

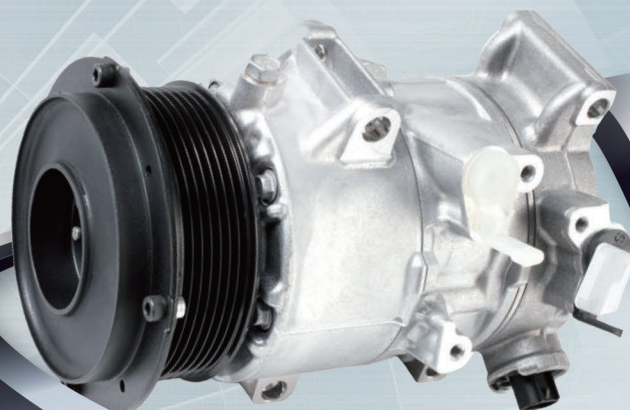


協眾國際控股有限公司

Xiezhong International Holdings Limited

(incorporated in the Cayman Islands with limited liability)

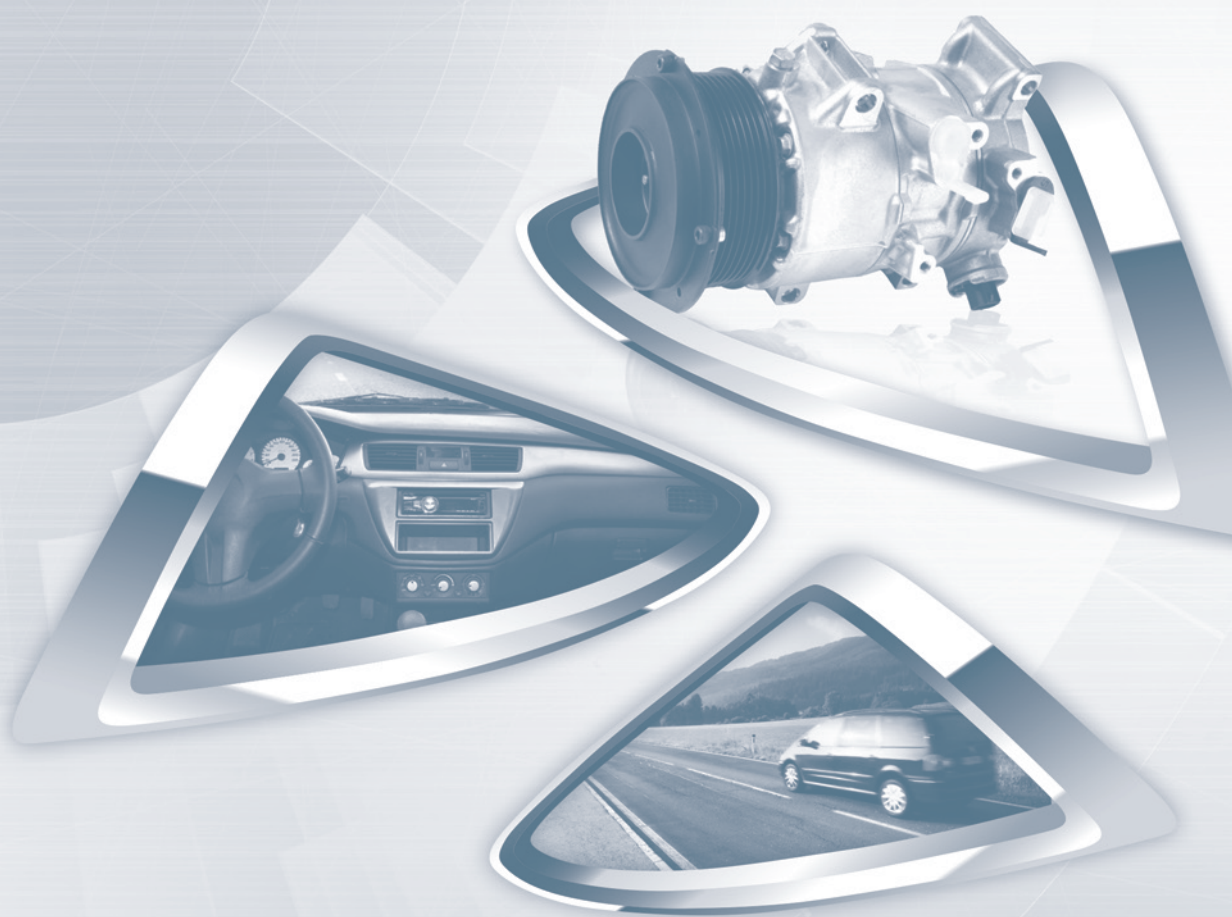
Stock Code : 3663



Interim Report
2018

Contents

Corporate Information	2
Management Discussion and Analysis	4
Report on Review of Interim Financial Report	12
Consolidated Statement of Profit or Loss	13
Consolidated Statement of Profit or Loss and Other Comprehensive Income	14
Consolidated Statement of Financial Position	15
Consolidated Statement of Changes in Equity	17
Condensed Consolidated Cash Flow Statement	18
Notes to the Unaudited Interim Financial Report	19
Corporate Governance and Other Information	35



Corporate Information

Board of Directors and Committees

Board of Directors

Executive Directors

Mr. Chen Cunyou (*Chairman*)
Mr. Ge Hongbing
Ms. Chen Xiaoting (Appointed on 1 March 2018)

Non-Executive Directors

Mr. Huang Yugang
Ms. Kwok Chak Sheung (Resigned on 30 July 2018)

Independent Non-Executive Directors

Mr. Lau Ying Kit
Mr. Cheung Man Sang
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, Uglund 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

