 June 2017 and the related consolidated statement of profit or loss, statement of profit or loss and other 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 2017 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

30 August 2017



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017 — unaudited

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
<b>Revenue</b>	4	<b>441,407</b>	369,824
Cost of sales		<b>(383,996)</b>	(300,301)
<b>Gross profit</b>		<b>57,411</b>	69,523
Other income	5	<b>1,830</b>	4,957
Distribution costs		<b>(22,791)</b>	(16,337)
Administrative expenses		<b>(61,743)</b>	(29,512)
<b>(Loss)/profit from operations</b>		<b>(25,293)</b>	28,631
Finance costs	6(a)	<b>(15,215)</b>	(7,505)
<b>(Loss)/profit before taxation</b>		<b>(40,508)</b>	21,126
Income tax	7	<b>4,682</b>	(5,409)
<b>(Loss)/profit for the period</b>		<b>(35,826)</b>	15,717
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(33,827)</b>	15,365
Non-controlling interests		<b>(1,999)</b>	352
<b>(Loss)/profit for the period</b>		<b>(35,826)</b>	15,717
<b>(Loss)/earnings per share (RMB)</b>			
Basic and diluted	8	<b>(0.042)</b>	0.019

The notes on pages 21 to 38 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 — unaudited

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
<b>(Loss)/profit for the period</b>	<b>(35,826)</b>	15,717
<b>Other comprehensive income for the period</b>		
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	<b>8,953</b>	(5,011)
<b>Total comprehensive income for the period</b>	<b>(26,873)</b>	10,706
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>(24,874)</b>	10,354
Non-controlling interests	<b>(1,999)</b>	352
<b>Total comprehensive income for the period</b>	<b>(26,873)</b>	10,706

The notes on pages 21 to 38 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017 — unaudited

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	9	653,923	631,244
Lease prepayments		49,602	50,224
Intangible assets	10	70,722	61,773
Goodwill		46,832	46,832
Long-term receivables	12	—	3,972
Non-current prepayments		33,246	42,279
Deferred tax assets		14,445	9,234
		<b>868,770</b>	845,558
<b>Current assets</b>			
Inventories	11	220,855	219,374
Trade and other receivables	12	721,850	623,636
Amounts due from related parties	19(b)	117,617	217,771
Deposits with banks	13	24,615	3,000
Cash	14	90,919	75,735
		<b>1,175,856</b>	1,139,516
<b>Current liabilities</b>			
Trade and other payables	15	559,538	501,379
Amounts due to related parties	19(b)	29,347	25,480
Interest-bearing borrowings	16	562,417	387,776
Income tax payables		4,739	9,119
Provisions		5,076	4,782
		<b>1,161,117</b>	928,536
<b>Net current assets</b>		<b>14,739</b>	210,980
<b>Total assets less current liabilities</b>		<b>883,509</b>	1,056,538

The notes on pages 21 to 38 form part of this interim financial report.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017 — unaudited

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
<b>Non-current liabilities</b>			
Deferred income		23,052	23,280
Interest-bearing borrowings	16	34,943	180,362
Deferred tax liabilities		4,644	5,153
		<b>62,639</b>	208,795
<b>NET ASSETS</b>		<b>820,870</b>	847,743
<b>CAPITAL AND RESERVES</b>	17		
Share capital		6,496	6,496
Reserves		784,354	809,228
<b>Total equity attributable to equity shareholders of the Company</b>		<b>790,850</b>	815,724
<b>Non-controlling interests</b>		<b>30,020</b>	32,019
<b>TOTAL EQUITY</b>		<b>820,870</b>	847,743

Approved and authorised for issue by the board of directors on 30 August 2017.

