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

2016
Annual Report

Contents

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 *(Vice Chairman)*
Mr. Chen Bao (Appointed on 30 August 2016)
Mr. Li Xuejun (Resigned on 30 August 2016)
Mr. Zhu Zhenghua
Mr. Chen Hao (Resigned on 1 November 2016)
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. Dai Zumian *(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
China Merchants Bank
Agricultural Bank of China, Jiulonghu Branch
China CITIC Bank International Limited

Stock Code
3663

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Xiezhong International Holdings Limited ("Xiezhong International" or the "Company", together with its subsidiaries, the "Group"), I am pleased to present to the shareholders of the Company the annual report of the Group for the year ended 31 December 2016 (the "Year").

In 2016, the Group achieved good sales growth due to the rapid growth in production and sales in the domestic automotive industry. For the year ended 31 December 2016, the Group recorded revenue of RMB896.8 million, representing an increase of 28.3 % against that of RMB698.8 million in the previous year; profit attributable to equity shareholders of RMB43.3 million, representing an increase of 4.8% against that of RMB41.3 million in the previous year.

The Board did not propose a distribution of final dividend for the year ended 31 December 2016 (2015: RMB12.1 million).

Looking ahead, the Group will continuously commit itself to developing its core operation of automotive heating, ventilation and cooling ("HVAC") systems, thus ensuring the core competitive strength of the Group. The Group will constantly consolidate its leading position in the Chinese market of automotive HVAC systems for pickup trucks and heavy trucks, and increase its effort to explore the market of HVAC systems for passenger vehicles, which is expected to be a key driver for the Group's future growth. 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 Company will also continue to enhance research and development capability and quality control, while continuing to reduce costs through production and procurement management, thus strive to supply automotive HVAC system for more domestic and foreign brands car manufacturers. Furthermore, the Group will maintain its sound financial base, persistently implement its development strategies set out above and strive for a great leap forward in the coming year.

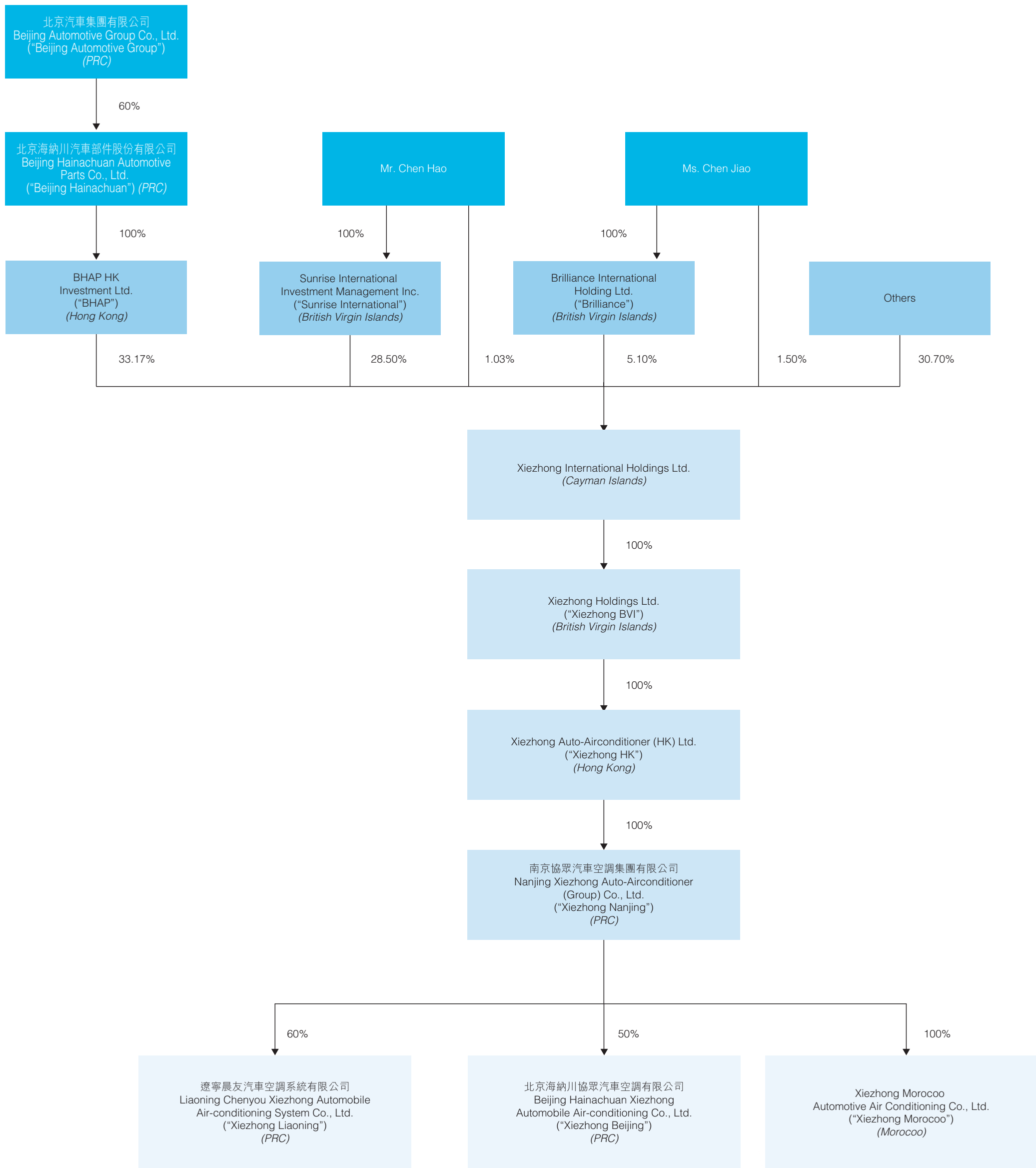
Lastly, on behalf of Xiezhong International, I hereby express my sincere gratitude to all our customers and business partners for their support, and to our management and staff for their strenuous effort. I would also like to take this opportunity to extend my appreciation to our investors and shareholders for their support and trust to the Group. We will continue to make industrious and diligent efforts to maximise wealth for our Group and our shareholders.

Chen Cunyou
Chairman

30 March 2017

Company Structure

As at 31 December 2016, our corporate and shareholding structure is as follow:



Management Discussion and Analysis

BUSINESS REVIEW

The Group is one of the leading suppliers of 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, 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 2016 were 28,118,800 units and 28,028,200 units respectively, representing a growth of 14.5% and 13.7% respectively as compared against that of last year. Amongst those motor vehicles, the number of passenger vehicles manufactured and sold were 24,420,700 units and 24,376,900 units respectively, representing a growth of 15.5% and 14.9% respectively as compared against that of last year; the number of commercial vehicles manufactured and sold were 3,698,100 units and 3,651,300 units respectively, representing a growth of 8.0% and 5.8% respectively as compared against that of last year. In 2016, the Group achieved good sales growth compared against that of last year due to the rapid growth in production and sales in the domestic automotive industry.

During the Year, the Group recorded revenue of RMB896.8 million, representing an increase of 28.3% compared against that of RMB698.8 million in 2015. The gross profit of RMB169.6 million, representing an increase of 15.3% compared against that of RMB147.1 million in 2015. The profit attributable to equity shareholders of RMB43.3 million, representing a growth of 4.8% compared against that of RMB41.3 million in 2015.

During the Year, Xiezhong Nanjing, an indirect wholly-owned subsidiary of the Company, has entered into supply framework agreements with Peugeot Citroen Automobiles S.A. ("Peugeot") and Dongfeng Peugeot Citroen Automobile Company Ltd* (神龍汽車有限公司) ("Dongfeng Peugeot"), and will supply HVAC for certain types of automobile to Peugeot and Dongfeng Peugeot. The supply agreements on HVAC with Peugeot and Dongfeng Peugeot symbolizes the realization of the Group's breakthrough by supplying foreign brand car manufacturers with HVAC and going international through supplying overseas companies of Peugeot with HVAC. Such agreements will firmly guarantee the Company's future development.

In addition, the Group plans to build a production base in Morocco ("Xiezhong Morocco project") for the supply of overseas automotive manufacturers with HVAC, which will contribute to accomplish the Group's goal of internationalization and expansion of the overseas markets. The Group completed the feasibility study and established Xiezhong Morocco in September 2016 with a paid-in capital of EUR2 million. The board of directors approved for a budget in capital expenditures of RMB130 million on 20 January 2017.

FINANCIAL REVIEW

Revenue

During the Year, the Group recorded revenue of RMB896.8 million, representing an increase of 28.3% compared against that of RMB698.8 million in 2015. Such increase in revenue was mainly due to the increase in revenue from HVAC systems for SUVs and pickup trucks compared against that in 2015.

	2016		2015	
	RMB'000	**% of total revenue**	RMB'000	% of total revenue
HVAC systems				
SUVs and pickup trucks	**562,747**	**62.7%**	143,513	20.5%
Sedans	**89,460**	**10.0%**	197,821	28.3%
Vans	**88,297**	**9.8%**	128,892	18.4%
Heavy trucks	**75,738**	**8.4%**	85,609	12.3%
Construction machineries	**14,005**	**1.6%**	19,037	2.7%
Other vehicles(1)	**22,959**	**2.6%**	28,481	4.1%
HVAC components(2)	**30,148**	**3.4%**	74,114	10.6%
Service income(3)	**13,408**	**1.5%**	21,355	3.1%
Total	**896,762**	**100.0%**	698,822	100.0%

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

(2) 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.

(3) Service income mainly represents revenue from rendering of testing and experiment service relating to the manufacturing of automotive air-conditioner.

Gross profit and gross profit margin

During the Year, the gross profit was RMB169.6 million, representing an increase of 15.3% compared against RMB147.1 million in 2015. The gross profit margin was 18.9% compared against 21.0% in 2015. Such decrease was due to the price deduction from HVAC systems for some vehicles during the Year.

Other income

Other income primarily includes government grants and warehousing and logistic service income, which increased to RMB11.8 million during the Year from RMB10.7 million in 2015. Such increase was mainly due to the increase of warehousing and logistic service income during the Year.

Distribution costs

Distribution costs increased by 29% or RMB9.8 million to RMB43.5 million during the Year from RMB33.7 million in 2015. During the Year, distribution costs increased in line with the growth of revenue.

Administrative expenses

During the Year, administrative expenses were RMB76.5 million, representing an increase of RMB21.7 million or 39.6% compared against that of RMB54.8 million in 2015. Such increase was mainly due to the increase of expenditure in research and development and labor costs.

Finance costs

During the Year, finance costs were RMB18.8 million, representing an increase of RMB4.2 million or 28.8% compared against that of RMB14.6 million in 2015. During the Year, the bank loans increased, which contributed to the increase of interest expense mainly.

Income tax

During the Year, income tax benefit was RMB0.5 million, representing a decrease of RMB12.1 million compared against that of RMB11.6 million in 2015. Such decrease was mainly due to the decrease of deferred tax liabilities, and details are disclosed in note 8(b)(iv) to the consolidated financial statements.

Profit for the Year

As a result of the foregoing, profit attributable to equity shareholders of the Company increased by RMB2.0 million or 4.8% from RMB41.3 million in 2015 to RMB43.3 million during the Year.

LIQUIDITY AND FINANCIAL RESOURCES

Inventories

As at 31 December 2016, the Group's inventory balance increased to RMB219.4 million (31 December 2015: RMB192.6 million), which was due to the increase of inventory level maintained at various warehouses with the increase of revenue during the Year.

The average inventory turnover days, calculated as cost of sales divided by average inventory and multiplied by 365 days, decreased from 124 days in 2015 to 103 days during the Year. Such decrease was mainly due to the increase of cost of sales in line with the increase of revenue.

Trade debtors and bills receivable/Amounts due from related parties

As at 31 December 2016, the Group's trade debtors and bills receivable were RMB561.3 million (31 December 2015: RMB479.6 million). The Group's amounts due from related parties were RMB217.8 million (31 December 2015: RMB73.4 million). Such increase was mainly due to the increase of revenue during the Year.

The average trade debtors, bills receivable and amounts due from related parties turnover days, calculated as revenue divided by average trade debtors, bills receivable and amounts due from related parties and multiplied by 365 days, increased from 271 days in 2015 to 274 days during the Year, while without taking into account the bill 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 365 days, decreased from 198 days in 2015 to 192 days during the Year, which is nearly stable.

Trade payables and bills payable

As at 31 December 2016, the Group's trade payables and bills payable were RMB440.0 million (31 December 2015: RMB326.7 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 payable and multiplied by 365 days, decreased from 208 days in 2015 to 192 days during the Year. Such decrease was mainly due to the Group's ability to manage the payment pace.

Cash and deposits with banks and borrowings

As at 31 December 2016, the Group's cash and deposits with banks were RMB78.7 million (31 December 2015: RMB91.1 million). The decrease in cash flow was mainly due to large capital expenditure incurred during the Year.

As at 31 December 2016, we had outstanding bank borrowings of RMB568.1 million (31 December 2015: RMB347.4 million). As at 31 December 2016, our bank borrowings carried interest rates ranging from 2.9% to 4.8% per annum.

As at 31 December 2016, the banking facilities available to us were RMB575.6 million (31 December 2015: RMB467.5 million), of which RMB522.6 million (31 December 2015: RMB342.5 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 31 December 2016, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

We typically use short-term borrowings in the course of financing our business. Our policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long terms.

Gearing ratio

As at 31 December 2016, 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 42.0%, compared against 31.6% as at 31 December 2015.

Use of proceeds

The net proceeds of Company's Listing in June 2012 were approximately HKD165.5 million (approximately RMB134.4 million). According to the intended usages as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 6 June 2012 (the "Prospectus"), the application of such proceeds as at 31 December 2016 was as follow:

	Net Proceeds (RMB million)		
Items	**Available**	**Utilised**	**Unutilised**
Expanding of Production Plants and Upgrading Existing Facilities of the Group	92.7	53.2	39.5
Funding for Research and Development	30.9	30.9	–
Working capital and Other General Purposes	10.8	10.8	–
Total	134.4	94.9	39.5

Contingent liabilities

As at 31 December 2016, the Group did not incur any material contingent liabilities.

Significant investments held

Except for investment in subsidiaries, during the Year, 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 34 to the consolidated financial statements and capital commitment as at 31 December 2016, the Group did not have other plans for material investments or capital assets.

Material acquisitions and disposals of subsidiaries and affiliated companies

Details are disclosed in note 33 to the consolidated financial statements.

Capital commitments

As at 31 December 2016, the Group's capital commitments to make contracted payments amounted to RMB6.0 million (31 December 2015: RMB43.0 million). Such capital commitments were used for the purchase of equipment and mould. In addition, a capital commitment of RMB207.8 million was authorized but not contracted for as at 31 December 2016 (31 December 2015: RMB93.0 million).They will be financed by the Group's internal resources and/or external bank financing, as appropriate.

Capital expenditures

During the Year, the Group incurred capital expenditures of RMB154.3 million (2015: RMB135.8 million) primarily representing additions of plant, machineries and equipments.

Foreign exchange risk

The Group's businesses are principally operated in China and substantially all of its transactions are conducted in RMB and most of the Group's assets and liabilities are also denominated in RMB. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than RMB. During the Year, the Group did not employ any financial instrument for hedging purposes.

