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

Annual Report 2012

Contents

Corporate Information

Board of Directors and Committees

Board of Directors

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

Non-Executive Directors
Mr. Fang Kenneth Hung
Mr. Liu Xiaoping
Mr. Wang Zhenyu
Mr. Zhang Yichen

Independent Non-Executive Directors
Mr. Cheung Man Sang
Mr. Lau Ying Kit
Mr. Zhang Shulin

Committees

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

Nomination Committee
Mr. Zhang Shulin *(Chairman)*
Mr. Cheung Man Sang
Mr. Lau Ying Kit
Mr. Liu Xiaoping

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

Other Corporate Information

Company Secretary
Mr. Chui Wing Fai, CPA

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

Principal Place of Business in Hong Kong
Room 2912, Tower 2, Times Square
1 Matheson Street
Causeway Bay, Hong Kong

Principal Share Registrar and Transfer Office
Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall Cricket Square
Grand Cayman KY1-1102
Cayman Islands

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

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

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

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

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

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

Company's Website
www.xiezhonginternational.hk

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

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

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 2012 (the "Year").

The Company was successfully listed on the Main Board of the Hong Kong Stock Exchange (the "Stock Exchange") on 18 June 2012 (the "Listing") and secured sufficient funds required for the expansion of production plants, upgrade of the existing facilities, and research and development. We also capitalised on this opportunity to restructure the shareholding structure of the Company, review and improve all various specific systems. The Company established an effective system of corporate governance to constantly improve the internal control, which will facilitate the long-term and healthy development of the Group.

2012 was a challenging year. Affected by the unfavorable factors such as the decelerating growth of the Chinese economy, intensifying competition in the automotive industry, increasing cost of labour, the Group recorded turnover of RMB589.7 million for the year ended 31 December 2012, representing a decrease of 4.9% against that of RMB619.9 million in the previous year; profit attributable to equity shareholders of RMB68.0 million, representing a decrease of 21.0% against that of RMB86.1 million in the previous year. The Company recorded Listing expenses in the income statement of RMB5.0 million in 2012 and RMB5.2 million in 2011.

The Board proposed a distribution of final dividend of HKD3.2 cents per share for the year ended 31 December 2012, totaling HKD25.6 million, approximately RMB20.7 million (2011: nil).

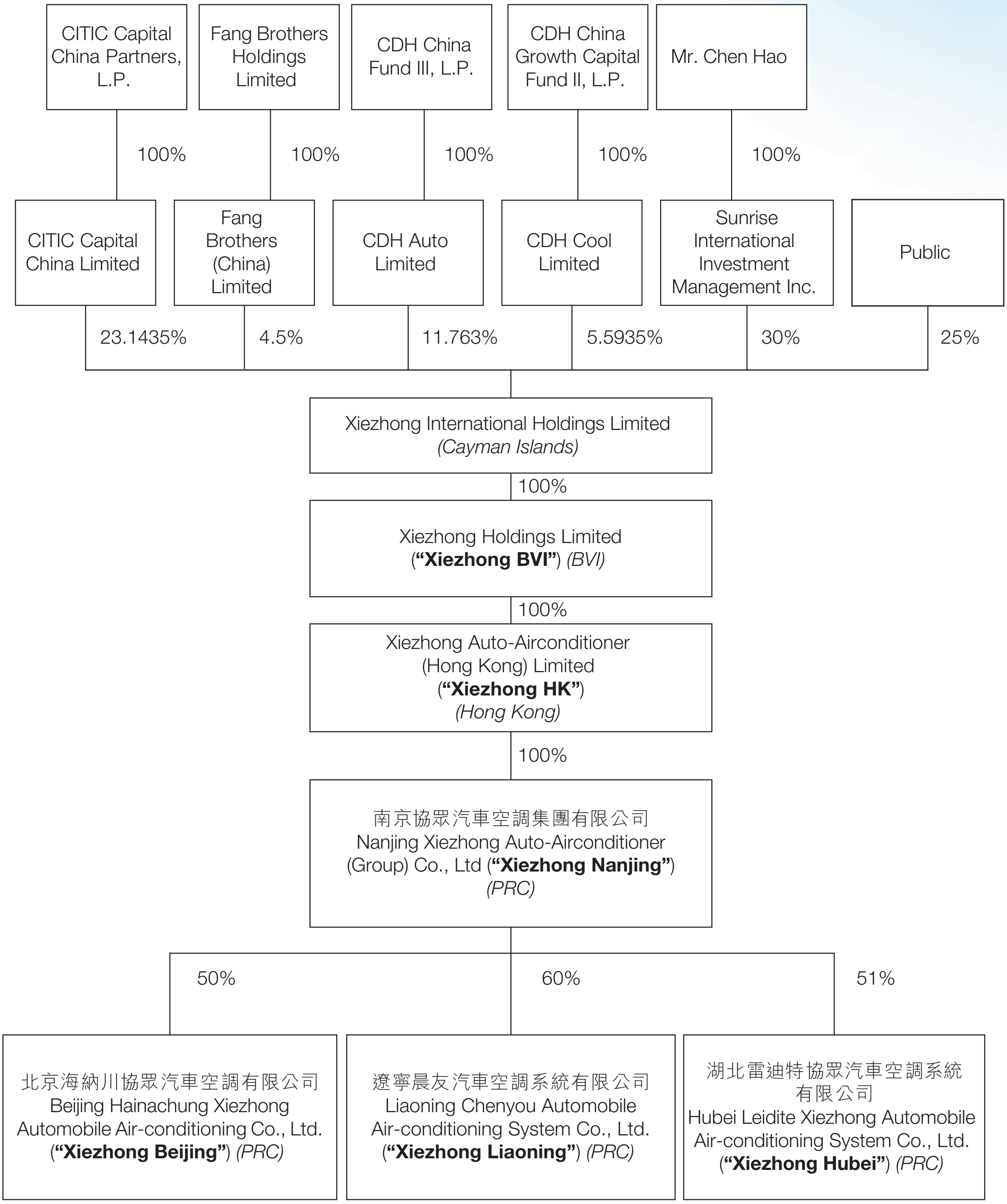
Looking ahead, the Group will continuously commit itself to developing its core operation of automotive heating, ventilation and cooling ("HVAC") systems, thus ensuring the core competitive strength of the Group. The Group will constantly consolidate its leading position in the Chinese market of automotive HVAC systems for SUVs, pick-up trucks, and heavy trucks, and increase its effort to explore the market of HVAC systems for sedan, which is expected to be a key driver for the Group's future growth. The Group will further enhance our research and development strength and develop the HVAC systems for electrical vehicles. A research and development building, with a gross floor area of 15,631 square meters, is expected to put into use in 2013. The Company will also enhance its production efficiency by improving its management to lower production cost and purchasing cost. 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

27 March 2013

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 motor vehicles in China. We are principally engaged in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components. Our automotive HVAC systems and HVAC components are mainly used in sport utility vehicles ("SUVs"), pickup trucks and heavy trucks. We also supply HVAC systems and HVAC components for construction machineries and other types of vehicles, such as light trucks, multi-purpose vehicles ("MPVs"), sedans and buses. Currently, we have two production bases, one in Jiangning District of Nanjing, Jiangsu Province for the manufacturing of HVAC systems and HVAC components, and the other one in Fushun Economic Development Zone in Fushun, Liaoning Province for the manufacturing of HVAC systems (installation of compressors are excluded).

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 2012 were 19,271,800 units and 19,306,400 units respectively, representing a year-on-year growth of 4.6% and 4.3% respectively. Amongst those motor vehicles, the number of passenger vehicles manufactured and sold were 15,523,700 units and 15,495,200 units respectively, representing a year-on-year growth of 7.2% and 7.1% respectively; the number of commercial vehicles manufactured and sold were 3,748,100 units and 3,811,200 units respectively, representing a year-on-year decrease of 4.7% and 5.5% respectively. In 2012, the government of China imposed more stringent macro-economic adjustment measures, thereby lowering the economic growth rate of China. Together with more intensive competition in the motor vehicles industry and the increasing labour costs in China, the profit of the Company in 2012 decreased when compared with that in 2011.

During the year, the turnover was RMB589.7 million, representing a decrease of 4.9% when compared with that of RMB619.9 million in 2011. The gross profit as a whole was RMB155.6 million, representing a decrease of 9.6% when compared with that of RMB172.2 million in 2011. The profit attributable to equity shareholders was RMB68.0 million, representing a decrease of 21.0% when compared with that of RMB86.1 million in 2011. The Company recorded Listing expenses in the income statement of RMB5.0 million in 2012 and RMB5.2 million in 2011.

We acknowledged the importance of research and development and continued to upgrade its capability in this respect so as to meet the demand for research and development of new products. During the year, we successfully developed the HVAC systems for medium and high-end sedan model C70 of Beijing Automotive Group Co., Ltd. ("BAIC"), sedan model H230 and H220 of Huachen Automotive Group Holdings Company Limited and AUV passenger buses of Beiqi Foton Motor Co., Ltd. ("Foton") and commercial production also started within the year. In September 2012, the Human Resources and Social Security Department of Jiangsu Province (江蘇省人力資源和社會保障廳) granted Xiezhong Nanjing, a subsidiary of the Company, the work station status for implementing post-doctoral projects under the post-doctoral innovation and practice centre. We would take this opportunity to further upgrade our research and development capabilities.

Financial Review

Turnover

Turnover of the Group for the Year was RMB589.7 million, representing a decrease of 4.9% when compared with that of RMB619.9 million in 2011. The decrease was mainly attributable to the Company's lower turnover of HVAC systems for heavy trucks and construction machineries when compared with that of 2011, which was driven by the dropped sales volume of commercial vehicles resulting from the reduced numbers of infrastructure projects due to the macro-economic conditions in China during the Year. In 2012, the Company started to focus on the development of HVAC systems for sedans, bringing about a significant increase in the turnover and delivering promising results accordingly.

	2012		2011	
	RMB'000	Percentage to total turnover	RMB'000	Percentage to total turnover
HVAC Systems				
Pickup Trucks and SUVs	**265,219**	**45.0%**	286,572	46.2%
Heavy Trucks	**67,903**	**11.5%**	126,946	20.5%
Construction Machineries	**41,392**	**7.0%**	57,959	9.4%
Vans	**87,798**	**14.9%**	46,711	7.5%
Sedans	**53,608**	**9.1%**	8,837	1.4%
Other Vehicles(1)	**22,646**	**3.8%**	33,551	5.4%
HVAC Components(2)	**51,114**	**8.7%**	59,328	9.6%
Total	**589,680**	**100.0%**	619,904	100.0%

(1) Other vehicles mainly include light trucks and etc.

(2) HVAC components mainly include evaporators, condensers and other HVAC components (heater cores, radiators, intercoolers, oil coolers, HVAC hoses and HVAC housings) for all kinds of motor vehicles.

Gross Profit and Gross Profit Margin

Gross profit for the year was RMB155.6 million, representing a decrease of 9.6% when compared with that of RMB172.2 million in 2011. The gross profit margin was 26.4% as compared to 27.8% in 2011. The decrease was attributable to the lower turnover of HVAC systems for heavy trucks, of which the gross profit margin was higher, when compared with that of 2011.

Other Revenue and Net Income

Other revenue and net income mainly included interest income and government subsidies, which increased to RMB10.3 million in 2012 from that of RMB6.8 million in 2011. The increase was due to the government subsidies of RMB1.0 million granted by the People's governments of each of Nanjing City and of Jiangning District of Nanjing, Jiangsu Province during the Year, which served the purpose of incentives for the successful Listing.

Distribution Costs

Distribution costs decreased by 4.9% or RMB1.2 million to RMB23.5 million in 2012 from that of RMB24.7 million in 2011. During the year, we enhanced the quality control measures on products, thereby lowering the product maintenance and repairing expenses and relevant provisions. Meanwhile, we endeavoured to improve the efficiency of our logistics function, with a view to lowering the transportation costs.

Administrative Expenses

Administrative expenses in 2012 were RMB52.5 million, representing an increase of RMB14.7 million or 38.9% compared with that of RMB37.8 million in 2011, which was mainly attributable to the increase in research and development expenses as well as our staff costs arising from the salary increment and the growth of the number of employees.

Finance Costs

Finance costs in 2012 were RMB8.7 million, representing an increase of RMB1.1 million or 14.5% compared with that of RMB7.6 million in 2011. The increase was mainly attributable to the increase of interest bearing loans for raising additional working capital to cope with the need for business development.

Income Tax

Income tax for the year was RMB12.8 million, representing a decrease of RMB8.7 million compared with that of RMB21.5 million in 2011, which was attributable to the decrease in total profit.

Profit for the Year

Basing on the factors mentioned above, the profit attributable to equity shareholders of the Group decreased by RMB18.1 million or 21.0% from RMB86.1 million in 2011 to RMB68.0 million in 2012.

Liquidity and Financial Resources

Inventories

Inventories of the Group as at 31 December 2012 increased to RMB176.5 million (31 December 2011: RMB128.0 million), which was attributable to the higher inventory level maintained at various warehouses for the purpose of meeting the need of our customers. The average turnover period of inventory extended to 128 days in 2012 from 101 days in 2011, which was attributable to the increase in the inventory balance as at the end of the reporting period.