**Chen Cunyou**  
Director

**Ge Hongbing**  
Director

The notes on pages 21 to 38 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 — 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 profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2016</b>	6,496	77,491	49,577	291,546	17,919	6,257	352,326	801,612	32,150	833,762
<b>Changes in equity for the six months ended 30 June 2016:</b>										
Profit for the period	–	–	–	–	–	–	15,365	15,365	352	15,717
Other comprehensive income	–	–	–	–	–	(5,011)	–	(5,011)	–	(5,011)
Total comprehensive income	–	–	–	–	–	(5,011)	15,365	10,354	352	10,706
Dividends approved in respect of the previous year	–	(12,193)	–	–	–	–	–	(12,193)	–	(12,193)
<b>Balance at 30 June 2016 and 1 July 2016</b>	6,496	65,298	49,577	291,546	17,919	1,246	367,691	799,773	32,502	832,275
<b>Changes in equity for the six months ended 31 December 2016:</b>										
Profit for the period	–	–	–	–	–	–	27,944	27,944	(483)	27,461
Other comprehensive income	–	–	–	–	–	(11,993)	–	(11,993)	–	(11,993)
Total comprehensive income	–	–	–	–	–	(11,993)	27,944	15,951	(483)	15,468
Appropriation to statutory reserves	–	–	6,400	–	–	–	(6,400)	–	–	–
<b>Balance at 31 December 2016</b>	6,496	65,298	55,977	291,546	17,919	(10,747)	389,235	815,724	32,019	847,743

The notes on pages 21 to 38 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 — 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 profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2017</b>	<b>6,496</b>	<b>65,298</b>	<b>55,977</b>	<b>291,546</b>	<b>17,919</b>	<b>(10,747)</b>	<b>389,235</b>	<b>815,724</b>	<b>32,019</b>	<b>847,743</b>
<b>Changes in equity for the six months ended 30 June 2017:</b>										
Loss for the period	-	-	-	-	-	-	(33,827)	(33,827)	(1,999)	(35,826)
Other comprehensive income	-	-	-	-	-	8,953	-	8,953	-	8,953
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,953</b>	<b>(33,827)</b>	<b>(24,874)</b>	<b>(1,999)</b>	<b>(26,873)</b>
<b>Balance at 30 June 2017</b>	<b>6,496</b>	<b>65,298</b>	<b>55,977</b>	<b>291,546</b>	<b>17,919</b>	<b>(1,794)</b>	<b>355,408</b>	<b>790,850</b>	<b>30,020</b>	<b>820,870</b>

The notes on pages 21 to 38 form part of this interim financial report.



# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 — unaudited

	Note	Six months ended 30 June 2017 RMB'000	2016 RMB'000
<b>Operating activities</b>			
Cash generated from operations		80,637	2,106
Income tax paid		(5,418)	(7,645)
<b>Net cash generated from/(used in) operating activities</b>		<b>75,219</b>	<b>(5,539)</b>
<b>Investing activities</b>			
Payment for purchase of property, plant and equipment and intangible assets		(58,460)	(79,824)
Other cash flows arising from investing activities		(1,924)	(892)
<b>Net cash used in investing activities</b>		<b>(60,384)</b>	<b>(80,716)</b>
<b>Financing activities</b>			
Proceeds from new bank loans and other borrowings		226,290	189,000
Repayment of bank loans and other borrowings		(216,650)	(92,735)
Dividends paid to equity shareholders of the Company		—	(12,193)
Other cash flows arising from financing activities		(10,000)	—
<b>Net cash (used in)/generated from financing activities</b>		<b>(360)</b>	<b>84,072</b>
<b>Net increase/(decrease) in cash</b>		<b>14,475</b>	<b>(2,183)</b>
<b>Cash at 1 January</b>	14	<b>75,735</b>	<b>72,043</b>
<b>Effect of foreign exchange rate changes</b>		<b>709</b>	<b>193</b>
<b>Cash at 30 June</b>	14	<b>90,919</b>	<b>70,053</b>

The notes on pages 21 to 38 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 30 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any 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 Xiezhong International Holdings Limited (the “Company”) and its subsidiaries (the “Group”) since the 2016 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”).

In determining the appropriate basis of preparation of interim financial report, the directors are required to consider whether the Group could continue in operational existence for the foreseeable future.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations in both People’s Republic of China (“PRC”) and overseas, and its ability to obtain adequate external financing to meet its committed future capital expenditures.