Employees

As at 31 December 2016, the Group had 1,039 employees in total, which were remunerated by the Group with reference to their performance, qualifications and prevailing market conditions. During the Year, the Group's total expenditure in respect of staff cost was RMB89.3 million (2015: RMB69.1 million), representing 10.0% (2015: 9.9%) 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 (the "Share Option Scheme") to the executive directors and employees as an incentive to their contribution to the Group. During the Year, no share options had been granted by the Group to the employees in accordance with the Share Option Scheme.

During the Year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 10 to the consolidated financial statements as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Year.

Events after the Year

Details are disclosed in note 34 to the consolidated financial statements.

Dividends

The Board did not propose a distribution of final dividend for the year ended 31 December 2016 (2015: RMB12.1 million).

Outlook

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

The Group will constantly consolidate its leading position in the Chinese market of automotive HVAC systems for pick-up trucks and heavy trucks, and strive to explore the market of HVAC systems for passenger vehicles. Being an integral part of the automotive industry, the market of HVAC systems for passenger vehicles 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 improve the Group's research and development ability, the Group has advanced research and development facilities including vehicle environment simulation laboratory, and has hired a number of foreign experts. 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 strengthen our competitive advantage.

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 accomplish its goal of internationalization and overseas supply, the Company intends to build factories in Morocco to serve overseas customers in a better manner and expand overseas markets.

4) **Business expansion**

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

Corporate Governance Report

Corporate Governance Practices

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 Year.

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 Stock Exchange (the "Main Board Listing Rules") as its own code of corporate governance.

During the Year, 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 officer of the Company are not separate and both are performed by Mr. Chen Cunyou. Since the Directors of the Company meet regularly to consider major matters regarding the operations of the Company, the Directors of the Company consider that this structure will not impair the balance of power and authority between the Directors of the Company 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 of the Company should attend general meetings of the Company. All non-executive Directors of the Company (including independent non-executive Directors) attended the annual general meeting of the Company held on 23 May 2016 (the "AGM"), other than the non-executive Directors of the Company, Mr. Han Yonggui, Mr. Li Xuejun (resigned as a non-executive Director of the company with effect from 30 August 2016), Mr. Chen Hao (resigned as a non-executive Director of the Company with effect from 1 November 2016) and Mr. Huang Yugang who were absent from the AGM due to pre-arranged business commitments.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Main Board Listing Rules (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 Year.

The Board of Directors

Composition

The Directors who hold office during the Year were:

Executive Directors:

Mr. Chen Cunyou *(Chairman and chief executive officer)*
Mr. Ge Hongbing

Non-executive Directors:

Mr. Han Yonggui *(Vice Chairman)*
Mr. Chen Bao (Appointed on 30 August 2016)
Mr. Li Xuejun (Resigned on 30 August 2016)
Mr. Zhu Zhenghua
Mr. Chen Hao (Resigned on 1 November 2016)
Mr. Huang Yugang

Independent non-executive Directors:

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

The Director who was appointed after the end of the Year was:

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

The biographical details of each Director are set out in the section "Directors and Senior Management" on pages 23 to 29.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. During the Year, four Board meetings were held and the attendance records of individual Directors are set out below:

	Number of Board meetings attended/held
Executive Directors	
Mr. Chen Cunyou *(Chairman)*	4/4
Mr. Ge Hongbing	4/4
Non-executive Directors	
Mr. Han Yonggui *(Vice Chairman)*	4/4
Mr. Chen Bao (Appointed on 30 August 2016)	1/2
Mr. Li Xuejun (Resigned on 30 August 2016)	1/2
Mr. Chen Hao (Resigned on 1 November 2016)	3/3
Mr. Huang Yugang	4/4
Independent non-executive Directors	
Mr. Lau Ying Kit	4/4
Mr. Cheung Man Sang	3/4
Mr. Zhang Shulin	3/4
Mr. Lin Lei	4/4

There are four independent non-executive Directors who represent 40% of the Board, and all of them have appropriate professional qualifications.

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

Directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Both draft and final versions of the minutes are sent to all Directors for their comment and records. Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

General Meetings

In 2016, an annual general meeting was held on 23 May 2016. The chairman of the Board (the "Chairman"), as well as chairman of each of the Board committees, or in their absence, members of the respective committees, and the external auditors of the Company, were available to answer questions from shareholders at the annual general meeting. At the annual general meeting, procedures for conducting a poll were explained by the Chairman and a resolution was proposed in respect of each separate issue itemized in the agenda.

The forthcoming 2017 annual general meeting ("2017 AGM") will be held on 28 June 2017.

Responsibilities of the Board and Management

The Board is primarily responsible for overseeing and managing the Company's affairs, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. The Board is also responsible for determining the Company's corporate governance policies which include: (i) development and review of the Company's policies and practices on corporate governance; (ii) review and monitoring of the training and continuous professional development of Directors and senior management; (iii) review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements; (iv) review and monitoring of the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) review of the Company's disclosure in the Corporate Governance Report.

While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association). With the new composition of members of the nomination committee, remuneration committee and audit committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by the respective Board committees.

The Board has also delegated the responsibility of implementing its strategies and the day-to-day operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance and financial reporting, internal controls, communication with shareholders, Board membership, delegation of authority and corporate governance.

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The financial statements set out on pages 47 to 105 were prepared on the basis set out in note 2 to the consolidated financial statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements.

Having made reasonable enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

There is no non-compliance with rules 3.10(1), (2) and 3.10A of the Main Board Listing Rules. Except as disclosed in the section titled "Directors and Senior Management" below, there is no financial, business family or other material relationship among members of the Board.

Confirmation of Independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Main Board Listing Rules. The Company, on the basis of the aforesaid confirmations, is of the view that all independent non-executive Directors are independent in accordance with the guidelines set out in Rule 3.13 of the Main Board Listing Rules.

Continuous Professional Development

Pursuant to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. Each newly appointed Director would receive an induction package covering the statutory and regulatory obligations of a director of a listed company. The Company also provides briefings and other training to develop and refresh the Directors' knowledge and skill. The Company continuously updates Directors on the latest developments regarding the Main Board Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. During the Year, all Directors had complied with the requirements set out in the code provision A.6.5 of the CG Code.

Appointment, Re-election and Removal

All non-executive Directors have entered into letters of appointment with the Company for a specific term of three years, subject to re-election.

In accordance with the articles of association of the Company, at each annual general meeting one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall retire from office by rotation. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Nomination Committee

The Company established a nomination committee pursuant to a resolution of the Directors passed on 21 May 2012 with written terms of reference in compliance with code provision A.5.2 of the CG Code. Its terms of reference are available on the websites of the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

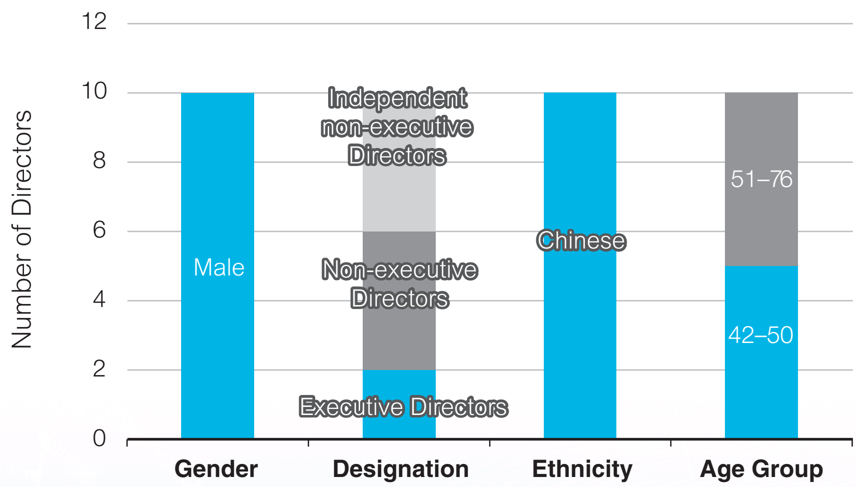
The primary duties of the nomination committee are to review the structure, size and composition of the Board on regular basis; to identify individuals suitably qualified to become Board members; to assess the independence of independent non-executive Directors; and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. As at the date of this annual report, the nomination committee comprises four independent non-executive Directors, namely Mr. Zhang Shulin (Chairman), Mr. Lau Ying Kit, Mr. Cheung Man Sang and Mr. Lin Lei.

During the Year, one meeting of the nomination committee was held on 31 March 2016. The attendance records of individual Directors are set out below:

	Number of nomination committee meeting attended/held
Mr. Zhang Shulin *(Chairman)*	1/1
Mr. Cheung Man Sang	1/1
Mr. Lau Ying Kit	1/1
Mr. Lin Lei	0/1

When identifying suitable candidates for directorship, the nomination committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Main Board Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Main Board Listing Rules. Qualified candidates will then be recommended to the Board for approval.

The following is a chart showing the diversity profile of the Board as at 31 December 2016:



For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:

(A) at least 50% of the members of the Board shall be non-executive Directors or independent non-executive Directors;

(B) at least one-third of the members of the Board shall be independent non-executive Directors;

(C) at least one of the members of the Board shall have obtained accounting or other professional qualifications;

(D) at least 50% of the members of the Board shall have more than 5 years of experience in the industry he/she is specialised in; and

(E) at least 50% of the members of the Board shall have China-related work experience.

Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 21 May 2012 with written terms of reference in compliance with Rule 3.25 and Rule 3.26 of the Main Board Listing Rules. The written terms of reference of the remuneration committee was adopted in compliance with code provision B.1.2 of the CG Code. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and to ensure that none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration the Company's performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that they are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. As at the date of this annual report, the remuneration committee consists of four members, including four independent non-executive Directors, namely Mr. Cheung Man Sang (Chairman), Mr. Lau Ying Kit, Mr. Zhang Shulin, and Mr. Lin Lei.

Details of remuneration of Directors is set out in note 9 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration paid to members of senior management who are not executive directors by bands for the Year is set out below:

	Number of individuals	
Remuneration band	**2016**	2015
Nil to RMB300,000	**3**	3
RMB300,001 to RMB1,000,000	**3**	3

During the Year, one meeting was held on 31 March 2016. The attendance records of individual Directors are set out below:

	Number of remuneration committee meeting attended/held
Mr. Cheung Man Sang *(Chairman)*	1/1
Mr. Lau Ying Kit	1/1
Mr. Zhang Shulin	1/1
Mr. Lin Lei	0/1

Audit Committee

The Company established an audit committee pursuant to a resolution of the Director passed on 21 May 2012 with written terms of reference in compliance with Rule 3.21 and Rule 3.22 of the Main Board Listing Rules as well as code provisions C.3.3 and C.3.7 of the CG Code. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the audit committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements, provide material advice in respect of financial reporting and oversee internal control procedures of the Group. As at the date of this annual report, the audit committee consists of four members, all of whom are independent non-executive Directors, namely Mr. Lau Ying Kit (Chairman), Mr. Cheung Man Sang, Mr. Zhang Shulin and Mr. Lin Lei.

The audit committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group's financial reporting process and internal controls.

During the Year, the audit committee had two meetings on 31 March 2016 and 28 August 2016 with the senior management and independent auditor of the Company to consider the independence and audit scope of independent auditor, and to review and discuss the connected transactions, the risk management and internal control system, interim and annual financial statements of the Company and the opinion and report of independent auditor before submitting to the Board for their approval. The attendance records of individual committee members are set out below:

	Number of audit committee meetings attended/held
Mr. Lau Ying Kit *(Chairman)*	2/2
Mr. Cheung Man Sang	2/2
Mr. Zhang Shulin	2/2
Mr. Lin Lei	1/2

During the Year and to the date of this annual report, the Board has not taken a different view from the audit committee on the selection and appointment of external auditors.

Auditor's Remuneration

During the Year, the Company engaged KPMG as the external auditors. The fees in respect of audit services and non-audit services provided by KPMG for the Year approximately amounted to RMB2,350,000 and RMB234,000 respectively.

Details of auditor's responsibilities on the Company's consolidated financial statements are set out in the Independent Auditor's Report on pages 41 to 46.

Company Secretary

Mr. Chui Wing Fai, being our company secretary, is primarily responsible for the company secretarial work of our Group. The Company confirms that Mr. Chui Wing Fai has for the Year attended no less than 15 hours of relevant professional training.

Risk Management and Internal Controls

The main features of the risk management and internal control systems of the Group are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board, the audit committee and the senior management of the Group ("Senior Management"). The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems. The Board, through the audit committee, conducts reviews of the effectiveness of such systems as least annually, covering all material controls including financial, operational and compliance controls.

The Group has formulated and adopted Risk Management Policy in providing directions in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has engaged an independent professional advisor to assist the Board and the audit committee in ongoing monitoring of the risk management and internal control systems of the Group and in performing the internal audit functions for the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the audit committee and the Board on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control report are submitted to the audit committee and the Board at least once a year. The Board, through the audit committee, had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Main Board Listing Rules. The Board considers the Group's risk management and internal control systems were effective and adequate during the Year.

The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and Internal Controls For The Handling and Dissemination of Inside Information

The Group complies with requirements of Securities and Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

Shareholders' Rights

The following procedures for shareholders of the Company to convene an extraordinary general meeting ("EGM") of the Company are prepared in accordance with the articles of association of the Company as follows:

(1) One or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings, shall have the right, by written notice, to require an EGM to be called by the Directors of the Company for the transaction of any business specified in such requisition.

(2) Such requisition shall be made in writing to the Board or the company secretary of the Company at the following:

Principal place of business of the Company in Hong Kong

Address: Room 601 New Landwide Commercial Building, 73 Kimberley Road, Kowloon, Hong Kong
Email: ir@njxiezhong.com

Principal place of business of the Company in the PRC

Address: 389 Kening Road, Science Park, Jiangning District, Nanjing, Jiangsu Province, the PRC
Email: ir@njxiezhong.com

Registered office of the Company

Address: P.O. Box 309, Ugland House, Grand Cayman, KY1–1104, Cayman Islands

(3) The EGM shall be held within three months after the deposit of such requisition.

(4) If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

For matters in relation to the Board, the shareholders can contact the Company at the following:

Address:	Room 601 New Landwide Commercial Building, 73 Kimberley Road, Kowloon, Hong Kong
Email:	ir@njxiezhong.com
Tel:	2568 0929
Fax:	2568 0210

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his or her proposal ("Proposal") with his or her detailed contact information at the Company's principal place of business in Hong Kong.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) At least 14 days' notice in writing if the Proposal requires approval by way of ordinary resolution of the Company.

(2) At least 21 days' notice in writing if the Proposal requires approval by way of a special resolution of the Company in an EGM or an annual general meeting of the Company.

Investor Relations and Communication

The Board recognises the importance of good communications with all shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations. The Company is committed to a policy of open and timely disclosure of corporate information to its shareholders and public investors.

The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's activities for the Year has been provided in this annual report. While the AGM provides a valuable forum that facilitates direct communications between the Board and its shareholders, the Company also maintains its website www.xiezhonginternational.hk to provide an alternative communication channel for the public and its shareholders. All corporate communication and Company's latest updates are available on the Company's website for public's information.

From 18 June 2012 (the "Listing Date") and up to 31 December 2016, there has been no significant change in the Company's memorandum and articles of association.

