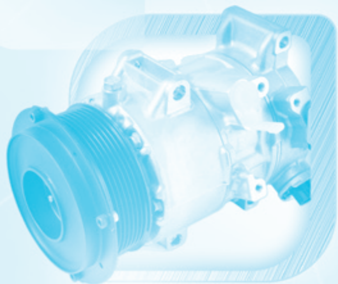
協眾國際控股有限公司
Xiezhong International Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code：3663

2018
ANNUAL
REPORT

Contents



Corporate Information

Board of Directors and Committees

Board of Directors

Executive Directors
Mr. Chen Cunyou *(Chairman)*
Mr. Ge Hongbing
Ms. Chen Xiaoting (Appointed on 1 March 2018)
Mr. Shen Jun (Appointed on 10 September 2018)

Non-Executive Directors
Mr. Huang Yugang
Ms. Kwok Chak Sheung (Resigned on 30 July 2018)

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

Committees

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

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

Remuneration Committee
Mr. Cheung Man Sang *(Chairman)*
Mr. Lau Ying Kit
Mr. Zhang Shulin
Mr. Lin Lei

Other Corporate Information

Company Secretary
Mr. Chui Wing Fai, *CPA*

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

Principal Place of Business in Hong Kong
Room 601
New Landwide Commercial Building
73 Kimberley Road
Kowloon, Hong Kong

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

Authorized Representatives
Mr. Chen Cunyou
Mr. Xin Fangwei *(alternate to Chen Cunyou)*
Mr. Chui Wing Fai

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

Hong Kong Share Register
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Hong Kong Legal Advisor
Chungs Lawyers
28/F, Henley Building
5 Queen's Road Central
Central
Hong Kong

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

Company's Website
www.xiezhonginternational.hk

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

Principal Bankers
Construction Bank of Nanjing
Jiangning Economic Development Zone Branch
Agricultural Bank of China, Nanjing Jiangning
Economic Development Zone Branch
Bank of China, Nanjing Jiangning Economic Development
Zone Branch
Banque Marocaine Pour Le Commerce Et L'Industrie
Bank of Nanjing, Jiangning Branch
Bank of Beijing
Bank of Shanghai Pudong Development Bank
Industrial and Commercial Bank of China

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 2018 (the "Year").

For the year ended 31 December 2018, the Group recorded revenue of RMB924.1 million, representing a slight decrease of 0.6% against that of RMB929.7 million in the previous year; the Group recorded a loss attributable to equity shareholders of RMB9.2 million as compared against that of RMB40.3 million in 2017.

The Board did not propose a distribution of final dividend for the year ended 31 December 2018 (2017: nil).

In 2018, significant slowdown was seen in global economic growth, China's economic growth had slowed down too. Nevertheless, according to the National Bureau of Statistics of the PRC, China's GDP exceeded RMB90.0 trillion in 2018, representing a growth of 6.6%, which is well enough to drive the improvement of Chinese people's average living standard. Therefore, economic development of China still enjoyed solid support.

China's automobile production and sales volume has occupied nearly one-third of the global automobile market, becoming the most important market position for domestic and foreign car companies. However, China's auto industry is currently in the stage of growth to maturity, with overcapacity and increased industry differentiation. According to the forecast of China Association of Automobile Manufacturers, the sales volume of automobiles in 2019 will be the same as that of 2018, reaching 28.1 million units, while the sales volume of new energy vehicles is expected to reach 1.6 million units, an increase of about 30%. The Board therefore considers the Group will be facing a stable market going forward in 2019.

The Group will constantly consolidate its leading position in the Chinese market of automotive heating, ventilation and cooling ("HVAC") systems for pick-up trucks and heavy trucks, and strive to explore the market of HVAC systems for passenger vehicles and especially new energy vehicles ("NEVs"). Being an integral part of the automotive industry, the market of HVAC systems for passenger vehicles is immense. On the other hand, the Chinese government released a series of policies to encourage the development of NEVs industry, which is expected to have a decent growth. The Group will strengthen the research and development ability of HVAC systems for NEVs, strive to expand the market, and try its best to become the leading supplier of HVAC systems for NEVs in China.

The Group will continuously commit itself to developing its core operation of automotive HVAC systems, thus ensuring the core competitive strength of the Group. And the 4S dealership business will generate stable income and further diversify the Group's business in the automotive industry to minimize concentration risk, which is expected to enhance the financial performance of the Group going forward.

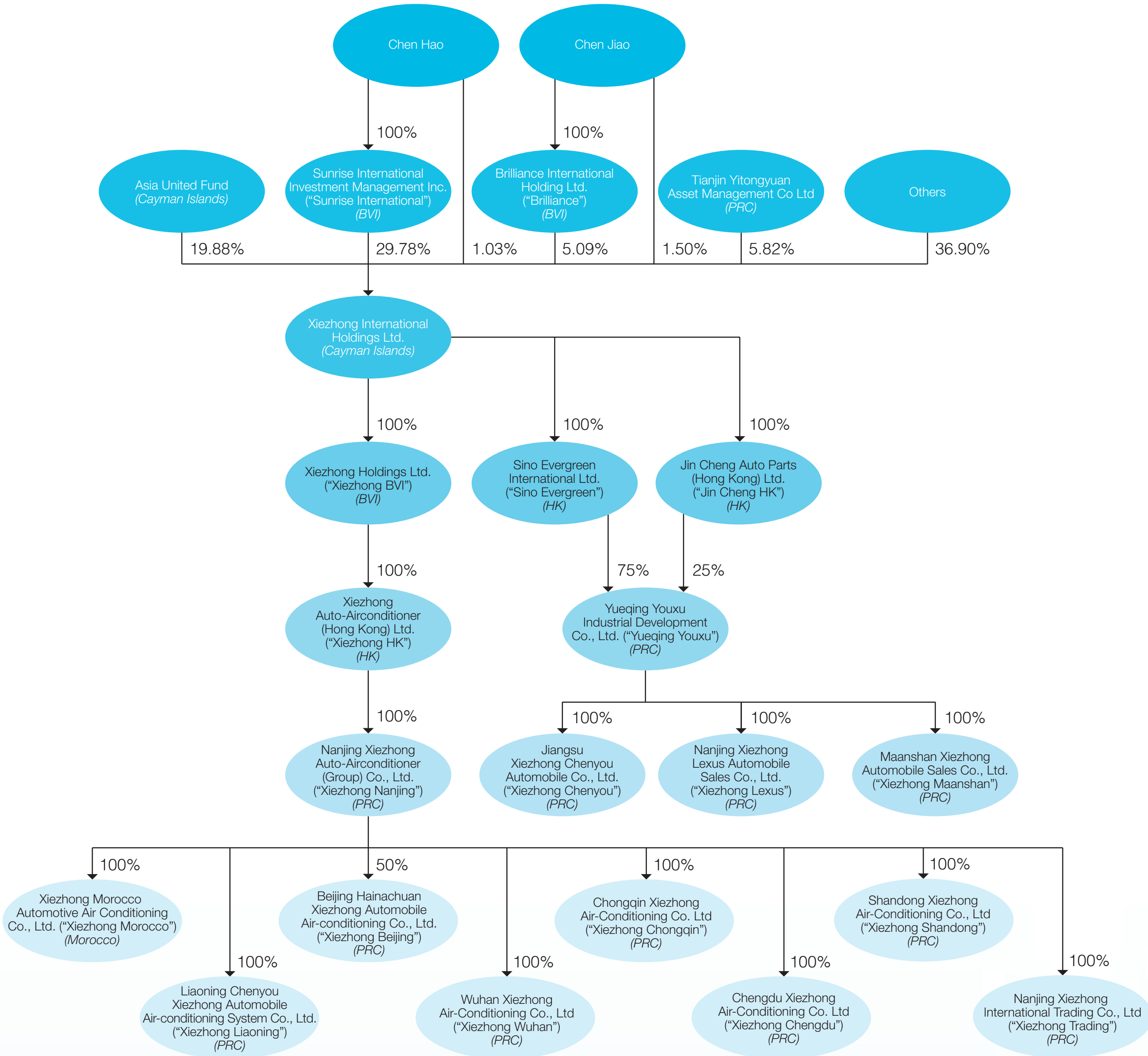
Lastly, on behalf of Xiezhong International, I hereby express my sincere gratitude to all our customers and business partners for their support, and to our management and staff for their strenuous effort. I would also like to take this opportunity to extend my appreciation to our investors and shareholders 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

29 March 2019

Company Structure

As at 31 December 2018, our corporate and shareholding structure is as follow:



Management Discussion and Analysis

BUSINESS REVIEW

The Group is one of the leading suppliers of HVAC systems for vehicles. We principally engage in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components, and provide technical testing and related services. Our automotive HVAC systems are mainly used in sport utility vehicles ("SUVs"), pickup trucks, sedans and heavy trucks, in addition to the supply of HVAC systems and HVAC components for NEVs, construction machineries and other types of vehicles such as light trucks and buses. The Group's current annual capacity of production is about 3 million sets of HVAC systems, the main customers are BAIC Motor, FOTON, PSA, DPCA, Dongfeng Group, FAW, GEELY AUTO and other well-known international and domestic auto companies.

In order to diversify the Group's business in the automotive industry and to minimize concentration risk, the Group acquired 4S dealership business which engages in the sales of automobiles and spare parts and accessories, and provides a comprehensive range of after-sales services, such as repair and maintenance services. The 4S dealership business is dedicated to luxury brand and mid-to high-end brand, such as Lexus and FAW-Volkswagen, and is mainly located in Nanjing, Jiangsu Province. The acquisition of the 4S dealership business was approved and ratified by shareholders of the Company on 28 December 2018, and the Group obtained control of the 4S dealership business on the same date.