The Group incurred a net loss of RMB35,826,000 for the six months period ended 30 June 2017. As at 30 June 2017, the Group had net current assets of RMB14,739,000, including short-term interest-bearing borrowings of RMB562,417,000. The short-term interest-bearing borrowings included a bank borrowing amounting to USD32,000,000 (RMB equivalent: approximately 216,776,000). In respect of this bank borrowing, the Group has failed to fulfil several financial covenant requirements at the reporting date. Therefore, the loan lenders have the right at any time by notice to the Group to immediately cancel the total loan commitment and require the outstanding loan to be immediately repaid. As at 30 June 2017, the entire outstanding amount of the loan was reclassified as current liabilities. The Company initially agreed with the lenders to repay the outstanding loan amounting to USD6,000,000, USD9,000,000, USD9,000,000 and USD8,000,000 on 31 August 2017, 25 September 2017, 31 October 2017 and 31 December 2017, respectively. In the opinion of the directors, the Group has sufficient financial resources to repay the above outstanding amounts in Hong Kong according to the agreed payment schedule, and a settlement fee of USD96,000.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 1. Basis of preparation (continued)

Consequently, the directors consider that the Group is able to meet in full its financial obligations and also repay overseas debts by remittance as and when necessary, at least the next twelve months from the end of reporting period and accordingly, the interim financial report has been prepared on a going concern basis.

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 13.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company's registered office. The independent auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2017.

### 2 Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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 manufacturing, sales of automotive air-conditioners and rendering of related services.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 4. Revenue

The principal activities of the Group are manufacturing, sale of automotive HVAC systems and a range of automotive HVAC components, and rendering of services. Rendering of services mainly represents testing services and experiment services.

Revenue represents the sales value of goods supplied to customers and revenue from the rendering of services. The amount of revenue during the period is as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Sales of HVAC systems and HVAC components	438,497	361,924
Revenue from the rendering of services	2,910	7,900
	<b>441,407</b>	369,824

### 5. Other income

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Government grants	3,142	4,065
Interest income	76	131
Net foreign exchange loss	(2,697)	(672)
Others	1,309	1,433
	<b>1,830</b>	4,957



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 6. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging/(crediting):

#### (a) Finance costs

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Interest on bank loans	11,105	7,254
Interest on discounted bills	3,310	251
Other finance costs	800	–
	<b>15,215</b>	7,505

#### (b) Staff costs

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Salaries, wages and other benefits	44,439	36,406
Contributions to defined contribution retirement plan	3,100	2,328
	<b>47,539</b>	38,734

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 6. (Loss)/profit before taxation (continued)

#### (c) Other items

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Amortisation			
– lease prepayments		622	622
– intangible assets		4,153	2,625
Depreciation of property, plant and equipment		36,265	27,670
Provision/(reversal) of impairment losses on trade debtors		21,479	(330)
Operating lease charges:			
minimum lease payments		2,964	2,420
Research and development ("R&D") costs (other than depreciation and amortisation)		5,791	1,759
Increase/(decrease) in provision for product warranties		1,315	(1,788)
Cost of inventories	11(b),(i)	383,208	297,943

Note:

- (i) Cost of inventories includes RMB50,777,000 (six months ended 30 June 2016: RMB39,680,000) relating to staff costs, depreciation and amortisation for the six months ended 30 June 2017, 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 7. Income tax

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
<b>Current tax</b>		
Provision for current period	175	5,166
Under/(over) provision in respect of prior year	863	(436)
	<b>1,038</b>	4,730
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(5,720)	679
	<b>(4,682)</b>	5,409

- (i) Under the Corporate Income Tax Law of the PRC (the "CIT Law"), 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 2017 (six months ended 30 June 2016: RMB nil).

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 qualified as a High and New Technology Enterprise in 2009. Xiezhong Nanjing renewed its certificate as a High and New Technology Enterprise in 2012 and 2015 respectively. As a result, it was entitled to a preferential tax rate of 15% for another three years from 2015 to 2017 pursuant to the current applicable CIT Law and its regulations.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 7. Income tax (continued)

- (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, 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 is required to pay the PRC dividend withholding tax at a rate of 10% for the year ended 31 December 2016 and the years after.

### 8. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the six months ended 30 June 2017 is based on the loss attributable to equity shareholders of the Company of RMB33,827,000 (six months ended 30 June 2016: profit of RMB15,365,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2016: 800,000,000 shares) in issue during the six months ended 30 June 2017.