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

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

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
Agricultural Bank of China, Jiulonghu Branch
Bank of China, Nanjing Jiangning Economic
Development Zone Branch
Banque Marocaine Pour Le Commerce ET L'Industrie

Stock Code

3663

Management Discussion and Analysis

Business Review

The Group 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 and heavy trucks, in addition to the supply of HVAC systems and HVAC components for new-energy vehicles (“NEVs”), construction machineries and other types of vehicles such as light trucks and 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 2018 were 14,057,700 units and 14,066,500 units respectively, representing a growth of 4.15% and 5.57% respectively as compared against that of the previous corresponding period in 2017. Amongst those motor vehicles, the number of passenger vehicles manufactured and sold were 11,853,700 units and 11,775,300 units respectively, representing a growth of 3.23% and 4.64% respectively as compared against that of the previous corresponding period in 2017; the number of commercial vehicles manufactured and sold were 2,204,000 units and 2,291,100 units respectively, representing a growth of 9.41% and 10.58% respectively as compared against that of the previous corresponding period in 2017. The production and sales of NEVs reached 413,000 units and 412,000 units respectively, representing a growth of 94.9% and 111.5% respectively as compared against that of the previous corresponding period in 2017.

Apart from providing conventional automotive air-conditioning systems, the Group has strengthened the development of new energy automotive air-conditioning systems, including heat pump, battery and motor thermal management systems, and has successfully provided them to domestic and foreign automotive manufacturers.

During the six months ended 30 June 2018, the Group recorded revenue of RMB433.8 million, representing a slight decrease of 1.7% compared against that of RMB441.4 million in the previous corresponding period 2017. The gross profit of RMB74.7 million, representing an increase of 30.1% compared against that of RMB57.4 million in the previous corresponding period in 2017. The loss attributable to equity shareholders was RMB26.5 million compared to the loss of RMB33.8 million in the previous corresponding period in 2017.

Long Term Business Model and Strategies

Our goal is to become a leader in the HVAC system supply market in China. We aim to achieve this objective by implementing the following long-term business model and strategies:

A. Reinforcing our leading market position in the HVAC system supply market in PRC and expanding our production capacity to support future sales demand

We intend to reinforce our current leading position in China HVAC system supply market by: i) enhancing our new product development capabilities; and ii) improving our product quality. We believe our research and development capabilities are one of the key reasons for our success. We will strive to strengthen our research and development capabilities by recruiting more talents, increasing research and development expenditure and expanding our research and development facilities.

B. Expanding our current network of production bases

To further improve our service to our customers, reduce the distribution cost and strengthen our strategic cooperation with our major customers, Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. has established two branches in Jilin and Zhejiang Provinces and two subsidiaries in Wuhan and Chongqing in the PRC to strength our current network of production bases in China. We also consider establishing new bases in other regions of China.

Financial Review

Revenue

During the six months ended 30 June 2018, the Group recorded a revenue of RMB433.8 million, representing a slight decrease of 1.7% compared against that of RMB441.4 million in the previous corresponding period in 2017. Such decrease in revenue was mainly due to the decrease in revenue from HVAC systems for SUVs and pickup trucks and Sedans against that in the previous corresponding period in 2017.

	Six months ended 30 June			
	2018		2017	
	RMB'000	% of total revenue	RMB'000	% of total revenue
HVAC systems				
SUVs and pickup trucks	120,888	27.9	131,812	29.9
Sedans	84,544	19.5	95,396	21.6
Heavy trucks	64,726	14.9	63,568	14.4
Vans	60,549	14.0	51,848	11.8
Light trucks	53,363	12.3	45,576	10.3
Construction machineries	16,320	3.8	12,106	2.7
Buses	—	—	3,744	0.8
HVAC components ⁽¹⁾	31,431	7.2	34,447	7.8
Service income⁽²⁾	1,950	0.4	2,910	0.7
Total	433,771	100.0	441,407	100.0

(1) 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.

(2) 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 RMB74.7 million, representing a significant increase of 30.1% compared against RMB57.4 million in the previous corresponding period in 2017. The gross profit margin was 17.2% compared against 13% in the previous corresponding period in 2017. Such increase was due to the decrease in purchase prices and changes in product structure resulting from changes in market demand.

Other income

Other income primarily include government grants and net foreign exchange gain, which increased to RMB6.2 million during the six months ended 30 June 2018 from RMB1.8 million in the previous corresponding period in 2017. Such increase was mainly due to increase in government grants of RMB1.4 million and net foreign exchange gain of RMB3.2 million. During the six months ended 30 June 2018, there was exchange gain of RMB490,000 due to the appreciation of the Hong Kong dollar against RMB. In the previous corresponding period in 2017, there was unrealized exchange loss of RMB2.7 million arising from the depreciation of the Hong Kong dollar against RMB as well as USD.

Management Discussion and Analysis

Financial Review (continued)

Distribution costs

Distribution costs increased by 24.6% or RMB5.6 million to RMB28.4 million during the six months ended 30 June 2018 from RMB22.8 million in the previous corresponding period in 2017. During the six months ended 30 June 2018, distribution costs increased due to increase of transportation costs as a result of increased branches and subsidiaries.

Administrative expenses

During the six months ended 30 June 2018, administrative expenses were RMB65.5 million, representing a growth of RMB3.8 million or 6.2% compared against that of RMB61.7 million in the previous corresponding period in 2017. Such increase during the six months ended 30 June 2018 was mainly due to the increase of professional service expenses as a result of expanding production bases and acquisition activities.