Directors

Executive Directors

Mr. Chen Cunyou, aged 54, is the Chairman and the chief executive officer of the Company and an executive Director. He is also a director of Xiezhong BVI, Xiezhong HK, Xiezhong Nanjing, Xiezhong Beijing and Xiezhong Liaoning.

Mr. Chen is the founder of Xiezhong Nanjing and has acted as its general manager since its establishment in April 2002. He was also the chairman of board of directors of Xiezhong Nanjing from April 2002 to May 2008 and was re-appointed as the chairman of Xiezhong Nanjing since September 2011. He has been appointed as a Director since 30 September 2011.

He served as the general manager of 江蘇汽車空調器製造有限公司 (Jiangsu Auto Airconditioner Manufacturing Co., Ltd.#) from 1994 to 1997. Then, he served as the general manager of 南京中港汽車空調器製造有限公司 (Nanjing Zhonggang Auto Air-conditioner Manufacturing Co., Ltd.#) until he founded Xiezhong Nanjing in April 2002. He has served as the chairman of 南京浙商投資有限公司 (Nanjing Zheshang Investment Co., Ltd. #) since 2003 and as the chairman of 南京浙江商會 (Nanjing Zhejiang Chamber of Commerce#) since 2002. He is also a member of the People's Congress of the PRC of Nanjing.

Mr. Chen obtained a master's degree in business administration from University of Atlanta, formerly known as Barrington University, in May 2003. Mr. Chen was also granted the award of Model Worker of Nanjing (南京市勞動模範) by Nanjing Municipal People's Government of the PRC in 2005.

Mr. Ge Hongbing, aged 46, is our executive deputy general manager and an executive Director. Mr. Ge is also a director, executive deputy general manager and chief engineer of Xiezhong Nanjing, a director and the general manager of Xiezhong Beijing, a director of Xiezhong BVI, Xiezhong HK, Xiezhong Morocoo and the chairman of Xiezhong Liaoning. He joined our Group since the establishment of Xiezhong Nanjing and he has been appointed as a Director since 29 November 2011.

Mr. Ge has approximately 18 years of experience in the automobile air conditioner industry. Mr. Ge worked for 東風–派恩汽車鋁熱交換器有限公司(Aeolus-Pan Automobile Aluminium Heat Exchanger Co., Ltd.#) as a R&D engineer of the technical department from October 1994 to March 1995. Mr. Ge worked as R&D engineer of the technical department in 南京派恩汽車空調有限公司 (Nanjing Pan Automobile Air-conditioning Co., Ltd.#) from April 1995 to March 1996. Mr. Ge served various positions when he worked in 南京中港汽車空調器製造有限公司 (Nanjing Zhonggang Automobile Air Conditioner Manufacturing Co., Ltd.#) between April 1996 to April 2002, including chief engineer, head of technical department and head of sales department. Mr. Ge graduated with a bachelor's degree from 東華大學 (Donghua University) (formerly known as 中國紡織大學 (China Textile University)) in July 1994 majored in heat ventilation and air-conditioning engineering. Mr. Ge obtained his master's degree in business administration from University of Atlanta, formerly known as Barrington University, in May 2003.

Non-executive Directors

Mr. Han Yonggui, aged 53, is currently a director of Beijing Automotive Group, the chairman of Beijing Hainachuan and a director of BHAP. In addition, with effect from 30 July 2014 and 25 August 2014, Mr. Han has been appointed as director of Xiezhong Nanjing and Xiezhong BVI and Xiezhong HK respectively.

Mr. Han had approximately 30 years of experience in the automobile industry in China. Mr. Han began his career in August 1985 where he worked as a technical officer at the technology department of the Beijing 2nd Automobile Workshop# (北京第二汽車製造廠), vice secretary and secretary to the League Party Committee until his departure.

Between May 1990 and December 1994, Mr. Han has served various positions in Beijing Automotive Industry Associates Company# (北京汽車工業聯合公司). These positions include deputy secretary and secretary of League Party Committee and director of education.

Between December 1994 and January 2001, Mr. Han has served various positions in Beijing Automotive Industry Group Head Company# (北京汽車工業集團總公司). These positions include education director, director and deputy general manager. During the same period, Mr. Han also served various positions including party secretary, director and general manager at the Beijing Light Automobile Co., Ltd.# (北京輕型汽車有限公司).

Between January 2001 and December 2010, Mr. Han has served various positions in Beijing Automotive Industry Holding Co., Ltd.# (北京汽車工業控股有限責任公司) including secretary of the board and deputy general manager. During the same period, Mr. Han also served head of Beijing Automotive Technology Center and director of Beiqi Foton Motor Co., Ltd..

Prior to his current positions, Mr. Han has served in various positions at Beijing Automotive Group, including director, deputy general manager and executive deputy general manager between December 2010 and February 2014. During the same period, Mr. Han also served acting general manager at Beijing Automotive Group and party deputy secretary, director and president at Beijing Automotive Co., Ltd. and director of 北京賓士汽車有限公司 (Beijing Benz Automotive Co., Ltd.).

Mr. Han obtained a master's degree of business administration from the Asia (Macau) International Open University in July 2000 and is a senior engineer by profession.

Mr. Chen Bao, aged 55, is currently the general manager of Beijing Hainachuan. In addition, with effect from 26 August 2016, Mr. Chen has been appointed as director of Xiezhong Nanjing and Xiezhong BVI and Xiezhong HK respectively.

Mr. Chen worked as the project manager of localization, manager of the power train department and senior manager of the non-metallic parts department of Beijing representative office of Volkswagen and Volkswagen (China) Investment Co., Ltd. (大眾汽車(中國)投資有限公司) from April 1998 to January 2008 and from October 2008 to March 2009, respectively. Mr. Chen also worked and was trained at the procurement department of the head office of Volkswagen Group in Germany from October 2004 to September 2005, and served as the manager of the non-metallic division of the merchandising department of Faw-Volkswagen Automotive Co., Ltd. (一汽-大眾汽車有限公司) from January 2008 to October 2008 and the executive vice president of Beijing Benz Automotive Co., Ltd. (北京奔馳汽車有限公司) from March 2009 to February 2013, and was mainly responsible for merchandising business. From April 2013 to May 2016, he served as the vice president of BAIC Motor Corporation., Limited* (北京汽車股份有限公司) (Stock Code: 1958) whose shares are listed on the Main Board of the Stock Exchange.

Mr. Chen graduated from Shandong University in Jinan, Shandong, the PRC, with a bachelor's degree in philosophy, majoring in philosophy, in July 1984, and graduated from Universitat des Saarlandesin Saarbruecken of Saarland in Germany (德國薩爾州立大學) with a master's degree in law (German) in February 1995.

Mr. Zhu Zhenghua, aged 42, is currently the vice general manager of Beijing Industrial Developing Investment Management Co., Ltd ("Beijing Industrial") and a director of Beijing Hainachuan. Mr. Zhu has been working for Beijing Industrial since June 2008. In addition, with effect from 30 July 2014 and 25 August 2014, Mr. Zhu has been appointed as director of Xiezhong Nanjing and Xiezhong BVI and Xiezhong HK respectively. Initially, Mr. Zhu joined Beijing Industrial as a project manager in its management department. Mr. Zhu then transferred to its investment department and was promoted as a manager in February 2010. Mr. Zhu has worked as both an assistant of general manager and a manager in the investment department since November 2011 and as vice general manager since November 2012 till now. Prior to joining Beijing Industrial, between July 1997 and October 2004, Mr. Zhu worked firstly as an engineer, then a technology duty factory manager and eventually became the factory manager of Shenzhen Konka Group Plastic Factory# (深圳康佳集團塑膠廠) under Konka Group Co., Ltd. (康佳集團股份有限公司). Since October 2004, Mr. Zhu has worked as a general manager in Beijing Konte Eiho Electronics Co., Ltd. (北京康特榮寶電子有限公司), a subsidiary of BOE Technology Group Co., Ltd. (京東方科技集團股份有限公司).

Mr. Zhu obtained his master's degree in Business Administration from Peking University (北京大學) in July 2008 and his bachelor's degree in Engineering from Beijing University of Chemical Technology (北京化工大學) in July 1997.

Mr. Huang Yugang, aged 47, is currently the deputy general manager and the head of the R&D department of Xiezhong Nanjing, who is responsible for overseeing the technical aspect of its production and the R&D of the products. Mr. Huang has also been the general manager of Xiezhong Liaoning since February 2010. In addition, with effect from 30 July 2014 and 25 August 2014, Mr. Huang has been appointed as director of Xiezhong Liaoning and Xiezhong Nanjing and Xiezhong BVI and Xiezhong HK respectively.

Prior to joining the Company, Mr. Huang worked in the Number 2 Factory of Juhua Electric Appliance (Group) Co., Ltd., Wuxi# (菊花電器集團有限公司二廠) as a technician from July 1990 to June 1993. Mr. Huang then worked in Jiangyin Yueyang Automobile Air conditioner Co., Ltd.# (江陰粵陽汽車空調有限公司) from June 1993 to August 1997 and has served various positions, including the head of the quality control department and the head of technical department. Mr. Huang then worked in Zhang Jia Gang Pan Automobile Air Conditioner Co., Ltd.# (張家港派恩汽車空調有限公司) as technical manager from August 1997 to December 1999. From August 2000 to April 2002, Mr. Huang worked in Nanjing Zhonggang Automobile Air Conditioner Manufacturing Co. Ltd.# (南京中港汽車空調器製造有限公司) as the head of technical department.

Mr. Huang obtained a diploma in the Discipline of Microcomputer from the Department of Electronics of Jiangnan University in July 1990. Mr. Huang joined the Company in May 2002 and has accumulated approximately 21 years of experience in the production technique and production quality control of electrical appliance and automobile air-conditioning systems.

Ms. Kwok Chak Sheung, aged 46, has over 20 years of experience in the field of accounting and finance. She worked as the account officer and account manager of Wintex Canada from 1993 to 1997 and was mainly responsible for preparing the account of the company and marketing strategic planning. From 1997 to March 2011, Ms. Kwok worked as the finance officer and assistant general manager in New Horizon Associates Limited (新域(亞洲)有限公司) and was mainly responsible for working on corporate financing projects of enterprises and leading the loan financing division of the company. From April 2011 to August 2014, Ms. Kwok served as the group financial controller of MAS Media Group Limited (澳亞傳媒集團有限公司) and was mainly responsible for supervising the financial team for the financial and accounting work and preparing the financing plan of the company.

Ms. Kwok graduated from the University of Toronto in Canada and received a bachelor's degree in commerce in June 1994. Ms. Kwok was admitted as a member of ACCA in October 2007 and a certified public accountant of HKICPA since February 2008. In October 2012, Ms. Kwok was admitted as a fellow of ACCA.

Independent non-executive Directors

Mr. Cheung Man Sang, aged 61, is an independent non-executive Director, he joined our Group on 16 May 2012.

Mr. Cheung is currently the deputy general manager of Anhui Shan Ying Paper Industry Co., Ltd and the legal representative and consultant of Sha Ying Investment Management Ltd. He served as general manager of Shenzhen Richland Health VC Fund Management Co., Ltd before. From August 2010 to November 2010, he served as the general manager of Vigo Hong Kong Investment Ltd. Prior to that, he served various positions at China Travel Service (Holdings) Hong Kong Limited and its group of companies between June 1996 and June 2010. In 1998, he became the general manager of China Travel Finance & Investment (H.K.) Limited, and was subsequently appointed as deputy general manager of group finance department and as general manager of China Travel Insurance Advisers Hong Kong Limited. During February 2007 to 2009, he served as a director of Tangshan Guofeng Iron & Steel Co., Ltd. In 2009, he was transferred back to group finance department of China Travel Service (Holdings) Hong Kong Limited to serve as deputy general manager. He has been serving as the independent non-executive director of (天津市桂發祥十八街麻花總店有限公司) Tianjin Guifaxiang Mahua Food Group CO., LTD.# since 27 December 2011.

Mr. Cheung obtained a master's degree in business administration from 廈門大學 (Xiamen University) in December 2004.

Mr. Lau Ying Kit, aged 43, is an independent non-executive Director. Mr. Lau is currently the chief financial officer and company secretary of Great Harvest Maeta Group Holdings Limited (Stock Code: 03683), a company listed on the Main Board of the Stock Exchange. He is an independent non-executive director of Kingdom Holdings Limited (Stock Code: 528) and China Wood Optimization (Holding) Limited (Stock Code: 1885), both companies listed on the Main Board of the Stock Exchange. He is also a director of Adex Mining Inc. (TSXV Stock Code: ADE), a listed company on the TSX Venture Exchange in Canada. Mr. Lau is a fellow member of the Hong Kong Certified Public Accountants and holds a Master's Degree in Finance from the City University of Hong Kong. He has extensive experience in financial and accounting in China and Hong Kong. He joined our Group on 16 May 2012.

Mr. Zhang Shulin, aged 76, is an independent non-executive Director, he joined our Group on 16 May 2012. He has over 20 years of experience in automobile engineering and managing automobile enterprises.

Mr. Zhang is currently the specially-invited expert of 國家發展和改革委員會 (National Development and Reform Commission#). Mr. Zhang was previously the Deputy Director of 國家機械工業局國家機械工業部汽車司 (the Automotive Section of National Mechanical Industry Department under National Industry Bureau#). He was also the Associate Director and Secretary-General of 中國汽車工業協會 (China Association of Automotive Manufacturers#).

Mr. Zhang received a bachelor's degree in Department of Automation from Tsinghua University in July 1965.

Mr. Lin Lei, aged 49, is an independent non-executive Director, he joined our Group on 25 August 2014. Mr. Lin received a bachelor's degree in Applied Economic Mathematics from the Renmin Uninversity of China (中國人民大学) in July 1990. He is the founder of TNS Sinotrust Market Research Consulting (Beijing) Co., Ltd (特恩斯新華信市場諮詢(北京)有限公司) (Formerly known as Sinotrust International Information & Consultant (Beijing) Co. Ltd. (新華信國際信息諮詢(北京)有限公司)) ("Sinotrust"). Mr. Lin was the president and CEO of Sinotrust since January 2007 to December 2014, and currently he is the chairman of Sinotrust since January 2015. Prior to funding Sinotrust in 1992, from 1990 to 1992, Mr. Lin worked at the Ministry of Foreign Economic Relation and Trade (對外經濟貿易部). At present, Mr. Lin is an independent non-executive directors of Synuta International Inc. (Nasdaq code: SYUT), New Focus Auto Tech Holdings Limited (Stock code: 360) and Car Inc. (Stock code: 699). In terms of his professional membership and qualifications, Mr. Lin was admitted as a member of the European Society for Opinion and Marketing Research (ESOMAR) in July 2002, and he was admitted as a vice president of China Association of Market Information and Research (CAMIR) (中國市場訊息調查業協會) in December 2012, and he was also admitted as a director of Society of Automotive Engineers of China (中國汽車工程學會) in December 2012, he is also a commissioner of the expert committee of China Automobile Dealers Association (CADA) (中國汽車流通協會).

Senior Management

Mr. Chen Cunyou, aged 54, is the Chairman and the chief executive officer of the Company and an executive Director. Biographical details of Mr. Chen are set out in the paragraph headed "Directors" under this section.