There were no dilutive potential ordinary shares during the six months ended 30 June 2017, and therefore, diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share (six months ended 30 June 2016: same).

### 9. Property, plant and equipment

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Net book value, at 1 January	631,244	554,584
Additions	58,944	137,807
Transfer from intangible assets	–	853
Depreciation charge for the period/year	(36,265)	(61,968)
Disposals	–	(32)
At 30 June/31 December	653,923	631,244



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 10. Intangible assets

During the six months ended 30 June 2017, additions to intangible assets by capitalisation in respect of development costs amounted to approximately RMB13,064,000 (six months ended 30 June 2016: RMB12,791,000).

### 11. Inventories

(a) Inventories in the consolidated statement of financial position comprised:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Raw materials	34,989	38,585
Work in progress	7,474	14,162
Finished goods	178,392	166,627
	220,855	219,374

(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 2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	376,213	297,866
Write down of inventories, net of reversals	6,995	77
	383,208	297,943

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 12. Trade and other receivables/Long-term receivables

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	421,445	430,892
3 to 6 months	128,627	78,488
6 to 12 months	88,568	25,554
Over 12 months	8,889	26,321
Trade debtors and bills receivable, net of allowance for doubtful debts	647,529	561,255
Other receivables, deposits and prepayments	74,321	66,353
Trade and other receivables (total)	721,850	627,608
Less: long-term receivables	–	3,972
Trade and other receivables (within one year)	721,850	623,636

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. Trade and other receivables/Long-term receivables (continued)

#### Transfers of financial assets

(i) *Transferred financial assets that are not derecognised in their entirety*

As at 30 June 2017, the Group discounted certain bank acceptance bills with a carrying amount of RMB73,585,000 (31 December 2016: RMB45,532,000) to banks for cash proceeds and endorsed certain bank acceptance bills with a carrying amount of RMB90,967,000 (31 December 2016: RMB113,994,000) to suppliers for settling trade payables of the same amount on a full recourse basis. In the opinion of the directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated trade payables settled, and has recognised the cash received on the transfer as a secured borrowing.

(ii) *Transferred financial assets that are derecognised in their entirety*

As at 30 June 2017, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 30 June 2017, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to banks or suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB63,873,000 and RMB126,355,000 (31 December 2016: RMB39,335,000 and RMB210,072,000) respectively.

### 13. Deposits with banks

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Unrestricted deposits	2,000	–
Pledged deposits	22,615	3,000
	24,615	3,000

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 14. Cash

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Cash on hand	141	40
Cash at bank	90,778	75,695
	<b>90,919</b>	75,735

### 15. Trade and other payables

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	435,140	341,791
Over 3 months but less than 6 months	60,637	63,262
Over 6 months but less than 12 months	4,585	26,770
Over 12 months	6,503	8,218
Total trade creditors and bills payable	<b>506,865</b>	440,041
Other payables	50,375	55,460
Other tax payables	2,298	5,878
	<b>559,538</b>	501,379



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 16. Interest-bearing borrowings

The analysis of the carrying amount of interest-bearing borrowings is as follows:

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Current portion:			
– Bank loans	(a)	537,360	387,776
– Loan from a leasing company	(b)	25,057	–
		562,417	387,776
Non-current portion:			
– Bank loans	(a)	–	180,362
– Loan from a leasing company	(b)	34,943	–
		34,943	180,362
		597,360	568,138

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

- (a) A bank borrowing amounting to USD32,000,000 (RMB equivalent: approximately 216,776,000) as at 30 June 2017 (31 December 2016: USD38,000,000, RMB equivalent approximately 263,606,000) is subject to the fulfilment of covenants as stipulated in the loan agreement. The Group has failed to fulfil several financial covenant requirements at the reporting date. Therefore, the loan lenders have the right at any time by notice to the Group to immediately cancel the total loan commitment and require the loan to be immediately repaid. As at 30 June 2017, the entire outstanding amount of the loan was reclassified as current liabilities.