Finance costs

During the six months ended 30 June 2018, finance costs were RMB16.7 million, representing a growth of RMB1.5 million or 9.9% compared against that of RMB15.2 million in the previous corresponding period in 2017. For the six months ended 30 June 2018, finance costs increased in line with the increasing bank loans and other borrowings.

Income tax

During the six months ended 30 June 2018, income tax benefit was RMB2.6 million, representing a decrease of RMB2.1 million compared against the income tax benefit of RMB4.7 million in the previous corresponding period in 2017. Such change was mainly resulted from the decreased loss before taxation during the six months ended 30 June 2018.

Loss for the period

As a result of the foregoing, loss attributable to equity shareholders of the Company was RMB26.5 million for the six months ended 30 June 2018 as compared to the loss of RMB33.8 million in the previous corresponding period in 2017.

Liquidity and Financial Resources

Inventories

As at 30 June 2018, the Group's inventory balance increased to RMB272.8 million (31 December 2017: RMB238.4 million), which was due to the increase of inventory level maintained at various warehouses with the increase of revenue forecast in second half of the year.

The average inventory turnover days, calculated as cost of sales divided by average inventory and multiplied by 181 days increased from 107 days during the twelve months ended 31 December 2017 to 129 days during the six months ended 30 June 2018. This is mainly due to decreased sales from the change of line production for some vehicles models.

Liquidity and Financial Resources (continued)**Trade debtors and bills receivable/Amounts due from related parties**

As at 30 June 2018, the Group's trade debtors and bills receivable decreased to RMB513.0 million (31 December 2017: RMB597.5 million) which was mainly due to the improvement on settlement of long aging trade debtors. The Group's amounts due from related parties decreased to RMB113.4 million (31 December 2017: RMB121.9 million) which was mainly due to the settlement from related parties during the six months ended 30 June 2018.

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, decreased from 251 days during the twelve months ended 31 December 2017 to 240 days during the six months ended 30 June 2018, 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, decreased from 180 days during the twelve months ended 31 December 2017 to 171 days during the six months ended 30 June 2018. The decrease of turnover days is mainly due to accelerated settlement from some customers.

Trade payables and bills payable

As at 30 June 2018, the Group's trade payables and bills payable were RMB660.3 million (31 December 2017: RMB549.4 million). Such increase was mainly due to delay settlement to some suppliers.

The average trade payables and bills payable turnover days, calculated as purchase divided by average trade payables and bills payables and multiplied by 181 days, increased from 192 days during the twelve months ended 31 December 2017 to 237 days during the six months ended 30 June 2018. 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 2018, the Group's cash and deposits with banks were RMB41.3 million (31 December 2017: RMB43.6 million).

As at 30 June 2018, we had outstanding bank and other borrowings of RMB559.5 million (31 December 2017: RMB545.2 million). And as at 30 June 2018, our bank and other borrowings carried interest rates ranging from 4.57% to 15% per annum.

As at 30 June 2018, the banking facilities available to us were RMB453.5 million (31 December 2017: RMB401.0 million), of which RMB428.4 million (31 December 2017: RMB334.1 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 30 June 2018, 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 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.

Management Discussion and Analysis

Liquidity and financial resources (continued)

Gearing ratio

As at 30 June 2018, 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 49.2%, compared against 44.6% as at 31 December 2017, which was due to the increase of bank and other borrowings and bills payable 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 2018 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	–

Contingent liabilities

As at 30 June 2018, the Group did not incur any material contingent liabilities.

Significant investments held

Except for investment in subsidiaries, during the six months ended 30 June 2018, 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 18 and the paragraph headed "Capital commitments" of this report, and note 20 and the paragraph headed "Non-adjusting events after the reporting period" 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

The Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the six months ended 30 June 2018.

Capital commitments

As at 30 June 2018, the Group's capital commitments to make contracted payments amounted to RMB110.3 million (31 December 2017: RMB142.3 million). Such capital commitments were used for the purchase of property, plant and equipment. In addition, a capital commitment of RMB256.1 million was authorized but not contracted for as at 30 June 2018 (31 December 2017: RMB259.8 million). They will be financed by the Group's internal resources and/or external banking and other financing agreements, as appropriate.

Liquidity and financial resources (continued)

Capital expenditures

As at 30 June 2018, the Group incurred capital expenditures of RMB145.9 million (six months ended 30 June 2017: RMB58.5 million) primarily representing additions of new machineries and equipment and development costs.

Foreign exchange risk

Except the factory is operated in The Kingdom of Morocco and its transactions are conducted in Euro and Morocco Dirham and certain receivables of the Group's PRC subsidiary due from the Group's overseas subsidiary are dominated in HKD, the Group's main businesses are principally operated in China and most 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 six months ended 30 June 2018, the Group did not employ any financial instrument for hedging purposes.

Events after the reporting period

As disclosed in the announcement of the Company dated 31 July 2018 (after trading hours), (i) Sunrise International Investment Management Inc. ("Vendor A"), Mr. Chen Hao ("Vendor A's Guarantor") and the Company entered into the sale and purchase agreement ("SPA A"), pursuant to which the Vendor A conditionally agreed to sell, and the Company conditionally agreed to purchase, the entire issued share capital of Sino Evergreen International Limited ("Target Company A"), at a consideration of HKD328,027,500 ("Consideration A"); and (ii) Jin Cheng Auto Parts Trade & Investment Co., Ltd. ("Vendor B"), Mr. Wang Zuocheng ("Vendor B's Guarantor") and the Company entered into the sale and purchase agreement ("SPA B"), pursuant to which the Vendor B conditionally agreed to sell, and the Company conditionally agreed to purchase, the entire issued share capital of Jin Cheng Auto Parts (Hong Kong) Ltd. ("Target Company B"), at a consideration of HKD109,342,500 ("Consideration B").