Trade Debtors and Bills Receivable

Trade debtors and bills receivable of the Group as at 31 December 2012 were RMB382.2 million (31 December 2011: RMB380.9 million), which were almost the same as that of the year end of 2011.

The average turnover period of trade debtors and bills receivable extended to 236 days in 2012 from 202 days in 2011. Where bills receivable were excluded, the average turnover period of trade debtors would be extended to 163 days in 2012 from 127 days in 2011. The increase was due to the increasing proportion of customers granted with longer credit terms.

Trade Payables and Bills Payable

Trade payables and bills payable of the Group as at 31 December 2012 were RMB162.7 million (31 December 2011: RMB164.8 million), which basically remained the same level as that of the year end of 2011.

The average turnover period of trade payables and bills payable shortened to 138 days in 2012 from 143 days in 2011, which was slightly shorter than that of 2011.

Cash, Deposits with Banks and Interest-bearing Borrowings

As at 31 December 2012, cash and deposits with banks of the Group were RMB123.7 million (31 December 2011: RMB79.0 million). The increase in cash flow was mainly attributable to the fund raised from our Listing during the year.

As at 31 December 2012, we had outstanding interest-bearing borrowings of approximately RMB182.8 million (31 December 2011: RMB154.6 million), of which all were short-term of not exceeding one year and intended to meet the need of working capital of the Group. No financial instruments were used for hedging purposes, nor were there any foreign currency net investments hedged by current borrowings and/or other hedging instruments. As at 31 December 2012, our interest-bearing borrowings carried interest rates ranging from 5.04% to 9.00% per year. All interest-bearing borrowings were denominated in RMB and at fixed interest rate as at 31 December 2012.

As at 31 December 2012, the banking facilities available to us were RMB194.0 million, of which RMB125.7 million were utilised.

Except for those mentioned above or otherwise disclosed herein, and apart from intra-group liabilities, as at 31 December 2012, the Group did not have any outstanding mortgage, charge, debenture, debt equity or other loan capital or bank overdraft or loan or other similar indebtedness or finance lease commitment, liabilities under acceptance or acceptance credit or hire purchase commitment, guarantee or other material contingent liabilities.

We usually apply 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 we are able to maintain 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.

Use of Proceeds

The net proceeds of the 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 during the year ended 31 December 2012 was as follow:

	Net Proceeds (RMB million)		
Items	Available	Utilised	Unutilised
Expanding of Production Plants and Upgrading Existing Facilities of the Group	92.7	9.9	82.8
Funding for Research and Development	30.9	30.9	—
Working Capital and Other General Purposes	10.8	10.8	—
Total	134.4	51.6	82.8

Gearing Ratio

Gearing ratio of the Group, calculated based on debt (including interest-bearing borrowings, bills payable and amounts payable to related parties) divided by the total of equity attributable to equity shareholders of the Company and debt, was 22.6% as at 31 December 2012, as compared to 26.7% as at 31 December 2011. The lower gearing ratio was attributable to the net proceeds of HKD165.5 million (approximately RMB134.4 million) raised from the Listing of the Company.

Contingent Liabilities

As at 31 December 2012, save as disclosed herein, the Group had no contingent liabilities (2011: nil).

Significant Investment Held

Except for investments in subsidiaries and interests in a jointly-controlled entity, the Group made no material investment in equities of any company in 2012.

Future Plans for Material Investment or Capital Assets

Save as disclosed by the Company in the Prospectus, the Group did not have any other plan regarding material investment and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

In 2012, the Group did not have any material acquisition and disposal in relation to subsidiaries and affiliated companies.

Capital Commitment

As at 31 December 2012, the capital commitment in respect of contracted payment of the Group was RMB30.4 million (31 December 2011: RMB28.2 million), which was mainly applied to the construction and purchase of properties, plants and equipment. The capital commitment will be financed by internal resources and/or external banking facilities, if applicable, of the Group.

Capital Expenditure

During the Year, the capital expenditure recorded by the Group was RMB135.1 million (2011: RMB95.5 million), which was mainly attributable to the addition of new machinery and equipment and the construction cost incurred by the research and development building.

Foreign Currency Risks

The Group's businesses are principally operated in China and substantially all of its transactions are conducted in RMB and most of the Group's assets and liabilities are also denominated in RMB. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than RMB. As at 31 December 2012, the Group's cash and deposits with banks balance denominated in HKD was HKD40.1 million and consequently we have foreign exchange risk exposure from conversion of amount denominated in foreign currencies as at the balance sheet date. In 2012, the Group did not engage in any derivatives activities nor employ any financial instrument for hedging purposes.

Employees

As at 31 December 2012, the Group had 869 employees in total, which were remunerated by the Group with reference to their performance, qualifications and prevailing market conditions. In 2012, the Group's total expenditure in respect of staff cost was RMB58.6 million, representing 9.9% of the total turnover 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 as set out in note 26(b) to the consolidated financial statements. Details of the emoluments of the Directors and the five largest paid individuals of the Group for the year ended 31 December 2012 are set out in notes 9 and 10 to the consolidated financial statements.

Dividend

The Board proposed a distribution of final dividend of HKD 3.2 cents per share for the year ended 31 December 2012, totaling HKD25.6 million, approximately RMB20.7 million (2011: nil). The proposed dividend is subject to the approval of shareholders of the Company in the forthcoming annual general meeting.

Prospects

Looking forward, the economy of China will enter into a new stage featuring the reinforcement of free domestic markets. As a result, domestic demand arising from urbanisation will become the main drive of economic growth and will also facilitate the transformation and upgrading of various industries. We believe that the automotive industry will become one of those directly benefiting from the said development. The Group will continue to strengthen its leading position in the market of automotive HVAC systems for SUVs, pickup trucks and heavy trucks in China, and will spare no effort to explore the market of HVAC systems for sedans. Being an integral part of the automotive industry, the market of HVAC systems for sedans is immense. With our experience accumulated in the market of HVAC systems for sedans for years, we strongly believe that the HVAC systems for sedans will represent a higher percentage in the turnover of the Group in the future.

In order to maintain the Group's core competitiveness, the Group will continue to focus on the development of its principal business, namely HVAC systems for motor vehicles. The Group will further enhance its competitive edges in the market by pursuing the following goals.

1) Product Research and Development

The strong research and development capabilities of the Group have been one of the key reasons for its success. In future, we will strive to strengthen our research and development capabilities by recruiting more talents and increasing research and development expenditure. We will strengthen the co-operation in research and development activities with universities, motor vehicle manufacturers and suppliers of air-conditioning components of the Group. Moreover, we are in the course of constructing a research and development building with a gross floor area of 15,631 sq.m. in Jiangning, Nanjing City, which is expected to be put into operation in 2013.

On the other hand, since environmental protection has been a major concern of the world in recent years, the Ministry of Science and Technology of China announced《電動汽車科技發展"十二五"專項規劃》(the "Twelfth Five-year" Plan Specialised in the Development of Electrical Automotive Technologies*) in March 2012, pursuant to which vehicles using new energy would be the focus of the development of the automotive industry in the future. We have started the research and development of air conditioning systems for electric vehicles since 2008 and commenced to provide Foton with air conditioning systems for electric vehicles since 2010. We will continue to co-operate with other parties for the development of air conditioning systems for electric vehicles.

2) Cost Advantage

In order to maintain our long-term competitiveness and a stable profit margin, we will endeavour to maintain our cost advantages. We will optimise our manufacturing process and production efficiency by ways of research and development of new products, technical improvement and automated production, and increase our market share for the sake of enhancing the economies of scale.

3) Upgrading of Production Base

In order to further improve our services to our customers, lower the distribution costs and strengthen our strategic co-operation with major customers, except for the production base in Jiangsu Province, we are planning to continue to upgrade our production bases in Liaoning Province and Beijing City for the sake of lowering the transportation costs and further improving our service quality to customers. The plant in Beijing City is expected to complete in 2013.

4) Market Penetration

We will make use of our competitiveness to secure a larger market share in the medium and high-end market eventually. In 2012, the Group started the commercial production of HVAC systems for medium and high-end sedan model C70 of BAIC and also successfully secured orders for components of sedan model T91/T93 from 神龍汽車有限公司 (Dongfeng Peugeot Citroen Automobile Co., Ltd.), thus laying a solid ground for our penetration in the medium and high-end market.

Corporate Governance Practices

Adapting and adhering to recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that lead to the success of the Company. In balancing the interests of shareholders, customers and employees, the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

From the Company's Listing on 18 June 2012 (the "Listing Date") and up to the date of this annual report, the Company had complied with the code provisions ("Code Provisions") set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited ("Main Board Listing Rules"), except code provision A.2.1 as more particularly described below. Code A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

For the purpose of our Group, the roles of the chairman and the chief executive of the Company are not separate and both are performed by Mr. Chen Cunyou. Since the Directors meet regularly to consider major matters regarding the operations of the Company, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that, with the effective operations of the Board which comprises experienced and high-calibre individuals, this structure will enable the Company to make and implement decisions promptly and efficiently.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Main Board Listing Rules ("Model Code") as its own code of conduct for securities transactions. The Company was listed on the Stock Exchange on 18 June 2012. 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 throughout the period from the date of Listing to the date of the Board meeting approving the annual results announcement for the year of 2012.

The Board of Directors

Composition

The Board currently comprises nine Directors, of which two are executive Directors, four are non-executive Directors and three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:
Mr. Chen Cunyou *(Chairman)*
Mr. Ge Hongbing

Non-executive Directors:
Mr. Fang Kenneth Hung
Mr. Liu Xiaoping
Mr. Wang Zhenyu
Mr. Zhang Yichen

Independent Non-executive Directors:
Mr. Cheung Man Sang
Mr. Lau Ying Kit
Mr. Zhang Shulin

From the date of Listing and up to the date of this annual report, there was no change in the composition of the Board.

The biographical details of each Director are set out in the section "Directors and Senior Management" on pages 22 to 27.

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. From the date of Listing and up to 31 December 2012, two Board meetings were held and the attendance records of individual Directors are set out below:

	Number of Board meeting attended/held
Executive Directors	
Mr. Chen Cunyou *(Chairman)*	2/2
Mr. Ge Hongbing	2/2
Non-executive Directors	
Mr. Fang Kenneth Hung	2/2
Mr. Liu Xiaoping	2/2
Mr. Wang Zhenyu	2/2
Mr. Zhang Yichen	1/2
Independent non-executive Directors	
Mr. Cheung Man Sang	2/2
Mr. Lau Ying Kit	2/2
Mr. Zhang Shulin	2/2

There are three independent non-executive Directors who represent one-third 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

From the date of Listing and up to 31 December 2012, no general meeting was held.

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 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 below.

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 42 to 103 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 "Directors and Senior Management" above, 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

Immediately prior to the Listing, all Directors namely Mr. Chen Cunyou, Mr. Ge Hongbing, Mr. Fang Kenneth Hung, Mr. Liu Xiaoping, Mr. Wang Zhenyu, Mr. Zhang Yichen, Mr. Cheung Man Sang, Mr. Lau Ying Kit and Mr. Zhang Shulin have been given relevant guideline materials and attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. Such induction materials and briefings will also be provided to newly appointed Directors shortly upon their appointment as Directors. Continuing briefings and professional development to Directors will be arranged whenever necessary.

All Directors have provided record of training attendance and the Company will continue to arrange and/or fund the training in accordance with paragraph A.6.5 of the Code Provisions.

Appointment, Re-election and Removal

All independent 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 ("AGM") 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 AGM. 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 AGM 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 paragraph A.5.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and 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 access 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. The nomination committee comprises three independent non-executive Directors, namely Mr. Zhang Shulin (Chairman), Mr. Cheung Man Sang and Mr. Lau Ying Kit, and one non-executive Director, namely Mr. Liu Xiaoping.

No meeting was held by the nomination committee from the date of Listing to 31 December 2012 as the Company has not appointed any new Director. From 1 January 2013 to the date of this annual report, one meeting of the nomination committee was held on 27 March 2013. 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. Liu Xiaoping	1/1

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.

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 paragraph B.1.2 of the Code Provisions. 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 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 three independent non-executive Directors, namely Mr. Cheung Man Sang (Chairman), Mr. Lau Ying Kit and Mr. Zhang Shulin, and one non-executive Director, namely Mr. Fang Kenneth Hung.

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

No meeting was held by the remuneration committee from the date of Listing to 31 December 2012. From 1 January 2013 to the date of this annual report, two meetings were held on 31 January 2013 and 27 Mach 2013. The attendance records of individual Directors are set out below:

	Number of remuneration committee meeting attended/held
Mr. Cheung Man Sang *(Chairman)*	2/2
Mr. Lau Ying Kit	2/2
Mr. Zhang Shulin	2/2
Mr. Fang Kenneth Hung	2/2

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 paragraph C.3.3 and C.3.7 of the Code Provisions. 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 and provide material advice in respect of financial reporting and overseas internal control procedures of the Company. As at the date of this annual report, the audit committee consists of three members, all of whom are independent non-executive Directors, namely Mr. Lau Ying Kit (Chairman), Mr. Cheung Man Sang, and Mr. Zhang Shulin.

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.