Mr. Ge Hongbing, aged 46, is an executive Director of the Company. Biographical details of Mr. Ge are set out in the paragraph headed "Directors" under this section.

Mr. Huang Yugang, aged 47, is a non-executive Director of the Company. Biographical details of Mr. Huang are set out in the paragraph headed "Directors" under this section.

Mr. Xin Fangwei, aged 42, is the finance manager of Xiezhong Nanjing. Mr. Xin joined our Group in November 2008. Mr. Xin has accumulated approximately 10 years of experience in the areas of financial management. Prior to joining our Group, Mr. Xin worked for 南京泉峰國際貿易有限公司 (Nanjing Chervon International Trading Co., Ltd.#) from November 2001 to December 2004 as a finance officer. Mr. Xin was a senior accounting supervisor of 海康人壽保險有限公司 (AEGON-CNOOC Life Insurance Co. Ltd.#) from August 2005 to August 2006 and a senior accounting supervisor of 海康人壽保險有限公司江蘇分公司 (AEGON-CNOOC Life Insurance Co. Ltd., Jiangsu Branch Co.#) from August 2006 to February 2007. Mr. Xin graduated with a bachelor's degree in auditing from 華北電力大學 (North China Electric Power University#) in July 1999. Mr. Xin obtained his master's degree in business administration from 河海大學 (Hohai University#) in June 2010. Mr. Xin has been an accountant since 2004.

Mr. Zhang Qingrong, aged 69, has been the deputy general manager of Xiezhong Nanjing since October 2011 and is responsible for overseeing the quality control, production and logistic aspect of our business. Mr. Zhang was the quality director of Xiezhong Nanjing from February 2011 to September 2011 and was responsible for overseeing the quality control of our products. Mr. Zhang joined our Group in February 2011. Mr. Zhang has approximately 14 years of experience in automobile components automobile air conditioning systems. Prior to joining our Group, Mr. Zhang worked for 南京法雷奧離合器有限公司 (Nanjing VALEO Clutch Co., Ltd.#) as the production department manager and logistics department manager from October 1997 to April 2000. Mr. Zhang worked for 空調國際(上海)有限公司 (Air International Shanghai Co., Ltd.#) and has held various positions, including logistic department manager, production department manager and quality department manager and as management representative to oversee production quality control from May 2000 to April 2008 and from October 2009 to June 2010. Mr. Zhang worked for 上海利佰國際貿易有限公司 (Shanghai Leanbuy International Trading Co. Ltd.#) as the quality department manager from May 2008 to September 2009. Mr. Zhang graduated from 上海船舶工業學校 (Shanghai Ship Industrial School#) in January 1969 and obtained an economist title granted by Review Committee of Economics in March 1992.

Mr. Dai Zumian, aged 40, is the chief financial officer of the Company. Prior to joining our Group in May 2012, Mr. Dai was the chief financial officer of 上海金絲猴食品股份有限公司 (Shanghai Golden Monkey Foodstuff Company Limited#) from February 2009 to April 2012. From September 2006 to August 2007, he served as the company secretary and qualified accountant at Hisense Kelon Electrical Holdings Company Limited, a company listed in the Stock Exchange (stock code: 921) and the Shenzhen Stock Exchange (stock code: 000921). Mr. Dai had over 7 years' experience in audit. His experience in audit includes those gained at PricewaterhouseCoopers Zhongtian Certified Public Accountants from February 2005 to August 2006.

Mr. Dai obtained a bachelor's degree in International Business Management from Shanghai University of Finance and Economics and an Executive Master of Business Administration (EMBA) from China Europe International Business School. He is a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Dai is an independent non-executive director of Genscript Biotech Corporation (Stock Code: 1548), a company listed on the Main Board of the Stock Exchange.

Company Secretary

Mr. Chui Wing Fai, aged 51, is the company secretary of the Company. He joined our Group in November 2011.

Prior to joining our Group, Mr. Chui was the company secretary and senior finance manager of China Water Property Group Limited, a company listed on the Main Board of the Stock Exchange, from January 2008 to February 2010. Mr. Chui has over 20 years of experience in audit and accounting.

Mr. Chui obtained a bachelor's degree in business administration from the Chinese University of Hong Kong and a master's degree in business administration from the University of South Australia. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Changes to Information in Respect of Directors

During the Year, there was no changes to information which are required to be disclosed and has been disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Main Board Listing Rules.

Literal translation of the Chinese company name

Report of the Directors

The Directors present their report and the audited consolidated financial statements of the Group for the Year.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the design, production and sale of automotive HVAC systems and a range of automotive HVAC components and providing technical testing and related services.

There were no significant changes in the nature of the principal activities of the Company and of the Group during the Year.

RESULTS AND DIVIDENDS

The results of the Group for the Year are set out in the consolidated financial statements.

The Board did not recommend the payment of a final dividend for the Year (2015: HKD1.8 cents per share).

SHARE CAPITAL

Details of the movements in share capital of the Company during the Year are set out in note 28 to the consolidated financial statements.

RESERVES

Details of the movement in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity and in note 28 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVE OF THE COMPANY

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HKD397,914,000 (equivalent to RMB323,164,000).

BORROWINGS

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and note 23 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in note 12 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed in the section headed "Share Option Scheme" below, no equity-linked agreements were entered into by the Group, or existed during the Year.

BUSINESS REVIEW

A review of the business of the Group during the Year and a discussion on the Group's future development are set out in the Chairman's Statement on page 4 and the Management Discussion and Analysis on pages 6 to 11 of this report. These discussion form part of this director's report.

ENVIRONMENTAL POLICY AND PERFORMANCE

In accordance with international and national environmental standards, the Group strictly follows environmentally-friendly production by improving energy efficiency while reducing energy consumption and pollutant emissions. During the Year, various emission targets of the Group were in line with the relevant environmental standards and no penalty related to environmental performance was imposed.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the Year, there were no material and significant dispute between the Group and its employees, customers and suppliers.

PRINCIPAL RISKS AND UNCERTAINTIES

The industry which the Group's business operates in and the performance of the Group are influenced by changes in market conditions, technology advancement, evolvement in industry standards, customers' demands for the Group's products. The Group operates its businesses in accordance with various industry standards and government laws and regulations. In order to meet the market demands for ever-changing product functions and new products, the Group has made relatively substantial investments towards the R&D of new products and new production technologies, notwithstanding that the R&D expenses of certain projects are supplemented by government grants. Further, the Group is affected by market risks (such as currency and interest rate fluctuations), credit risks and liquidity risks during its ordinary course of business. Details of the financial risks management of the Group is set out in note 29 of the consolidated financial statements.

EVENTS AFTER THE YEAR

Details of the non-adjusting events of the Group after the Year are set out in note 34 to the consolidated financial statements.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the law of Cayman Islands (being the jurisdiction in which the Company is incorporated) under which would oblige the Company to offer new shares on a pro-rata basis to existing shareholder.

DIRECTORS

The Directors who hold office during the Year were:

Executive Directors:

Mr. Chen Cunyou *(Chairman)*
Mr. Ge Hongbing

Non-executive Directors:

Mr. Han Yonggui *(Vice Chairman)*
Mr. Chen Bao (Appointed on 30 August 2016)
Mr. Li Xuejun (Resigned on 30 August 2016)
Mr. Zhu Zhenghua
Mr. Chen Hao (Resigned on 1 November 2016)
Mr. Huang Yugang

Independent non-executive Directors:

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

The Director who was appointed after the end of the Year was:

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

In accordance with the articles of association of the Company, at each annual general meeting one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall retire from office by rotation. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Accordingly, Mr. Ge Hongbing, Mr. Cheung Man Sang and Mr. Zhang Shulin shall retire from office by rotation at the conclusion of the forthcoming 2017 AGM and being eligible, offer themselves for re-election thereat. Further, Mr. Chen Bao and Ms. Kwok Chak Sheung shall retire from office at the conclusion of the forthcoming 2017 AGM and being eligible, offer themselves for re-election thereat.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Main Board Listing Rules. The Company, on the basis of the said confirmations considers all of the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

Each of our Directors has entered into a service contract or an appointment letter (subject to retirement by rotation and re-election at the annual general meeting and as the case may be) with our Company for an initial fixed term of three years commencing from the Listing Date subject to retirement by rotation and re-election at the annual general meeting and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors who are proposed for election or re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out in the section headed “Directors and Senior Management” of this annual report.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in notes 9 to10 to the consolidated financial statements.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTEREST IN SECURITIES

As at 31 December 2016, save as disclosed below, none of the directors or chief executive of the Company who held office on 31 December 2016 had any interests or short positions in the shares, underlying shares and debentures of the 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 the Company and the Stock Exchange pursuant to the Model Code.

Long positions (L) or short positions in the ordinary shares of HKD0.01 each (the “Shares”) of the Company or any of its associated corporations

Name of Directors	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Mr. Chen Cunyou	Beneficial owner	10,260,000 (L)	1.2825%
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 person (other than Directors and chief executive of the Company) who, as at 31 December 2016, 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 positions (L) or short positions in Shares

Name of shareholders	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
BHAP[1]	Beneficial owner	265,332,600 (L)	33.17%
Beijing Hainachuan[1]	Interest of controlled corporation	265,332,600 (L)	33.17%
Beijing Automotive Group[1]	Interest of controlled corporation	265,332,600 (L)	33.17%
State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality	Interest of controlled corporation	265,332,600 (L)	33.17%
Beijing Industrial[1]	Interest of controlled corporation	265,332,600 (L)	33.17%
Beijing State-owned Assets Management Co., Ltd[1]	Interest of controlled corporation	265,332,600 (L)	33.17%
Sunrise International[2]	Beneficial owner	228,000,000 (L)	28.50%
Chen Hao[2]	Beneficial owner	8,208,000 (L)	1.03%
	Interest of controlled corporation	228,000,000 (L)	28.50%
Brilliance[3]	Beneficial owner	40,763,400 (L)	5.10%
Ms. Chen Jiao[3]	Beneficial owner	12,000,000 (L)	1.50%
	Interest of controlled corporation	40,763,400 (L)	5.10%

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 (北京工業發展投資管理有限公司) 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 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).

2. 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 is 100% owned by Ms. Chen Jiao. Therefore, Ms. Chen Jiao is deemed to be interested in all the shares by Brilliance by virtue of the SFO.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 21 May 2012 and revised on 30 May 2012 for the purpose of providing incentives and rewards to eligible participants who contribute to the Group.

The Company's existing Share Option Scheme was approved for adoption pursuant to a written resolution of all of our shareholders passed on 21 May 2012 and revised on 30 May 2012 for the purpose of providing our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and or providing benefits to eligible participants and for such other purposes as the Board approve from time to time.

Subject to the terms of the Share Option Scheme, the Board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares:

(i) (1) any employee (whether full-time or part-time employee) of any members of our Group or any affiliates (as defined in the Share Option Scheme) and any person who is an officer of any members of our Group or any affiliates ("Employee");

(2) any person who is seconded to work for any member of our Group or any affiliates ("Secondee");

(3) any consultant, agent, representative, adviser, customer, contractor of our Group or any affiliates;

(4) any business partner/ally/alliance, joint venture partner, supplier of goods or services to our Group or any affiliates or any employee thereof (collectively the "Eligible Person"); or

(ii) any trust for the benefit of an Eligible Person or his immediate family members or any company controlled by an Eligible Person or his immediate family members ("Related Trust and Company").

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (i.e. 80,000,000 Shares). Options lapsed in accordance with the terms of the Share Option Scheme or any other schemes will not be counted for the purpose of calculating the 10% limit.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and general information" in Appendix VI to the Prospectus. Summary of the principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 21 May 2012 and remains in force until 20 May 2022. The Company may, by resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

(1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option ("Date of Grant") which must be a trading day;

(2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and

(3) the nominal value of the shares on the Date of Grant.

Upon acceptance of the options, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 80,000,000 shares, which represents 10% of the shares in issue of the Company as at the date of this report.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Main Board Listing Rules.

During the Year, no share options were granted, exercised, lapsed or cancelled in accordance with the terms of the Share Option Scheme. There were no outstanding share options under the Share Option Scheme at the beginning and at the end of the Year.

COMPETITION AND CONFLICT OF INTERESTS

During the Year, none of the Directors, the controlling shareholders and substantial shareholders of the Company or their respective associates (as defined in the Main Board Listing Rules) had any interest in a business that competed or might compete with the business of the Group. Each of Sunrise International, Mr. Chen Hao and Mr. Chen Cunyou declared that it/he has complied with the undertakings given under the Deed of Non-competition as disclosed in the Prospectus. The independent non-executive Directors have also reviewed the relevant undertakings and have not noticed any non-compliance incident.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme as set out in note 24 to the consolidated financial statements, at no time during the Year was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the Shares in, or debt securities of, the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed herein, no transaction, arrangement or contract of significance in relation to which the Company, its holding company or subsidiaries was a party and in which a Director or an entity connected to a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the Prospectus and for the continuing connected transactions as disclosed in this annual report, no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries subsisted at the end of the Year or at any time during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group's five largest customers together accounted for 76.5% of the Group's sales, of which 39.8% was attributable to the largest customer. During the Year, the Group's five largest suppliers together accounted for 17.2% of the Group's purchases of which 5.2% was attributable to the largest supplier. To the best knowledge of the Directors, neither the Directors, their close associates, nor any shareholders who, to the knowledge of the Directors, owned more than 5% of the Company's issued shares, had any beneficial interest in any of the Group's five largest customers and suppliers during the Year.

CONTINUING CONNECTED TRANSACTIONS REQUIRED FOR DISCLOSURE UNDER THE MAIN BOARD LISTING RULES

1. Connected transactions in relation to daily operation

   — Sale of automobile air-conditioning systems and assembly parts to Beijing Automotive Group and its subsidiaries or associates ("BAIC")

   The Group is one of the leading suppliers of HVAC systems for vehicles. The supply of air-conditioning systems to BAIC group is expected to make positive contribution to the Group's operating revenue.

   As disclosed in the Prospectus, Xiezhong Nanjing and BAIC had on 10 May 2012 entered into the master agreement (the "Previous Master Agreement"), pursuant to which the Group agreed to supply air-conditioning systems and assembly parts of automobile air-conditioning systems to BAIC and its subsidiaries and/or their respective associates (the "Purchasers"), including 北汽福田汽車股份有限公司 (Beiqi Foton Motor Co., Ltd.) ("Foton"), 北京汽車股份有限公司株洲分公司 (Zhuzhou Branch of Beijing Automobile Co., Ltd.#), 北京汽車新能源汽車有限公司 (Beijing Automobile New Energy Automobile Company Limited#) and Beijing Hainachuan. The Previous Master Agreement was expired on 31 December 2014.

   The Stock Exchange has granted the Company a waiver from the strict compliance with the requirements of announcement and independent shareholders' approval under Chapter 14A of the Main Board Listing Rules in respect of the continuous connected transactions and proposed annual caps under the Previous Master Agreement.

   Xiezhong Nanjing and BAIC had on 12 June 2015 entered into a new master agreement (the "New Master Agreement") to govern the supply of air-conditioning systems and assembly parts of automobile air-conditioning systems to the Purchasers after the expiry of the Previous Master Agreement, based on normal commercial terms and at prices to be determined with reference to the prevailing market prices for a term of three years commencing from 1 January 2015 to 31 December 2017.