According to the statistical data of 中國汽車工業協會 (China Association of Automobile Manufacturers), the production and sales of automobiles in 2018 were 27.8 million and 28.1 million units respectively, decreasing 4.16% and 2.76% year on year, was the first annual decline since 1990. Amongst those motor vehicles, the production and sales of passenger vehicles reached 23.5 million and 23.7 million units respectively, decreasing 5.15% and 4.08% year on year; the production and sales of commercial vehicles manufactured and sold were 4.3 million and 4.4 million units respectively, increasing 1.69% and 5.05% year on year. And the production and sales of NEVs reached 1.3 million units and 1.3 million units respectively, increasing 59.9% and 61.7% year on year.

During the year, in order to provide more better services to our customers, Xiezhong Nanjing has established three more subsidiaries in Sichuan Province, Shandong Province and Jiangsu Province, and one more branch in Zhejiang Province.

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

During the Year, the Group recorded revenue of RMB924.1 million, representing a slight decrease of 0.6% compared against that of RMB929.7 million in 2017. The gross profit of RMB170 million, representing an increase of 16.9% compared against that of RMB145.4 million in 2017. The loss attributable to equity shareholders was RMB9.2 million, representing a decrease of 77.2% compared against that of RMB40.3 million in 2017.

FINANCIAL REVIEW

Revenue

During the Year, the Group recorded revenue of RMB924.1 million, representing a decrease of 0.6% compared against that of RMB929.7 million in 2017. Such decrease in revenue was mainly due to the decrease in revenue from HVAC systems for SUVs and pickup trucks compared against that in 2017.

	2018		2017	
	RMB'000	% of total revenue	RMB'000	% of total revenue
HVAC systems				
SUVs and pickup trucks	197,816	21.4%	266,926	28.7%
Sedans	235,670	25.5%	193,975	20.9%
Vans	111,959	12.1%	141,588	15.2%
Heavy trucks	152,045	16.5%	135,460	14.6%
Construction machineries	28,276	3.0%	27,230	2.9%
Other vehicles(1)	103,902	11.5%	86,704	9.3%
HVAC components(2)	86,849	9.4%	69,655	7.5%
Service income(3)	7,587	0.6%	8,166	0.9%
Total	924,104	100%	929,704	100%

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

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

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

Gross profit and gross profit margin

During the Year, the gross profit was RMB170 million, representing an increase of 16.9% compared against RMB145.4 million in 2017. The gross profit margin was 18.4% compared against 15.6% in 2017. Such increase was mainly due to the changes in product structure from changes in market demand and expansion of oversea markets.

Other net income

Other net income primarily includes government grants, warehousing and logistic service income and net foreign exchange gains, which increased to RMB17.1 million during the Year from RMB3.9 million in 2017. Such increase was mainly due to the increase of government grants which amounted to RMB10.6 million in 2018 compared against that of RMB6.3 million in 2017 and the increase of net foreign exchange gain.

Distribution costs

Distribution costs increased by 11% or RMB5.4 million to RMB54.3 million during the Year from RMB48.9 million in 2017. During the Year, distribution costs increased due to increase of transportation costs as a result of expansion of oversea markets.

Administrative expenses

During the Year, administrative expenses were RMB116.4 million, representing a slight increase of RMB1.0 million or 0.9% compared against that of RMB115.4 million in 2017.

Finance costs

During the Year, finance costs were RMB32.4 million, representing a slight decrease of RMB0.4 million or 1.2% compared against that of RMB32.8 million in 2017.

Income tax

During the Year, income tax benefit was RMB0.6 million, representing a decrease of RMB4.9 million compared against that of RMB5.5 million in 2017. Such change was mainly due to the decrease of loss before taxation during the Year.

Loss for the year

As a result of the foregoing, loss attributable to equity shareholders of the Company was RMB9.2 million as compared to the loss of RMB40.3 million in 2017. The 77% decrease in loss is mainly due to increase of gross profit of RMB24.6 million and increase of other net income of RMB13.2 million.

LIQUIDITY AND FINANCIAL RESOURCES

Inventories

As at 31 December 2018, the Group's inventory balance was RMB343.9 million which comprised of HVAC business of RMB283.9 million (31 December 2017: RMB238.4 million) and 4S dealership business of RMB60 million. The increase of inventory balance in HVAC business was due to the increase of inventory level maintained at various warehouses.

The average inventory turnover days of HVAC business, calculated as cost of sales divided by average inventory and multiplied by 365 days, increased from 107 days in 2017 to 126 days during the Year.

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

As at 31 December 2018, the Group's trade debtors and bills receivable were RMB581.6 million (31 December 2017: RMB597.5 million) which was mainly due to the decrease of revenue during the Year. The Group's trade debtors due from related parties were RMB87.9 million (31 December 2017: RMB121.9 million), which was mainly due to the settlement from related parties during the Year.

The average trade debtors, bills receivable and trade debtors due from related parties turnover days of HVAC business, calculated as revenue divided by average trade debtors, bills receivable and trade debtors due from related parties and multiplied by 365 days, decreased from 251 days in 2017 to 233 days during the Year, while without taking into account the bill receivable, the average turnover days of trade debtors and trade debtors due from related parties of HVAC business, calculated as revenue divided by average trade debtors and trade debtors due from related parties and multiplied by 365 days, decreased from 180 days in 2017 to 162 days in 2018.

Trade payables and bills payable

As at 31 December 2018, the Group's trade payables and bills payable were RMB643.0 million (31 December 2017: RMB549.4 million). Such increase was mainly due to the slow down of payment pace.

The average trade payables and bills payable turnover days of HVAC business, calculated as purchase divided by average trade payables and bills payable and multiplied by 365 days, increased from 192 days in 2017 to 258 days during the Year. Such increase was mainly due to the slow down of payment pace.

Cash and deposits with banks and borrowings

As at 31 December 2018, the Group's cash and deposits with banks were RMB137.0 million, which comprised of HVAC business of RMB68.6 million (31 December 2017: RMB43.6 million) and 4S dealership business of RMB68.4 million.

As at 31 December 2018, we had outstanding bank loans and other borrowings of RMB993.1 million (31 December 2017: RMB545.2 million). As at 31 December 2018, our bank loans and other borrowings carried interest rates ranging from 2.8% to 9% per annum.

As at 31 December 2018, the banking facilities available to us were RMB808 million (31 December 2017: RMB401.0 million), of which RMB728 million (31 December 2017: RMB334.1 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 31 December 2018, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

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

Gearing ratio

As at 31 December 2018, the Group's gearing ratio, calculated based on debt (including interest-bearing borrowings and bills payable) divided by the total of equity attributable to equity shareholders of the Company and debt, increased to 60.8%, compared against 44.6% as at 31 December 2017, which was due to the increase of bank and other borrowings and bills payable during the Year.

Contingent liabilities

As at 31 December 2018, the Group did not incur any material contingent liabilities.

Significant investments held

Except for investment in subsidiaries, during the Year, the Group did not hold any significant investment in equity interest in any other company.

Future plans for material investments or capital assets

Save as disclosed in capital commitment as at 31 December 2018, the Group did not have other plans for material investments or capital assets at the date of this report.

Material acquisitions and disposals of subsidiaries and affiliated companies

Pursuant to the sale and purchase agreements and supplemental sale and purchase agreements (the "Sale and Purchase Agreements") dated 31 July 2018, 31 October 2018 and 11 December 2018 entered into between (i) the Company and Sunrise International Investment Management Inc. ("Sunrise International") in relation to the sale and purchase of the entire issued share capital of Sino Evergreen International Limited at a maximum consideration of HK$328,027,500 which shall be satisfied by the issue of notes of an aggregate principal amount of HK$164,013,750 and the issue of convertible bonds of a maximum aggregate principal amount of HK$164,013,750 to Sunrise International in different tranches; and (ii) the Company and Jin Cheng Auto Parts Trade & Investment Co., Ltd. ("Jin Cheng") in relation to the sale and purchase of the entire issued share capital of Jin Cheng Auto Parts (Hong Kong) Ltd. at a maximum consideration of HK$109,342,500 which shall be satisfied by the issue of notes of an aggregate principal amount of HK$54,671,250 and the issue of convertible bonds of a maximum aggregate principal amount of HK$54,671,250 to Jin Cheng in different tranches, the transactions has been approved by shareholders of the Company at the EGM held on 28 December 2018. For details, please refer to the circular of the Company dated 11 December 2018, the poll results announcement dated 28 December 2018 and note 36 to the consolidated financial statements.

Saved as disclosed above, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies during the Year.

Capital commitments

As at 31 December 2018, the Group's capital commitments to make contracted payments amounted to RMB74.6 million (31 December 2017: RMB142.3 million). Such capital commitments were used for the purchase of property, plant and equipment. In addition, capital commitment of RMB208.4 million was authorized but not contracted for as at 31 December 2018 (31 December 2017: RMB259.8 million). They will be financed by the Group's internal resources and/or external bank financing, as appropriate.

Capital expenditures

During the Year, the Group incurred capital expenditures of RMB272.3 million (2017: RMB186.9 million) primarily representing additions of construction in progress, machinery and equipment and development costs.

Treasury policy

The Group adopts a prudent financial management strategy in implanting the treasury policy. Thus a sound liquidity position was able to be maintained throughout the Year. The Group continues to assess its customers' credit and financial positions so as to minimize the credit risks. In order to control the liquidity risks, the Board would closely monitor the liquidity position of the Group to ensure its assets, liabilities and other flow structure committed by the Group would satisfy the funding needs from time to time.

Change of auditor

The Group did not change the auditor over the past three years.

Pledge of assets

As at 31 December 2018, property, plant and equipment with carrying amounts of RMB475,255,000 (2017: RMB382,981,000) were pledged as collateral for the Group's bank loans and other borrowings. Details are set out in note 24.