From the date of Listing and up to 31 December 2012, one audit committee meeting was held to review and discuss with the management of the Company the accounting principles and practices adopted by the Group, as well as internal controls and other financial reporting matters. From 1 January 2013 to the date of this annual report, one meeting was held on 27 March 2013. The audit committee discussed with the management over internal control and financial reporting matters related to the preparation of the financial report for the year ended 31 December 2012. The audit committee also reviewed the annual financial report for the year ended 31 December 2012 together with the Company's external auditor. The attendance records of individual committee members are set out below:

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

During the period from the date of Listing to the date of this annual report, the Board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

Auditor's Remuneration

During the year, the Company engaged KPMG as the external auditors. Apart from providing audit services, KPMG also provided reporting accountant services in connection with the Group's Listing. The fees in respect of audit services provided by KPMG for the year ended 31 December 2012 approximately amounted to RMB1,935,000.

Details of auditor's responsibilities on the Company's consolidated financial statements are set out in the Independent Auditor's Report on page 40.

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 of 2012 attended no less than 15 hours of relevant professional training.

Internal Controls

The Board is responsible for maintaining a sound and effective internal control system in order to safeguard the interests of the shareholders and the assets of the Company against unauthorised use or disposition, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

The Board and the audit committee have conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2012 and will continue to assess the effectiveness of internal controls by considering reviews performed by the audit committee and executive management.

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 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 2912, Tower 2, Times Square, 1 Matheson Street, Causeway Bay, 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 2912, Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Email: ir@njxiezhong.com
Tel: 2890 3930
Fax: 2881 5336

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 of the Company or an AGM 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 ended 31 December 2012 has been provided in this 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 the date of Listing and up to 31 December 2012, there has been no significant change in the Company's Memorandum and Articles of Association.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Chen Cunyou, aged 50, 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, Xiezhong Liaoning and Xiezhong Hubei.

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 42, 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 and Xiezhong Hubei, a director of Xiezhong BVI, Xiezhong HK 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 research and development engineer of the technical department from October 1994 to March 1995. Mr. Ge worked as research and development 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. Fang Kenneth Hung, GBS, CBE, JP, aged 74, is a non-executive Director and a director of Xiezhong BVI, Xiezhong HK and Xiezhong Nanjing. He joined our Group in May 2008 and was the chairman of Xiezhong Nanjing from June 2008 to March 2010. Mr. Fang has been appointed as a Director since 30 September 2011.

Mr. Fang is a director of Fang Brothers (China) Limited and Fang Brothers Holdings Limited and the chairman of Fang Brothers Knitting Limited. He is also the chairman of Yeebo (International Holdings) Limited, a company listed on the Main Board of the Stock Exchange, and was previously the chairman of Times Ltd., a company listed on the Main Board of the Stock Exchange on 16 July 2007 and subsequently privatised and delisted on 25 May 2010. Mr. Fang also serves as a non-executive director of Jiangsu Expressway Company Limited and as an independent non-executive director of Wing Tai Properties Limited (formerly known as USI Holdings Limited), each being a company listed on the Main Board of the Stock Exchange. Mr. Fang is also the deputy managing director as well as a director of Nantong Jianghai Capacitor Co., Ltd., a company listed on the Shenzhen Stock Exchange.

Mr. Fang was granted the award of Industrialist of the Year (傑出工業家獎) by the Federation of Hong Kong Industries in 2002. He is an honorary chairman of the Hong Kong Textile Council and an honorary president of Hong Kong Woollen and Synthetic Knitting Manufacturers' Association.

Mr. Fang graduated from Massachusetts Institute of Technology, U.S.A. in June 1961 with a master's degree in chemical engineering. He was also conferred an honorary doctor's degree in business administration by the Hong Kong Polytechnic University in December 2005.

Mr. Liu Xiaoping, aged 57, is a non-executive Director of our Company and a director of Xiezhong BVI, Xiezhong HK, Xiezhong Nanjing, Xiezhong Beijing and Xiezhong Hubei. He joined our Group in May 2008. He has been appointed as a Director since 30 September 2011.

Mr. Liu has been a managing director at CITIC Capital Holdings Limited since December 2005. From 2003 to 2005, he served as the managing director of CITIC 21CN Company Limited, a company listed on the Main Board of the Stock Exchange. From 1998 to 2002, Mr. Liu served as vice president in the direct investment department at China International Capital Corporation (Hong Kong) Limited.

Mr. Liu graduated from 吉林工業大學 (Jilin University of Technology) (now known as 吉林大學 (Jilin University)) in January 1980. He obtained a master's degree in engineering at 北京航空航天大學 (Beijing University of Aeronautics and Astronautics) in April 1982. Mr. Liu subsequently obtained a doctor's degree of philosophy at University of Minnesota U.S.A. in March 1990.

Mr. Wang Zhenyu, aged 49, is a non-executive Director and a director of Xiezhong BVI, Xiezhong HK, Xiezhong Nanjing and Xiezhong Liaoning. He joined our Group in May 2008. He has been appointed as a Director since 30 September 2011.

Mr. Wang has been employed by CDH Investments Management (Hong Kong) Limited since 2008, and his current position is managing director. From 2002, he served as a vice president and managing director with various affiliates of CDH Investment Management (Hong Kong) Limited. From 2000 to 2002, he served as an associate in the investment consultancy department of China International Capital Corporation Limited. He has also been a director of CDH Cool and CDH Auto since 2007 and 2008, respectively.

Mr. Wang graduated from 合肥工業大學 (Hefei University of Technology) with a bachelor's degree in machinery engineering in August 1985 and a master's degree in industrial management engineering in July 1988.

Mr. Zhang Yichen, aged 49, is a non-executive Director and a director of Xiezhong BVI, Xiezhong HK and Xiezhong Nanjing. He joined our Group in March 2010 and has been the chairman of Xiezhong Nanjing since then until September 2011. He has been appointed as a Director since 30 September 2011.

Mr. Zhang is the Chairman and Chief Executive Officer of CITIC Capital. He joined CITIC Group in 2000 as an Executive Director of CITIC Pacific and President of CITIC Pacific Communications, before founding CITIC Capital in 2002. Prior to joining CITIC Group, he was a Managing Director at Merrill Lynch responsible for Debt Capital Market activities for the Greater China region. He started his career in investment banking where he joined Greenwich Capital Markets in 1987 and became Bank of Tokyo's Head of Proprietary Trading in New York in the early 1990s.

Mr. Zhang is a member of the Twelfth National Committee of the Chinese People's Political Consultative Conference (CPPCC). He is a founding member and Vice Chairman of Beijing Private Equity Association (BPEA) and Tianjin Private Equity Association and an Honorary Chairman of Hua Jing Society. Mr. Zhang is the former Chairman of China Venture Capital and Private Equity Association (CVCA) and is currently an Executive Committee member of its Board of Governors.

Mr. Zhang is a graduate of the Massachusetts Institute of Technology.

Independent non-executive Directors

Mr. Cheung Man Sang, aged 56, is an independent non-executive Director. He joined our Group on 16 May 2012 as an independent non-executive Director.

Mr. Cheung has been serving as the executive director and chief executive officer of China Private Equity Limited since December 2010. 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 39, is an independent non-executive director of the company. 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 of Hong Kong Limited. He is also an independent non-executive director of Kingdom Holdings Limited (Stock Code: 528), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited and 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 Institute of Certified Public Accountants and obtained 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 the Group on 16 May 2012.

Mr. Zhang Shulin, aged 72, is an independent non-executive Director. He joined our Group on 16 May 2012 as an independent non-executive Director. He has over 10 years of experience in automobile engineering and over 20 years of experience in managing automobile enterprises.

Mr. Zhang has been an independent director of 山東興民鋼圈股份有限公司 (Shandong Xingmin Wheel Co., Ltd.) and 浙江萬豐奧威汽輪股份有限公司 (Zhejiang Wanfeng Auto Wheel Co., Ltd.) since 15 March 2011 and 23 September 2010 respectively. Both companies are listed on the Shenzhen Stock Exchange.

Mr. Zhang is also an independent non-executive director of China Auto Electronics Group Limited, a company listed on the Stock Exchange of Singapore (Stock Code: T42.si.).

Mr. Zhang is currently the chief consultant of 中國汽車技術研究中心 (China Automotive Technology and Research Centre). 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).

SENIOR MANAGEMENT

Mr. Chen Cunyou, aged 50, 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 42, is the executive deputy general manager and chief engineer of Xiezhong Nanjing and an executive Director. Biographical details of Mr. Ge are set out in the paragraph headed “Directors” under this section.

Mr. Huang Yugang, aged 44, is the deputy general manager and the research and development department head of Xiezhong Nanjing and is responsible for overseeing the technical aspect of our production and the research and development of our products. Mr. Huang has also been the general manager of Xiezhong Liaoning since February 2010. Mr. Huang joined our Group in May 2002. Mr. Huang has accumulated approximately 21 years of experience in the production technique and production quality control of electrical appliance and automobile air-conditioning systems. Prior to joining our Group, Mr. Huang worked in 菊花電器集團有限公司二廠 (the Number 2 Factory of Juhua Electric Appliance (Group) Co., Ltd., Wuxi) as a technician from July 1990 to June 1993. Mr. Huang worked in 江陰粵陽汽車空調有限公司 (Jiangyin Yueyang Automobile Air conditioner Co., Ltd.) 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 張家港派恩汽車空調有限公司 (Zhang Jia Gang Pan Automobile Air Conditioner Co., Ltd.) as technical manager from August 1997 to December 1999. Mr. Huang 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.) as the head of technical department from August 2000 to April 2002. Mr. Huang obtained a diploma in the Discipline of Microcomputer from the Department of Electronics of Jiangnan University in July 1990.

Mr. Xin Fangwei, aged 38, 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. Lei Shenghua, aged 49, is the deputy general manager of Xiezhong Nanjing and is responsible for overseeing the sales, project management and technical aspect of our business. Mr. Lei joined our Group in March 2011. Mr. Lei has accumulated approximately 19 years of experience in the area of HVAC systems production. Prior to joining our Group, Mr. Lei worked for 江鈴汽車股份有限公司 (Jiangling Motors Co, Ltd.) as an engineer from January 1992 to March 1996. Mr. Lei worked for 江西新電汽車空調系統有限公司 (Jianxi Xindian Automobile Air Conditioner System Co., Ltd.) from March 1996 to February 2011 and has served various positions, including engineer, head of production department, director of technology centre, head of marketing department, assistance to the general manager, deputy general manager and executive deputy general manager (responsible for the management of the marketing, production and quality control departments). Mr. Lei graduated with a bachelor's degree in materials science and engineering from Shanghai Jiao Tong University in July 1986.

Mr. Zhang Qingrong, aged 65, 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 36, is the chief financial officer of our 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 in June 1999. He is a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

COMPANY SECRETARY

Mr. Chui Wing Fai, aged 47, is the company secretary of our 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 18 years of experience in audit and accounting. His commercial accounting experience includes those gained at China Resources Light Industries and Textiles (Holdings) Company Limited (currently known as China Resources Textiles (Holdings) Company Limited) and China Resources Enterprise, Limited, a company listed on the Main Board of the Stock Exchange, from 2000 to 2006. He worked at Deloitte Touche Tohmatsu from 1993 to 1999.

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.

Report of the Directors

The Directors present their annual report and the audited financial statements of Xiezhong International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 (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.

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

RESULTS AND APPROPRIATION

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

PAYMENT OF FINAL DIVIDEND

The Board recommends the payment of a final dividend for 2012 of HKD3.2 cents per Share (the "Proposed Final Dividend"). Subject to the approval of the Proposed Final Dividend by the shareholders at the annual general meeting to be held on Wednesday, 8 May 2013 (the "2013 AGM"), it is expected that the Proposed Final Dividend will be paid on or around 28 May 2013 to the shareholders whose names appear in the register of members of the Company on 16 May 2013.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 14 May 2013 to Thursday, 16 May 2013, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the Proposed Final Dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, 13 May 2013.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Year are set out in note 30 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 30 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVE OF THE COMPANY

As at 31 December 2012, 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 HKD488,634,000 (equivalent to RMB397,741,000).

BORROWINGS

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and note 25 to the consolidated financial statements.

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.

EVENTS AFTER THE REPORTING PERIOD

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 and up to the date of this report are:

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

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

In accordance with the articles of association of the Company, at each annual general meeting ("AGM") 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 AGM. 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 AGM and shall then be eligible for re-election.

Accordingly, Mr. Liu Xiaoping and Mr. Wang Zhenyu shall retire from office by rotation at the conclusion of the forthcoming AGM of the Company and being eligible, offer themselves for re-election thereat.

Further, Mr. Ge Hongbing, Mr. Cheung Man Sang, Mr. Lau Ying Kit and Mr. Zhang Shulin shall retire from office at the conclusion of the forthcoming AGM of the Company 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 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 AGM 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 AGM 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 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

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 Fang Brothers (China) Ltd. ("Fang Brothers"), CDH Cool Limited ("CDH Cool"), CDH Auto Limited ("CDH Auto"), CITIC Capital China Limited ("CITIC Capital China"), Sunrise International Investment Management Inc. ("Sunrise International"), Mr. Chen Hao and Mr. Chen Cunyou declared that he has complied with the undertakings given under the Deed of Non-competition as disclosed in the prospectus of the Company dated 6 June 2012 (the "Prospectus"). The independent non-executive Directors have also reviewed the relevant undertakings and have not noticed any non-compliance incident.

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.

SHARE OPTION SCHEME

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

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.