Subject to satisfaction or waiver of conditions precedents under SPA A and SPA B, the Consideration A shall be satisfied by: (i) cash of HKD164,013,750; and (ii) convertible bond of a maximum aggregate principal amount of HKD164,013,750 to be issued to Vendor A; and Consideration B shall be satisfied by (i) cash of HKD54,671,250 and (ii) convertible bond of a maximum aggregate principal amount of HKD54,671,250 to be issued to Vendor B.

Vendor A is 100% owned by Mr. Chen Hao who owns an aggregate of 30.81% of interests in the Company, of which 29.78% of interests in the Company is held through Vendor A. Mr. Chen Hao is the controlling shareholder of the Company and is the son of Mr. Chen Cunyou, the chairman of the Board. Therefore, Vendor A is an associate of Mr. Chen Hao, being a connected person of the Company under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Accordingly, transactions contemplated under SPA A also constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Vendor B is an investment holding company incorporated in the British Virgin Islands and is wholly-owned by Mr. Wang Zuocheng. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Vendor B and Mr. Wang Zuocheng are third parties independent of, and not connected with, the Company and its connected persons.

As the relevant percentage ratios (calculated in accordance with Rule 14.07 of the Listing Rules) for the acquisitions are more than 25% but less than 100%, the acquisitions contemplated under SPA A and SPA B constitutes a major transaction for the Company under the Listing Rules and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Management Discussion and Analysis

Liquidity and financial resources (continued)

Events after the reporting period (continued)

Target Company A and Target Company B owned 75% and 25% of 樂清友旭實業發展有限公司 (“Yueqing Youxu”) respectively, and each of 江蘇協眾晨友汽車有限公司 (“Xiezhong Chenyou”), 馬鞍山協眾汽車銷售有限公司 (“Maanshan Xiezhong”) and 南京協眾雷克薩斯汽車銷售服務有限公司 (“Xiezhong Lexus”) is 100% owned by Yueqing Youxu (they are collectively as the “Target Group”). The Target Group is principally engaged in the operation of three 4S dealership (i.e. automobile dealership authorized by an automobile manufacturer that integrates the four business elements initiated by “S” namely, sales, spare parts, services and survey) stores in the PRC. The Target Group’s operation focuses in Nanjing, the capital of Jiangsu Province in the PRC. The Target Group has a well-balanced portfolio of luxury and mid- to high- end level brands. The brand portfolio of the Target Group includes a luxury brand of Lexus and a mid- to high-end brand of FAW-Volkswagen. The Target Group operates three stores, two of which are located in Nanjing, Jiangsu province, one of which is located in Maanshan, Anhui Province, one and two stores are dedicated to luxury brand and mid- to high- end brand, respectively. The Target Group engages in automobile sales and provide a comprehensive range of after-sales services, such as repair and maintenance service and sales of spare parts and accessories. The customers of the Target Group are mainly affluent individuals.

Please refer to the announcement of the Company dated 31 July 2018 for further details.

Employees

As at 30 June 2018, the Group had 1,144 employees in total (31 December 2017: 1,023 employees), which were remunerated by the Group with reference to their performance, qualifications and prevailing market conditions. During the six months ended 30 June 2018, the Group’s total expenditure in respect of staff cost was RMB52.3 million (six months ended 30 June 2017: RMB47.5 million), representing 10.1% (six months ended 30 June 2017: 10.8%) 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 six months ended 30 June 2018, 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 2018 (six months ended 30 June 2017: nil).

Outlook

During the first six months of 2018, China’s economy showed steady growth with GDP up 6.8% compared to the same period last year. As the largest automobile market in the world, China continue to offer various opportunities.

As our automotive HVAC systems are mainly used in passenger and commercial vehicles, such as SUVs, pickup trucks, sedans, heavy trucks, construction machineries, light trucks and buses. The Group relies on vehicle manufacturers as customers or potential customers of its products. The financial performance largely depends on the continuing growth of the automotive industry in China. Overall market demand for vehicles may be affected by factors such as regional economic conditions, fuel price and end customers’ expectations on future economic situation. These factors are beyond the Group’s control and may affect the annual production of automobiles by vehicle manufacturers, which possibly in turn affect the sales and profitability of the Group’s products.

Liquidity and financial resources (continued)

Outlook (continued)

The Group will keep moving forward and aim to maintain a solid and healthy growth and development. Despite the continued pricing pressure from customers, the Group is capable of maintaining its gross profit margin at a reasonable level by, amongst others, controlling our purchase price of raw materials. While the automotive industry in China is still expected to maintain stable growth, the Group is confident to maintain a steady growth, and with the acquisition of the Target Group which will have positive effect on the Group (i) the expected steady income generated from the Target Group's operations; (ii) the possible connections with world-renowned automobile manufacturers referred by the Target Group; and (iii) the further diversification of the Group's business in the automotive industry to minimize concentration risk.

The Group will constantly consolidate its leading position in the China market of automotive HVAC systems for vehicles. 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 believes that the continuing investment on research and development is vitally significant for the Group to maintain and improve its leadership position in the industry. It would contribute greatly to the improvement of the Group's competitiveness over other competitors. To keep pace with our customers, the Group will endeavor to collaborate closely with the vehicle manufacturers and develop innovative solutions to better serve our customers.

With a view to improve long-term profitability and shareholders' value, the Company will also seriously evaluate and review the business of the Group, and optimize the business structure of the Group by acquisition or restructuring of operations, as and when appropriate. In addition, the Group will continue to seek potential acquisition opportunities to strengthen its revenue base and improve its profitability.