Foreign exchange risk

Except the factory is operated in Morocco and its transactions are conducted in EUR and MAD and certain receivables of the Group's PRC subsidiary due from the Group's overseas subsidiary are denominated in HKD, the Group's main businesses are principally operated in China and substantially most of its transactions are conducted in RMB and most of the Group's assets and liabilities are also denominated in RMB. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than RMB. During the Year, the Group did not employ any financial instrument for hedging purposes.

Employees

As at 31 December 2018, the Group had 1,502 full-time employees, which comprise of HVAC business of 1,156 (2017: 1,023) and 4S dealership business of 346. They were remunerated by the Group with reference to their performance, qualifications and prevailing market conditions. During the Year, the Group's total expenditure of HVAC business in respect of staff cost was RMB121.5 million (2017: RMB102.6 million), representing 13.1% (2017: 11.0%) of the total revenue of the Group. The Group provided regular training to its staff to enhance their knowledge and skills.

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

During the Year, no amount was paid or payable by the Group to the Directors or any of the five highest paid individuals listed out in notes 9 and 10 to the consolidated financial statements as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a Director waived or agreed to waive any remuneration during the Year.

Events after the Year

There was no significant event that took place after the reporting period and up to the date of approval of the consolidated financial statements.

Dividends

The Board did not propose a distribution of final dividend for the year ended 31 December 2018 (2017: nil).

Outlook

In 2018, significant slowdown was seen in global economic growth, China's economic growth had slowed down too. Nevertheless, according to the National Bureau of Statistics of the PRC, China's GDP exceeded RMB90.0 trillion in 2018, representing a growth of 6.6%, which is well enough to drive the improvement of Chinese people's average living standard. Therefore, economic development of China still enjoyed solid support.

China's automobile production and sales volume has occupied nearly one-third of the global automobile market, becoming the most important market position for domestic and foreign car companies. However, China's auto industry is currently in the stage of growth to maturity, with overcapacity and increased industry differentiation. According to the forecast of China Association of Automobile Manufacturers, the sales volume of automobiles in 2019 will be the same as that of 2018, reaching 28.1 million units, while the sales volume of new energy vehicles is expected to reach 1.6 million units, an increase of about 30%. The Board therefore considers the Group will be facing a stable market going forward in 2019.

The Group will constantly consolidate its leading position in the Chinese market of automotive HVAC systems for pick-up trucks and heavy trucks, and strive to explore the market of HVAC systems for passenger vehicles and especially NEVs. Being an integral part of the automotive industry, the market of HVAC systems for passenger vehicles is immense. On the other hand, the Chinese government released a series of policies to encourage the development of NEVs industry, which is expected to have a decent growth. The Group will strengthen the research and development ability of HVAC systems for NEVs, strive to expand the market, and try its best to become the leading supplier of HVAC systems for NEVs in China.

The 4S dealership business will generate stable income and further diversify the Group's business in the automotive industry to minimize concentration risk, which is expected to enhance the financial performance of the Group going forward.

The Group will continuously commit itself to developing its core operation of automotive HVAC systems, thus ensuring the core competitive strength of the Group. The Group will further develop the following aspects so as to sharpen its competitive edges in the market.

1) Research and development of products

As always, the strong capability of research and development plays a major role in the successes of the Group. To improve the Group's research and development ability, the Group has advanced research and development facilities including vehicle environment simulation laboratory, and has hired a number of foreign experts. We will continually strive to strengthen our research and development capabilities by recruiting more talents, increasing research and development expenditure and expanding our research and development facilities.

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

2) Cost advantage

In order to maintain our long-term competitiveness and stable profit margins, we will endeavor to maintain our cost advantages. We will improve the economic benefits through research and development of new products, optimization of the manufacturing process and efficiency by upgrading our production lines and improving the level of automation, and increasing market share.

3) More production bases

To further improve our service to our customers, reduce the distribution cost and strengthen our strategic co-operation with our major customers, in addition to current production bases, we are constructing new bases, with a view to lowering transport costs and further improve our standards for services rendered to the customers. The plant in Morocco will serve overseas customers in a better manner and expand overseas markets.

4) Business expansion

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

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

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

During the Year, the Company was in compliance with all code provisions set out in the CG Code, except for the deviations as explained below:

- under code provision A.2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual, but for the purpose of our Group, the roles of the chairman and the chief executive officer of the Company are not separate and both are performed by Mr. Chen Cunyou. Since the Directors of the Company meet regularly to consider major matters regarding the operations of the Company, the Directors of the Company consider that this structure will not impair the balance of power and authority between the Directors of the Company and the management of the Company and believe that, with the effective operations of the Board which comprises experienced and high-calibre individuals, this structure will enable the Company to make and implement decisions promptly and efficiently.

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

The Board of Directors

Composition

The Directors who hold office during the Year were:

Executive Directors:

Mr. Chen Cunyou *(Chairman and chief executive officer)*
Mr. Ge Hongbing
Ms. Chen Xiaoting (Appointed on 1 March 2018)
Mr. Shen Jun (Appointed on 10 September 2018)

Non-executive Directors:

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

Independent non-executive Directors:

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

The biographical details of each Director are set out in the section "Directors and Senior Management" on pages 24 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. During the Year, four Board meetings were held and the attendance records of individual Directors are set out below:

	Number of Board meetings attended/held
Executive Directors	
Mr. Chen Cunyou *(Chairman)*	6/6
Mr. Ge Hongbing	6/6
Ms. Chen Xiaoting (Appointed on 1 March 2018)	5/5
Mr. Shen Jun (Appointed on 10 September 2018)	2/2
Non-executive Directors	
Mr. Huang Yugang	6/6
Ms. Kwok Chak Sheung (Resigned on 30 July 2018)	2/2
Independent non-executive Directors	
Mr. Lau Ying Kit	5/6
Mr. Cheung Man Sang	6/6
Mr. Zhang Shulin	6/6
Mr. Lin Lei	5/6

There are four independent non-executive Directors who represent over 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

In 2018, an annual general meeting was held on 25 May 2018 and an extra general meeting was held on 28 December 2018. The chairman of the Board (the "Chairman"), as well as chairman of each of the Board committees, or in their absence, members of the respective committees, and the external auditors of the Company, were available to answer questions from shareholders at the annual general meeting. At the annual general meeting, procedures for conducting a poll were explained by the Chairman and a resolution was proposed in respect of each separate issue itemized in the agenda.

The forthcoming 2019 annual general meeting ("2019 AGM") will be held on 24 May 2019.

	Numbers of general meeting attended/held
Executive Directors	
Mr. Chen Cunyou *(Chairman)*	2/2
Mr. Ge Hongbing	2/2
Ms. Chen Xiaoting (Appointed on 1 March 2018)	2/2
Mr. Shen Jun (Appointed on 10 September 2018)	1/1
Non-executive Directors	
Mr. Huang Yugang	2/2
Ms. Kwok Chak Sheung (Resigned on 30 July 2018)	1/1
Independent non-executive Directors	
Mr. Lau Ying Kit	2/2
Mr. Cheung Man Sang	2/2
Mr. Zhang Shulin	2/2
Mr. Lin Lei	2/2

Responsibilities of the Board and Management

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

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

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

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The financial statements set out on pages 52 to 135 were prepared on the basis set out in note 2 to the consolidated financial statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements.

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

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

Confirmation of Independence

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

Continuous Professional Development

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

Appointment, Re-election and Removal

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

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

Nomination Committee

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

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

During the year ended 31 December 2018, the nomination committee had reviewed the structure, size and composition of the Board, and gave full review on the professional qualifications and career background of all candidates to directorships and members of each Board committee as well as the independence of the independent non-executive Directors.

During the Year, one meeting of the nomination committee was held on 28 March 2018. The attendance records of individual Directors are set out below:

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

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

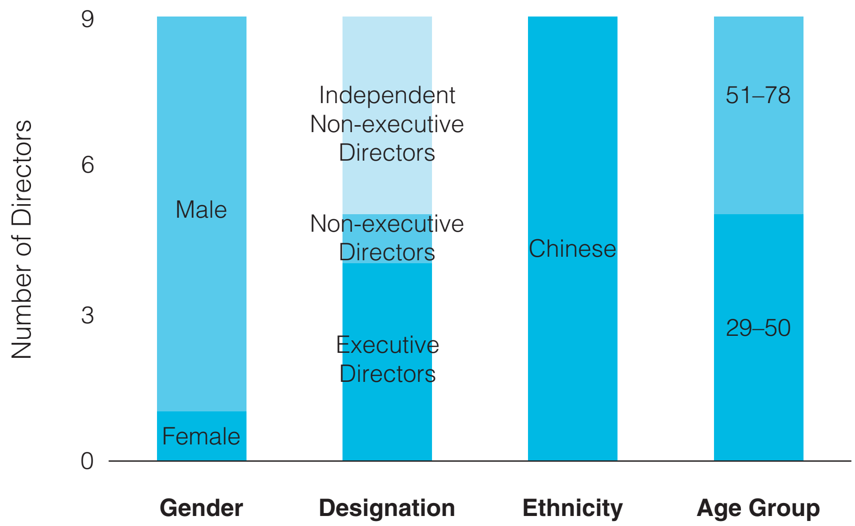
Nomination policy

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, the Board diversity policy of the Company, as well as 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.

Board diversity policy

The Company has adopted a Board diversity policy in 2013, pursuant to which the nomination committee will carry out the selection process by making reference to a range of diversity perspectives, including but not limited to skills, knowledge, professional experience, competences, length of service, gender, age, ethnicity, cultural and educational background.

The following is a chart showing the diversity profile of the Board as at 31 December 2018:



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

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

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

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

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

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

Remuneration Committee

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

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

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

During the year ended 31 December 2018, the remuneration committee had formulated the remuneration policy of Directors, approved the terms in service contracts of Directors and reviewed the bonus distribution for the year based on assessment on performances of the Directors and senior management.