SHARE INCENTIVE PLAN

On 29 October 2008, the board of directors of Xiezhong Nanjing adopted the share incentive plan, pursuant to which 33 grantees were granted rights to acquire at nil consideration, shares in Xiezhong Nanjing or its Listing vehicle holding company, totalled 5% of the issued shares of such listing vehicle immediately before its Listing, conditional upon Xiezhong Nanjing having achieved the targeted profits for each of the years 2008, 2009 and 2010 of RMB60 million, RMB63 million, and RMB80 million respectively (the "Share Incentive Plan"). As Xiezhong Nanjing had achieved the targeted profits, each of Fang Brothers, CDH Cool, CDH Auto, CITIC Capital China and Sunrise International agreed to transfer a total of 30,000,000 shares to the said grantees at nil consideration in proportion to their respective interests in the Company upon the grantees exercising their rights under the Share Incentive Plan. Such rights can be exercised for a period of 10 years from the date of grant. The grantees have agreed that they would not exercise any of their rights before the first anniversary of the Listing Date and that any exercise of their rights before the second anniversary of the Listing Date would be subject to a limit of 50% with their remaining rights to be exercised from the second anniversary onwards.

Particulars of the grants under the Share Incentive Plan are set out below:

Grantees	Number of Shares to be acquired by the grantees	Approximate percentage of interest in our Company immediately after the subject acquisition of Shares
Directors		
Mr. Chen Cunyou	10,260,000	1.2825%
Mr. Ge Hongbing	6,000,000	0.75%
Senior management		
Mr. Huang Yugang	3,000,000	0.375%
Others (30 Employees)	10,740,000	1.3425%

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SECURITIES

Save as disclosed below, none of our Directors or chief executive of our Company who held office on 31 December 2012 had any interests or short positions in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions) which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in the Listing Rules.

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

Name of Directors	Nature of interest	Number of shares	Approximate percentage of shareholding in our Company
Mr. Fang Kenneth Hung (Note 1)	Interest of controlled corporation	36,000,000 (L)	4.5%
		1,800,000 (S)	0.225%
Mr. Chen Cunyou (Note 2)	Beneficial owner	10,260,000 (L)	1.2825%
Mr. Ge Hongbing (Note 3)	Beneficial owner	6,000,000 (L)	0.75%
Mr. Zhang Yichen (Note 4)	Interest of controlled corporation	185,148,000 (L)	23.14%
		9,257,400 (S)	1.16%

Notes:

1. As mentioned in the paragraph headed "Share Incentive Plan" above, each of Fang Brothers, CDH Cool, CDH Auto, CITIC Capital China and Sunrise International has an obligation to transfer a total of 30,000,000 shares in proportion to their respective interests in the Company at nil consideration to the grantees under the Share Incentive Plan upon full exercise of the grantees' rights thereunder. As a result, each of them has a short position in respect of the shares to be so transferred under the Share Incentive Plan. Since Mr. Fang Kenneth Hung has a 50% interest in Fang Brothers Holdings Limited, which wholly owns Fang Brothers. Therefore, Mr. Fang Kenneth Hung is deemed to be interested in all the shares held by and short positions in shares of Fang Brothers by virtue of the SFO.

2. Mr. Chen Cunyou was granted rights to acquire 10,260,000 shares under the Share Incentive Plan.

3. Mr. Ge Hongbing was granted rights to acquire 6,000,000 shares under the Share Incentive Plan.

4. Mr. Zhang Yichen is deemed to be interested in all the shares held by and all short positions in shares of CITIC Capital China by virtue of the SFO. For details of his deemed interest, please refer to the section headed "Substantial Shareholders Interests in Securities" below.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as it is known to the Directors, save as disclosed below, our Directors are not aware of any person (other than Directors and chief executive of the Company) who, as at 31 December 2012, had interests or short positions in any shares or underlying shares which are required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Long positions (L) and short positions (S) in shares

Name of Shareholder	Nature of interest	Number of shares	Approximate percentage of shareholding in our Company
CDH Cool	Beneficial owner	44,748,000 (L) 2,237,400 (S)	5.59% 0.28%
CDH China Growth Capital Fund II, L.P.[1]	Interest of controlled corporation	44,748,000 (L) 2,237,400 (S)	5.59% 0.28%
CDH China Growth Capital Holdings Company Limited[1]	Interest of controlled corporation	44,748,000 (L) 2,237,400 (S)	5.59% 0.28%
China Diamond Holdings II, L.P.[1]	Interest of controlled corporation	44,748,000 (L) 2,237,400 (S)	5.59% 0.28%
CDH Auto	Beneficial owner	94,104,000 (L) 4,705,200 (S)	11.76% 0.59%
CDH China Fund III, L.P.[2]	Interest of controlled corporation	94,104,000 (L) 4,705,200 (S)	11.76% 0.59%
CDH III Holdings Company Limited[2]	Interest of controlled corporation	94,104,000 (L) 4,705,200 (S)	11.76% 0.59%
China Diamond Holdings III, L.P.[2]	Interest of controlled corporation	94,104,000 (L) 4,705,200 (S)	11.76% 0.59%

Name of Shareholder	Nature of interest	Number of shares	Approximate percentage of shareholding in our Company
China Diamond Holdings Company Limited[1,2]	Interest of controlled corporation	138,852,000 (L) 6,942,600 (S)	17.36% 0.87%
CITIC Capital China	Beneficial owner	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Capital China Partners, L.P.[3]	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CCP GP Ltd.[3]	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CCP Ltd.[3]	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Capital Partners Limited[3]	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Capital Holdings Limited[3]	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CP Management Holdings Limited[3]	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
Brian J. Doyle[3]	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Limited[3]	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
CITIC Group Corporation[3]	Interest of controlled corporation	185,148,000 (L) 9,257,400 (S)	23.14% 1.16%
Sunrise International[4]	Beneficial owner	240,000,000 (L) 12,000,000 (S)	30% 1.50%
Mr. Chen Hao[4]	Interest of controlled corporation	240,000,000 (L) 12,000,000 (S)	30% 1.50%

Notes:

1. CDH Cool is wholly-owned by CDH China Growth Capital Fund II, L.P. The general partner of CDH China Growth Capital Fund II, L. P. is CDH China Growth Capital Holdings Company Limited, which is owned as to 69.5% by China Diamond Holdings II, L.P. The general partner of China Diamond Holdings II, L.P. is China Diamond Holdings Company Limited. Therefore, each of CDH China Growth Capital Fund II, L.P., CDH China Growth Capital Holdings Company Limited and China Diamond Holdings II, L.P. and China Diamond Holdings Company Limited is deemed to be interested in all the shares held by and all short positions in shares of CDH Cool by virtue of the SFO.

2. CDH Auto is wholly-owned by CDH China Fund III, L.P. The general partner of CDH China Fund III, L.P. is CDH III Holdings Company Limited, which is owned as to 80% by China Diamond Holdings III, L.P. The general partner of China Diamond Holdings III, L.P. is China Diamond Holdings Company Limited. Therefore, each of CDH China Fund III, L.P., CDH III Holdings Company Limited, China Diamond Holdings III, L.P. and China Diamond Holdings Company Limited is deemed to be interested in all the shares held by and all short positions in shares of CDH Auto by virtue of the SFO.

3. Each of these entities or persons is deemed to be interested in all the shares held by and all short positions in shares of CITIC Capital China by virtue of the SFO given their direct or indirect relationship with CITIC Capital China as described below:

   (a) CITIC Capital China is wholly-owned by CITIC Capital China Partners, L.P., the general partner of which is CCP GP Ltd.

   (b) CCP GP Ltd. is wholly-owned by CCP Ltd., which is in turn a wholly-owned subsidiary of CITIC Capital Partners Limited.

   (c) CCP Ltd., is a wholly-owned subsidiary of CITIC Capital Partners Limited.

   (d) CITIC Capital Holdings Limited holds a 51% interest in CITIC Capital Partners Limited.

   (e) CP Management Holdings Limited holds a 49% interest in CITIC Capital Partners Limited.

   (f) Each of Mr. Zhang Yichen and Mr. Brian J. Doyle holds a 50% interest in CP Management Holdings Limited.

   (g) CITIC Group Corporation, through various intermediary holding companies in aggregate holds a 55% interest in CITIC Capital Holdings Limited.

   (h) CITIC Limited is a wholly-owned subsidiary of CITIC Group Corporation.

4. Sunrise International is 100% owned by Mr. Chen Hao. Therefore, Mr. Chen Hao is deemed to be interested in all the shares held by and all short positions in shares of Sunrise International by virtue of the SFO.

5. As mentioned in the paragraph headed "Share incentive plan" above, each of Fang Brothers, CDH Cool, CDH Auto, CITIC Capital China and Sunrise International has an obligation to transfer a total of 30,000,000 shares in proportion to their respective interests in the Company at nil consideration to the grantees under the Share incentive plan upon full exercise of the grantees' rights thereunder. As a result, each of them has a short position in respect of the shares to be so transferred under the Share incentive plan.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Share Incentive Plan and Share Option Scheme as set out in note 26(a) and 26(b) 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 CONTRACTS OF SIGNIFICANCE

Save as disclosed herein, no contract of significance in relation to which the Company, its holding company or subsidiaries was a party and in which 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 report, no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries was a party subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS

During the Year, the Group's five largest customers together accounted for 68.7% of the Group's sales, of which 23.3% was attributable to the largest customer. To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers during the Year.

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

1. Connected transactions in relation to daily operation

— Purchase of automotive air-conditioning compressors and assembly parts from Nanjing Aotecar Refrigerating Company Limited ("Aotecar Nanjing")

On 10 May 2012, Xiezhong Nanjing and Aotecar Nanjing entered into a master sales agreement (the "Aotecar Master Sales Agreement"), pursuant to which Aotecar Nanjing agreed to supply to Xiezhong Nanjing air-conditioning compressors and assembly parts based on normal commercial terms and at prices to be determined with reference to the prevailing market prices in respect of equivalent products for a term commenced on 1 January 2012 to 31 December 2014.

Aotecar Nanjing is an indirect wholly-owned subsidiary of China Auto System Technologies Limited, which is owned as to 48.85% by CITIC Capital China, as to 9.5% by Fang Brothers, as to 11.81% by CDH Cool, as to 24.84% by CDH Auto and as to 5% owned by an Independent Third Party. As CITIC Capital China is a substantial shareholder of our Company, Aotecar Nanjing, being its associate, is a connected person of our Company under the Listing Rules. The transaction contemplated under the Aotecar Master Sales Agreement will constitute a continuing connected transaction for our Company.

The annual cap for the transaction under the Aotecar Master Sales Agreement for the year ended 31 December 2012 was RMB37.3 million. During the year ended 31 December 2012, the aggregate amount of the transactions under the Aotecar Master Sales Agreement was approximately RMB32.2 million, which was within the annual cap of RMB37.3 million.

— Sale of automobile air-conditioning systems and assembly parts to Beijing Automotive Group Co., Ltd and its subsidiaries or associates other than Beijing Hainachuan Automobile Parts Co., Ltd. ("BAIC Group")

On 10 May 2012, Xiezhong Nanjing and BAIC entered into a master sales agreement (the "Beijing Auto Master Sales Agreement"), pursuant to which the Group agreed to sell air-conditioning systems and assembly parts of automobile air-conditioning systems to certain associates of BAIC, including Foton, 北京汽車股份有限公司株洲分公司 (Zhuzhou Branch of Beijing Automobile Co., Ltd.) and 北京汽車新能源汽車有限公司 (Beijing Automobile New Energy Automobile Company Limited) based on normal commercial terms and at prices to be determined with reference to the prevailing market prices for a term commencing from the Listing Date to 31 December 2014.

Foton is a PRC car manufacturer which is listed on Shanghai Stock Exchange (stock code: 600166). According to Foton's annual report for the year ended 31 December 2012, BAIC was Foton's single largest shareholder which owned 32.93% shares of Foton. 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.). As BAIC is the holding company of Beijing Hainachuan which owns 50% of the registered capital of Xiezhong Beijing which has become a subsidiary of our Company since January 2011, members of the BAIC Group are our connected persons under the Listing Rules. The transactions contemplated under the Beijing Auto Master Sales Agreement will constitute a continuing connected transaction for our Company.

The annual cap for the transaction under the Beijing Auto Master Sales Agreement for the year ended 31 December 2012 was RMB240.0 million. During the year ended 31 December 2012, the aggregate amount of the transactions under the Beijing Auto Master Sales Agreement was approximately RMB167.5 million, which was within the annual cap of RMB240.0 million.

The Company has applied and the Stock Exchange has on 28 May 2012 granted a waiver from, among others, strict compliance with the announcement and/or shareholders' approval requirements under Rule 14A.42(3) of the Listing Rules for the continuing connected transactions set out in the Prospectus of the Company.

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 value disclosed in the Prospectus dated 6 June 2012 made by the Company in respect of each of the disclosed continuing connected transactions.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had complied with the code provisions as set out in the Corporate Governance 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.

ANNUAL GENERAL MEETING

The AGM, will be held on 8 May 2013, Shareholders should refer to details regarding the AGM in the circular of the Company dated 8 April 2013 and the notice of meeting and form of proxy accompanying thereto.