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 13 to 34 which comprises the consolidated statement of financial position of Xiezhong International Holdings Limited (the “Company”) as of 30 June 2018 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 2018 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

31 August 2018

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018 – unaudited

		Six months ended 30 June	
	Note	2018 RMB'000	2017 RMB'000
Revenue	4	433,771	441,407
Cost of sales		(359,074)	(383,996)
Gross profit		74,697	57,411
Other income	5	6,233	1,830
Distribution costs		(28,360)	(22,791)
Administrative expenses		(65,487)	(61,743)
Loss from operations		(12,917)	(25,293)
Finance costs	6(a)	(16,668)	(15,215)
Loss before taxation		(29,585)	(40,508)
Income tax	7	2,577	4,682
Loss for the period		(27,008)	(35,826)
Attributable to:			
Equity shareholders of the Company		(26,511)	(33,827)
Non-controlling interests		(497)	(1,999)
Loss for the period		(27,008)	(35,826)
Loss per share (RMB)			
Basic and diluted	8	(0.033)	(0.042)

The notes on pages 19 to 34 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 2018 – unaudited

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Loss for the period	(27,008)	(35,826)
Other comprehensive income for the period		
Items that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company, net of nil tax	349	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Mainland China, net of nil tax	(1,313)	8,953
Other comprehensive income for the period	(964)	8,953
Total comprehensive income for the period	(27,972)	(26,873)
Attributable to:		
Equity shareholders of the Company	(27,475)	(24,874)
Non-controlling interests	(497)	(1,999)
Total comprehensive income for the period	(27,972)	(26,873)

The notes on pages 19 to 34 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2018 – unaudited

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment	9	718,044	705,314
Lease prepayments		60,264	61,007
Intangible assets	10	93,688	81,118
Goodwill		46,832	46,832
Long-term receivables	12	22,721	22,606
Non-current prepayments		169,717	102,701
Deferred tax assets		20,907	14,982
		1,132,173	1,034,560
Current assets			
Inventories	11	272,752	238,373
Trade and other receivables	12	582,848	656,258
Amounts due from related parties	19(b)	113,444	121,919
Deposits with banks	13	22,823	22,710
Cash	14	18,519	20,887
		1,010,386	1,060,147
Current liabilities			
Trade and other payables	15	744,638	655,375
Amounts due to related parties	19(b)	107	31,318
Interest-bearing borrowings	16	486,596	433,665
Income tax payables		6,224	4,955
Provisions		3,968	4,057
		1,241,533	1,129,370
Net current liabilities		(231,147)	(69,223)
Total assets less current liabilities		901,026	965,337

The notes on pages 19 to 34 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2018 – unaudited

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-current liabilities			
Deferred income		30,418	28,814
Interest-bearing borrowings	16	72,907	111,515
Deferred tax liabilities		3,566	2,901
		106,891	143,230
NET ASSETS		794,135	822,107
CAPITAL AND RESERVES	17		
Share capital		6,496	6,496
Reserves		758,201	785,676
Total equity attributable to equity shareholders of the Company		764,697	792,172
Non-controlling interests		29,438	29,935
TOTAL EQUITY		794,135	822,107

Approved and authorised for issue by the board of directors on 31 August 2018.

Chen Cunyou
Director

Ge Hongbing
Director

The notes on pages 19 to 34 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 – unaudited

	Attributable to equity shareholders of the Company							Non-controlling interests		Total equity
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	6,496	65,298	55,977	291,546	17,919	(10,747)	389,235	815,724	32,019	847,743
Changes in equity for the six months ended 30 June 2017:										
Loss for the period	-	-	-	-	-	-	(33,827)	(33,827)	(1,999)	(35,826)
Other comprehensive income	-	-	-	-	-	8,953	-	8,953	-	8,953
Total comprehensive income	-	-	-	-	-	8,953	(33,827)	(24,874)	(1,999)	(26,873)
Balance at 30 June 2017 and 1 July 2017	6,496	65,298	55,977	291,546	17,919	(1,794)	355,408	790,850	30,020	820,870
Changes in equity for the six months ended 31 December 2017:										
Loss for the period	-	-	-	-	-	-	(6,496)	(6,496)	(85)	(6,581)
Other comprehensive income	-	-	-	-	-	7,818	-	7,818	-	7,818
Total comprehensive income for the year	-	-	-	-	-	7,818	(6,496)	1,322	(85)	1,237
Balance at 31 December 2017	6,496	65,298	55,977	291,546	17,919	6,024	348,912	792,172	29,935	822,107
Balance at 1 January 2018	6,496	65,298	55,977	291,546	17,919	6,024	348,912	792,172	29,935	822,107
Changes in equity for the six months ended 30 June 2018:										
Loss for the period	-	-	-	-	-	-	(26,511)	(26,511)	(497)	(27,008)
Other comprehensive income	-	-	-	-	-	(964)	-	(964)	-	(964)
Total comprehensive income	-	-	-	-	-	(964)	(26,511)	(27,475)	(497)	(27,972)
Balance at 30 June 2018	6,496	65,298	55,977	291,546	17,919	5,060	322,401	764,697	29,438	794,135

The notes on pages 19 to 34 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2018 – unaudited