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

	Number of individuals	
Remuneration band	**2018**	2017
Nil to RMB300,000	**1**	1
RMB300,001 to RMB1,000,000	**3**	3

During the Year, one meeting was held on 28 March 2018. The attendance records of individual Directors are set out below:

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

Audit Committee

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

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

During the year ended 31 December 2018, the audit committee had performed the following functions: reviewing the half-year and full year results, reviewing the report of the auditors, as well as reviewing the risk management and internal control system.

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

During the Year, the audit committee had two meetings on 28 March 2018 and 31 August 2018 with the senior management and independent auditor of the Company to consider the independence and audit scope of independent auditor, and to review and discuss the connected transactions, the risk management and internal control system, interim and annual financial statements of the Company and the opinion and report of independent auditor before submitting to the Board for their approval. The attendance records of individual committee members are set out below:

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

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

Auditor's Remuneration

During the Year, the Company engaged KPMG as the external auditors. The fee of audit services and non-audit services provided by KPMG for the Year approximately amounted to RMB2,900,000 and RMB1,700,000 respectively.

Details of auditor's responsibilities on the Company's consolidated financial statements are set out in the Independent Auditor's Report on pages 39 to 51.

Company Secretary

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

Risk Management and Internal Controls

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

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

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

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

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

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

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

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

Shareholders' Rights

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

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

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

Principal place of business of the Company in Hong Kong

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

Principal place of business of the Company in the PRC

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

Registered office of the Company

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

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

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

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

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

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

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

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

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

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

Investor Relations and Communication

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

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

From 18 June 2012 (the "Listing Date") and up to 31 December 2018, 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 56, 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, Xiezhong Wuhan, Sino Evergreen, Jin Cheng HK, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan. He has been appointed as a Director of the Company since 30 September 2011.

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 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 currently a member of the People's Congress of Jiangsu Province in the PRC.

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 48, is our executive deputy general manager and an executive Director. He joined our Group since the establishment of Xiezhong Nanjing and he has been appointed as a Director since 29 November 2011. Mr. Ge is also a director, executive deputy general manager and chief engineer of Xiezhong Nanjing, a director and the general manager of Xiezhong Beijing, a director of Xiezhong BVI, Xiezhong HK, Xiezhong Morocco, Sino Evergreen, Jin Cheng HK, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan and the chairman of Xiezhong Liaoning.

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

Ms. Chen Xiaoting, aged 29, is an executive Director of our Company and has over 4 years of experience in the field of management and financial industry. She joined our Group on 1 March 2018. From December 2014 to August 2017, she was a licensed representative permitted to carry out Type 1 (dealing in securities) regulated activities under the SFO. Ms. Chen graduated from the Guangdong University of Business Studies and received a bachelor's degree in English (International Business Management) in June 2012. In October 2013, Ms. Chen graduated from the Hong Kong Polytechnic University and received a master degree in translating and interpreting. She is also a director of Sino Evergreen, Jin Cheng HK, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan.

Mr. Shen Jun, aged 55, is an executive Director of our Company and has over 26 years of experience in the field of management and financial industry. He joined our Group on 10 September 2018. He is also a director of Sino Evergreen, Jin Cheng HK, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan.

From April 1992 to April 1997, Mr. Shen was the general manager of the trust department of Yangzhou Trust Investment Co., Ltd.* (揚州信託投資有限責任公司). During May 1997 to June 2006, Mr. Shen worked in CITIC Securities Company Limited by serving in several positions including (i) the general manager of various sales offices in Xuzhou, Jiangsu Province; (ii) the deputy general manager of the Nanjing management headquarters; and (iii) the deputy general manager of the brokerage headquarters. From June 2006 to February 2012, Mr. Shen worked as the general manager of the Yangzhou sales office of China Investment Securities Co., Ltd.. From February 2012 to February 2013, Mr. Shen served as the general manager of the brokerage management headquarters of Pacific Securities Co., Ltd.. Mr. Shen was the general manager of Nanjing business department of China Minzu Securities Co., Ltd.* (中國民族證券有限責任公司) from March 2013 to May 2018. Mr. Shen graduated from Jiangsu Provincial Party School* (江蘇省委黨校) with a bachelor's degree in foreign economic management in July 1992. During the period of September 1998 to June 2000, Mr. Shen studied in Nanjing University majoring in investment economics. From July 2000 to November 2002, Mr. Shen studied in Macau University of Science and Technology and graduated with a master degree in business management. Mr. Shen has also obtained various qualifications, including (i) the qualification for national economist in 1992; (ii) the qualification for securities practitioner in 2001; (iii) the qualification for fund practitioner in 2009; and (iv) the qualification for national financial planner in 2012.

Non-executive Director

Mr. Huang Yugang, aged 49, is a non-executive Director of our Company and currently the deputy general manager and the head of the R&D department of Xiezhong Nanjing, who is responsible for overseeing the technical aspect of its production and the R&D of the products. He joined our Group in May 2002. Mr. Huang has also been the general manager of Xiezhong Liaoning since February 2010. Mr. Huang is also a director of Xiezhong Liaoning, Xiezhong Nanjing, Xiezhong BVI, Xiezhong HK, Xiezhong Chongqing, Sino Evergreen, Jin Cheng HK, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan.

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

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

Independent non-executive Directors

Mr. Cheung Man Sang, aged 62, is an independent non-executive Director. He joined our Group on 16 May 2012.

Mr. Cheung served as the deputy general manager of Anhui Shan Ying Paper Industry Co., Ltd and the legal representative and consultant of Shan Ying Investment Management Ltd. and as general manager of Shenzhen Richland Health VC Fund Management Co., Ltd before. From August 2010 to November 2010, he served as the general manager of Vigo Hong Kong Investment Ltd. Prior to that, he served various positions at China Travel Service (Holdings) Hong Kong Limited and its group of companies between June 1996 and June 2010. In 1998, he became the general manager of China Travel Finance & Investment (H.K.) Limited, and was subsequently appointed as deputy general manager of group finance department and as general manager of China Travel Insurance Advisers Hong Kong Limited. During February 2007 to 2009, he served as a director of Tangshan Guofeng Iron & Steel Co., Ltd. In 2009, he was transferred back to group finance department of China Travel Service (Holdings) Hong Kong Limited to serve as deputy general manager. He served 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.# from 27 December 2011 to 31 August 2018.

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 45, is an independent non-executive Director. He joined our Group on 16 May 2012. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and holds a master degree in finance from the City University of Hong Kong. Mr. Lau gained extensive experience in auditing, accounting and financing across the PRC and Hong Kong. Mr. Lau had worked as the chief financial officer and company secretary in several listed companies in Hong Kong. He is currently an independent non-executive director of four companies listed on the Main Board of the Stock Exchange, namely Kingdom Holdings Limited (Stock Code: 528), China Wood Optimization (Holding) Limited (Stock Code: 1885), United Strength Power Holdings Limited (Stock Code: 2337) and Sinco Pharmaceuticals Holdings Limited (Stock Code: 6833).

Mr. Zhang Shulin, aged 78, is an independent non-executive Director. He joined our Group on 16 May 2012. He has over 40 years of experience in automobile engineering and managing automobile enterprises.

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

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

Mr. Lin Lei, aged 51, is an independent non-executive Director. He joined our Group on 25 August 2014. Mr. Lin received a bachelor's degree in Applied Economic Mathematics from the Renmin University of China (中國人民大學) in July 1990. He is the founder of TNS Sinotrust Market Research Consulting (Beijing) Co., Ltd (特恩斯新華信市場諮詢（北京）有限公司) (Formerly known as Sinotrust International Information & Consultant (Beijing) Co. Ltd. (新華信國際信息諮詢（北京）有限公司)) ("Sinotrust"). Mr. Lin was the president and CEO of Sinotrust since January 2007 to December 2014, and he was the chairman of Sinotrust since January 2015 to January 2018. Prior to funding Sinotrust in 1992, from 1990 to 1992, Mr. Lin worked at the Ministry of Foreign Economic Relation and Trade (對外經濟貿易部). At present, Mr. Lin is an independent non-executive directors of New Focus Auto Tech Holdings Limited (Stock code: 360), and Baic Bluepark New Energy Technology Co., Ltd., a company listed on Shanghai Stock Exchange (Stock code: 600733), he is also a director of Lepu Medical Technology (Beijing) Co., Ltd., a company listed on ChiNext Shenzhen Stock Exchange Market (Stock code: 300003). Mr. Lin was a vice president of China Association of Market Information and Research (CAMIR) (中國市場訊息調查業協會), and was a director of Society of Automotive Engineers of China (中國汽車工程學會), he is currently a commissioner of the expert committee of China Automobile Dealers Association (CADA) (中國汽車流通協會).

Senior Management

Mr. Chen Cunyou, aged 56, 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 48, is an executive Director of the Company. Biographical details of Mr. Ge are set out in the paragraph headed "Directors" under this section.

Ms. Chen Xiaoting, aged 29, is an executive Director of the Company. Biographical details of Ms. Chen are set out in the paragraph headed "Directors" under this section.

Mr. Shen Jun, aged 56, is an executive Director of the Company. Biographical details of Ms. Chen are set out in the paragraph headed "Directors" under this section.

Mr. Huang Yugang, aged 48, is a non-executive Director of the Company. Biographical details of Mr. Huang are set out in the paragraph headed "Directors" under this section.

Mr. Xin Fangwei, aged 43, is the chief financial officer of the Company. Mr. Xin joined our Group in November 2008. Mr. Xin has accumulated over 17 years of experience in the areas of financial management. Prior to joining our Group, Mr. Xin worked for 南京泉峰國際貿易有限公司 (Nanjing Chervon International Trading Co., Ltd.#) from November 2001 to December 2004 as a finance officer. Mr. Xin was a senior accounting supervisor of 海康人壽保險有限公司 (AEGON-CNOOC Life Insurance Co. Ltd.#) from August 2005 to August 2006 and a senior accounting supervisor of 海康人壽保險有限公司江蘇分公司 (AEGON-CNOOC Life Insurance Co. Ltd., Jiangsu Branch Co.#) from August 2006 to February 2007. Mr. Xin graduated with a bachelor's degree in auditing from 華北電力大學 (North China Electric Power University#) in July 1999. Mr. Xin obtained his master's degree in business administration from 河海大學 (Hohai University#) in June 2010. Mr. Xin has been an accountant since 2004.