The Company initially agreed with the lenders to repay the outstanding loan amounting to USD6,000,000, USD9,000,000, USD9,000,000 and USD8,000,000 on 31 August 2017, 25 September 2017, 31 October 2017 and 31 December 2017, respectively.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 16. Interest-bearing borrowings (continued)

- (b) During the six months period ended 30 June 2017, Xiezhong Nanjing, a subsidiary of the Company, entered into a sales and leaseback agreement with a leasing company for certain machinery and equipment ("Secured Assets") and the leasing period is 3 years. Upon maturity, Xiezhong Nanjing will be entitled to purchase the Secured Assets at a consideration of RMB100. The Group considered that it was almost certain that Xiezhong Nanjing would exercise this repurchase option. As the substantial risk and rewards of the Secured Assets were retained by Xiezhong Nanjing before and after these arrangements, the Group recorded such transaction as secured borrowings.

As at 30 June 2017, the loan from a leasing company of Xiezhong Nanjing amounting to RMB60,000,000 was secured by certain machinery and equipment with the carrying amount of RMB72,478,000.

As at 30 June 2017, the interest-bearing borrowings were repayable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within one year or on demand	562,417	387,776
Over one year but within two years	27,034	180,362
Over two years but within five years	7,909	–
	34,943	180,362
	597,360	568,138

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 16. Interest-bearing borrowings (continued)

As at 30 June 2017, the interest-bearing borrowings were secured as follows:

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Bank loans and other borrowings			
– Secured	(i)	177,000	129,000
– Unsecured		346,776	393,606
Bank advances under discounted bills		73,584	45,532
		<b>597,360</b>	568,138

- (i) At 30 June 2017, the carrying amounts of the assets of the Group secured against bank loans and other borrowings were analysed as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Property, plant and equipment	196,705	128,820
Lease prepayments	21,942	22,342
	<b>218,647</b>	151,162

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 17. 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 2017 (six months ended 30 June 2016: 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	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HKD nil per ordinary share (six months ended 30 June 2016: HKD0.018 per ordinary share)	–	12,193

### 18. Commitments

#### (a) Capital commitments

Capital commitments outstanding not provided for in the interim financial report are as follows:

	At 30 June	At 31 December
	2017	2016
	RMB'000	RMB'000
Contracted for	21,356	6,044
Authorised but not contracted for	319,758	207,844
	341,114	213,888

#### (b) Lease commitments

At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June	At 31 December
	2017	2016
	RMB'000	RMB'000
Within 1 year	3,815	2,236
After 1 year but within 5 years	3,546	3,609
	7,361	5,845



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 19. Material related party transactions

#### (a) Transactions with related parties

Transactions with related parties during the six months ended 30 June 2017 are as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
<b><i>Recurring transactions</i></b>		
Sales of goods		
– Beijing Automotive Group Co., Ltd. and its subsidiaries (“Beijing Automotive Group”)	<b>124,863</b>	116,734
Services rendered		
– Beijing Automotive Group	<b>94</b>	5,334

The directors consider that the above related party transactions during the six months ended 30 June 2017 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
<b><i>Non-recurring transactions</i></b>			
Advance from a related party			
– Sunrise International Investment Management Inc. (“Sunrise International”) (i)	(i)	<b>44,290</b>	–
Repayment of advance from a related party			
– Sunrise International		<b>41,400</b>	–

- (i) Sunrise International is one of the Company's equity shareholders. The non-recurring transaction is interest-free and repayable on demand.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 19. Material related party transactions (continued)

#### (b) Amounts due from/to related parties

At 30 June 2017, the Group had the following balances with related parties:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade debtors due from – Beijing Automotive Group	117,617	217,771
Advance receipts from – Beijing Automotive Group	26,457	25,480
Other payables to – Sunrise International	2,890	–

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 2017 RMB'000	2016 RMB'000
Short-term employee benefits	1,401	1,235

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

### 20. Acquisition and disposal of subsidiaries

- (a) On 19 February 2016, Xiezhong Nanjing, a wholly-owned subsidiary of the Group, entered into an agreement with Beijing Beiqimo Co., Ltd. ("Beijing Beiqimo"), a subsidiary of Beijing Automotive Group Co., Ltd. (substantial shareholder of the Company in reporting period) that Xiezhong Nanjing would acquire certain assets and liabilities relating to the production of radiators from Beijing Beiqimo ("Miyun Assets") through a series of transactions, subject to an open tender process at China Beijing Equity Exchange ("Acquisition Arrangement"). According to the announcement dated 27 September 2016, additional time was required for Beijing Beiqimo to obtain the building ownership certificate of the radiator manufacturing plant.