	Note	Six months ended 30 June	
		2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from operations		108,469	80,637
Income tax paid		(1,414)	(5,418)
Net cash generated from operating activities		107,055	75,219
Investing activities			
Payment for the purchase of property, plant and equipment and intangible assets		(145,915)	(58,460)
Other cash flows arising from investing activities		200	(1,924)
Net cash used in investing activities		(145,715)	(60,384)
Financing activities			
Proceeds from new bank loans and other borrowings		210,843	226,290
Repayment of bank loans and other borrowings		(176,475)	(216,650)
Other cash flows arising from financing activities		–	(10,000)
Net cash generated from/(used in) financing activities		34,368	(360)
Net (decrease)/increase in cash		(4,292)	14,475
Cash at 1 January	14	20,887	75,735
Effect of foreign exchange rate changes		1,924	709
Cash at 30 June	14	18,519	90,919

The notes on pages 19 to 34 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 31 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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 judgments, 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 2017 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 RMB27 million for the six months ended 30 June 2018. Furthermore, as at 30 June 2018, the Group had net current liabilities of RMB231 million (which included cash of RMB19 million), total borrowings of RMB560 million and capital commitments, which had been contracted for, of RMB110 million (see note 18).

The directors have reviewed the current performance and cash flow projections as part of their assessment of the Group’s ability to continue as a going concern, and after carefully considering the matters described below, the directors have a reasonable expectation that the Group is able to continue as a going concern for at least the next twelve months from the end of the reporting period and to meet its obligations, as and when they fall due:

- (1) the Group generated net cash inflows from operating activities of approximately RMB107 million during the six months period ended 30 June 2018 and expects to continue to improve its working capital management and generate positive operating cash flows for the next twelve months;
- (2) at 30 June 2018, the Group had available unutilised bank facilities of RMB25 million;

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

1. Basis of preparation (continued)

- (3) the Group has the ability to obtain new banking and other financing facilities and has the ability to renew or refinance the banking facilities upon maturity;
- (4) the Group can adjust the schedule of certain planned capital expenditure for the year ending 30 June 2019; and
- (5) the largest shareholder and an executive director of the Group confirm to provide adequate financial support to the Group as is necessary to ensure its continuing operation for a period of at least twelve months from the end of the reporting period.

Consequently, the directors have concluded that the Group has adequate resources to continue in operational existence for the foreseeable future and that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

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 12.

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. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

None of these developments has 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.

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

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.

(a) Information about geographical area

All of the Group's revenue is derived from the sale of automotive heating, ventilation and cooling ("HVAC") systems and a range of automotive HVAC components and the rendering of services in Mainland China.

The following is an analysis of the carrying amount of non-current assets (excluding financial assets) analysed by the geographical area in which the assets are located:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-current assets		
Mainland China	975,011	939,518
The Kingdom of Morocco ("Morocco")	133,209	72,436
Reportable segment non-current assets	1,108,220	1,011,954

Geographical location of customers is based on the location at which the goods are delivered or the services were provided whilst geographical location of non-current assets is determined based on (1) the physical location of the asset (for property, plant and equipment and prepaid land lease payments) and (2) location of operations (for other intangible assets).

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 2018 RMB'000	2017 RMB'000
Sales of HVAC systems and HVAC components	431,821	438,497
Revenue from the rendering of services	1,950	2,910
	433,771	441,407

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

5. Other income

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Government grants	4,525	3,142
Net foreign exchange gain/(loss)	490	(2,697)
Others	1,218	1,385
	6,233	1,830

6. Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Interest on bank loans and other borrowings	13,828	11,105
Less: interest expense capitalised into properties under development	1,394	–
	12,434	11,105
Interest on discounted bills	4,234	3,310
Other finance costs	–	800
	16,668	15,215

(b) Staff costs

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Salaries, wages and other benefits	48,820	44,439
Contributions to defined contribution retirement plan	3,451	3,100
	52,271	47,539

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

6. Loss before taxation (continued)

(c) Other items

	Note	Six months ended 30 June	
		2018 RMB'000	2017 RMB'000
Amortisation			
– lease prepayments		743	622
– intangible assets		5,716	4,153
Depreciation of property, plant and equipment		37,854	36,265
Provision of impairment losses on trade debtors		15,139	21,479
Operating lease charges:			
– minimum lease payments		5,507	2,964
Research and development (“R&D”) costs (other than depreciation and amortisation)		6,268	5,791
Increase in provision for product warranties		2,626	1,315
Cost of inventories	11(b),(i)	358,140	383,208

Note:

- (i) Cost of inventories includes RMB54,528,000 (six months ended 30 June 2017: RMB50,777,000) relating to staff costs, depreciation and amortisation for the six months ended 30 June 2018, 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	
	2018 RMB'000	2017 RMB'000
Current tax		
Provision for current period	2,181	175
Under provision in respect of prior year	502	863
	2,683	1,038
Deferred tax		
Origination and reversal of temporary differences	(5,260)	(5,720)
	(2,577)	(4,682)

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

7. Income tax (continued)

- (i) Under the Corporate Income Tax Law of the PRC (the “CIT Law”), 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 2018 (six months ended 30 June 2017: RMB nil).

The preferential corporate income tax rate for the Group’s subsidiary located in Atlantic Free Zone in Morocco is 0% for five years from its operation which is expected to start in 2018 (2017: 0%).

- (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. Xiezhong Nanjing is now applying for an extension of such preferential income tax treatment for another three years from 2018 to 2020. The directors of the Company believe that Xiezhong Nanjing will continue to enjoy such preferential tax rate of 15% from 2018 to 2020 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. The Group is required to pay the PRC dividend withholding tax at a rate of 10%. Deferred tax liabilities of RMB24,747,404 (2017: RMB26,126,185) were not recognised in respect of the 10% PRC dividend withholding tax that would be payable on the distribution of retained profits of RMB247,474,047 as at 30 June 2018 (2017: RMB261,261,852) in respect of the Group’s subsidiaries in the PRC as the Company controls the dividend policy of these subsidiaries and it was determined that it was probable that these profits would not be distributed in the foreseeable future.

8. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2018 is based on the loss attributable to equity shareholders of the Company of RMB26,511,000 (six months ended 30 June 2017: loss of RMB33,827,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2017: 800,000,000 shares) in issue during the six months ended 30 June 2018.

There were no dilutive potential ordinary shares during the six months ended 30 June 2018, and therefore, diluted loss per share is the same as the basic loss per share (six months ended 30 June 2017: same).

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

9. Property, plant and equipment

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Net book value, at 1 January	705,314	631,244
Additions	50,584	148,746
Depreciation charge for the period/year	(37,854)	(74,676)
At 30 June/31 December	718,044	705,314

10. Intangible assets

During the six months ended 30 June 2018, additions to intangible assets by capitalisation in respect of development costs amounted to approximately RMB16,677,000 (six months ended 30 June 2017: RMB13,064,000).

11. Inventories

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Raw materials	41,380	43,321
Work in progress	9,773	9,951
Finished goods	221,599	185,101
	272,752	238,373

(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 2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	354,264	376,213
Write down of inventories, net of reversals	3,876	6,995
	358,140	383,208

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 2018 RMB'000	At 31 December 2017 RMB'000
Within 3 months	314,258	462,251
3 to 6 months	142,154	83,408
6 to 12 months	45,781	41,347
Over 12 months	10,801	10,502
Trade debtors and bills receivable, net of allowance for doubtful debts	512,994	597,508
Other receivables, deposits and prepayments	92,575	81,356
Trade and other receivables (total)	605,569	678,864
Less: long-term receivables (deposits)	22,721	22,606
Trade and other receivables (within one year)	582,848	656,258

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

Transfers of financial assets

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

As at 30 June 2018, the Group discounted certain bank acceptance bills with a carrying amount of RMB32,961,000 (31 December 2017: RMB55,235,000) to banks for cash proceeds and endorsed certain bank acceptance bills with a carrying amount of RMB95,927,000 (31 December 2017: RMB103,149,000) 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.

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

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

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

As at 30 June 2018, 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 2018, 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 RMB25,593,000 and RMB131,398,000 (31 December 2017: RMB50,695,000 and RMB146,994,000) respectively.

13. Deposits with banks

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Pledged deposits	22,823	22,710
	22,823	22,710

14. Cash

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Cash on hand	441	44
Cash at bank	18,078	20,843
	18,519	20,887

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

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 2018 RMB'000	At 31 December 2017 RMB'000
Within 3 months	471,016	475,955
Over 3 months but less than 6 months	172,298	44,877
Over 6 months but less than 12 months	12,080	20,534
Over 12 months	4,923	8,041
Total trade creditors and bills payable	660,317	549,407
Other payables	80,444	99,697
Other tax payables	3,877	6,271
	744,638	655,375

16. Interest-bearing borrowings

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

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Current portion:			
– Bank loans		348,523	304,452
– Bank advances under discounted bills		32,961	55,235
– Loans from leasing companies	(a)	76,112	73,978
– Loan from a financing company	(b)	5,000	–
– Loan from an equity shareholder	(c)	24,000	–
		486,596	433,665
Non-current portion:			
– Loans from leasing companies	(a)	72,907	111,515
		72,907	111,515
		559,503	545,180

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

16. Interest-bearing borrowings (continued)

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) As at 31 December 2017, Xiezhong Nanjing, a subsidiary of the Company, entered into a sales and leaseback agreement with two leasing companies 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 nominal value of RMB100 and RMB10,000 respectively. 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 2018, the above loans from leasing companies amounting to RMB149,019,000 were secured by certain machinery and equipment with the carrying amount of RMB203,998,000 (31 December 2017: RMB185,493,000 was secured by certain machinery and equipment with the carrying amount of RMB220,974,000).

- (b) As at 30 June 2018, a loan of RMB5 million was borrowed by Xiezhong Nanjing from a financing company. The loan bears interest at a fixed rate of 15% per annum. Xiezhong Nanjing repaid fully the loan on 20 July 2018.
- (c) The loan is from an equity shareholder of the Company. It bears interest at 5.4% per annum, is unsecured and repayable on 20 June 2019.

As at 30 June 2018, the interest-bearing borrowings were repayable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within one year or on demand	486,596	433,665
Over one year but within two years	59,296	71,317
Over two years but within five years	13,611	40,198
	72,907	111,515
	559,503	545,180

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

16. Interest-bearing borrowings (continued)

As at 30 June 2018, the interest-bearing borrowings were secured as follows:

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Bank loans and other borrowings			
– Secured	(i)	221,523	172,452
– Unsecured		127,000	132,000
Bank advances under discounted bills		32,961	55,235
Loans from leasing companies	(i)	149,019	185,493
		530,503	545,180

- (i) As at 30 June 2018, the carrying amounts of the assets of the Group secured against bank loans and other borrowings were analysed as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Property, plant and equipment	382,807	382,981
Lease prepayments	21,197	21,724
Non-current prepayment	32,901	34,753
Other receivables	7,500	7,500
Pledged deposits	10,000	10,000
	454,405	456,958

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 2018 (six months ended 30 June 2017: HKD nil).

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

The dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period is HKD nil per ordinary share (six month period ended 30 June 2017: HKD nil).