AUDITOR

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

ON BEHALF OF THE BOARD

Chen Cunyou
Chairman

Hong Kong
27 March 2013

Independent Auditor's Report

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

We have audited the consolidated financial statements of Xiezhong International Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 42 to 103, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

27 March 2013

Consolidated Income Statement

For the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	Note	2012 RMB'000	2011 RMB'000
Turnover	5	**589,680**	619,904
Cost of sales		**(434,065)**	(447,727)
Gross profit		**155,615**	172,177
Other revenue and net income	6	**10,302**	6,835
Distribution costs		**(23,479)**	(24,730)
Administrative expenses		**(52,483)**	(37,767)
Other operating expenses		**(7)**	(186)
Profit from operations		**89,948**	116,329
Finance costs	7(a)	**(8,722)**	(7,554)
Share of losses of jointly controlled entities	18	**(198)**	(235)
Profit before taxation	7	**81,028**	108,540
Income tax	8(a)	**(12,797)**	(21,531)
Profit for the year		**68,231**	87,009
Attributable to:			
Equity shareholders of the Company	11	**68,012**	86,066
Non-controlling interests		**219**	943
Profit for the year		**68,231**	87,009
Earnings per share (RMB)			
Basic and diluted	12	**0.096**	0.143

The notes on pages 49 to 103 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	2012 **RMB'000**	2011 RMB'000
Profit for the year	**68,231**	87,009
Other comprehensive income for the year		
Exchange differences on translation of financial statements of entities outside mainland China, net of nil tax	**487**	8,756
Total comprehensive income for the year	**68,718**	95,765
Attributable to:		
Equity shareholders of the Company	**68,499**	94,822
Non-controlling interests	**219**	943
Total comprehensive income for the year	**68,718**	95,765

The notes on pages 49 to 103 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2012
(Expressed in Renminbi Yuan)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	13	**291,435**	197,201
Lease prepayments	14	**55,157**	56,050
Intangible assets	15	**37,107**	44,383
Goodwill	16	**46,832**	46,832
Interest in a jointly controlled entity	18	**4,461**	4,659
Non-current prepayments	19	**52,027**	33,038
Deferred tax assets	27(b)	**5,994**	5,012
		493,013	387,175
Current assets			
Inventories	20	**176,469**	127,991
Trade and other receivables	21	**388,903**	390,745
Amounts due from related party	33(c)	**10,240**	3,607
Deposits with banks	22	**25,368**	50,961
Cash	23(a)	**98,354**	28,063
		699,334	601,367
Current liabilities			
Trade and other payables	24	**185,381**	198,291
Amounts due to related parties	33(c)	**13,706**	24,903
Interest-bearing borrowings	25	**182,757**	154,618
Income tax payables	27(a)	**7,133**	11,361
Provision	28	**3,656**	3,799
		392,633	392,972
Net current assets		**306,701**	208,395
Total assets less current liabilities		**799,714**	595,570
Non-current liabilities			
Deferred income	29	**21,444**	21,695
Deferred tax liabilities	27(b)	**27,237**	25,918
		48,681	47,613
Net assets		**751,033**	547,957

The notes on pages 49 to 103 form part of these financial statements.

At 31 December 2012
(Expressed in Renminbi Yuan)

	Note	2012 RMB'000	2011 RMB'000
Capital and reserves	30		
Share capital		**6,496**	7
Reserves		**716,417**	520,049
Total equity attributable to equity shareholders of the Company		**722,913**	520,056
Non-controlling interests		**28,120**	27,901
Total equity		**751,033**	547,957

Approved and authorised for issue by the Board of Directors on 27 March 2013.

Chen Cunyou
Director

Ge Hongbing
Director

The notes on pages 49 to 103 form part of these financial statements.

Balance Sheet

At 31 December 2012
(Expressed in Renminbi Yuan)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Investments in subsidiaries	17	**275,210**	—
Current assets			
Trade and other receivables	21	**133,368**	4,589
Cash	23(a)	**5,673**	—
		139,041	4,589
Current liabilities			
Trade and other payables	24	**10,161**	9,687
Net current assets/(liabilities)		**128,880**	(5,098)
Net assets/(liabilities)		**404,090**	(5,098)
Capital and reserves	30		
Share capital		**6,496**	—
Reserves		**397,594**	(5,098)
Total equity		**404,090**	(5,098)

Approved and authorised for issue by the Board of Directors on 27 March 2013.

Chen Cunyou
Director

Ge Hongbing
Director

The notes on pages 49 to 103 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 (Note 30(c))	Share premium RMB'000 (Note 30(d)(i))	Statutory reserves RMB'000 (Note 30(d)(ii))	Capital reserve RMB'000 (Note 30(d)(iii))	Other reserve RMB'000 (Note 30(d)(iv))	Exchange reserve RMB'000 (Note 30(d)(v))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011	7	—	23,894	108,245	17,919	8,348	83,526	241,939	4,741	246,680
Changes in equity for 2011:										
Deemed acquisition of a subsidiary	—	—	—	—	—	—	—	—	22,217	22,217
Capital injection	—	—	—	183,295	—	—	—	183,295	—	183,295
Total comprehensive income for the year	—	—	—	—	—	8,756	86,066	94,822	943	95,765
Balance at 31 December 2011 and 1 January 2012	**7**	**—**	**23,894**	**291,540**	**17,919**	**17,104**	**169,592**	**520,056**	**27,901**	**547,957**
Changes in equity for 2012:										
Elimination of share capital on reorganisation	**(7)**	**—**	**—**	**7**	**—**	**—**	**—**	**—**	**—**	**—**
Issue of shares upon reorganisation	**1**	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**	**—**	**—**
Capitalisation issue	**4,871**	**(4,871)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Shares issued under public offering and placing, net of issuing expenses	**1,624**	**132,734**	**—**	**—**	**—**	**—**	**—**	**134,358**	**—**	**134,358**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**487**	**68,012**	**68,499**	**219**	**68,718**
Appropriation to statutory reserves	**—**	**—**	**7,641**	**—**	**—**	**—**	**(7,641)**	**—**	**—**	**—**
Balance at 31 December 2012	**6,496**	**127,863**	**31,535**	**291,546**	**17,919**	**17,591**	**229,963**	**722,913**	**28,120**	**751,033**

The notes on pages 49 to 103 form part of these financial statements.

Consolidated Cash Flow statement

For the year ended 31 December 2012
(Expressed in Renminbi Yuan)

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Cash generated from operating activities	23(b)	**98,201**	49,758
Finance costs paid		**(11,540)**	(7,554)
Income tax paid	27(a)	**(16,688)**	(19,308)
Net cash generated from operating activities		**69,973**	22,896
Investing activities			
Acquisition of property, plant and equipment and lease prepayments		**(135,148)**	(95,548)
Additions through deemed acquisition of a subsidiary		**—**	33,465
Proceeds from disposal of property, plant and equipment		**44**	—
Decrease/(increase) in unrestricted bank deposits	22	**10,320**	(30,463)
Interest received		**1,375**	1,608
Net cash used in investing activities		**(123,409)**	(90,938)
Financing activities			
Proceeds from new bank loans		**126,000**	149,159
Repayment of bank loans		**(137,118)**	(58,041)
Proceeds from issue of shares, net of issuing expenses	30(c)(iv)	**134,358**	—
Net cash generated from financing activities		**123,240**	91,118
Net increase in cash		**69,804**	23,076
Cash at 1 January	23(a)	**28,063**	4,969
Effect of foreign exchange rate changes		**487**	18
Cash at 31 December	23(a)	**98,354**	28,063

The notes on pages 49 to 103 form part of these financial statements.

1 General information and basis of presentation

Xiezhong International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the design, production and sale of automotive heating, ventilation and cooling ("HVAC") systems and a range of automotive HVAC components.

Pursuant to a reorganisation (the "Reorganisation") of the Group which was completed on 20 January 2012 to rationalise the group structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of Xiezhong Holdings Limited ("Xiezhong BVI"), and the companies now comprising the Group are owned by the same equity shareholders, i.e. CITIC Capital China Limited ("CITIC Capital China"), Fang Brothers (China) Limited ("Fang Brothers"), CDH Cool Limited ("CDH Cool"), CDH Auto Limited ("CDH Auto") and Sunrise International Investment Management Inc. ("Sunrise International"), both before and after the Reorganisation. Details of the Reorganisation are set out in the prospectus of the Company dated 6 June 2012. The Company's shares were listed on the Stock Exchange on 18 June 2012 (the "Listing Date").

As the Company was formed for the sole purpose of the Reorganisation and had no operations prior to the acquisition of Xiezhong BVI, no business combination has occurred and there were no changes in the economic substance of the ownership and the business of the Group. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition as set out in International Financial Reporting Standard 3, *Business combinations*. The consolidated financial statements of the Company are considered as a continuation of the consolidated financial statements of Xiezhong BVI with the assets and liabilities of Xiezhong BVI and its subsidiaries recognised and measured at their historical carrying amounts prior to the Reorganisation.

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 (the "IASB") and the 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. A summary of the 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 and the Company. 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 2012 comprise the Group and the Group's interest in a jointly controlled entity.

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.

(c) Changes in accounting policies

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

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

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

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

(d) Use of estimates and judgments

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.

2 Significant accounting policies (continued)

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the 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 balance sheet 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 income statements and the consolidated statements of 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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(i)).

(f) Jointly controlled entity

A jointly controlled entity is an entity which operates under a consolidated arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

2 Significant accounting policies (continued)

(f) Jointly controlled entity (continued)

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(g) and 2(k)(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition, post tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss.

(g) 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(k)(ii)).

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

2 Significant accounting policies (continued)

(h) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)(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(v)).

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	15–20 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

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(k)(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.

2 Significant accounting policies (continued)

(i) 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(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)(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(k)(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

The estimated useful life of the Group's core technology 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.

(j) 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(k)(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.

2 Significant accounting policies (continued)

(k) 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 balance sheet date 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 investments in subsidiaries and jointly controlled entities (including those recognised using the equity method (see note 2(f))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).

— 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.

  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.

2 Significant accounting policies (continued)

(k) Impairment of assets (continued)

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

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. 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 balance sheet date 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; and

— goodwill.

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

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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 to sell, or value in use, if determinable.

2 Significant accounting policies (continued)

(k) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— 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 Rules Governing the Listing of Securities on the Stock Exchange, 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(k)(i) and 2(k)(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.

(l) 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.

2 Significant accounting policies (continued)

(m) 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(k)(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.

(n) 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.

(o) 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.

(p) Cash

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

(q) 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 staff 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.

2 Significant accounting policies (continued)

(q) Employee benefits (continued)

(iii) Share-based payments (continued)

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).

(r) 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 business combinations, or 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 balance sheet date, 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.

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.

2 Significant accounting policies (continued)

(r) Income tax (continued)

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 reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the balance sheet date 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.

(s) 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(s)(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(s)(ii).

2 Significant accounting policies (continued)

(s) Provisions and contingent liabilities (continued)

(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.

(t) 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) Interest income

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

(iii) Government grants

Government grants are recognised in the balance sheet 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)

(u) 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 balance sheet date. 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 determined.

The results of foreign operations are translated to RMB at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The balance sheet items of foreign operations are translated to RMB at the exchange rates at the balance sheet date.

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 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.

(v) 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.

(w) 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.

2 Significant accounting policies (continued)

(w) Related parties (continued)

(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).

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.

(x) 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) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. 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 balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

(c) 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 balance sheet date.

(d) Warranty provision

As explained in note 28, 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.

3 Significant accounting judgements and estimates (continued)

(e) 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 production and sale of automotive air-conditioners.

(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 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 4 customers with whom transactions have exceeded 10% of the Group's annual revenue during the year ended 31 December 2012. Details of concentrations of credit risk arising from the Group's largest customer and the five largest customers are set out in note 31(a).

Revenues of a customer which amounted to 10 percent or more of the Group's revenue for the year ended 31 December 2012 are set out below:

	2012 **RMB'000**	2011 RMB'000
Customer A	**137,164**	180,910
Customer B	**85,968**	*
Customer C	**80,452**	63,603
Customer D	**61,946**	73,776

* Less than 10 percent of the Group's revenue for the corresponding year.

5 Turnover

The principal activities of the Group are manufacturing and sale of automotive HVAC systems and a range of automotive HVAC components.

Turnover represents the sales value of goods supplied to customers.

6 Other revenue and net income

	2012 RMB'000	2011 RMB'000
Other revenue		
Government grants	**5,925**	2,677
Interest income	**1,375**	1,608
Others	**2,999**	2,550
	10,299	6,835
Other net income		
Gains on disposal of property, plant and equipment	**3**	—
	10,302	6,835

7 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	Note	2012 RMB'000	2011 RMB'000
Interest expenses on bank loans wholly repayable within five years		**7,446**	4,116
Interest on discounted bills		**4,094**	3,438
Less: interest expenses capitalised into construction in progress	(i)	**(2,818)**	—
		8,722	7,554

(i) The borrowing costs have been capitalised at a rate of 7.05% per annum.

7 Profit before taxation (continued)

(b) Staff costs

	Note	2012 RMB'000	2011 RMB'000
Salaries, wages, and other benefits		**55,672**	49,103
Contributions to defined contribution retirement plan	(i)	**2,909**	1,643
		58,581	50,746

(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% (2011: 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.