According to an announcement dated 18 August 2017, Xiezhong Nanjing and Beijing Beiqimo entered into a termination agreement ("Termination Agreement") pursuant to which the parties thereto have agreed to terminate the Acquisition Arrangement.

- (b) On 23 February 2016, Xiezhong Nanjing entered into an agreement with Beijing Hainachuan Automotive Parts Co., Ltd. ("Beijing Hainachuan"), a subsidiary of Beijing Automotive Group to transfer its entire 50% equity interests in Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd. ("Xiezhong Beijing") to Beijing Hainachuan at a consideration of no more than RMB62,000,000 ("Disposal Agreement"). The Disposal Agreement only takes effect after the Acquisition Arrangement is completed according to the contract terms. Due to the Acquisition Arrangement has been terminated pursuant to the above Termination Agreement, the Disposal Agreement has lapsed. Accordingly, Xiezhong Beijing remains a subsidiary of the Group and the investment in Xiezhong Beijing is consolidated into the Group's interim financial report as at 30 June 2017.

### 21. Non-adjusting events after the reporting period

- (a) On 14 July 2017, Beijing Automobile Group, an equity shareholder of the Company holding through BHAP HK Investment Limited, transferred 265,332,600 shares, representing approximately 33.17% of the existing issued share capital of the Company, to two new shareholders. Immediately after the transfer, the two new shareholders hold 224,000,000 shares and 41,332,600 shares, respectively, representing approximately 28% and 5.17% of the existing issued share capital of the Company as at 14 July 2017. Beijing Automobile Group has ceased to be a shareholder of the Company.
- (b) Pursuant to the board of directors' resolution of Xiezhong Nanjing passed on 10 July 2017, the board of directors approved to decrease the registered capital of Xiezhong Nanjing from RMB696,000,000 to RMB596,000,000. The directors confirm that the reduced registered capital is used to repay part of the bank borrowing amounting to USD32,000,000 mentioned in Note 1.
- (c) On 18 August 2017, Xiezhong Nanjing and Beijing Beiqimo entered into a termination agreement pursuant to which the parties thereto have agreed to terminate the Acquisition Arrangement as described in Note 20. Please refer to Note 20 for details.

# 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 2017.

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 2017, 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 should attend general meetings of the Company. All non-executive Directors (including independent non-executive Directors) attended the annual general meeting (the "AGM") of the Company held on 28 June 2017, other than the non-executive Directors, Mr. Han Yonggui, Mr. Chen Bao, Mr. Zhu Zhenghua (each resigned on 28 July 2017) who were absent from the AGM due to pre-arranged business commitments.

## Share option scheme

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

During the reporting period and since the adoption of the Share Option Scheme, no share options have been granted, exercised, lapsed or cancelled in accordance with the terms of the Share Option Scheme.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

### Directors' and chief executives' interest in securities

As at 30 June 2017, save as disclosed below, none of the Directors or chief executive of our Company who held office had any interests or short positions in the shares of the Company ("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 of Hong Kong Limited ("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 Issuers as set out in Appendix 10 to the Listing Rules ("Model Code").

### Long Position (L) in Shares

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Mr. Ge Hongbing	Beneficial owner	6,000,000 (L)	0.75%
Mr. Huang Yugang	Beneficial owner	1,500,000 (L)	0.1875%

### Substantial shareholders' interests in securities

So far as is known to the Directors, save as disclosed below, our Directors are not aware of any persons (other than Directors and chief executive of the Company) who, as at 30 June 2017, 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 or as recorded in the register acquired to be kept under section 336 of the SFO:

## Substantial shareholders' interests in securities (continued)

## Long Position (L) in Shares

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
BHAP HK Investment Limited ("BHAP") <i>(note 1)</i>	Beneficial owner	265,332,600 (L)	33.17%
Beijing Hainachuan Automotive Parts Co., Ltd. ("Beijing Hainachuan") <i>(note 1)</i>	Interest of controlled corporation	265,332,600 (L)	33.17%
Beijing Automotive Group Co., Ltd. ("Beijing Automotive Group") <i>(note 1)</i>	Interest of controlled corporation	265,332,600 (L)	33.17%
State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality <i>(note 1)</i>	Interest of controlled corporation	265,332,600 (L)	33.17%
Beijing Industrial Developing Investment Management Co., Ltd <i>(note 1)</i>	Interest of controlled corporation	265,332,600 (L)	33.17%
Beijing State-owned Assets Management Co., Ltd <i>(note 1)</i>	Interest of controlled corporation	265,332,600 (L)	33.17%
Sunrise International Investment Management Inc. ("Sunrise International") <i>(note 2)</i>	Beneficial owner	238,260,000 (L)	29.78%
Mr. Chen Hao <i>(note 2)</i>	Beneficial owner	8,208,000 (L)	1.03%
	Interest of controlled corporation	238,260,000 (L)	29.78%
Brilliance International Holding Ltd. <i>(note 3)</i>	Beneficial owner	40,763,400 (L)	5.10%
Ms. Chen Jiao <i>(note 3)</i>	Beneficial owner	12,000,000 (L)	1.50%
	Interest of controlled corporation	40,763,400 (L)	5.10%

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### Substantial shareholders' interests in securities (continued)

#### Long Position (L) in Shares (continued)

Notes:

1. Each of these entities is deemed to be interested in all the Shares held by BHAP by virtue of the SFO given their direct or indirect relationship with BHAP as described below:
  - (a) BHAP is wholly-owned by Beijing Hainachuan, which is owned as to 60% by Beijing Automotive Group and 40% by Beijing Industrial Developing Investment Management Co. Ltd. (北京工業發展投資有限公司) respectively.
  - (b) Beijing Automotive Group is a wholly-owned subsidiary of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality.
  - (c) Beijing Industrial Developing Investment Management Co., Ltd is a wholly-owned subsidiary of Beijing State-owned Assets Management Co., Ltd. (北京市國有資產經營有限責任公司).
  - (d) As disclosed in the announcement of the Company date 14 July 2017, BHAP has successfully placed 265,332,600 Shares at a placing price of HK\$1.40 per Share to two Independent Third Parties (the "Placees"). Each of the Placees holds 224,000,000 Shares and 41,332,600 Shares, representing approximately 28% and 5.17% of the existing issued share capital of the Company as at the date of this report.
2. As Sunrise International is 100% owned by Mr. Chen Hao, therefore, Mr. Chen Hao is deemed to be interested in all the Shares held by Sunrise International by virtue of the SFO.
3. Brilliance International Holding Ltd. is 100% owned by Ms. Chen Jiao. Therefore, Ms. Chen Jiao is deemed to be interested in all the Shares by Brilliance International Holding Ltd. by virtue of the SFO.

### Purchase, sale or redemption of the Company's listed securities

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

### Code of Conduct for Securities Transactions by Directors

The Company has adopted the 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. Lau Ying Kit, Mr. Cheung Man Sang, Mr. Zhang Shulin and Mr. Lin Lei. 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. Lau Ying Kit, Mr. Cheung Man Sang, Mr. Zhang Shulin and Mr. Lin Lei. 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 four independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Cheung Man Sang, Mr. Zhang Shulin and Mr. Lin Lei. 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 result for the six months ended 30 June 2017. The audit committee also reviewed the interim financial results and this report.



## CORPORATE GOVERNANCE AND OTHER INFORMATION

### Publication of the interim results and interim report

The interim results announcement is published on the websites of the Company at [www.xiezhonginternational.hk](http://www.xiezhonginternational.hk) and the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk). The interim report of the Company for the six months ended 30 June 2017 containing all the information required by the Listing Rules is to be dispatched to shareholders of the Company and made available on the same websites in due course.

This report is originally prepared in English. In case of any inconsistency between the English version and the Chinese version, the English version shall prevail.

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

Hong Kong, 30 August 2017

*As at the date of this report, the Board comprises two executive Directors, namely Mr. Chen Cunyou and Mr. Ge Hongbing; two non-executive Directors, namely Mr. Huang Yugang and Ms. Kwok Chak Sheung; and four independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Cheung Man Sang, Mr. Zhang Shulin and Mr. Lin Lei.*