Mr. Zhang Qingrong, aged 71, 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.

Company Secretary

Mr. Chui Wing Fai, aged 53, is the company secretary of the Company. He joined our Group in November 2011.

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

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

Changes to Information in Respect of Directors

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

Literal translation of the Chinese company name

Report of the Directors

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

Principal Activities

The Company was incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the following two business (2017: one): 1) the design, production and sale of automotive HVAC systems and a range of automotive HVAC components and providing technical testing and related services ("HVAC business"); and 2) 4S dealership business.

On 28 December 2018, the acquisition of the 4S dealership business was approved and ratified by shareholders of the Company, and the Group obtained control of the 4S dealership business on the same date. The Group has since engaged in the 4S dealership business.

Further discussion and analysis of the Group's principal activities as required by Schedule 5 of the Companies Ordinance, including a review of the Group's business and an indication of likely development in the Group's business, can be found in the Management Discussion and Analysis in this annual report.

Results and Dividends

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

The Board did not recommend the payment of a final dividend for the Year (2017: nil).

Dividend Policy

The declaration, payment and amount of dividends will be subject to the discretion of the Board and will depend on the following factors:

- results of operations;
- cash flows;
- financial condition;
- statutory and regulatory restrictions on the payment of dividends by the Group;
- future prospects; and
- other factors that our Directors may consider relevant.

The payment of dividends by the Company is also subject to all applicable laws and regulations and the articles of association of the Company.

Share Capital

Details of the movements in share capital of the Company during the Year are set out in note 31 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 31 to the consolidated financial statements respectively.

Distributable Reserve of the Company

As at 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HKD369,706,000 (equivalent to RMB298,848,000) (2017: HKD379,434,000 (equivalent to RMB307,175,000)).

Borrowings

Details of the borrowings are set out in the section headed "Management Discussion and Analysis" in this annual report and note 24 to the consolidated financial statements.

Property, Plant and Equipment

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

Equity-Linked Agreements

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

Business Review

A review of the business of the Group during the Year and a discussion on the Group's future development are set out in the Chairman's Statement on page 4 and the Management Discussion and Analysis on pages 6 to 12 of this report. These discussion form part of this Director's report.

Environmental Policy and Performance

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

Compliance with Relevant Laws and Regulations

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

Relationship with Employees, Customers and Suppliers

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

Principal Risks and Uncertainties

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

Events After the Year

Except for what has been disclosed in this report, there was no significant event took place after the reporting period and up to the date of approval of the consolidated financial statements.

Tax Relief and Exemption

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

Pre-Emptive Rights

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

Directors

The Directors who hold office during the Year were:

Executive Directors:

Mr. Chen Cunyou *(Chairman)*
Mr. Ge Hongbing
Ms. Chen Xiaoting (Appointed on 1 March 2018)
Mr. Shen Jun (Appointed on 10 September 2018)

Non-executive Directors:

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

Independent Non-executive Directors:

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

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

Accordingly, Ms. Chen Xiaoting, Mr. Huang Yugang and Mr. Zhang Shulin shall retire from office by rotation at the conclusion of the forthcoming 2019 AGM and being eligible, offer themselves for re-election thereat. Further, Mr. Shen Jun shall retire from office at the conclusion of the forthcoming 2019 AGM and being eligible, offer himself for re-election thereat.

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

Directors' Service Contracts

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

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

Biographical Details of Directors and Senior Management

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

Remuneration of Directors and Five Highest Paid Individuals

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in notes 9 to 10 to the consolidated financial statements.

Directors' and Chief Executives' Interest in Shares, Debentures and Underlying Shares of the Company or any Associated Corporations

As at 31 December 2018, save as disclosed below, none of the Directors or chief executive of the Company who held office on 31 December 2018 had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Long positions (L) in the shares, underlying shares and debentures of the Company

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

Save as disclosed above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and other Persons' Interests in Share and Underlying Shares

So far as is known to the Directors, save as disclosed below, our Directors are not aware of any person (other than Directors and chief executive of the Company) who, as at 31 December 2018, had interests or short positions in any shares or underlying shares which are required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register acquired to be kept under section 336 of the SFO.

Long positions (L) or short positions in Shares

Name of shareholders	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Sunrise International[1]	Beneficial owner	347,602,500 (L)	43.45%
Mr. Chen Hao[1]	Beneficial owner	8,208,000 (L)	1.03%
	Interest of controlled corporation	347,602,500 (L)	43.45%
Brilliance[2]	Beneficial owner	40,763,400 (L)	5.09%
Ms. Chen Jiao[2]	Beneficial owner	12,000,000 (L)	1.50%
	Interest of controlled corporation	40,763,400 (L)	5.09%
Asia United Fund	Investment Manager	159,000,000 (L)	19.88%
Tianjin Yitongyuan Asset Management Co Ltd* (天津禕童源資產管理有限公司)	Investment Manager	46,564,000 (L)	5.82%

Notes:

1. Pursuant to the Sale and Purchase Agreements, convertible bonds in the maximum amount of HK$218,685,000 convertible at a conversion price of HK$1.50 per share, representing a maximum of 145,790,000 conversion shares upon full conversion to be issued to Sunrise International. For details, please refer to the circular of the Company dated 11 December 2018. Sunrise International is 100% owned by Mr. Chen Hao. Therefore, Mr. Chen Hao is deemed to be interested in all the shares held by Sunrise International by Virtue of the SFO.

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

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other persons who had any interests or short positions in the shares or underlying shares and debentures which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Share Option Scheme

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

The Company's existing Share Option Scheme was approved for adoption pursuant to a written resolution of all of our shareholders passed on 21 May 2012 and revised on 30 May 2012 for the purpose of providing our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and or providing benefits to eligible participants and for such other purposes as the Board approves 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 "E. Share Option Scheme" in section headed "Statutory and general information" in Appendix VI to the Prospectus. Summary of the principal terms of the Share Option Scheme are summarised as follows:

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

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

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

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

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

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

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

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

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

Competition and Conflict of Interests

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

Arrangements to Purchase Shares or Debentures

Other than the Share Option Scheme as set out in note 25 to the consolidated financial statements, at no time during the Year was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the Shares in, or debt securities of, the Company.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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

Controlling Shareholders' Interests in Contracts

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

Contract of Significance

No contract of significance, including contracts for the provision of services, was entered between the Company, or one of its subsidiaries, and a controlling shareholder or any of its subsidiaries.

Major Customers and Suppliers

During the Year, the Group's five largest customers together accounted for 66.8% of the Group's sales, of which 22.9% was attributable to the largest customer. During the Year, the Group's five largest suppliers together accounted for 19.9% of the Group's purchases of which 7.5% was attributable to the largest supplier. To the best knowledge of the Directors, neither the Directors, their close associates, nor any shareholders who, to the knowledge of the Directors, owned more than 5% of the Company's issued shares, had any beneficial interest in any of the Group's five largest customers and suppliers during the Year.

Continuing Connected Transactions Required For Disclosure Under The Main Board Listing Rules

1. Connected transactions in relation to daily operation

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

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

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

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

As disclosed in the announcement dated 12 June 2015 and the circular dated 6 July 2015, Xiezhong Nanjing and BAIC had on 12 June 2015 entered into a new master agreement (the "Previous Master Agreement II") to govern the supply of air-conditioning systems and assembly parts of automobile air-conditioning systems to the Purchasers after the expiry of the Previous Master Agreement I, based on normal commercial terms and at prices to be determined with reference to the prevailing market prices for a term of three years commencing from 1 January 2015 to 31 December 2017. For each of the three years ending 31 December 2015, 2016 and 2017, the annual caps of the maximum aggregate value for the transactions contemplated under the Previous Master Agreement II are approximately RMB470 million, RMB600 million and RMB730 million, respectively. The independent shareholders of the Company approved, at the EGM convened on 23 July 2015, the Previous Master Agreement II and the relevant annual caps for the three years ending 31 December 2015, 2016 and 2017. The Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Main Board Listing Rules.

北京汽車股份有限公司株洲分公司 (Zhuzhou Branch of Beijing Automobile Co., Ltd.#) is a branch office of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.#), which is owned as to 51% by BAIC while 北京汽車新能源汽車有限公司 (Beijing Automobile New Energy Automobile Company Limited#) is a wholly-owned subsidiary of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.#). BAIC owns 60% of the registered capital of Beijing Hainachuan which in turn is the holding company of BHAP, the controlling shareholder of the Company between June 2014 and 14 July 2017. As the controlling shareholder of the Company, BHAP is a connected person of the Company under the Main Board Listing Rules. BAIC as the holding Company of BHAP, is an associate of BHAP and hence a connected person under the Main Board Listing Rules. As BAIC is the holding company of Beijing Hainachuan and Beijing Hainachuan is the major shareholder of the Company, members of the BAIC Group are our connected persons under the Main Board Listing Rules. On 14 July 2017, BHAP has ceased to be the controlling shareholder of the Company, however, Beijing Hainachuan 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 still our connected persons under the Main Board Listing Rules. The transactions contemplated under the Previous Master Agreement II will constitute a continuing connected transaction for our Company.

As disclosed in the announcements of the Company dated 5 May 2017, 10 May 2017, 29 May 2017 and the circular of the Company dated 29 May 2017, Xiezhong Nanjing and BAIC entered into the New Master agreement ("New Master Agreement") on 5 May 2017 to govern the supply of Air-conditioning Systems by the Group to the Purchasers on similar terms and conditions after the expiry of the Previous Master Agreement II based on normal commercial terms and at prices to be determined with reference to the prevailing market prices for a term of three years commencing from 1 January 2018 to 31 December 2020. For each of the three years ending 31 December 2018, 2019 and 2020, the annual caps of the maximum aggregate value for the transactions contemplated under the New Master Agreement are approximately RMB535 million, RMB616 million and RMB699 million, respectively.