(c) Other items

	Note	2012 RMB'000	2011 RMB'000
Amortisation			
— lease prepayments	14	**1,255**	1,213
— intangible assets	15	**7,341**	7,265
Depreciation of property, plant and equipment	13	**24,989**	18,578
Impairment losses on trade debtors	21(b)	**702**	164
Auditors' remuneration			
— audit services		**1,935**	1,109
— other services		**—**	717
Research and development costs ("R&D")		**15,008**	9,886
Increase in provision for product warranties	28	**174**	2,395
Cost of inventories	20(b),(i)	**434,065**	447,727

(i) Cost of inventories includes RMB52,215,000 (2011: RMB45,902,000) 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

(a) Taxation in the consolidated income statement represents:

	2012 RMB'000	2011 RMB'000
Current tax — PRC income tax		
Provision for the year	**12,988**	17,318
Over-provision in respect of prior year	**(528)**	(139)
	12,460	17,179
Deferred tax		
Origination and reversal of temporary differences	**2,661**	4,352
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(2,324)**	—
	337	4,352
	12,797	21,531

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

	Note	2012 RMB'000	2011 RMB'000
Profit before taxation		**81,028**	108,540
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	(i)	**20,374**	28,450
Effect of tax concessions	(ii)	**(7,703)**	(10,855)
Over-provision in respect of prior year		**(528)**	(139)
Effect of non-deductible expenses		**403**	927
R&D bonus deduction	(iii)	**(1,876)**	(1,236)
Effect of unused tax losses not recognised		**349**	75
Effect on deferred tax balances at 1 January resulting from a change in tax rate		**(2,324)**	—
Tax rate differential on deferred tax balances		**789**	(903)
Effect of PRC dividend withholding tax	(iv)	**3,313**	5,212
Actual tax expense		**12,797**	21,531

8 Income tax (continued)

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

(i) Under the Corporate Income Tax Law of the PRC (the "CIT Law") which was passed by the Fifth Plenary Session of the Tenth National People's Congress, effective from 1 January 2008, the PRC's statutory income tax rate is 25%. The Group's PRC subsidiaries are subject to income tax at the statutory tax rate unless otherwise specified.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and 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 ended 31 December 2012.

(ii) Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. ("Xiezhong Nanjing") was qualified as a High and New Technology Enterprise in 2009. As a result, it was entitled to a preferential income tax rate of 15% for a period of three years from 2009 to 2011. Xiezhong Nanjing renewed its certificate as a High and New Technology Enterprise in 2012 and it is entitled to a preferential tax rate of 15% for another three years from 2012 to 2014 pursuant to the current applicable CIT Law and its regulations.

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

(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% unless reduced by tax treaties or agreements. Under the tax arrangement between the mainland China and Hong Kong Special Administration Region, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC resident enterprise is entitled to a reduced dividend withholding tax rate of 5%. The Group has recognised deferred tax liabilities on PRC dividend withholding tax at 5%.

9 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2012				
	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 Director					
Mr. Chen Cunyou	**87**	**127**	**300**	**51**	**565**
Mr. Ge Hongbing	**65**	**113**	**400**	**51**	**629**
Non-executive Directors					
Mr. Fang Kenneth Hung	**–**	**–**	**–**	**–**	**–**
Mr. Liu Xiaoping	**–**	**–**	**–**	**–**	**–**
Mr. Wang Zhenyu	**–**	**–**	**–**	**–**	**–**
Mr. Zhang Yichen	**–**	**–**	**–**	**–**	**–**
Independent non-executive Directors					
Mr. Cheung Man Sang	**52**	**–**	**–**	**–**	**52**
Mr. Lau Ying Kit	**52**	**–**	**–**	**–**	**52**
Mr. Zhang Shulin	**52**	**–**	**–**	**–**	**52**
	308	**240**	**700**	**102**	**1,350**

	Year ended 31 December 2011				
	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 Director					
Mr. Chen Cunyou	–	126	320	12	458
Mr. Ge Hongbing	–	119	400	12	531
Non-executive Directors					
Mr. Fang Kenneth Hung	–	–	–	–	–
Mr. Liu Xiaoping	–	–	–	–	–
Mr. Wang Zhenyu	–	–	–	–	–
Mr. Zhang Yichen	–	–	–	–	–
Independent non-executive Directors					
Mr. Cheung Man Sang	–	–	–	–	–
Mr. Lau Ying Kit	–	–	–	–	–
Mr. Zhang Shulin	–	–	–	–	–
	–	245	720	24	989

During the year ended 31 December 2012, 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 below 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 ended 31 December 2012.

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2011: two) are directors of the Company whose remuneration is disclosed in note 9 above. The aggregate of the emoluments in respect of the other three (2011: three) individuals are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other emoluments	**661**	275
Discretionary bonuses	**488**	750
Retirement scheme contributions	**103**	36
	1,252	1,061

The emoluments of these three individuals with the highest emoluments are within the band Nil to HKD 1 million for the year ended 31 December 2012.

11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB177,000 (2011: loss of RMB5,154,000) which has been dealt with in the financial statements of the Company.

12 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB68,012,000 (2011: RMB86,066,000) and the weighted average number of 707,650,273 shares (2011: 600,000,000 shares) in issue during the year ended 31 December 2012.

The weighted average number of shares in issue during the year ended 31 December 2012 is based on the assumption that 600,000,000 shares of the Company are in issue, comprising 100,000 shares in issue and 599,900,000 shares issued pursuant to the capitalisation issue (see note 30(c)(iii)), as if the shares were outstanding throughout the period from 1 January 2012 to the Listing Date, and 200,000,000 shares issued under initial public offering and placing. The weighted average number of shares in issue during the year ended 31 December 2011 is based on the assumption that 600,000,000 shares of the Company are in issue, comprising 100,000 shares in issue and 599,900,000 shares issued pursuant to the capitalisation issue (see note 30(c)(iii)), as if the shares were outstanding throughout the year ended 31 December 2011.

Weighted average number of shares

	2012	2011
Effect of shares issued on 20 January 2012	**100,000**	100,000
Effect of capitalisation issue on 18 June 2012	**599,900,000**	599,900,000
Effect of shares issued by public offering and placing on 18 June 2012	**107,650,273**	—
Weighted average number of shares	**707,650,273**	600,000,000

There were no dilutive potential ordinary shares during the year ended 31 December 2012 and therefore, diluted earnings per share is the same as the basic earnings per share.

13 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	Leasehold improvement RMB'000	Construction in progress "CIP" RMB'000	Total RMB'000
Cost:							
At 1 January 2011	32,188	132,653	5,976	6,090	222	13,931	191,060
Additions through deemed acquisition of a subsidiary	—	686	85	208	—	—	979
Additions	—	35,165	3,375	1,277	—	40,545	80,362
Transfer from CIP	11,669	4,648	—	—	—	(16,317)	—
At 31 December 2011	43,857	173,152	9,436	7,575	222	38,159	272,401
At 1 January 2012	**43,857**	**173,152**	**9,436**	**7,575**	**222**	**38,159**	**272,401**
Additions	**1,711**	**50,822**	**954**	**1,337**	**—**	**64,440**	**119,264**
Transfer from CIP	**897**	**962**	**—**	**—**	**—**	**(1,859)**	**—**
Disposal	**—**	**—**	**(117)**	**(267)**	**(222)**	**—**	**(606)**
At 31 December 2012	**46,465**	**224,936**	**10,273**	**8,645**	**—**	**100,740**	**391,059**
Accumulated depreciation:							
At 1 January 2011	(4,110)	(46,589)	(2,095)	(3,784)	(44)	—	(56,622)
Charge for the year	(1,582)	(15,623)	(601)	(594)	(178)	—	(18,578)
At 31 December 2011	(5,692)	(62,212)	(2,696)	(4,378)	(222)	—	(75,200)
At 1 January 2012	**(5,692)**	**(62,212)**	**(2,696)**	**(4,378)**	**(222)**	**—**	**(75,200)**
Charge for the year	**(2,080)**	**(19,322)**	**(2,712)**	**(875)**	**—**	**—**	**(24,989)**
Disposal	**—**	**—**	**105**	**238**	**222**	**—**	**565**
At 31 December 2012	**(7,772)**	**(81,534)**	**(5,303)**	**(5,015)**	**—**	**—**	**(99,624)**
Net book value:							
At 31 December 2012	**38,693**	**143,402**	**4,970**	**3,630**	**—**	**100,740**	**291,435**
At 31 December 2011	38,165	110,940	6,740	3,197	—	38,159	197,201

As at 31 December 2012, property, plant and equipment with carrying amounts of RMB29,473,000 (2011: RMB8,861,000) were pledged as collateral for the Group's banking facilities (see note 25).

14 Lease prepayments

	The Group RMB'000
Cost:	
At 1 January 2011	37,137
Additions	30
Additions through deemed acquisition of a subsidiary	21,924
At 31 December 2011	59,091
At 1 January 2012	**59,091**
Additions	**362**
At 31 December 2012	**59,453**
Accumulated amortisation:	
At 1 January 2011	(1,828)
Charge for the year	(1,213)
At 31 December 2011	(3,041)
At 1 January 2012	**(3,041)**
Charge for the year	**(1,255)**
At 31 December 2012	**(4,296)**
Carrying amount:	
At 31 December 2012	**55,157**
At 31 December 2011	56,050

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 2012, land use right with a carrying amount of RMB24,821,000 (2011: RMB25,438,000) was pledged as collateral for the Group's banking facilities (see note 25).

15 Intangible assets

	The Group			
	Customer relationships RMB'000	Core technology RMB'000	Software and patent RMB'000	Total RMB'000
Cost:				
At 1 January 2011	49,597	13,835	428	63,860
Additions through deemed acquisition of a subsidiary	3,759	—	—	3,759
Additions	—	—	100	100
At 31 December 2011	53,356	13,835	528	67,719
At 1 January 2012	**53,356**	**13,835**	**528**	**67,719**
Additions	**—**	**—**	**65**	**65**
At 31 December 2012	**53,356**	**13,835**	**593**	**67,784**
Accumulated amortisation:				
At 1 January 2011	(12,400)	(3,458)	(213)	(16,071)
Charge for the year	(5,803)	(1,384)	(78)	(7,265)
At 31 December 2011	(18,203)	(4,842)	(291)	(23,336)
At 1 January 2012	**(18,203)**	**(4,842)**	**(291)**	**(23,336)**
Charge for the year	**(5,880)**	**(1,384)**	**(77)**	**(7,341)**
At 31 December 2012	**(24,083)**	**(6,226)**	**(368)**	**(30,677)**
Net book value:				
At 31 December 2012	**29,273**	**7,609**	**225**	**37,107**
At 31 December 2011	35,153	8,993	237	44,383

The amortisation charge for the year ended 31 December 2012 is included in "distribution costs" and "cost of sales" in the consolidated income statement.

16 Goodwill

	The Group RMB'000
Cost:	
At 31 December 2012 and 2011	46,832
Accumulated impairment losses:	
At 31 December 2012 and 2011	—
Carrying amount:	
At 31 December 2012 and 2011	46,832

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and reportable segment as follows:

	The Group	
	2012	2011
	RMB'000	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 18% (2011: 18%) as at 31 December 2012. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

17 Investments in subsidiaries

	The Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**275,210**	—

Details of the subsidiaries at 31 December 2012 are as follows:

			Proportion of ownership interest			
Name	Place of incorporation and operation	Particulars of issued and paid up capital/ registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
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 of HKD1 each	100%	—	100%	Investment holding
*Xiezhong Nanjing	the PRC	RMB146 million	100%	—	100%	Production and sale of automotive air-conditioner
*Liaoning Chenyou Automobile Air-conditioning System Co., Ltd.	the PRC	RMB10 million	60%	—	60%	Production and sale of automotive air-conditioner
*Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd. (note(i))	the PRC	RMB43 million	50%	—	50%	Sale of automotive air-conditioner

* These entities are limited liability companies.

Note:

(i) The Group acquired 50% equity interests in Xiezhong Beijing from third parties on 2 March 2010. On 26 January 2011, the Group obtained an effective control over the majority of the board of directors of Xiezhong Beijing and the equity holders of Xiezhong Beijing authorised its board of directors their power to govern the financial and operating policies of Xiezhong Beijing. As a result, Xiezhong Beijing became a subsidiary of the Group on 26 January 2011.

18 Interest in a jointly controlled entity

	The Group	
	2012	2011
	RMB'000	RMB'000
Share of net assets	**4,461**	4,659

The following contains the particulars for the jointly controlled entity during the year ended 31 December 2012, which is an unlisted corporate entity:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of establishment and operation	Registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Hubei Leidite Xiezhong Automobile Air-conditioning System Co., Ltd. ("Xiezhong Hubei")	Established	the PRC	RMB10 million	51%	–	51%	Sale of automotive air-conditioner

Summary financial information on jointly controlled entity:

	The Group's effective interest	
	2012	2011
	RMB'000	RMB'000
Non-current assets	**152**	115
Current assets	**4,352**	5,057
Current liabilities	**(43)**	(513)
Net assets	**4,461**	4,659

	2012	2011
	RMB'000	RMB'000
Income	**1,975**	7,156
Expenses	**(2,173)**	(7,391)
Loss for the year	**(198)**	(235)

Pursuant to the articles of association of Xiezhong Hubei, all decisions (including participation in the financial and operating policy decisions) need to be unanimously passed by either all the equity holders or the equity holders representing two-thirds of equity interests in Xiezhong Hubei. The Group holds 51% equity interests in Xiezhong Hubei, and therefore, is unable to control Xiezhong Hubei.