For each of the three years ending 31 December 2015, 2016 and 2017, the annual caps of the maximum aggregate value for the transactions contemplated under the New Master Agreement are approximately RMB470 million, RMB600 million and RMB730 million, respectively.

The applicable percentage ratios calculated for the purpose of Chapter 14A of the Main Board Listing Rules in respect of the annual caps under the New Master Agreement, on an annual basis, will be more than 5% and the lowest of the annual caps is more than HK$10,000,000 and it constitutes non-exempt continuing connected transactions of the Company and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Main Board Listing Rules. The independent shareholders of the Company approved, at the EGM convened on 23 July 2015, the New Master Agreement and the relevant annual caps for the three years ending 31 December 2015, 2016 and 2017.

The Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Main Board Listing Rules.

Please refer to the announcement dated 12 June 2015 and the circular dated 6 July 2015 issued by the Company for further details of the New Master Agreement.

Based on the public information, Foton (stock code 600166) is listed on the Shanghai Stock Exchange and 27.07% of the outstanding shares of Foton were owned by BAIC as at 30 September 2016. Based on the public information available, management of the Group are of the view that BAIC does not maintain control nor joint control over Foton and therefore have not included Foton as a related party for financial statement reporting purposes. Considering Foton being the associates of BAIC within the definition of Listing Rules, the Group's transactions with Foton is regarded as continuing connected transactions pursuant to Chapter 14A of the Listing Rules. 北京汽車股份有限公司株洲分公司 (Zhuzhou Branch of Beijing Automobile Co., Ltd.#) is a branch office of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.#), which is owned as to 51% by BAIC while 北京汽車新能源汽車有限公司 (Beijing Automobile New Energy Automobile Company Limited#) is a wholly-owned subsidiary of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.#). BAIC owns 60% of the registered capital of Beijing Hainachuan which in turn is the holding company of BHAP, the controlling Shareholder of the Company. As the controlling shareholder of the Company, BHAP is a connected person of the Company under the Main Board Listing Rules. BAIC as the holding Company of BHAP, is an associate of BHAP and hence a connected person under the Main Board Listing Rules. As BAIC is the holding company of Beijing Hainachuan and Beijing Hainachuan is the major shareholder of the Company, members of the BAIC Group are our connected persons under the Main Board Listing Rules. The transactions contemplated under the New Master Agreement will constitute a continuing connected transaction for our Company.

The annual cap for the transaction under the New Master Agreement for the Year was RMB600 million. During the Year, the aggregate amount of the transactions under the New Master Agreement was approximately RMB463 million, which was within the annual cap of RMB600 million.

Literal translation of the Chinese company name

2. The independent non-executive Directors of the Company have reviewed the Group's continuing connected transactions and confirmed that:

   — The continuing connected transactions have been entered into in the ordinary and usual course of business of the Group;

   — The continuing connected transactions have been entered into either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms; and

   — The terms of the relevant agreement governing each of the continuing connected transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

3. The Company's auditor was engaged to report on the continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants:

   — Nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

   — For transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

   — Nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

   — With respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual cap disclosed in the previous announcement dated 12 June 2015 made by the Company in respect of the disclosed continuing connected transactions.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained the public float as required by the Main Board Listing Rules during the Year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

PERMITTED INDEMNITY PROVISION

Pursuant to article 33 of the Articles of Association of the Company, every Director and officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director and officer of the Company in defending any proceedings, whether civil or criminal, in which judgments is given, or favour, or in which he is acquitted. Such provision is currently in force and was in force throughout the Year.

The Company has taken out and maintained directors' and officers' liability insurance throughout the Year, which provides appropriate cover for the Directors and officers.

CORPORATE GOVERNANCE

Based on information that is publicly available to the Company and within the knowledge of the Directors, save as otherwise disclosed in this annual report, the Company had complied with the code provisions as set out in the CG Code contained in Appendix 14 to the Main Board Listing Rules during the Year.

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report contained in this annual report.

ENVIRONMENT, SOCIAL AND GOVERNANCE REPORT AND SOCIAL RESPONSIBILITY

Please refer to the environment, social and governance report as required by the Main Board Listing Rules, which will be issued separately by the Company before 30 June 2017.

ANNUAL GENERAL MEETING

The 2017 AGM, will be held on 28 June 2017, shareholders should refer to details regarding the 2017 AGM in the circular of the Company dated 26 May 2017 and the notice of meeting and form of proxy accompanying thereto.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 22 June 2017 to Wednesday, 28 June 2017, both days inclusive, during such period no transfer of shares will be registered. In order to be entitled to attend the 2017 AGM of the Company and vote at the meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration before 4:30 p.m. on Wednesday, 21 June 2017.

AUDITOR

KPMG was appointed as auditor of the Company since the Listing and will retire at the forthcoming AGM. A resolution will be proposed at the forthcoming 2017 AGM to re-appoint KPMG as the auditor of the Company.

ON BEHALF OF THE BOARD

Chen Cunyou
Chairman

Hong Kong
30 March 2017

Independent auditor's report
to the shareholders of Xiezhong International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Xiezhong International Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 47 to 105, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of trade receivables

Refer to note 19 to the consolidated financial statements and the accounting policies note 2(k)

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2016, the Group's gross trade receivables totalled RMB 342 million, against which provisions for doubtful debts of RMB 10 million were recorded. The Group's provisions for doubtful debts are based on management's estimate of the expected credit losses to be incurred for individual debtors, which is estimated by taking into account the financial condition of individual debtors, the ageing of balances, past repayment and credit histories of debtors, market conditions and other local and current factors, all of which involve a significant degree of management judgement. We identified the recoverability of trade receivables as a key audit matter because the Group's customers are principally involved in the automotive industry in Mainland China and some are facing challenges in terms of profitability and liquidity which increase the risk that trade receivables may not be recoverable and because of the significant management judgement involved in assessing the level of provisions for doubtful debts.	Our audit procedures to assess the recoverability of trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, debt collection and making provisions for doubtful debts; • assessing the classification of trade receivables in the trade receivables ageing report by comparing individual balances with sales invoices and other relevant underlying documentation, on a sample basis; • obtaining an understanding of the basis of management's judgement about the recoverability of trade receivable balances, on a sample basis, and evaluating the provisions for doubtful debts made by management for these individual balances with reference to the debtors' financial condition, the industry in which the debtors are operating, the ageing of overdue balances, repayment arrangements and historical and post year end payment records; • performing a retrospective review of the provisions for bad debts recorded as at 31 December 2015 by examining movements in the balance during the current year and new provisions made for trade receivable balances as at 31 December 2015 during the current year to assess the historical accuracy of management's doubtful debt provisioning process; and • inspecting cash receipts, on a sample basis, from customers subsequent to the financial year end relating to trade receivable balances at 31 December 2016.

Inventory valuation and provisioning

Refer to note 18 to the consolidated financial statements and the accounting policies note 2(j).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2016, the Group's inventories totalled RMB 223 million, against which provisions of RMB 4 million were recorded. The Group's inventories principally comprise automotive heating, ventilation and cooling ("HVAC") systems and a range of automotive HVAC components, which are used in the automotive business. Management reviews inventories on a regular basis and, where appropriate, makes provisions to write down the cost of identified slow moving and obsolete inventories and inventories with low or negative gross margins to their net realisable value based on estimates of future utilisation plans and future selling prices less cost to sell, which involves a significant degree of management judgement. We identified the valuation of and provisioning for inventories as a key audit matter because of the significant management judgement required to determine the appropriate level of inventory provisions which involves predicting the market demand for inventories in future years, future selling prices and future costs to sell, which are inherently uncertain due to changing market conditions and technical innovation in the automotive industry.	Our audit procedures to assess the valuation of and provisioning for inventories included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to the identification of slow moving and obsolete inventories and inventories with low or negative gross margins, monitoring inventory ageing and making relevant inventory provisions; • assessing the classification of inventories in the inventory ageing report by comparing individual items with goods receipt notes, production records and other relevant underlying documentation on a sample basis; • obtaining the list of slow moving and obsolete inventories identified by management and comparing this information, on a sample basis, with our observations during our attendance at the year end inventory count and the data contained in the inventory ageing report; • performing a retrospective review of the provisions for inventories recorded as at 31 December 2015 by examining movements in the balance during the current year and new provisions made for inventory balances as at 31 December 2015 during the current year to assess the historical accuracy of management's inventory provisioning process; and • assessing, on a sample basis, the net realisable value of slow-moving and obsolete inventories and inventories with low or negative gross margins as calculated by management with reference to prices achieved and costs to sell after the financial year end.

Capitalisation of development costs

Refer to note 14 to the consolidated financial statements and the accounting policies note 2(g).

The Key Audit Matter	How the matter was addressed in our audit
During the year ended 31 December 2016, the Group capitalised development costs totalling RMB 30 million within intangible assets for the development of HVAC systems for sports utility vehicles, pickup trucks, heavy trucks and new-energy vehicles. As at 31 December 2016, the carrying amount of the Group's capitalised development costs totalled RMB 52 million. Management is required to exercise significant judgement in assessing whether the costs incurred meet the criteria for capitalisation as set out in the prevailing accounting standards, in determining when amortisation of these costs should commence and in estimating the economic useful lives of these development costs. We identified the capitalisation of development costs as a key audit matter because of the significant development costs incurred in the current year and because of the significant level of management judgement involved in determining whether the criteria for capitalisation were met, in determining the commencement date of amortisation and in determining the estimated useful lives of these development costs.	Our audit procedures to assess the capitalisation of development costs included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to capturing, categorising and approving the capitalisation of development costs and in determining the commencement date of amortisation and the economic useful lives of development costs; • evaluating management's assessment of the technical and commercial feasibility of development projects by holding discussions with the Group's engineers, inspecting the corresponding feasibility reports and inspecting product development agreements signed with automobile manufacturers; • comparing, on a sample basis, capitalised development costs recorded during the year with relevant underlying documentation to assess whether these items met the criteria for capitalisation with reference to the requirements of the prevailing accounting standards; • assessing the point at which the developed technology became available for commercial use by inspecting the corresponding project completion reports prepared by the Group's engineers and inspecting contractual documentation with automobile manufacturers and confirmed sales orders; and • challenging management's assessment of the estimated economic useful lives for all technology newly developed in the current year by comparing the estimates of economic useful lives with past performance for similar projects and industry practice.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Au Yat Fo.

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

30 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016
(Expressed in Renminbi Yuan)

	Note	2016 RMB'000	2015 RMB'000
Revenue	5	**896,762**	698,822
Cost of sales		**(727,132)**	(551,765)
Gross profit		**169,630**	147,057
Other income	6	**11,838**	10,660
Distribution costs		**(43,489)**	(33,735)
Administrative expenses		**(76,487)**	(54,773)
Other operating expenses		**(1)**	(2)
Profit from operations		**61,491**	69,207
Finance costs	7(a)	**(18,838)**	(14,558)
Profit before taxation	7	**42,653**	54,649
Income tax	8(a)	**525**	(11,590)
Profit for the year		**43,178**	43,059
Attributable to:			
Equity shareholders of the Company		**43,309**	41,299
Non-controlling interests		**(131)**	1,760
Profit for the year		**43,178**	43,059
Earnings per share (RMB)			
Basic and diluted	11	**0.054**	0.052

The notes on pages 53 to 105 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016
(Expressed in Renminbi Yuan)

	2016 RMB'000	2015 RMB'000
Profit for the year	**43,178**	43,059
Other comprehensive income for the year		
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	**(17,003)**	(10,993)
Total comprehensive income for the year	**26,175**	32,066
Attributable to:		
Equity shareholders of the Company	**26,306**	30,306
Non-controlling interests	**(131)**	1,760
Total comprehensive income for the year	**26,175**	32,066

The notes on pages 53 to 105 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2016
(Expressed in Renminbi Yuan)

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	12	**631,244**	554,584
Lease prepayments	13	**50,224**	51,469
Intangible assets	14	**61,773**	39,687
Goodwill	15	**46,832**	46,832
Long-term receivables	19	**3,972**	8,604
Non-current prepayments	17	**42,279**	43,932
Deferred tax assets	25(b)	**9,234**	7,134
		845,558	752,242
Current assets			
Inventories	18	**219,374**	192,590
Trade and other receivables	19	**623,636**	492,426
Amounts due from related parties	31(c)	**217,771**	73,381
Deposits with banks	20	**3,000**	19,019
Cash	21(a)	**75,735**	72,043
		1,139,516	849,459
Current liabilities			
Trade and other payables	22	**501,379**	365,247
Amounts due to related parties	31(c)	**25,480**	–
Interest-bearing borrowings	23	**387,776**	100,640
Income tax payables	25(a)	**9,119**	9,673
Provisions	26	**4,782**	5,092
		928,536	480,652
Net current assets		**210,980**	368,807
Total assets less current liabilities		**1,056,538**	1,121,049

Consolidated Statement of Financial Position

At 31 December 2016
(Expressed in Renminbi Yuan)

	Note	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Deferred income	27	**23,280**	20,691
Interest-bearing borrowings	23	**180,362**	246,734
Deferred tax liabilities	25(b)	**5,153**	19,862
		208,795	287,287
NET ASSETS		**847,743**	833,762
CAPITAL AND RESERVES	28		
Share capital		**6,496**	6,496
Reserves		**809,228**	795,116
Total equity attributable to equity shareholders of the Company		**815,724**	801,612
Non-controlling interests		**32,019**	32,150
TOTAL EQUITY		**847,743**	833,762

Approved and authorised for issue by the Board of Directors on 30 March 2017.