The applicable percentage ratios calculated for the purpose of Chapter 14A of the Main Board Listing Rules in respect of the annual caps under the New Master Agreement, on an annual basis, will be more than 5% and the lowest of the annual caps is more than HK$10,000,000 and it constitutes non-exempt continuing connected transactions of the Company and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Main Board Listing Rules. The independent shareholders of the Company approved, at the AGM convened on 28 July 2017, the New Master Agreement and the relevant annual caps for the three years ending 31 December 2018, 2019 and 2020. The Directors confirmed that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Main Board Listing Rules.

The annual cap for the transaction under the New Master Agreement for the Year was RMB535 million. During the Year, the aggregate amount of the transactions under the New Master Agreement was approximately RMB211 million, which was within the annual cap of RMB535 million.

— Purchase of expansion valve and controller from Sanhua Holding Group Co., Ltd ("Sanhua Holding") and its subsidiaries or associates ("Sanhua Group")

On 10 January 2017, Xiezhong Nanjing and Sanhua Group entered into a purchase agreement in relation to purchase HVAC systems parts from Sanhua Group based on normal commercial terms and at prices to be determined with reference to the prevailing market prices. The annual caps approved by the Board of Directors for the transactions conducted with Sanhua Group and the annual caps for the Year was RMB15 million.

Literal translation of the Chinese company name

Hield International (H.K.) Limited ("Hield") ceased to be a substantial shareholder of the Company on 2 January 2018 (and subsequently ceased to be a shareholder of the Company on 2 February 2018). Therefore, both Hield and Sanhua Holding ceased to be connected persons of the Company and the transactions between Sanhua Group and Xiezhong Nanjing ceased to be connected transactions from 2 January 2018.

From 1 January 2018 to 2 January 2018, the aggregated amount of the transactions was approximately RMB41,000, which was within the annual caps of RMB15 million.

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 disclosed continuing connected 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 disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

   - With respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual cap set by the Company.

Purchase, Sale or Redemption of The Company's Listed Securities

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

Sufficiency of Public Float

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

Management Contract

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

Permitted Indemnity Provision

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

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

Corporate Governance

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

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

Environment, Social and Governance Report and Social Responsibility

Please refer to the environment, social and governance report as required by the Main Board Listing Rules, which will be issued separately by the Company before 30 June 2019.

Annual General Meeting

The 2019 AGM, will be held on 24 May 2019, shareholders should refer to details regarding the 2019 AGM in the circular of the Company dated 23 April 2019 and the notice of meeting and form of proxy accompanying thereto.

Closure of Register of Members

The register of members of the Company will be closed Tuesday, 21 May 2019 to Friday, 24 May 2019, both days inclusive, during such period no transfer of shares will be registered. In order to be entitled to attend the 2019 AGM of the Company and vote at the meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration before 4:30 p.m. on Monday, 20 May 2019.

Auditor

KPMG was appointed as auditor of the Company since the Listing and will retire at the forthcoming AGM. A resolution will be proposed at the forthcoming 2019 AGM to re-appoint KPMG as the auditor of the Company.

ON BEHALF OF THE BOARD

Chen Cunyou
Chairman

Hong Kong
29 March 2019

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

Opinion

We have audited the consolidated financial statements of Xiezhong International Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 52 to 135, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Accounting for business combination

Refer to note 36 to the consolidated financial statements and the accounting policies note 2(d).

The Key Audit Matter	How the matter was addressed in our audit
On 28 December 2018, the Group's acquisition of Sino Evergreen International Limited and its subsidiaries ("Target Group A"), and Jin Cheng Auto Parts (Hong Kong) Ltd. ("Target Company B") was approved by the shareholders of the Company (Target Group A and Target Company B collectively the "Target Group"), and the Group obtained control of the Target Group on the same date. The Target Group are principally engaged in the operation of car dealership stores in Mainland China, by way of issue of promissory notes and convertible bonds which are subject to the satisfaction of the Performance Guarantee conditions as set out in note 36 to the consolidated financial statements. Management engaged an external valuation firm to determine the fair values of the acquired identifiable net assets and the contingent purchase considerations for the above acquisition. We identified the accounting for the business combinations as a key audit matter because of the complexity and significant degree of management judgment involved in the following areas: • the identification and valuation of intangible assets of the acquired businesses at the acquisition date; and	Our audit procedures to assess the accounting for the business combination included the following: • inspecting the sale and purchase agreement and evaluating management's accounting treatment for the acquisition with reference to the terms set out in the agreement and the requirements of the prevailing accounting standards; • assessing the external valuation firm's qualifications, experience and expertise and considering their objectivity and independence; • reading the valuation report prepared by the external valuation firm engaged by the Group on which the directors' assessment of the fair value of the identifiable net assets acquired and the contingent purchase considerations were based;

The Key Audit Matter	How the matter was addressed in our audit
• the determination of the fair value of contingent purchase considerations at the acquisition date.	• with the assistance of our internal valuation specialists, assessing the nature of intangible assets identified and the valuation methodology adopted by the external valuation firm with reference to the guidance of the prevailing accounting standards and challenging the key assumptions adopted in the valuation of identifiable intangible assets acquired, including forecasted sales volume, sales prices and the gross profit ratio by comparing the key assumptions with budgets approved by management and market and other external available information; • with the assistance of our internal valuation specialists, evaluating the discount rate applied in the discounted cash flow forecast by comparing the parameters adopted in calculating the discount rate against those adopted by other companies in the same industry and with similar risk profile; • with the assistance of our internal valuation specialists, assessing the valuation model applied in the contingent purchase consideration calculation by the external valuation firm with reference to terms in the signed sale and purchase agreement and assessing the acquired business's probability of meeting the performance guarantee by comparing to historical financial performance of the acquired business, forecasted market conditions and business plans; and • assessing the disclosures in the consolidated financial statements in respect of the business combination with reference to the requirements of the prevailing accounting standards.

Assessing potential impairment of goodwill

Refer to note 15 to the consolidated financial statements and the accounting policies note 2(f).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, goodwill arising from the acquisition of Target Group amounted to RMB15 million which represents the excess of the fair value of the purchase consideration over the fair value of the identifiable net assets, including intangible assets which represent dealerships of the acquired businesses. Goodwill has been allocated to each of the relevant individual car dealership store, which are considered to represent individual cash-generating units ("CGUs"). Management performed an annual impairment assessment of the goodwill and compared the carrying value of the CGUs containing the goodwill with its recoverable amount by using a discounted cash flow forecast to determine if any impairment is required. The assessment of the recoverable amount of goodwill involves significant management estimation and judgment, in particular in determining the key assumptions adopted in the cash flow forecasts, which include sales volumes, sales prices, growth rates, future profit margins and the discount rates applied. We identified assessing potential impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because of the inherent uncertainty involved in forecasting and discounting future cash flows which involves the exercise of significant management judgment and could be subject to management bias.	Our audit procedures to assess potential impairment of goodwill included the following: • evaluating the appropriateness of management's identification of CGUs and the amounts of goodwill allocated to each CGU; • examining the directors' profit forecasts and cash flow forecasts for the acquired businesses, comparing these with board-approved plans, challenging the key assumptions, which included sales volumes and prices, by comparing the key assumptions with market and other external available information, comparing the forecasts with historical performance of the acquired businesses and industry forecasts and evaluating the discount rate used in the discounted cash flow forecast by benchmarking the discount rate against the discount rates for similar companies in the same industry, with the assistance of our internal valuation specialists; • assessing management's sensitivity analysis for the key assumptions, including the annual growth rate and the discount rate, adopted in the preparation of the discounted cash flow forecasts and assessing the impact of changes in the key assumptions on the conclusions reached by management in the goodwill impairment assessment and whether there were any indicators of management bias; and • assessing the disclosures in the consolidated financial statements in respect of assessing impairment of goodwill with reference to the requirements of the prevailing accounting standards.

Assessment of the Group's ability to continue as a going concern

Refer to note 2(b) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, the Group had net current liabilities of RMB404 million, total borrowings of RMB993 million, acquisition consideration payables of RMB347 million and capital commitments which had been contracted for of RMB75 million. Note 2(b) to the consolidated financial statements explains how the directors of the Company have formed a judgement that the going concern basis is appropriate in preparing the consolidated financial statements of the Group. The directors of the Group evaluated the Group's ability to continue as a going concern based upon an assessment of the Group's cash position, a cash flow forecast, and its availability of financing facilities. This required the exercise of significant management judgement, particularly in forecasting the Group's future revenue, gross profit, operating expenses and capital expenditure and in assessing the Group's ability to renew the existing banking facilities. Based on their assessment, the directors concluded that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.	Our audit procedures to assess whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern included the following: • walking through the business planning process and assessing the design, implementation and operating effectiveness of management's key internal controls over the assessment of the Group's ability to continue as a going concern, including the preparation of cash flow forecasts; • evaluating the key assumptions in the cash flow forecasts (including future revenue, gross profit, operating expenses and capital expenditure) with reference to historical production information, current performance, internal investment and production plans, and market and other external available information; • considering the accuracy and reliability of cash flow forecasts made by management in prior years by comparing them with the current year's results; • assessing the availability of banking and other financing facilities and arrangements by inspecting underlying documentation, which included banking facility agreements signed before and after the reporting period end, and assessing the impact of any covenants and other restrictive terms therein;

The Key Audit Matter	How the matter was addressed in our audit
We identified the assessment of the Group's ability to continue as a going concern as a key audit matter because the assessment is dependent upon certain management assumptions and judgements, in particular in relation to future revenue from the supply of products and the ability of the Group to obtain external financing, which may be inherently uncertain and could be subject to management bias.	• assessing the Group's ability to renew or refinance existing banking and other financing facilities upon maturity by performing a retrospective review of past renewal or roll-over history of banking and other financing facilities in prior years and inspecting loan agreements and underlying documentation for bank loans and other financing facilities borrowed and repaid after the year end; • assessing the sensitivities of the key assumptions adopted by management in the going concern assessment and considering whether management had incorporated any bias in the selection of such assumptions, and assessing the impact on the conclusion of the going concern assessment; • inspecting letters of financial support from the largest shareholder and an executive director and assessing the ability of the largest shareholder and the executive director to provide such financial support by inspecting available financial information; and • evaluating the disclosures in the consolidated financial statements in respect of the going concern assumption with reference to the requirements of the prevailing accounting standards.