18. Commitments

(a) Capital commitments

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for	110,257	142,364
Authorised but not contracted for	256,065	259,822
	366,322	402,186

(b) Lease commitments

As at 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	4,121	2,205
After 1 year but within 5 years	8,729	2,594
	12,850	4,799

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 2018 are as follows:

		Six months ended 30 June	
	Note	2018 RMB'000	2017 RMB'000
Recurring transactions			
Sales of goods			
– Beijing Automotive Group Co., Ltd. and its subsidiaries (“Beijing Automotive Group”)		105,860	124,863
Services rendered			
– Beijing Automotive Group		–	94
Purchase of goods			
– Sanhua Holding Group Co., Ltd. (“Sanhua Group”)	(i)	1,982	–

(i) The amounts are related to transactions with Sanhua Group from 1 January 2018 to 2 February 2018.

The directors consider that the above related party transactions during the six months period ended 30 June 2018 were conducted on normal commercial terms and in the ordinary and usual course of the Group’s business.

		Six months ended 30 June	
	Note	2018 RMB'000	2017 RMB'000
Non-recurring transactions			
Advance from a related party			
– Sunrise International Investment Management Inc. (“Sunrise International”)	(ii)	–	44,290
Repayment of advance from a related party			
– Sunrise International		–	41,400
Loan from an equity shareholder			
– Chen Cunyou	(iii)	29,000	–
Repayment of the loan from an equity shareholder			
– Chen Cunyou	(iii)	5,000	–

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

19. Material related party transactions (continued)

(a) Transactions with related parties (continued)

- (ii) Sunrise International is one of the Company's equity shareholders. The advance from a related party is interest-free and repayable on demand.
- (iii) Chen Cunyou is one of the Company's equity shareholders and executive director. The loan from an equity shareholder bears interest at 5.4% per annum, is unsecured and repayable on 20 June 2019.

(b) Amounts due from/to related parties

As at 30 June 2018, the Group had the following balances with related parties:

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Trade debtors due from			
– Beijing Automotive Group	(iv)	113,444	121,919
Advance receipts from			
– Beijing Automotive Group	(iv)	–	14,959
	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Loan from an equity shareholder			
– Chen Cunyou	(v)	24,000	–

(iv) Amounts due from/to these related parties are unsecured and interest-free.

(v) The loan is included in "interest-bearing borrows" (note 16).

(c) Key management personnel remuneration

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

	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Short-term employee benefits	1,414	1,401

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. Non-adjusting events after the reporting period

On 31 July 2018, the Company entered into sales and purchase agreements with Sunrise International Investment Management Inc. ("Vendor A"), a related party of the Group, and Jin Cheng Auto Parts Trade & Investment Co., Ltd. ("Vendor B"), a third party, respectively, pursuant to which: 1) Vendor A conditionally agreed to sell and the Company conditionally agreed to purchase the entire issued share capital of Sino Evergreen International Limited ("Target Company A") at the consideration of HKD328,027,500; and 2) Vendor B conditionally agreed to sell and the Company conditionally agreed to purchase the entire issued share capital of Jin Cheng Auto Parts (Hong Kong) Ltd. ("Target Company B") at the consideration of HKD109,342,500 (1 and 2 collectively the "Acquisition Arrangement").

The estimated total consideration agreed in sales and purchase agreements comprises:

- (i) HKD164,013,750 and HKD54,671,250 payable in cash to Vendor A and Vendor B on completion respectively; and
- (ii) a maximum aggregate principle amount of HKD164,013,750 and HKD54,671,250 convertible bond to be issued to Vendor A and Vendor B respectively, in different tranches based on business performance of Target Company A and Target Company B for the financial year ending 31 December 2018, 2019 and 2020, and the satisfaction of other conditions as set out in sales and purchase agreements.

According to the announcement dated 31 July 2018, the Acquisition Arrangement shall subject to the satisfaction of the conditions precedent to the sales and purchase agreements and subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Up to the date of approval of this report, the Acquisition Arrangement has not been completed.

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 2018.

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 Listing Rules as its own code of corporate governance.

During the six months ended 30 June 2018, 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.

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.

During the six months ended 30 June 2018, 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

As at 30 June 2018, 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 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%

Corporate Governance and Other Information

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 2018, 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:

Long Position (L) in Shares

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Sunrise International Investment Management Inc. ^(note 1)	Beneficial owner	238,260,000 (L)	29.78%
Mr. Chen Hao. ^(note 1)	Beneficial owner	8,208,000 (L)	1.03%
	Interest of controlled corporation	238,260,000 (L)	29.78%
Brilliance International Holding Ltd. ^(note 2)	Beneficial owner	40,763,400 (L)	5.09%
Ms. Chen Jiao. ^(note 2)	Beneficial owner	12,000,000 (L)	1.50%
	Interest of controlled corporation	40,763,400 (L)	5.09%
Asia United Fund	Investment manager	159,000,000 (L)	19.88%
China Goldspring Fund	Investment manager	74,376,000 (L)	9.30%
中金鼎泰(天津)股權投資基金管理有限公司 (Zhongjin Dingtai Tianjin Equity Investment & Funds Management Co Ltd*)	Investment manager	40,364,000 (L)	5.04%

Notes:

1. As Sunrise International Investment Management Inc. is 100% owned by Mr. Chen Hao, therefore, Mr. Chen Hao is deemed to be interested in all the Shares held by Sunrise International Investment Management Inc. by virtue of the SFO.
2. 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 2018, 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 six months ended 30 June 2018.

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 2018. The audit committee also reviewed the interim financial result.

Publication of the interim results and interim report

The interim results report is published on the websites of the Company at www.xiezhonginternational.hk and the Stock Exchange at www.hkex.com.hk. The interim report of the Company for the six months ended 30 June 2018 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.

The 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

* For identification purposes only

Hong Kong, 31 August 2018

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