Chen Cunyou
Director

Ge Hongbing
Director

The notes on pages 53 to 105 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(Expressed in Renminbi Yuan)

		Attributable to equity shareholders of the Company									
	Notes	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	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		6,496	89,489	43,759	291,546	17,919	17,249	316,845	783,303	30,390	813,693
Changes in equity for 2015:											
Profit for the year		–	–	–	–	–	–	41,299	41,299	1,760	43,059
Other comprehensive income		–	–	–	–	–	(10,993)	–	(10,993)	–	(10,993)
Total comprehensive income for the year		–	–	–	–	–	(10,993)	41,299	30,306	1,760	32,066
Dividends approved in respect of the previous year	28(b)	–	(11,997)	–	–	–	–	–	(11,997)	–	(11,997)
Appropriation to statutory reserves		–	–	5,818	–	–	–	(5,818)	–	–	–
Balance at 31 December 2015 and 1 January 2016		**6,496**	**77,492**	**49,577**	**291,546**	**17,919**	**6,256**	**352,326**	**801,612**	**32,150**	**833,762**
Changes in equity for 2016:											
Profit for the year		–	–	–	–	–	–	43,309	43,309	(131)	43,178
Other comprehensive income		–	–	–	–	–	(17,003)	–	(17,003)	–	(17,003)
Total comprehensive income for the year		–	–	–	–	–	(17,003)	43,309	26,306	(131)	26,175
Dividends approved in respect of the previous year	28(b)	–	(12,194)	–	–	–	–	–	(12,194)	–	(12,194)
Appropriation to statutory reserves		–	–	6,400	–	–	–	(6,400)	–	–	–
Balance at 31 December 2016		**6,496**	**65,298**	**55,977**	**291,546**	**17,919**	**(10,747)**	**389,235**	**815,724**	**32,019**	**847,743**

The notes on pages 53 to 105 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016
(Expressed in Renminbi Yuan)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations	21(b)	**38,100**	59,195
Finance costs paid	7(a)	**(18,838)**	(14,558)
Income tax paid		**(16,838)**	(8,446)
Net cash generated from operating activities		**2,424**	36,191
Investing activities			
Payment for purchase of property, plant and equipment, lease prepayments and intangible assets		**(154,705)**	(135,768)
Proceeds from disposal of property, plant and equipment		**32**	40
Decrease in unrestricted bank deposits	20	**4,769**	465
Interest received		**217**	609
Net cash used in investing activities		**(149,687)**	(134,654)
Financing activities			
Proceeds from new bank loans		**314,000**	377,559
Repayment of bank loans		**(151,258)**	(391,081)
Dividends paid to equity shareholders of the Company	28	**(12,194)**	(11,997)
Net cash generated from/(used in) financing activities		**150,548**	(25,519)
Net increase/(decrease) in cash and cash equivalents		**3,285**	(123,982)
Cash and cash equivalents at 1 January	21(a)	**72,043**	196,609
Effect of foreign exchange rate changes		**407**	(584)
Cash and cash equivalents at 31 December	21(a)	**75,735**	72,043

The notes on pages 53 to 105 form part of these financial statements.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi Yuan)

1 General information

Xiezhong International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office address of the Company is at the office of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principle place of business of the Company is at Room 601, New Landwide Commercial Building, 73 Kimberley Road, Kowloon, Hong Kong Special Administrative Region ("Hong Kong"). The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 June 2012 (the "Listing Date").

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the design, production and sale of automotive heating, ventilation and cooling ("HVAC") systems and a range of automotive HVAC components and rendering of services.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and related interpretations, promulgated by the International Accounting Standards Board ("IASB"), and comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Main Board Listing Rules"). Significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The functional currency of the Company is Hong Kong Dollars ("HKD"). The financial statements are presented in Renminbi ("RMB") as the functional currency of the Group's operating subsidiaries is RMB. The financial statements are presented in RMB, rounded to the nearest thousand except per share data.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) 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.

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

2 Significant accounting policies (Continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(i)(i)).

2 Significant accounting policies (Continued)

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(i)(ii)).

On disposal of a cash generating unit ("CGU") during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Property, plant and equipment

The following items of property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Plant and buildings	15 – 38 years
– Machinery and equipment	3 – 10 years
– Furniture, fixtures and office equipment	5 years
– Motor vehicles	5 years
– Leasehold improvement	Over the term of lease

2 Significant accounting policies (Continued)

(f) Property, plant and equipment (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(i)(ii)).

Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(g) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(u)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(i)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful life are amortised from the date they are available for use and their estimated useful lives are as follows:

Customer relationships	5 – 10 years
Core technology	10 years
Software and patent	5 – 10 years
Capitalised development costs	8 years

The estimated useful life of the Group's core technology and capitalised development costs to manufacture automotive HVAC systems is determined after taking into account the product life cycles for automotive products and anticipated technological and other changes.

Both the period and method of amortisation are reviewed annually.

2 Significant accounting policies (Continued)

(h) Leased assets

(i) Lease prepayments

Lease prepayments represent cost of land use right paid to the People's Republic of China ("the PRC") governmental authorities.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see note 2(i)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the periods of the rights which are 50 years.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(i) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2 Significant accounting policies (Continued)

(i) Impairment of assets (Continued)

(i) Impairment of investments in equity securities and other receivables (Continued)

- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed against the allowance account. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments;
- intangible assets;
- goodwill; and
- investment in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives or an intangible asset not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 Significant accounting policies (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Main Board Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(i)(i) and 2(i)(ii)).

Impairment losses recognised in an interim period in respect of goodwill carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 Significant accounting policies (Continued)

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Derecognition of non-derivative financial assets and financial liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(o) Cash

Cash comprises cash at bank and on hand and demand deposits with banks and other financial institutions.

2 Significant accounting policies (Continued)

(p) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to the PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee costs with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

2 Significant accounting policies (Continued)

(q) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies (Continued)

(r) Provisions and contingent liabilities

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(r)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(r)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Service income

Service income is recognised when the service is rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2 Significant accounting policies (Continued)

(t) Translation of foreign currency

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated to RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items of foreign operations are translated to RMB at the exchange rates at the end of the reporting period.

The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item is recognised in the statement of profit or loss and other comprehensive income.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 Significant accounting policies (Continued)

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Significant accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described as follows:

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Capitalisation of intangible assets

Costs incurred on development projects are capitalised as intangible assets when the projects are technically and commercially feasible considering they meet the criteria for capitalisation as set out in note 2(g). The Group's development activities are tracked by its engineering department and documented to support the basis of determining if and when the criteria are met.

(c) Impairment of intangible assets

If circumstances indicate that the carrying value of intangible assets may not be recoverable, their recoverable amounts are estimated. An impairment loss is recognised when the recoverable amount has declined below the carrying amounts in accordance with IAS 36, *Impairment of assets*. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is an indication of impairment.

Determining the recoverable amount requires an estimation of the fair value less costs of disposal or the value in use of intangible assets or the CGU to which these assets belong. It is difficult to precisely estimate fair value of these assets or CGU because quoted market prices for most of these assets or CGU are not readily available. In determining the value in use, expected cash flows generated by the asset or CGU are discounted to their present value, which requires significant judgment relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

Where the actual future cash flows are more or less than expected or changes in facts and circumstances which result in revision in future estimated cash flows, a material impairment loss or reversal of impairment loss may arise.

3 Significant accounting judgements and estimates (Continued)

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of each reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(d) Impairment of trade and other receivables

Management determines the impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade and other receivables at the end of each reporting period.

(e) Warranty provision

As explained in note 26, the Group makes provision under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(f) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

4 Segment reporting

IFRS 8, *Operating Segments*, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the manufacturing, sale 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 HVAC systems and a range of automotive HVAC components and the rendering of services in Mainland China and the principal non-current assets employed by the Group are located in Mainland China. Accordingly, no analysis by geographical segments has been provided for the year.

(b) Information about major customers

The Group's customer base is diversified and includes only 3 customers with whom transactions have exceeded 10% of the Group's annual revenue during the year. Details of concentrations of credit risk arising from the Group's largest customer and the five largest customers are set out in note 29(a).

Revenues from sales and rendering of services to a customer which amounted to 10% or more of the Group's revenues for the year are set out below:

	2016 **RMB'000**	2015 RMB'000
Customer A	**357,244**	188,991
Customer B	**120,882**	89,839
Customer C	**96,272**	105,594

5 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 represent 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 each significant category of revenue is as follows:

	2016 **RMB'000**	2015 RMB'000
Sales of HVAC systems and HVAC components	**883,354**	677,467
Revenue from the rendering of services	**13,408**	21,355
	896,762	698,822

6 Other income

	2016 RMB'000	2015 RMB'000
Government grants	6,412	6,306
Warehousing and logistic service income	2,343	1,151
Net gain on disposal of property, plant and equipment	–	10
Interest income	217	609
Others	2,866	2,584
	11,838	10,660

7 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	2016 RMB'000	2015 RMB'000
Interest expenses on bank loans and other borrowings	17,274	14,045
Interest on discounted bills	1,564	513
	18,838	14,558

(b) Staff costs

	Note	2016 RMB'000	2015 RMB'000
Salaries, wages, and other benefits		83,349	64,069
Contributions to defined contribution retirement plan	(i)	5,966	5,010
		89,315	69,079

(i) Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement benefit schemes (the "scheme") organised by the PRC government authorities whereby the Group is required to make contributions to the scheme at the rate of 20% (2015: 20%) of the eligible employees' salaries.

The PRC government is responsible for the entire pension obligation payable to the retired employees. The Group has no other material obligation for the payment of pension benefits associated with the scheme referred to above beyond the annual contributions described above.

7 Profit before taxation (Continued)

(c) Other items

	Note	2016 RMB'000	2015 RMB'000
Amortisation			
– lease prepayments	13	**1,245**	1,245
– intangible assets	14	**6,721**	6,816
Depreciation of property, plant and equipment	12	**61,968**	53,252
Impairment losses on trade debtors	19(b)	**3,972**	288
Operating lease charges:			
minimum lease payments		**5,704**	4,760
Auditors' remuneration			
– audit services		**2,350**	2,250
– non-audit services		**234**	–
Research and development ("R&D") costs		**12,094**	7,376
Increase in provision for product warranties	26	**1,607**	2,802
Cost of inventories	18(b),(i)	**723,438**	545,548

(i) Cost of inventories includes RMB89,244,000 (2015: RMB68,748,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8 Income tax in the consolidated income statement of profit or loss

(a) Taxation in the consolidated statement of profit or loss represents:

	Note	2016 RMB'000	2015 RMB'000
Current tax- PRC income tax			
Provision for the year		**11,250**	11,250
Over-provision in respect of prior years		**(466)**	(169)
		10,784	11,081
Deferred tax			
Origination and reversal of temporary differences	25(b)(i)	**(11,309)**	509
		(11,309)	509
		(525)	11,590

8 Income tax in the consolidated income statement of profit or loss (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Note	2016 RMB'000	2015 RMB'000
Profit before taxation		**42,653**	54,649
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	(i)	**15,331**	16,175
Effect of tax concessions	(ii)	**(6,206)**	(6,040)
Over-provision in respect of prior years		**(466)**	(169)
Effect of non-deductible expenses		**506**	562
R&D bonus deduction	(iii)	**(1,512)**	(922)
Tax rate differential on deferred tax balances		**–**	(634)
Effect of PRC dividend withholding tax	(iv)	**(8,178)**	2,618
Actual tax expense		**(525)**	11,590

(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 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 Profit Tax during the year (2015: Nil).

(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.

(iii) Under the CIT Law and its relevant regulations, qualified R&D expenses are subject to income tax deductions at 150% on the amount actually incurred.

8 Income tax in the consolidated income statement of profit or loss (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (Continued)

(iv) 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%. 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 recognised deferred tax liabilities on PRC dividend withholding tax at 5% as at 31 December 2015.

In 2016, Xiezhong Auto – Airconditioner (Hong Kong) Limited, parent company of Xiezhong Nanjing, fails to be registered as a qualified Hong Kong tax resident for the purpose of the tax arrangement and therefore, the Group needs to pay PRC dividend withholding tax at a rate of 10% from 2016.

In accordance with the board of directors' resolution of Xiezhong Nanjing dated 5 November 2016, Xiezhong Nanjing would not distribute the retained profits accumulated as at 31 December 2016 in the foreseeable future as the amount would be used for the Group's future business development for capital expenditure and repayment of bank loans in the Mainland China. Accordingly, the Group didn't recognise additional deferred tax liabilities on PRC dividend withholding taxes as at 31 December 2016 and the remaining deferred tax liabilities previously recognised as at 31 December 2015 was reversed in 2016.

9 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Year ended 31 December 2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors					
Mr. Chen Cunyou	–	173	160	60	393
Mr. Ge Hongbing	–	166	170	60	396
Non-executive Directors					
Mr. Han Yonggui	–	–	–	–	–
Mr. Li Xuejun (Resigned on 30 August 2016)	–	–	–	–	–
Mr. Zhu Zhenghua	–	–	–	–	–
Mr. Chen Hao (Resigned on 1 November 2016)	–	–	–	–	–
Mr. Huang Yugang	–	140	150	56	346
Mr. Chen Bao (Appointed on 30 August 2016)	–	–	–	–	–
Independent non-executive Directors					
Mr. Cheung Man Sang	134	–	–	–	134
Mr. Lau Ying Kit	134	–	–	–	134
Mr. Zhang Shulin	134	–	–	–	134
Mr. Lin Lei	134	–	–	–	134
	536	479	480	176	1,671

9 Directors' emoluments (Continued)

	Year ended 31 December 2015				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors					
Mr. Chen Cunyou	–	167	150	62	379
Mr. Ge Hongbing	–	159	160	62	381
Non-executive Directors					
Mr. Han Yonggui	–	–	–	–	–
Mr. Li Xuejun	–	–	–	–	–
Mr. Zhu Zhenghua	–	–	–	–	–
Mr. Chen Hao	–	–	–	–	–
Mr. Huang Yugang	–	133	140	60	333
Independent non-executive Directors					
Mr. Cheung Man Sang	126	–	–	–	126
Mr. Lau Ying Kit	126	–	–	–	126
Mr. Zhang Shulin	126	–	–	–	126
Mr. Lin Lei	126	–	–	–	126
	504	459	450	184	1,597

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2015: three) are directors of the Company whose remuneration is disclosed in note 9 above. The aggregate of the emoluments in respect of the other two (2015: two) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other emoluments	764	701
Discretionary bonuses	192	169
Retirement scheme contributions	65	87
	1,021	957

The emoluments of these two (2015: two) individuals with the highest emoluments are within the band Nil to HKD1 million for the year.

11 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB43,309,000 (2015: RMB41,299,000) and the number of 800,000,000 ordinary shares (2015: 800,000,000 shares) in issue during the year.

Number of shares

	2016	2015
Number of issued ordinary shares at 1 January and 31 December	800,000,000	800,000,000

There were no dilutive potential ordinary shares during 2016 and 2015, therefore, diluted earnings per share is the same as the basic earnings per share.

12 Property, plant and equipment

The Group

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress "CIP" RMB'000	Total RMB'000
Cost:						
At 1 January 2015	188,000	429,804	16,817	11,950	18,670	665,241
Additions	4,268	79,367	2,153	223	25,286	111,297
Transfer from CIP	202	–	–	–	(202)	–
Transfer to intangible assets	–	–	–	–	(599)	(599)
Disposal	–	–	(85)	(70)	–	(155)
At 31 December 2015	192,470	509,171	18,885	12,103	43,155	775,784
At 1 January 2016	**192,470**	**509,171**	**18,885**	**12,103**	**43,155**	**775,784**
Additions	**1,308**	**115,231**	**3,571**	**17**	**17,680**	**137,807**
Transfer from CIP	**–**	**5,023**	**–**	**–**	**(5,023)**	**–**
Transfer from intangible assets	**–**	**–**	**1,495**	**–**	**–**	**1,495**
Disposal	**–**	**–**	**(116)**	**–**	**–**	**(116)**
At 31 December 2016	**193,778**	**629,425**	**23,835**	**12,120**	**55,812**	**914,970**
Accumulated depreciation:						
At 1 January 2015	(16,009)	(133,840)	(11,203)	(7,021)	–	(168,073)
Charge for the year	(5,988)	(44,041)	(1,942)	(1,281)	–	(53,252)
Disposal	–	–	62	63	–	125
At 31 December 2015	(21,997)	(177,881)	(13,083)	(8,239)	–	(221,200)
At 1 January 2016	**(21,997)**	**(177,881)**	**(13,083)**	**(8,239)**	**–**	**(221,200)**
Charge for the year	**(6,576)**	**(51,041)**	**(3,370)**	**(981)**	**–**	**(61,968)**
Transfer from intangible assets	**–**	**–**	**(642)**	**–**	**–**	**(642)**
Disposal	**–**	**–**	**84**	**–**	**–**	**84**
At 31 December 2016	**(28,573)**	**(228,922)**	**(17,011)**	**(9,220)**	**–**	**(283,726)**
Net book value:						
At 31 December 2016	**165,205**	**400,503**	**6,824**	**2,900**	**55,812**	**631,244**
At 31 December 2015	170,473	331,290	5,802	3,864	43,155	554,584

As at 31 December 2016, property, plant and equipment with carrying amounts of RMB128,820,000 (2015: RMB120,610,000) were pledged as collateral for the Group's bank loans (see note 23).