Loss allowance for trade receivables

Refer to note 20 to the consolidated financial statements and the accounting policies note 2(k).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, the Group's gross trade receivables due from third party customers and related parties for the automotive heating, ventilation and cooling ("HVAC") business segment totalled RMB472 million, against which loss allowance of RMB39 million was recorded. The Group's trade receivables mainly arose from sales of products to automobile manufacturers in the HVAC business segment. Management measured the loss allowance at an amount equal to lifetime expected credit loss based on estimated loss rates. The estimated loss rates take into account of the ageing of trade receivable balances, the repayment history of the Group's customers, current market conditions, customer-specific conditions, and forward-looking information. Such assessment involves significant management judgement and estimation. We identified loss allowance for trade receivables as a key audit matter because accounts receivables and loss allowance are material to the Group and because the recognition of expected credit losses is inherently subjective and requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, segmentation of accounts receivable, and estimating the expected credit losses allowance; • obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by management, including the basis of the segmentation of the trade receivables based on credit risk characteristics, the historical default data, and the assumptions involved in management's estimated loss rate; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • assessing whether items were correctly categorised in the trade receivables ageing report by comparing a sample of individual items with the underlying goods delivery notes, sales invoices and other relevant underlying documentation; and • comparing, on a sample basis, cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 December 2018 with bank-in slips.

Valuation of inventories

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

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, the Group's inventories totalled RMB361 million, against which provisions of RMB17 million were recorded. Inventories held at year end principally comprise HVAC systems and a range of automotive HVAC components in the HVAC business segment, and automobiles and automobile components in the 4S dealership business segment. Sales of inventories in the automobile industry can be volatile due to keen competition in the market and technical innovation. The Group may sell or dispose of slow moving inventories at a markdown from the original price to open new market or maintain the existing market share. Accordingly, the actual future selling prices of some items of inventory may fall below their cost. Management assess the net realisable value of slow moving and obsolete inventories and inventories with low or negative gross margins with reference to the inventory ageing report, future utilisation plans, anticipated future selling prices, sales forecasts and costs to sell. Inventories are written down to their new realisable value where this falls below their cost.	Our audit procedures to assess the valuation of inventories included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to the identification of slow moving and obsolete inventories and inventories with low or negative gross margins, monitoring inventory ageing and making relevant inventory provisions; • evaluating the Group's inventory write-down and provision policy with reference to the requirements of the prevailing accounting standards; • assessing whether the inventory write-downs and provisions made at the reporting date were consistent with the Group's inventory write-down and provision policy by recalculating the inventory write-downs and provisions based on the relevant parameters in the Group's policy; • assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation, which included purchase invoices, goods receipt notes and production records;

The Key Audit Matter	How the matter was addressed in our audit
We identified the valuation of inventories as a key audit matter because of the significant management judgement required to determine the appropriate level of inventory write-downs and provisions which involves predicting the excess quantities of inventories which will remain unused or unsold after the end of the reporting period and the mark-downs necessary to sell such slow moving inventories, which are inherently uncertain due to changing market conditions and technical innovation in the automotive industry.	• obtaining the list of slow moving and obsolete inventories identified by management and comparing this information, on a sample basis, with our observations during our attendance at the year-end inventory count and the data contained in the inventory ageing report; • performing a retrospective review of the provisions for inventories recorded as at 31 December 2017 by examining movements in the balance during the current year and new provisions made for inventory balances as at 31 December 2017 during the current year to assess the historical accuracy of inventory provision made by management; and • assessing, on a sample basis, whether inventories were stated at the lower of cost and net realisable value at the reporting date with reference to selling prices achieved and costs to sell after the financial year end.

Capitalisation of development costs

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

The Key Audit Matter	How the matter was addressed in our audit
During the year ended 31 December 2018, the Group capitalised development costs totalling RMB39 million within intangible assets for the development of HVAC systems for sports utility vehicles, pickup trucks, heavy trucks and new-energy vehicles. As at 31 December 2018, the carrying amount of the Group's capitalised development costs totalled RMB111 million. Management is required to exercise significant judgement in assessing whether the costs incurred meet the criteria for capitalisation as set out in the prevailing accounting standards, in determining when amortisation of these costs should commence and in estimating the economic useful lives of these development costs. We identified the capitalisation of development costs as a key audit matter because of the significant development costs incurred in the current year and because of the significant level of management judgement involved in determining whether the criteria for capitalisation were met, in determining the commencement date of amortisation and in determining the estimated useful lives of these development costs.	Our audit procedures to assess the capitalisation of development costs included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to capturing, categorising and approving the capitalisation of development costs, in monitoring the progress of development projects and in determining the commencement date of amortisation and the economic useful lives of development costs; • evaluating management's assessment of the technical and commercial feasibility of development projects by holding discussions with the Group's engineers, inspecting the corresponding feasibility reports and inspecting product development agreements signed with automobile manufacturers; • comparing, on a sample basis, capitalised development costs recorded during the year with relevant underlying documentation to assess whether these items met the criteria for capitalisation with reference to the requirements of the prevailing accounting standards; • assessing the reasons for delays of ongoing development projects by holding discussions with the Group's engineers and automobile manufacturers, and evaluating management's assessment on identifying impairment indicators; • assessing the point at which the developed technology became available for commercial use by inspecting the corresponding project completion reports prepared by the Group's engineers and inspecting contractual documentation with automobile manufacturers and confirmed sales orders; and • challenging management's assessment of the estimated economic useful lives for all technology newly developed in the current year by comparing the estimates of economic useful lives with past performance for similar projects and industry practice.

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

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

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

	Note	2018 RMB'000	2017 RMB'000
Revenue	5	**924,104**	929,704
Cost of sales		**(754,111)**	(784,314)
Gross profit		**169,993**	145,390
Other net income	6	**17,123**	3,892
Distribution costs		**(54,321)**	(48,908)
Administrative expenses		**(116,385)**	(115,405)
Other operating expenses		**(6)**	(113)
Profit/(loss) from operations		**16,404**	(15,144)
Finance costs	7(a)	**(32,408)**	(32,754)
Loss before taxation	7	**(16,004)**	(47,898)
Income tax	8(a)	**599**	5,491
Loss for the year		**(15,405)**	(42,407)
Attributable to:			
Equity shareholders of the Company		**(9,228)**	(40,323)
Non-controlling interests		**(6,177)**	(2,084)
Loss for the year		**(15,405)**	(42,407)
Loss per share (RMB)			
Basic and diluted	11	**(0.012)**	(0.050)

The notes on pages 58 to 135 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

	2018 RMB'000	2017 RMB'000
Loss for the year	**(15,405)**	(42,407)
Other comprehensive income for the year		
Items that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company, net of nil tax	**1,809**	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside Mainland China, net of nil tax	**(6,588)**	16,771
Other comprehensive income for the year	**(4,779)**	16,771
Total comprehensive income for the year	**(20,184)**	(25,636)
Attributable to:		
Equity shareholders of the Company	**(14,007)**	(23,552)
Non-controlling interests	**(6,177)**	(2,084)
Total comprehensive income for the year	**(20,184)**	(25,636)

The notes on pages 58 to 135 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018
(Expressed in Renminbi Yuan)

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	12	986,868	705,314
Lease prepayments	13	68,535	61,007
Intangible assets	14	270,690	81,118
Goodwill	15	62,040	46,832
Long-term receivables	20	32,254	22,606
Non-current prepayments	17	97,379	102,701
Derivative financial assets	18	22,191	—
Other non-current assets	36(b)	4,594	—
Amounts due from related parties	34(c)	165,824	—
Deferred tax assets	26(b)	19,344	14,982
		1,729,719	1,034,560
Current assets			
Inventories	19	343,920	238,373
Trade and other receivables	20	717,745	656,258
Amounts due from related parties	34(c)	182,929	121,919
Deposits with banks	21	63,845	22,710
Cash	22(a)	73,128	20,887
		1,381,567	1,060,147
Current liabilities			
Trade and other payables	23	824,091	655,375
Amounts due to related parties	34(c)	7,998	31,318
Contract liabilities	28	31,410	—
Interest-bearing borrowings	24	892,957	433,665
Income tax payables	26(a)	25,054	4,955
Provisions	27	4,036	4,057
		1,785,546	1,129,370
Net current liabilities		(403,979)	(69,223)
Total assets less current liabilities		1,325,740	965,337

The notes on pages 58 to 135 form part of these financial statements.

	Note	**2018 RMB'000**	2017 RMB'000
Non-current liabilities			
Deferred income	29	**28,222**	28,814
Interest-bearing borrowings	24	**100,102**	111,515
Deferred tax liabilities	26(b)	**48,554**	2,901
Acquisition consideration payables	30	**346,939**	—
		523,817	143,230
NET ASSETS		**801,923**	822,107
CAPITAL AND RESERVES	31		
Share capital		**6,496**	6,496
Reserves		**771,669**	785,676
Total equity attributable to equity shareholders of the Company		**778,165**	792,172
Non-controlling interests		**23,758**	29,935
TOTAL EQUITY		**801,923**	822,107

Approved and authorised for issue by the Board of Directors on 29 March 2019.