19 Non-current prepayments

As at 31 December 2012, non-current prepayments mainly represented the prepayments for procurement of machinery and equipment.

20 Inventories

(a) Inventories in the consolidated balance sheet comprised:

	The Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**34,710**	34,821
Work in progress	**26,408**	20,305
Finished goods	**115,351**	72,865
	176,469	127,991

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount of inventories sold	**434,024**	446,425
Write down of inventories	**41**	1,302
	434,065	447,727

21 Trade and other receivables

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors	**282,920**	252,450	**—**	—
Less: allowance for doubtful debts	**(4,348)**	(3,646)	**—**	—
	278,572	248,804	**—**	—
Bills receivable	**103,591**	132,140	**—**	—
	382,163	380,944	**—**	—
Other receivables, deposits and prepayments				
— Subsidiaries	**—**	—	**133,025**	—
— Others	**6,740**	9,801	**343**	4,589
	388,903	390,745	**133,368**	4,589

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

Amount due from a subsidiary was unsecured, interest free and had no fixed repayment terms.

Trade and other receivables with carrying amount of RMB26,795,000 (2011: RMB37,133,000) is pledged as collateral for the Group's bank loan as at 31 December 2012 (see note 25).

Bills receivable with carrying amounts of RMB3,968,000 (2011: RMB2,759,000) is pledged as collateral for the Group's bills payable as at 31 December 2012 (see note 24(b)).

21 Trade and other receivables (continued)

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as at 31 December 2012.

	The Group	
	2012	2011
	RMB'000	RMB'000
Current	**265,675**	323,413
Less than 1 month past due	**45,284**	15,341
1 to 3 months past due	**36,196**	22,424
3 to 12 months past due	**32,533**	19,697
Over 12 months past due	**2,475**	69
Amounts past due	**116,488**	57,531
Total	**382,163**	380,944

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 31(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(k)(i)).

The movement in the allowance for doubtful debts during the year ended 31 December 2012, including both specific and collective loss components, is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
At beginning of the year	**3,646**	3,482
Impairment loss recognised	**702**	164
At end of the year	**4,348**	3,646

At 31 December 2012, the Group's trade debtors of RMB5,491,000 (2011: RMB4,100,000) 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 RMB4,348,000 (2011: RMB3,646,000) was recognised at 31 December 2012. The Group does not hold any collateral over these balances.

21 Trade and other receivables (continued)

(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:

	The Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**265,675**	323,413
Less than 1 month past due	**45,284**	15,341
1 to 3 months past due	**36,193**	21,970
3 to 12 months past due	**31,430**	19,697
Over 12 months past due	**2,438**	69
	115,345	57,077
Total	**381,020**	380,490

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.

22 Deposits with banks

	Note	The Group 2012 RMB'000	2011 RMB'000
Unrestricted deposits		**20,143**	30,463
Restricted deposits		**245**	7,498
Pledged deposits	(i)	**4,980**	13,000
		25,368	50,961

(i) The Group's certain bank deposits were pledged as security in respect of:

	Note	The Group 2012 RMB'000	2011 RMB'000
Bills payable	24(b)	**4,980**	6,800
Bank loans	25(i)	**–**	6,200
		4,980	13,000

The pledged deposits are to be released upon settlement of the relevant bank loans and bank acceptance bills.

23 Cash

(a) Cash comprises:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Cash on hand	**229**	798	**–**	–
Cash at bank	**98,125**	27,265	**5,673**	–
	98,354	28,063	**5,673**	–

As at 31 December 2012, cash includes cash at bank and on hand of RMB66,113,000 (2011: RMB27,676,000) 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.

23 Cash (continued)

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

		The Group	
		2012	2011
	Note	**RMB'000**	RMB'000
Profit before taxation		**81,028**	108,540
Adjustments for:			
Impairment losses on trade debtors	21(b)	**702**	164
Impairment loss on inventories	20(b)	**41**	1,302
Depreciation of property, plant and equipment	13	**24,989**	18,578
Amortisation of lease prepayments	14	**1,255**	1,213
Amortisation of intangible assets	15	**7,341**	7,265
Interest income	6	**(1,375)**	(1,608)
Share of losses of jointly controlled entities	18	**198**	235
Gains on disposal of property, plant and equipment	6	**(3)**	—
Finance costs	7(a)	**8,722**	7,554
Deferred income	29	**(251)**	—
Changes in working capital:			
Increase in inventories		**(48,519)**	(9,645)
Decrease/(increase) in trade and other receivables		**1,140**	(23,306)
(Increase)/decrease in amounts due from related parties		**(6,633)**	27,428
Decrease/(increase) in pledged/restricted deposits with banks		**15,273**	(20,498)
Decrease in trade and other payables		**(13,624)**	(53,906)
Decrease in amounts due to related parties		**(11,197)**	(2,034)
Increase/(decrease) in discounted bank acceptance bills		**39,257**	(10,352)
Decrease in provision		**(143)**	(1,172)
Cash generated from operating activities		**98,201**	49,758

24 Trade and other payables

	Note	The Group 2012 RMB'000	The Group 2011 RMB'000	The Company 2012 RMB'000	The Company 2011 RMB'000
Trade payables		**147,871**	155,201	**—**	—
Bills payable	(b)	**14,783**	9,559	**—**	—
		162,654	164,760	**—**	—
Other payables					
— Subsidiaries		**—**	—	**10,161**	3,197
— Others		**21,879**	24,349	**—**	6,490
		21,879	24,349	**10,161**	9,687
Other tax payable		**848**	9,182	**—**	—
		185,381	198,291	**10,161**	9,687

(a) An ageing analysis of trade and bills payable of the Group is as follows:

	The Group 2012 RMB'000	The Group 2011 RMB'000
Within 3 months	**153,729**	148,624
Over 3 months but less than 6 months	**6,035**	13,363
Over 6 months but less than 12 months	**1,923**	1,944
Over 12 months	**967**	829
	162,654	164,760

(b) As at 31 December 2012, bills payable of RMB14,783,000 (2011: RMB9,559,000) was secured by the following assets:

	Note	The Group 2012 RMB'000	The Group 2011 RMB'000
Bills receivable	21	**3,968**	2,759
Pledged deposits	22	**4,980**	6,800
		8,948	9,559

25 Interest-bearing borrowings

	Note	The Group 2012 RMB'000	2011 RMB'000
Bank loans			
— Secured	(i)	**74,000**	81,118
— Unsecured		**46,000**	50,000
Bank advances under discounted bills	(ii)	**62,757**	23,500
		182,757	154,618

(i) As at 31 December 2012, the banking facilities of certain subsidiaries of the Company were secured by the following assets:

	Note	The Group 2012 RMB'000	2011 RMB'000
Property, plant and equipment	13	**29,473**	8,861
Lease prepayments	14	**24,821**	25,438
Trade and other receivables	21	**26,795**	37,133
Pledged deposits	22	**—**	6,200
		81,089	77,632

Such banking facilities amounted to RMB98,000,000 (2011: RMB81,118,000) and the facilities were utilised to the extent of RMB74,000,000 (2011: RMB81,118,000) as at 31 December 2012.

(ii) The Group's discounted bank acceptance bills have been accounted for as collateralised bank advance, and the corresponding discounted bills receivable are included in "bills receivable" (see note 21).

26 Equity settled share-based transactions

(a) Share incentive plan

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

The grantees have agreed that they would not exercise any of their rights before 18 June 2013 and that any exercise of their rights before 18 June 2014 would be subject to a limit of 50% with their remaining rights to be exercised from 18 June 2014 onwards. No options were exercised during the year ended 31 December 2012 (2011: nil).

The options outstanding at 31 December 2012 had an exercise price of nil and a weighted average remaining contractual life of 5.8 years (2011: 6.8 years).

(b) Share option scheme

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 Rules Governing the Listing of Securities on the Stock Exchange, 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 year ended 31 December 2012.

27 Income tax in the consolidated balance sheet-The Group

(a) Current tax in the consolidated balance sheet represents:

	The Group 2012 RMB'000	2011 RMB'000
At beginning of the year	**11,361**	8,729
Over provision in respect of prior year (note 8(a))	**(528)**	(139)
Provision for PRC income tax (note 8(a))	**12,988**	17,318
Addition through deemed acquisition of a subsidiary	**—**	4,761
PRC income tax paid	**(16,688)**	(19,308)
At end of the year	**7,133**	11,361

(b) Deferred tax assets and liabilities recognised:

(i) The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year ended 31 December 2012 are as follows:

	The Group								
	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 2011	(1,237)	(4,543)	(11,259)	301	523	2,767	399	(6,619)	(19,668)
Addition through deemed acquisition of a subsidiary	–	–	(940)	370	–	3,684	–	–	3,114
(Credited)/charged to profit or loss	(19)	65	1,162	152	389	(938)	49	(5,212)	(4,352)
At 31 December 2011 and 1 January 2012	(1,256)	(4,478)	(11,037)	823	912	5,513	448	(11,831)	(20,906)
(Credited)/charged to profit or loss	(42)	196	3,085	(321)	(265)	347	(24)	(3,313)	(337)
At 31 December 2012	(1,298)	(4,282)	(7,952)	502	647	5,860	424	(15,144)	(21,243)

(ii) Reconciliation to consolidated balance sheet:

	The Group 2012 RMB'000	2011 RMB'000
Net deferred tax assets recognised in the consolidated balance sheet	**5,994**	5,012
Net deferred tax liabilities recognised in the consolidated balance sheet	**(27,237)**	(25,918)
	(21,243)	(20,906)

28 Provision

Provision for product warranties

	The Group RMB'000
At beginning of the year	**3,799**
Additional provision made	**2,860**
Provision released	**(2,686)**
Provision utilised	**(317)**
At end of the year	**3,656**

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 balance sheet date. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

29 Deferred income

Government grants

	The Group	
	2012	2011
	RMB'000	RMB'000
At beginning of the year	**21,695**	5,020
Additions	**—**	16,737
Released to the consolidated income statement	**(251)**	(62)
At end of the year	**21,444**	21,695

During the year ended 31 December 2012, cash amounts of RMB nil (2011: RMB16,737,000) were received from the PRC government for the construction of the Group's plants. 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.

30 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 ended 31 December 2012 are set out below:

	The Company					
	Share capital	Share premium	Capital reserve	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 30(c))	(Note 30(d)(i))	(Note 30(d)(iii))	(Note 30(d)(v))		
Balance at 30 September 2011 (date of incorporation)	–	–	–	–	–	–
Changes in equity for 2011:						
Total comprehensive income for the period	–	–	–	56	(5,154)	(5,098)
Balance at 31 December 2011 and 1 January 2012	–	–	–	56	(5,154)	(5,098)
Changes in equity for 2012:						
Issue of shares upon reorganisation (note 30(c)(ii))	1	–	275,209	–	–	275,210
Capitalisation issue (note 30(c)(iii))	4,871	(4,871)	–	–	–	–
Shares issued under public offering and placing, net of issuing expenses (note 30(c)(iv))	1,624	132,734	–	–	–	134,358
Total comprehensive income for the year	–	–	–	(203)	(177)	(380)
Balance at 31 December 2012	6,496	127,863	275,209	(147)	(5,331)	404,090

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year ended 31 December 2012

	2012	2011
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of HKD0.032 per ordinary share (2011: HKD nil per ordinary share)	**20,680**	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

30 Capital, reserves and dividends (continued)

(c) Share capital

For the purpose of these financial statements, the share capital of the Group at 1 January 2011 and 31 December 2011 (i.e. prior to the Reorganisation) represented the share capital of Xiezhong BVI, which was the then holding company of the companies now comprising the Group.

The share capital of the Group at 31 December 2012 represented the amount of issued and paid-up capital of the Company, with details set out below:

	Note	Par value HKD	**2012** Number of shares '000	**2012** Nominal value of ordinary shares HKD'000	2011 Number of shares '000	2011 Nominal value of ordinary shares HKD'000
Authorised:						
At 1 January 2012/ 30 September 2011 (date of incorporation)	(c)(i)	0.01	**39,000**	**390**	39,000	390
Increase in share capital on 10 February 2012	(c)(i)	0.01	**1,961,000**	**19,610**	—	—
At 31 December			**2,000,000**	**20,000**	39,000	390

	Note	Par value HKD	**2012** Number of shares '000	**2012** Nominal value of ordinary shares HKD'000	**2012** Nominal value of ordinary shares RMB'000	2011 Number of shares '000	2011 Nominal value of ordinary shares HKD'000	2011 Nominal value of ordinary shares RMB'000
Issued and fully paid:								
At 1 January 2012/ 30 September 2011 (date of incorporation)			**–**	**–**	**–**	–	–	–
Arising from the Reorganisation	(c)(ii)	0.01	**100**	**1**	**1**	–	–	–
Capitalisation issue	(c)(iii)	0.01	**599,900**	**5,999**	**4,871**	–	–	–
Issue of shares under public offering and placing	(c)(iv)	0.01	**200,000**	**2,000**	**1,624**	–	–	–
At 31 December			**800,000**	**8,000**	**6,496**	–	–	–

30 Capital, reserves and dividends (continued)

(c) Share capital (continued)

(i) Authorised share capital

The Company was incorporated on 30 September 2011 with an authorised share capital of HKD390,000 comprising 39,000,000 shares of HKD0.01 each.