13 Lease prepayments

	RMB'000
Cost:	
At 1 January 2015	59,504
Additions	–
At 31 December 2015	59,504
At 1 January 2016	59,504
Additions	–
At 31 December 2016	59,504
Accumulated amortisation:	
At 1 January 2015	(6,790)
Charge for the year	(1,245)
At 31 December 2015	(8,035)
At 1 January 2016	(8,035)
Charge for the year	(1,245)
At 31 December 2016	(9,280)
Carrying amount:	
At 31 December 2016	50,224
At 31 December 2015	51,469

Lease prepayments represented cost of land use rights in respect of lands located in the PRC, on which the Group's plant and buildings were built. The Group was granted land use rights for a period of 50 years.

As at 31 December 2016, land use right with a carrying amount of RMB22,342,000 (2015: RMB12,340,000) was pledged as collateral for the Group's bank loans (see note 23).

14 Intangible assets

	Customer relationships RMB'000	Core technology RMB'000	Software and patent RMB'000	Capitalised development costs RMB'000	Total RMB'000
Cost:					
At 1 January 2015	53,356	13,835	1,998	–	69,189
Additions	–	–	231	22,807	23,038
At 31 December 2015	53,356	13,835	2,229	22,807	92,227
At 1 January 2016	53,356	13,835	2,229	22,807	92,227
Additions	–	–	82	29,578	29,660
Transfer to property, plant and equipment	–	–	(1,495)	–	(1,495)
At 31 December 2016	53,356	13,835	816	52,385	120,392
Accumulated amortisation:					
At 1 January 2015	(35,843)	(8,992)	(889)	–	(45,724)
Charge for the year	(5,113)	(1,384)	(319)	–	(6,816)
At 31 December 2015	(40,956)	(10,376)	(1,208)	–	(52,540)
At 1 January 2016	(40,956)	(10,376)	(1,208)	–	(52,540)
Charge for the year	(4,960)	(1,384)	(29)	(348)	(6,721)
Transfer to property, plant and equipment	–	–	642	–	642
At 31 December 2016	(45,916)	(11,760)	(595)	(348)	(58,619)
Net book value:					
At 31 December 2016	7,440	2,075	221	52,037	61,773
At 31 December 2015	12,400	3,459	1,021	22,807	39,687

The amortisation charge for the year is mainly included in "distribution costs" and "cost of sales" in the consolidated statement of profit or loss.

Impairment test for intangible asset not yet available for use should be performed annually. Management estimates the recoverable amount of CGU to which these intangible assets belong as at 31 December 2016. As the recoverable amount of the CGU is higher than its carrying value as at 31 December 2016, no impairment loss is recognised.

15 Goodwill

	RMB'000
Cost:	
At 1 January 2016 and 31 December 2016	46,832
Accumulated impairment losses:	
At 1 January 2016 and 31 December 2016	–
Carrying amount:	
At 1 January 2016 and 31 December 2016	46,832

Impairment tests for CGU containing goodwill

Goodwill is allocated to the Group's CGU identified according to country of operation and reportable segment as follows:

	2016 RMB'000	2015 RMB'000
Xiezhong Nanjing	**46,832**	46,832

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The discount rates applied to the cash flow projections is 13% (2015: 16%) as at 31 December 2016. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

(Expressed in Renminbi Yuan)

16 Interests in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name	Place of incorporation and operation	Particulars of issued and paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Xiezhong Holdings Limited ("Xiezhong BVI")	British Virgin Islands	1,005 shares of USD1 each	100%	100%	–	Investment holding
Xiezhong Auto – Airconditioner (Hong Kong) Limited ("Xiezhong Hong Kong")	Hong Kong	2 shares	100%	–	100%	Investment holding
*Xiezhong Nanjing	the PRC	RMB 696,000,000	100%	–	100%	Production and sale of automotive air-conditioner and rendering of service
*Liaoning Chenyou Automobile Air-conditioning System Co., Ltd.	the PRC	RMB 10,000,000	60%	–	60%	Production and sale of automotive air-conditioner
*Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd. ("Xiezhong Beijing") (note (i))	the PRC	RMB 43,000,000	50%	–	50%	Sale of automotive air-conditioner
*Xiezhong Morocco Automotive Air Conditioning Co., Ltd. (note (ii)) ("Xiezhong Morocco")	Morocco	EUR 2,000,000	100%	–	100%	Production and sale of automotive air-conditioner and related automotive components

* These entities are limited liability companies.

Note:

(i) The Group acquired 50% equity interests in Xiezhong Beijing from a third party on 2 March 2010. On 26 January 2011, the Group gained control over Xiezhong Beijing by holding a majority of voting rights in its board to direct its relevant activities. Accordingly, the Group has right to variable returns from its involvement with Xiezhong Beijing and has the ability to use power over Xiezhong Beijing to affect those returns. As a result, Xiezhong Beijing became a subsidiary of the Group on 26 January 2011.

(ii) Xiezhong Morocco was established by Xiezhong Nanjing in Morocco on 29 September 2016. The paid-in capital of Xiezhong Morocco is EUR2,000,000.

17 Non-current prepayments

As at 31 December 2016, non-current prepayments mainly represented the prepayments for procurement of machinery and equipment.

18 Inventories

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

	2016 RMB'000	2015 RMB'000
Raw materials	38,585	36,500
Work in progress	14,162	9,943
Finished goods	166,627	146,147
	219,374	192,590

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

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	722,748	545,199
Write down of inventories	690	349
	723,438	545,548

19 Trade and other receivables/Long-term receivables

	2016 RMB'000	2015 RMB'000
Trade debtors	342,067	312,375
Less: allowance for doubtful debts	(9,775)	(5,803)
	332,292	306,572
Bills receivable	228,963	173,022
Trade debtors and bills receivable	561,255	479,594
Other receivables, deposits and prepayments	66,353	21,436
Trade and other receivables (total)	627,608	501,030
Less: long-term receivables	3,972	8,604
Trade and other receivables (within one year)	623,636	492,426

All of the trade and other receivables (within one year) are expected to be recovered or recognised as expense within one year.

The long-term receivables represent certain trade receivable balances due from a customer with anticipated settlement date beyond one year.

Transfers of financial assets

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

As at 31 December 2016, the Group discounted certain bank acceptance bills with a carrying amount of RMB45,532,000 (2015: RMB4,920,000) to banks for cash proceeds and endorsed certain bank acceptance bills with a carrying amount of RMB113,994,000 (2015: RMB51,026,000) 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.

19 Trade and other receivables/Long-term receivables (Continued)

Transfers of financial assets (Continued)

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

As at 31 December 2016, 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 each 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 31 December 2016, 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 RMB39,335,000 and RMB210,072,000 (2015: RMB6,800,000 and RMB145,922,000) respectively.

(a) Ageing analysis

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.

	2016 RMB'000	2015 RMB'000
Within 3 months	430,892	347,340
3 to 6 months	78,488	62,048
6 to 12 months	25,554	36,536
Over 12 months	26,321	33,670
Total	561,255	479,594

Trade debtors and bills receivable are mainly due within 30 days to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 29(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 2(i)(i)).

19 Trade and other receivables/Long-term receivables (Continued)

(b) Impairment of trade debtors and bills receivable (Continued)

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016 RMB'000	2015 RMB'000
At beginning of the year	5,803	5,515
Impairment loss recognised	3,972	288
At end of the year	9,775	5,803

At 31 December 2016, the Group's trade debtors of RMB35,673,000 (2015: RMB8,363,000) were individually determined to be impaired. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB9,775,000 was recognised at 31 December 2016 (2015: RMB5,803,000). The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired:

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	428,613	357,855
Less than 1 month past due	35,704	34,717
1 to 3 months past due	41,068	31,206
3 to 12 months past due	23,869	40,808
Over 12 months past due	6,103	12,448
	106,744	119,179
Total	535,357	477,034

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 Deposits with banks

	2016 RMB'000	2015 RMB'000
Unrestricted deposits	–	4,769
Pledged deposits	3,000	14,250
	3,000	19,019

21 Cash

(a) Cash comprises:

	2016 RMB'000	2015 RMB'000
Cash on hand	40	41
Cash at bank	75,695	72,002
	75,735	72,043

As at 31 December 2016, cash includes cash at bank and on hand of RMB71,916,000 (2015: RMB68,141,000) held in Mainland China. The conversion of RMB denominated balance into foreign currencies and the remittance of bank balance and cash out of the Mainland China is subject to the relevant rules and regulations of foreign exchange restriction imposed by the PRC government.

21 Cash (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2016 RMB'000	2015 RMB'000
Profit before taxation		**42,653**	54,649
Adjustments for:			
Impairment losses on trade debtors	19(b)	**3,972**	288
Impairment losses on inventories	18(b)	**690**	349
Depreciation of property, plant and equipment	12	**61,968**	53,252
Amortisation of lease prepayments	13	**1,245**	1,245
Amortisation of intangible assets	14	**6,721**	6,816
Interest income	6	**(217)**	(609)
Net gain on disposal of property, plant and equipment	6	**–**	(10)
Finance costs	7(a)	**18,838**	14,558
Deferred income released to profit or loss	27	**(251)**	(251)
Changes in working capital:			
Increase in inventories		**(27,474)**	(10,327)
Increase in trade and other receivables		**(130,550)**	(69,170)
Increase in amounts due from related parties		**(144,390)**	(18,047)
Decrease in pledged deposits with banks		**11,250**	1,840
Increase in trade and other payables		**125,023**	22,705
Increase in amounts due to related parties		**25,480**	–
Increase in discounted bank acceptance bills		**40,612**	1,920
Decrease in provision		**(310)**	(13)
Increase in deferred income		**2,840**	–
Cash generated from operating activities		**38,100**	59,195

22 Trade and other payables

	2016 RMB'000	2015 RMB'000
Trade payables	**417,076**	303,465
Bills payable	**22,965**	23,271
	440,041	326,736
Other payables	**55,460**	33,909
Other tax payables	**5,878**	4,602
	501,379	365,247

(a) An ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**341,791**	275,779
Over 3 months but less than 6 months	**63,262**	44,191
Over 6 months but less than 12 months	**26,770**	3,533
Over 12 months	**8,218**	3,233
	440,041	326,736

23 Interest-bearing borrowings

As at 31 December 2016, the interest-bearing borrowings were repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year or on demand	**387,776**	100,640
After 1 year but within 2 years	**180,362**	77,916
After 2 years but within 5 years	**–**	168,818
	180,362	246,734
	568,138	347,374

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.

23 Interest-bearing borrowings (Continued)

As at 31 December 2016, the interest-bearing borrowings were as follows:

	Note	2016 RMB'000	2015 RMB'000
Bank loans			
– Secured	(i)	129,000	72,735
– Unsecured		393,606	269,719
Bank advances under discounted bills		45,532	4,920
		568,138	347,374

(i) As at 31 December 2016, the bank loans of the Group were secured by the following assets:

	Note	2016 RMB'000	2015 RMB'000
Property, plant and equipment	12	128,820	120,610
Lease prepayments	13	22,342	12,340
Pledged deposits	20	–	13,300
		151,162	146,250

24 Equity settled share-based transactions

Pursuant to a resolution of the equity shareholders of the Company passed on 21 May 2012, the Company has conditionally approved and adopted a share option scheme which was further revised on 30 May 2012.

On and subject to the terms of the share option scheme and the requirements of the Main Board Listing Rules, the board of directors of the Company shall be entitled at any time within 10 years commencing on the Listing Date to make an offer for the grant of an option to any qualifying grantee as the board of directors may in its absolute discretion select.

No share option was granted under the share option scheme during the years ended 31 December 2016 and 2015.

25 Income tax in the consolidated statement of financial position

(a) Current tax in the consolidated statement of financial position represents:

	2016 RMB'000	2015 RMB'000
At beginning of the year	9,673	7,038
Over-provision in respect of prior year (note 8(a))	(466)	(169)
Provision for PRC income tax (note 8(a))	11,250	11,250
Transferred from deferred tax upon distribution of dividends (note 25(b))	5,500	–
PRC income tax paid	(16,838)	(8,446)
At end of the year	9,119	9,673

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year ended 31 December 2016 are as follows:

	Property, plant and equipment RMB'000	Lease prepayments RMB'000	Intangible assets RMB'000	Inventories RMB'000	Allowance for bad debt RMB'000	Other liabilities RMB'000	Unrealised profit from intra-group transaction RMB'000	PRC dividend withholding tax RMB'000	Total RMB'000
Deferred tax arising from:									
At 1 January 2015	(84)	(4,151)	(5,589)	807	1,525	6,018	315	(11,060)	(12,219)
(Charged)/credited to profit or loss	(17)	196	2,893	(364)	(564)	(434)	399	(2,618)	(509)
At 31 December 2015 and 1 January 2016	(101)	(3,955)	(2,696)	443	961	5,584	714	(13,678)	(12,728)
(Charged)/credited to profit or loss	(202)	65	950	104	512	312	1,390	8,178	11,309
Transfer to current tax payable upon distribution of dividend	–	–	–	–	–	–	–	5,500	5,500
At 31 December 2016	(303)	(3,890)	(1,746)	547	1,473	5,896	2,104	–	4,081

25 Income tax in the consolidated statement of financial position (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

(ii) Reconciliation to consolidated statement of financial position

	2016 RMB'000	2015 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**9,234**	7,134
Net deferred tax liability recognised in the consolidated statement of financial position	**(5,153)**	(19,862)
	4,081	(12,728)

26 Provisions

Provision for product warranties

	RMB'000
At beginning of the year	5,092
Additional provisions made	1,607
Provisions utilised	(1,917)
At end of the year	4,782

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising mainly within two or three years of the date of sale. Provision is therefore made based on the best estimate of the expected settlement under those agreements in respect of sales made within two or three years prior to the end of the reporting period. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

27 Deferred income

Government grants

	2016 RMB'000	2015 RMB'000
At beginning of the year	**20,691**	20,942
Additions	**2,840**	–
Released to the consolidated statement of profit or loss	**(251)**	(251)
At end of the year	**23,280**	20,691

The PRC government grants are recognised as income over the periods necessarily to match them with the related costs of assets constructed which they are intended to compensate over the periods and in the proportion in which depreciation on those assets is charged.

28 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

		Share capital RMB'000 (Note 28(c))	Share premium RMB'000 (Note 28(d)(i))	Capital reserve RMB'000 (Note 28(d)(iii))	Exchange reserve RMB'000 (Note 28(d)(v))	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
Balance at 1 January 2015		6,496	89,489	275,209	(3,128)	7,654	375,720
Changes in equity for 2015:							
Total comprehensive income for the year		–	–	–	5,207	(9,519)	(4,312)
Dividends approved in respect of the previous year	28(b)	–	(11,997)	–	–	–	(11,997)
Balance at 31 December 2015 and 1 January 2016		6,496	77,492	275,209	2,079	(1,865)	359,411
Changes in equity for 2016:							
Total comprehensive income for the year		–	–	–	4,506	(15,478)	(10,972)
Dividends approved in respect of the previous year	28(b)	–	(12,194)	–	–	–	(12,194)
Balance at 31 December 2016		6,496	65,298	275,209	6,585	(17,343)	336,245

(b) Dividends

(i) No dividend attributable to the year was declared in 2016 or proposed after the end of the reporting period (2015: RMB12,064,000).

(ii) Dividends payable to equity shareholders of the Company attribute to the previous financial year, approved and paid during the year

	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HKD0.018 per share (2015: HKD0.019 per share)	**12,194**	11,997

28 Capital, reserves and dividends (Continued)

(c) Share capital

The share capital of the Group at 31 December 2016 represented the amount of issued and paid-up capital of the Company, with details set out below:

	Par value HKD	2016 Number of shares '000	2016 Nominal value of ordinary shares HKD'000	2015 Number of shares '000	2015 Nominal value of ordinary shares HKD'000
Authorised:					
At 1 January & 31 December	0.01	**2,000,000**	**20,000**	2,000,000	20,000

	Par value HKD	2016 Number of shares '000	2016 Nominal value of ordinary shares HKD'000	2016 Nominal value of ordinary shares RMB'000	2015 Number of shares '000	2015 Nominal value of ordinary shares HKD'000	2015 Nominal value of ordinary shares RMB'000
Issued and fully paid:							
At 1 January & 31 December	0.01	**800,000**	**8,000**	**6,496**	800,000	8,000	6,496

(d) Nature and purpose of reserves

(i) Share premium

Share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the public offering and placing on 18 June 2012. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory reserves

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to equity holders.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of equity holders, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

28 Capital, reserves and dividends (Continued)

(d) Nature and purpose of reserves (Continued)

(iii) Capital reserve

The capital reserve in the consolidated statement of financial position mainly comprises the following:

– the recognition of the option granted to Mr. Chen Cunyou to subscribe for 100 shares in Xiezhong BVI by cash of USD100 during the year ended 31 December 2008 amounting to RMB22,600,000;

– the portion of the grant date fair value of unexercised rights granted to employees and directors of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(p)(iii) amounting to RMB10,551,000;

– the contribution by Sunrise International when it subscribed for additional 300 shares in Xiezhong BVI by cash of USD11,000,000 (equivalent to RMB75,096,000) during the year ended 31 December 2010 amounting to RMB75,094,000; and

– the capitalisation of the Group's other payables due to China United Air System Limited, the then equity shareholders of Xiezhong BVI, of USD28,997,000 (equivalent to RMB183,295,000) as fully paid-up capital and capital reserve of Xiezhong BVI during the year ended 31 December 2011.

(iv) Other reserve

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

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China, The reserve is dealt with in accordance with the according policy set out in note 2(t).

(e) Distributability of reserves

As at 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, including share premium, capital reserve and (accumulated losses)/ retained earnings, was HKD397,914,000 (equivalent to RMB323,164,000) (2015: HKD430,184,000 (equivalent to RMB350,836,000)).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

28 Capital, reserves and dividends (Continued)

(f) Capital management (Continued)

The Group monitors its capital structure on the basis of the adjusted net debt-to-capital ratio. For this purpose adjusted net debt is calculated as interest-bearing borrowings and bills payable plus unaccrued proposed dividends, less cash and deposits with banks. Adjusted capital represents total equity attributable to equity shareholders of the Company, less unaccrued proposed dividends.

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt.

The Group's adjusted net debt-to-capital ratio at 31 December 2016 and 2015 was as follows:

	Note	2016 RMB'000	2015 RMB'000
Current liabilities:			
Interest-bearing borrowings	23	**387,776**	100,640
Bills payable	22	**22,965**	23,271
		410,741	123,911
Non-current liabilities:			
Interest-bearing borrowings	23	**180,362**	246,734
Total debt		**591,103**	370,645
Add: Proposed dividends	28(b)	**–**	12,064
Less: Cash and cash equivalents	21(a)	**(75,735)**	(72,043)
Deposits with banks	20	**(3,000)**	(19,019)
Adjusted net debt		**512,368**	291,647
Total equity attributable to equity shareholders of the Company		**815,724**	801,612
Less: Proposed dividends	28(b)	**–**	(12,064)
Adjusted capital		**815,724**	789,548
Adjusted net debt-to-capital ratio		**63%**	37%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

Financial assets of the Group include cash, deposits with banks and trade and other receivables. Financial liabilities of the Group include interest-bearing borrowings and trade and other payables.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are mainly due within 30 days to 180 days from the date of billing.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. The amounts due from the Group's largest customer and the five largest customers are as follows:

	2016	2015
	RMB'000	RMB'000
Largest customer	**217,771**	73,381
Five largest customers	**387,263**	185,456

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance, and discounted and endorsed bills with full recourse which were derecognised by the Group (see note 19). The Group does not provide any guarantees, which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, the Group does not expect any counterparty to fail to meet its obligations.

29 Financial risk management and fair values (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Other than discounted and endorsed bills with full recourse which were derecognised by the Group (see note 19), the following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group can be required to pay:

At 31 December 2016

	Carrying amount at 31 December RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000
Secured bank loans	**129,000**	**131,701**	**131,701**	**–**
Unsecured bank loans	**393,606**	**408,988**	**225,260**	**183,728**
Bank advances under discounted bills	**45,532**	**45,532**	**45,532**	**–**
Trade and other payables	**526,859**	**526,859**	**526,859**	**–**
	1,094,997	**1,113,080**	**929,352**	**183,728**

At 31 December 2015

	Carrying amount at 31 December RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Secured bank loans	72,735	74,161	74,161	–	–
Unsecured bank loans	269,719	289,641	32,729	85,213	171,699
Bank advances under discounted bills	4,920	4,920	4,920	–	–
Trade and other payables	365,247	365,247	365,247	–	–
	712,621	733,969	477,057	85,213	171,699

29 Financial risk management and fair values (Continued)

(c) Interest rate risk

(i) Interest rate profile

Interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk.

The Group's interest-bearing borrowings and interest rates as at 31 December 2016 are set out as follows:

	2016		2015	
	Interest rate	**RMB**	Interest rate	RMB
	%	**'000**	%	'000
Fixed rate borrowings				
Bank loans	**4.25 – 4.80**	**189,000**	4.57 – 5.61	60,000
Bank advances under discounted bills	**2.88 – 4.00**	**45,532**	3.40 – 3.84	4,920
		234,532		64,920
Variable rate borrowings				
Bank loans	**3.97 – 4.57**	**333,606**	2.53 – 5.09	282,454
		333,606		282,454
Total borrowings		**568,138**		347,374
Fixed rate borrowings as a percentage of total borrowings		**41%**		19%

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the end of the reporting period would not affect profit or loss.

As at 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax for the year and retained earnings by approximately RMB4,837,560 (2015: RMB2,809,543). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the change was applied to the Group's variable rate borrowings at that date with exposure to cash flow interest rate risk. The impact on the Group's profit after tax and retained earnings is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2015.

29 Financial risk management and fair values (Continued)

(d) Foreign currency risk

The Group is exposed to currency risk primarily arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily United States dollars ("USD") and HKD. Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. In addition, as the HKD is pegged to the USD, the Group considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

The Group's principal activities are carried out in the PRC. Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign currencies. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

On the other hand, RMB is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands and the Group may not be able to pay dividend in foreign currencies to its equity shareholders.

(e) Fair values

The carrying amounts of all financial assets and liabilities approximate their respective fair values as at 31 December 2016 and 2015 due to the short maturities of those instruments.

30 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 **RMB'000**	2015 RMB'000
Contracted for	**6,044**	42,958
Authorised but not contracted for	**207,844**	93,034
	213,888	135,992

(b) Lease commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 **RMB'000**	2015 RMB'000
Within 1 year	**2,236**	1,433
After 1 year but within 5 years	**3,609**	4,720
	5,845	6,153

31 Material related party transactions

(a) Name and relationship with related parties

During the year ended 31 December 2016, transactions with the following parties are considered as related party transactions:

Name of related party	Relationship
Beijing Automotive Group Co., Ltd.	Ultimate holding Company of Beijing Hainachuan Automobile Parts Co., Ltd.("Beijing Hainachuan"), the major shareholder of the Company and non-controlling equity holder of Xiezhong Beijing (Beijing Automotive Group Co., Ltd. and its subsidiaries together referred to as "Beijing Automotive Group")
Sunrise International Investment Management Inc. ("Sunrise International")	One of the equity shareholders of the Company

(b) Transactions with related parties

Transactions with related parties during the year ended 31 December 2016 are as follows:

Recurring transactions

	2016 RMB'000	2015 RMB'000
Sales of goods		
– Beijing Automotive Group	**351,433**	171,970
Services rendered		
– Beijing Automotive Group	**5,811**	17,021

The directors consider that the above related party transactions during the year ended 31 December 2016 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

31 Material related party transactions (Continued)

(b) Transactions with related parties (Continued)

Non-recurring transactions

	2016 RMB'000	2015 RMB'000
Advance from a related party – Sunrise International	–	14,580
Repayment of advance from a related party – Sunrise International	–	14,580

(c) Amounts due from/to related parties

At 31 December 2016, the Group had the following balances with related parties:

	2016 RMB'000	2015 RMB'000
Trade debtors due from – Beijing Automotive Group	217,771	73,381
Advance receipts from – Beijing Automotive Group	25,480	–

(d) Transactions with management

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	3,545	3,448

The above remuneration is disclosed in "staff costs" (see note 7(b)).

(e) Applicability of the Main Board Listing Rules relating to connected transactions

The related party transactions in respect of Beijing Automotive Group constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Main Board Listing Rules. The disclosures required by Chapter 14A of the Main Board Listing Rules are provided in section "Continuing connected transactions required for disclosure under the main board listing rules" of the Report of the Directors.

32 Company-level statement of financial position

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Interest in subsidiaries	(a)	623,861	630,937
		623,861	630,937
Current assets			
Trade and other receivables		3,965	5,829
Cash and cash equivalents		741	8,409
		4,706	14,238
Current liabilities			
Trade and other payables		28,716	26,044
Interest-bearing borrowings	(b)	83,244	12,986
		111,960	39,030
Net current liabilities		(107,254)	(24,792)
Total assets less current liabilities		516,607	606,145
Non-current liabilities			
Interest-bearing borrowings	(b)	180,362	246,734
		180,362	246,734
NET ASSETS		336,245	359,411
CAPITAL AND RESERVES	28(a)		
Share capital		6,496	6,496
Reserves		329,749	352,915
TOTAL EQUITY		336,245	359,411

32 Company-level statement of financial position (Continued)

(a) Interest in subsidiaries

	2016 RMB'000	2015 RMB'000
Unlisted shares, at cost	**275,210**	275,210
Amount due from a subsidiary	**348,651**	355,727
	623,861	630,937

Amount due from a subsidiary is a loan to a subsidiary for its capital injection to Xiezhong Nanjing, which is unsecured, interest free and has no fixed terms of repayment.

(b) Interest-bearing borrowings

The Company's unsecured bank loans of USD38,000,000 (equivalent to RMB263,606,000) as at 31 December 2016 is guaranteed by Xiezhong BVI and Xiezhong Hong Kong (2015: USD40,000,000, equivalent to RMB259,720,000).

33 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) 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, and it is expected that the requisite ownership certificate shall be obtained on or before 31 March 2017 and the Acquisition Arrangement shall be delayed thereafter. Up to the date of approval of these financial statements, the above mentioned certificate has not been obtained, therefore the above transactions have not been completed.

(b) On 23 February 2016, Xiezhong Nanjing entered into an agreement with Beijing Hainachuan, a subsidiary of Beijing Automotive Group Co., Ltd. to transfer its entire 50% equity interests in 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. At 31 December 2016, the transactions under the above Acquisition Arrangement, including the transfer of Miyun Assets were still in progress and are subject to various regulatory approvals. The directors consider the completion of the Acquisition Arrangement and the disposal of Xiezhong Beijing is uncertain as at 31 December 2016. Up to the date of approval of these financial statements, Xiezhong Beijing remains a subsidiary of the Group and the investment in Xiezhong Beijing is consolidated into the Group's financial statements as at 31 December 2016.

(Expressed in Renminbi Yuan)

34 Non-adjusting events after the reporting period

Pursuant to the board of directors' resolution of the Company passed on 20 January 2017, the board of directors of the Company approved a total investment of around RMB130 million for the Xiezhong Morocco project, which covers land acquisition, construction of plant and purchase of equipment.

35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 9, *Financial instruments and IFRS 7 Financial instruments: Disclosures – Mandatory effective date and transition disclosures*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
Annual Improvements to IFRSs 2014–2016 cycle	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position, except for the following.

IFRS 9, *Financial instruments*

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (Continued)

IFRS 15 *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction contracts* and IFRIC 13 *Customer Loyalty Programmes*. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

IFRS 16 *Leases*

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS 17 *Leases* and the related interpretations including IFRIC 4 *Determining whether an arrangement contains a lease*.

The Group does not plan to early adopt the above new standards or amendments. With respect to IFRSs 9, 15 and 16, given the Group has not completed its assessment of their full impact on the Group's financial statements, their possible impact on the Group's results of operations and financial position has not been quantified.

Financial Summary

RESULTS	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
	Years ended 31 December				
Revenue	**896,762**	698,822	744,703	728,190	619,904
Cost of sales	**(727,132)**	(551,765)	(570,720)	(558,266)	(447,727)
Gross profit	**169,630**	147,057	173,983	169,924	172,177
Other income	**11,838**	10,660	7,718	11,222	6,835
Distribution costs	**(43,489)**	(33,735)	(43,340)	(37,126)	(24,730)
Administrative expenses	**(76,487)**	(54,773)	(73,224)	(56,807)	(37,767)
Other operating expenses	**(1)**	(2)	(5)	(55)	(186)
Profit from operations	**61,491**	69,207	65,132	87,158	116,329
Finance costs	**(18,838)**	(14,558)	(15,881)	(9,714)	(7,554)
Share of losses of joint venture	**–**	–	–	(467)	(235)
Profit before taxation	**42,653**	54,649	49,251	76,977	108,540
Income tax	**525**	(11,590)	(7,263)	(17,589)	(21,531)
Profit for the year	**43,178**	43,059	41,988	59,388	87,009
Attributable to:					
Equity shareholders of the Company	**43,309**	41,299	40,208	58,898	86,066
Non-controlling interests	**(131)**	1,760	1,780	490	943
Profit for the year	**43,178**	43,059	41,988	59,388	87,009

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
	As at 31 December				
TOTAL ASSETS	**1,985,074**	1,601,701	1,553,843	1,422,882	1,192,347
TOTAL LIABILITIES	**(1,137,331)**	(767,939)	(740,150)	(633,531)	(441,314)
NON-CONTROLLING INTERESTS	**(32,019)**	(32,150)	(30,390)	(28,610)	(28,120)
	815,724	801,612	783,303	760,741	722,913