Pursuant to the written resolution dated 10 February 2012, the authorised share capital of the Company was increased to HKD20,000,000, comprising 2,000,000,000 shares of HKD0.01 each.

(ii) Elimination of share capital on Reorganisation and issue of shares upon Reorganisation

The Company was incorporated on 30 September 2011 with one share allotted and issued as nil paid to the initial subscriber. Such nil paid share was transferred to China United Air System Limited ("CUAS"), which is owned by CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto, on 23 November 2011. On the same date, 4 and 5 shares were allotted and issued to Sunrise International and CUAS, respectively, as nil paid.

Pursuant to a share swap agreement dated 16 January 2012 among CUAS, Sunrise International and the Company, CUAS and Sunrise International transferred all their respective interests in Xiezhong BVI to the Company in consideration of the Company (a) allotting and issuing additional 59,994 and 39,996 ordinary shares of HKD0.01 each to CUAS and Sunrise International respectively credited as fully paid; (b) crediting the previously issued 6 nil paid shares held by CUAS as fully paid; and (c) crediting the previously issued 4 nil paid shares held by Sunrise International as fully paid on 20 January 2012. On the same date, CUAS made a distribution in specie by transferring 30,858, 6,000, 7,458, 15,684 shares of the Company (60,000 shares in total) to CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto, respectively.

Upon completion of the Reorganisation on 20 January 2012, the Company became the holding company of Xiezhong BVI and the issued share capital of Xiezhong BVI amounting to USD1,000, equivalent to RMB7,000 (that comprised the share capital of the Group before such transaction), was deducted from the share capital presented in the consolidated statement of changes in equity with a corresponding credit to capital reserve.

(iii) Capitalisation issue

Pursuant to the written resolution dated 21 May 2012, the Company allotted and issued 599,900,000 shares of HKD0.01 each to the then existing shareholders of the Company, i.e. CITIC Capital China, Fang Brothers, CDH Cool, CDH Auto, and Sunrise International. This resolution was conditional upon the share premium account being credited as a result of the Company's public offering and placing and pursuant to this resolution, a sum of HKD5,999,000 (equivalent to RMB4,871,000) standing to the credit of the share premium account as of 18 June 2012 was subsequently applied in paying up this capitalisation in full.

(iv) Issue of shares under public offering and placing

On 18 June 2012, the Company issued 200,000,000 shares with a par value of HKD0.01 each, at a price of HKD0.93 per share by way of a public offering and placing to Hong Kong and overseas investors. Net proceeds from such issues amounted to HKD165,466,000, equivalent to RMB134,358,000 (after offsetting expenses directly attributable to the issue of shares of RMB16,674,000), out of which RMB1,624,000 and RMB132,734,000 were recorded in share capital and share premium respectively.

30 Capital, reserves and dividends (continued)

(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.

(iii) Capital reserve

The Company

Capital reserve represents the excess of the carrying amount of the Company's investment in Xiezhong BVI at the date of the Reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

The Group

The capital reserve in the consolidated balance sheet 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 share options 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(q)(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 CUAS 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.

30 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(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 which are dealt with in accordance with the according policy set out in note 2(u).

(e) Distributability of reserves

As at 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company, including share premium, capital reserve and accumulated losses, was HKD488,634,000 (equivalent to RMB397,741,000) (2011: HKD nil). After the balance sheet date, the directors proposed a final dividend of HKD0.032 per ordinary share, amounting to HKD25,600,000 (equivalent to RMB20,680,000) (note 30(b)). This dividend has not been recognised as a liability at the balance sheet date.

(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 equity 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.

The Group monitors its capital structure on the basis of the adjusted net debt-to-capital ratio. 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 the year ended 31 December 2012, the Group's strategy, which was unchanged from 2011, 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 or raise new debt financing.

30 Capital, reserves and dividends (continued)

(f) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2012 was as follows:

		The Group	
		2012	2011
	Note	**RMB'000**	RMB'000
Interest-bearing borrowings	25	**182,757**	154,618
Bills payable	24	**14,783**	9,559
Total debt		**197,540**	164,177
Add: Proposed dividends	30(b)	**20,680**	—
Less: Cash	23(a)	**(98,354)**	(28,063)
Deposits with banks	22	**(25,368)**	(50,961)
Adjusted net debt		**94,498**	85,153
Capital		**722,913**	520,056
Less: Proposed dividends	30(b)	**(20,680)**	—
Adjusted capital		**702,233**	520,056
Adjusted net debt-to-capital ratio		**13%**	16%

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

31 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.

31 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(i) Trade and other receivables (continued)

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. The industry in which the customers operate also influences its credit risks. The amounts due from the Group's largest customer and the five largest customers are as follows:

	2012 **RMB'000**	2011 RMB'000
Largest customer	**56,083**	63,033
Five largest customers	**206,598**	151,424

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance. The Group does not provide any guarantees, which would expose the Group to credit risk.

(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.

(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.

31 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at balance sheet date 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 balance sheet date) and the earliest date the Group can be required to pay:

At 31 December 2012

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 6 months or on demand RMB'000	More than 6 months but less than 12 months RMB'000
Secured bank loans	**74,000**	**76,550**	**2,255**	**74,295**
Unsecured bank loans	**46,000**	**48,377**	**1,380**	**46,997**
Bank advances under discounted bills	**62,757**	**62,757**	**62,757**	**—**
Trade and other payables	**185,381**	**185,381**	**185,381**	**—**
Amounts due to related parties	**13,706**	**13,706**	**13,706**	**—**
	381,844	**386,771**	**265,479**	**121,292**

At 31 December 2011

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 6 months or on demand RMB'000	More than 6 months but less than 12 months RMB'000
Secured bank loans	81,118	84,671	32,374	52,297
Unsecured bank loans	50,000	52,676	1,640	51,036
Bank advances under discounted bills	23,500	23,500	23,500	—
Trade and other payables	198,291	198,291	198,291	—
Amounts due to related parties	24,903	24,903	24,903	—
	377,812	384,041	280,708	103,333

31 Financial risk management and fair values (continued)

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, deposits with banks and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk.

As at 31 December 2012, cash at bank is with variable interest rates ranging from 0.01%–1.49% (2011: 0.01%–0.50%) per annum. As at 31 December 2012, deposits with banks are with interest rates ranging from 0.01%–3.05% (2011: 0.01%–3.05%) per annum.

The Group's interest-bearing borrowings and interest rates as at 31 December 2012 are set out as follows:

	2012		2011	
	Interest rate %	**RMB'000**	Interest rate %	RMB'000
Fixed rate borrowings				
Bank loans	**5.04–6.60**	**120,000**	4.16–6.56	61,309
Bank advances under discounted bills	**5.46–9.00**	**62,757**	9.00–9.36	23,500
		182,757		84,809
Net variable rate borrowings				
Bank loans		**–**	7.22–7.32	69,809
		–		69,809
Total net borrowings		**182,757**		154,618
Net fixed rate borrowings as a percentage of total net borrowings		**100%**		55%

(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 balance sheet date would not affect profit or loss.

31 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 RMB, 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.

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, that are determined largely by supply and demand.

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 2012 and 2011 due to the short maturities of those instruments.

32 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Contracted for	**30,398**	28,172

(b) Lease commitments

At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**581**	1,005
After 1 year but within 5 years	**76**	35
	657	1,040

33 Material related party transactions

(a) Name and relationship with related parties

During the year ended 31 December 2012, transactions with the following parties are considered as related party transactions:

Name of related party	Relationship
Xiezhong Hubei	Jointly controlled enterprise of the Group *(note 18)*
Nanjing Aotecar Refirgerating Co., Ltd. ("Aotecar Nanjing")	Owned by the same equity shareholders, CITIC Capital China, Fang Brothers, CDH Cool and CDH Auto
Chen Cunyou	Executive director of the Company, Director and the General Manager of Xiezhong Nanjing
Ge Hongbing	Executive director of the Company and director of Xiezhong Nanjing
Beijing Automobile Co., Ltd ("Beijing Auto")	Fellow subsidiary of Beijing Hainachuan Automobile Parts Co., Ltd. ("Beijing Hainachuan"), the non-controlling equity holder of Xiezhong Beijing since 26 January 2011

(b) Transactions with related parties

Transactions with related parties during the year ended 31 December 2012 are as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Sales of goods		
— Beijing Auto	**30,335**	7,349
— Xiezhong Hubei	**2,494**	703
	32,829	8,052
Purchase of goods		
— Aotecar Nanjing	**32,242**	33,871
— Xiezhong Hubei	**1,091**	1,272
	33,333	35,143
Advances to related parties		
— Chen Cunyou	**—**	770
— Ge Hongbing	**—**	130
	—	900
Repayment of advances to related parties		
— Chen Cunyou	**—**	1,170
— Ge Hongbing	**—**	330
	—	1,500

The directors consider that the above related party transactions during the year ended 31 December 2012 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

33 Material related party transactions (continued)

(c) Amounts due from/to related parties

At 31 December 2012, the Group had the following balances with related parties:

	The Group	
	2012	2011
	RMB'000	RMB'000
Trade debtors from		
— Beijing Auto	**10,240**	3,607
Trade payables due to		
— Xiezhong Hubei	**2,684**	4,511
— Aotecar Nanjing	**11,022**	20,392
	13,706	24,903

	The Company	
	2012	2011
	RMB'000	RMB'000
Receivables due from a subsidiary		
— Xiezhong Hong Kong	**133,025**	—
Payables due to subsidiaries		
— Xiezhong BVI	**2,128**	2,120
— Xiezhong Hong Kong	**7,718**	1,077
— Xiezhong Nanjing	**315**	—
	10,161	3,197

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

33 Material related party transactions (continued)

(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:

	The Group	
	2012	2011
	RMB'000	RMB'000
Short-term employee benefits	**4,073**	3,061

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

34 Non-adjusting post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 30(b).

(Expressed in Renminbi Yuan)

35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012

Up to the date of issue of the financial statements, the International Accounting Standards Board has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in preparing the financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*	1 July 2012
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
Consolidated Financial Statements, Joint Arrangements and Disclosure of interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements* (2011)	1 January 2013
IAS 28, *Investments in associates and joint ventures* (2011)	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013
Amendments to IFRS 7, *Financial instruments: Disclosures — Disclosures — Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to IAS 32, *Financial instruments: Presentation — Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*	1 January 2014
IFRS 9, *Financial instruments* (2009)	1 January 2015
IFRS 9, *Financial instruments* (2010)	1 January 2015
Amendments to IFRS 9, *Financial instruments and* IFRS 7 *Financial instruments: Disclosures — Mandatory effective date and transition disclosures*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for the following:

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

The amendments to IAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income will be modified accordingly when the amendments are adopted for the first time.

35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2012 (continued)

IFRS 10, *Consolidated financial statements*

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

The application of IFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

IFRS 11, *Joint arrangements*

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

The Group has completed its assessment of the full impact of adopting IFRS 11 and determined that its jointly controlled entity will be reclassified to joint venture under IFRS 11. Notwithstanding the reclassification, the application of IFRS 11 will not change the Group's accounting for the investment which is currently accounted for using the equity method.

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in IFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities when the standard is adopted for the first time in 2013.

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. IFRS 13 is effective as from 1 January 2013, but retrospective adoption is not required. The Group estimates that the adoption of IFRS 13 will not have any significant impact on the fair value measurements of its assets and liabilities, but additional disclosures may need to be made in the 2013 financial statements.

Financial Summary

RESULTS	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
	Years ended 31 December			
Turnover	**589,680**	619,904	545,502	346,539
Cost of sales	**(434,065)**	(447,727)	(394,516)	(249,614)
Gross profit	**155,615**	172,177	150,986	96,925
Other revenue and net income	**10,302**	6,835	5,444	3,169
Distribution costs	**(23,479)**	(24,730)	(28,785)	(18,521)
Administrative expenses	**(52,483)**	(37,767)	(26,856)	(21,948)
Other operating expenses	**(7)**	(186)	(71)	(37)
Profit from operations	**89,948**	116,329	100,718	59,588
Finance costs	**(8,722)**	(7,554)	(1,930)	(1,529)
Share of losses of jointly controlled entities	**(198)**	(235)	(1,939)	—
Profit before taxation	**81,028**	108,540	96,849	58,059
Income tax	**(12,797)**	(21,531)	(16,144)	(9,031)
Profit for the year	**68,231**	87,009	80,705	49,028
Attributable to:				
Equity shareholders of the Company	**68,012**	86,066	79,441	33,821
Non-controlling interests	**219**	943	1,264	15,207
Profit for the year	**68,231**	87,009	80,705	49,028

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
	As at 31 December			
TOTAL ASSETS	**1,192,347**	988,542	795,982	547,133
TOTAL LIABILITIES	**(441,314)**	(440,585)	(549,302)	(391,254)
NON-CONTROLING INTERESTS	**(28,120)**	(27,901)	(4,741)	(93,692)
	722,913	520,056	241,939	62,187

The financial information for each of the three years ended 31 December 2009, 2010 and 2011 has been prepared upon the Reorganisation as if the group structure, at the time when the shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for each of the three years ended 31 December 2009, 2010 and 2011, and the assets and liabilities as at 31 December 2009, 2010 and 2011 have been extracted from the Prospectus.