Chen Cunyou
Director

Ge Hongbing
Director

The notes on pages 58 to 135 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

	Notes	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company									
Balance at 1 January 2017		6,496	65,298	55,977	291,546	17,919	(10,747)	389,235	815,724	32,019	847,743
Changes in equity for 2017:											
Loss for the year		–	–	–	–	–	–	(40,323)	(40,323)	(2,084)	(42,407)
Other comprehensive income		–	–	–	–	–	16,771	–	16,771	–	16,771
Total comprehensive income for the year		–	–	–	–	–	16,771	(40,323)	(23,552)	(2,084)	(25,636)
Appropriation to statutory reserves		–	–	–	–	–	–	–	–	–	–
Balance at 31 December 2017 and 1 January 2018		**6,496**	**65,298**	**55,977**	**291,546**	**17,919**	**6,024**	**348,912**	**792,172**	**29,935**	**822,107**
Changes in equity for 2018:											
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(9,228)**	**(9,228)**	**(6,177)**	**(15,405)**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(4,779)**	**–**	**(4,779)**	**–**	**(4,779)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(4,779)**	**(9,228)**	**(14,007)**	**(6,177)**	**(20,184)**
Appropriation to statutory reserves		**–**	**–**	**2,032**	**–**	**–**	**–**	**(2,032)**	**–**	**–**	**–**
Balance at 31 December 2018		**6,496**	**65,298**	**58,009**	**291,546**	**17,919**	**1,245**	**337,652**	**778,165**	**23,758**	**801,923**

The notes on pages 58 to 135 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018
(Expressed in Renminbi Yuan)

	Note	2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from operations	22(b)	**164,957**	198,215
Finance costs paid	7(a)	**(32,408)**	(32,754)
Income tax paid		**(3,518)**	(6,673)
Net cash generated from operating activities		**129,031**	158,788
Investing activities			
Payment for purchase of property, plant and equipment, lease prepayments and intangible assets		**(272,305)**	(186,888)
Interest received		**291**	871
Net cash inflow from acquisition of subsidiaries	36	**27,305**	—
Net cash used in investing activities		**(244,709)**	(186,017)
Financing activities			
Proceeds from new bank loans and other borrowings	22(c)	**654,404**	524,232
Repayment of bank loans and other borrowings	22(c)	**(484,780)**	(545,055)
Payment of guarantee deposit	22(c)	**(2,046)**	(7,500)
Net cash generated from/(used in) financing activities		**167,578**	(28,323)
Net increase/(decrease) in cash		**51,900**	(55,552)
Cash at 1 January	22(a)	**20,887**	75,735
Effect of foreign exchange rate changes		**341**	704
Cash at 31 December	22(a)	**73,128**	20,887

The notes on pages 58 to 135 form part of these financial statements.

1 General information

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

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the following two businesses: 1) the design, production and sale of automotive heating, ventilation and cooling ("HVAC") systems and a range of automotive HVAC components and rendering of services ("HVAC business"); and 2) 4S dealership business.

2 Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations as and when they fall due, and its ability to obtain adequate external financing to meet its committed future capital expenditures.

2 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements (Continued)

The Group incurred a net loss of RMB15 million for the year ended 31 December 2018. As at 31 December 2018, the Group had net current liabilities of RMB404 million, total borrowings of RMB993 million, acquisition consideration payables of RMB347 million and capital commitments which had been contracted for of RMB75 million.

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

(1) the Group generated net cash inflows from operating activities of approximately RMB129 million during the year ended 31 December 2018 and expects to continue to improve its working capital management and generate positive operating cash flows for the next twelve months;

(2) at 31 December 2018, the Group had available unutilised bank facilities of RMB80 million;

(3) the Group has the ability to obtain new banking and other financing facilities and has the ability to renew or refinance the banking facilities upon maturity;

(4) the Group can adjust the schedule of certain planned capital expenditure for the year ending 31 December 2019; and

(5) the largest shareholder and an executive director of the Group confirmed that they will provide adequate financial support to the Group as is necessary to ensure its continuing operation for a period of at least twelve months from the end of the reporting period.

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

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost except derivative financial instruments and acquisition consideration payables which have been measured at fair value (see note 2(g)).

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.

2 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements (Continued)

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

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

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

(c) Changes in accounting policies

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

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

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

IFRS 9 and IFRIC 22 do not have a material effect on how the Group's results and financial position for the current or prior accounting period have been prepared or presented in this financial report.

(i) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

2 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 15, Revenue from contracts with customers (Continued)

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018. Under the transition method chosen, there is no significant cumulative effect of the initial application of IFRS 15 recognised by the Group as an adjustment to the opening balance of equity at 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Presentation of contract liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(d) Business Combination

The Group accounts for business combination using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note (k)(ii)). Any gain on a bargain purchase is recognized in profit and loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in the profit and loss.

(e) Subsidiaries and non-controlling interests

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

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

2 Significant accounting policies (Continued)

(e) Subsidiaries and non-controlling interests (Continued)

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

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

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

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

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

(f) 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 ("CGU") 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)

(g) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) Property, plant and equipment

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

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:

—	Freehold land	Not depreciated
—	Plant and buildings	15–38 years
—	Machinery and equipment	3–10 years
—	Furniture, fixtures and office equipment	3–5 years
—	Motor vehicles	4–5 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(y)). 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
Capitalised development costs	8 years
Car dealership	40 years

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

Both the period and method of amortisation are reviewed annually.

(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) Credit loss and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

Financial assets measured at fair value, including derivative financial assets are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 Significant accounting policies (Continued)

(k) Credit loss and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 Significant accounting policies (Continued)

(k) Credit loss and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 2(v)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at fair value through profit and loss ("FVPL") (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

2 Significant accounting policies (Continued)

(k) Credit loss and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

— 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 existed, an impairment loss was determined and recognised as follows:

  — For trade and other receivables and other financial assets carried at amortised cost, impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 Significant accounting policies (Continued)

(k) Credit loss and impairment of assets (Continued)

(ii) Impairment of other non-current assets

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

— property, plant and equipment;

— lease prepayments;

— intangible assets;

— goodwill; and

— investment in subsidiaries in the Company's statement of financial position.

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

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

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

2 Significant accounting policies (Continued)

(k) Credit loss and impairment of assets (Continued)

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill 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 assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

(i) HVAC business

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.

(ii) 4S business

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase after deducting rebates from suppliers 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 cost 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

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)(i)).

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(k)(i).

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(y)).

(p) 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.

(q) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(v)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see note 2(n)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(v)).

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

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

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

2 Significant accounting policies (Continued)

(s) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plan

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

(iii) Share-based payments

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

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

(t) Income tax

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

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

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

2 Significant accounting policies (Continued)

(t) Income tax (Continued)

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

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

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies (Continued)

(u) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

Provisions are recognised 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.

(ii) 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(u)(i). 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(u)(i).

(v) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

2 Significant accounting policies (Continued)

(v) Revenue and other income (Continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised at a point when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

Revenue from sales of goods was recognized on a similar basis in the comparative period under IAS 18.

(ii) Service income

Service income is recognised at a point in time when customer obtains control of the distinct service.

Revenue from sales of goods was recognized on a similar basis in the comparative period under IAS 18.

(iii) Commission income

Commission income is recognised at the time when the services concerned are rendered to customers.

(iv) Interest income

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

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income 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 initially recognised as deferred income and consequently are effectively recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

(w) Vendor rebates

Incentive rebates provided by vendors are recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract.

Incentive rebates relating to vehicles purchased and sold are deducted from cost of sales, while incentive rebates relating to vehicle purchased but still held as inventories at the reporting date are deducted from the carrying value of such vehicles so that the cost of inventories is recorded net of applicable rebates.

2 Significant accounting policies (Continued)

(x) Translation of foreign currency

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated to RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated to RMB at the exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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.

(y) 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.

(z) 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)

(z) 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).

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

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

(aa) 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 Accounting judgements and estimates

(a) Critical accounting judgement in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

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.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) 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.

(ii) Capitalisation of intangible assets

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

(iii) Impairment of intangible assets

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

3 Accounting judgements and estimates (Continued)

(b) Sources of estimation uncertainty (Continued)

(iii) Impairment of intangible assets (Continued)

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

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

(iv) Net realisable value of inventories

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

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

(v) Loss allowance of trade and other receivables

The Group recognises a loss allowance for ECLs of trade and other receivables on a regular basis. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the each end of reporting date.

(vi) Warranty provision

As explained in note 27, 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.

4 Segment reporting

The Group manages its businesses by divisions, which are organised by business lines and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments (2017: one).

On 28 December 2018, the Group's acquisition of Target Group was approved by the shareholders of the Company, and the Group obtained control of the Target Group on the same date. The Target Group is principally engaged in the operation of car dealership business ("4S dealership business"). The Group presented the 4S dealership business as a reportable segment since 2018.

— HVAC business: this segment operates the manufacture and sales of automotive HVAC systems and a range of automotive HVAC components and rendering of services.

— 4S dealership business: this segment operates the sales of automobile and a range of automobile components and rendering of after sales services.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and corporate assets. Segment liabilities include trade and other payables, contract liability, interest-bearing borrowings, provision, and deferred income with the exception of current tax payable, deferred tax liabilities and corporate liabilities.

As 4S dealership business was acquired on 28 December 2018, the consolidated statement of profit or loss of the Group for the year ended 31 December 2018 has not included the results of the 4S dealership business segment which is considered not material. Therefore, no segment profit/(loss) information is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2018 is set out below:

	HVAC business 2018 RMB'000	4S dealership business 2018 RMB'000	Total 2018 RMB'000
Reportable segment assets	2,300,580	706,812	3,007,392
Reportable segment liabilities	1,553,686	331,766	1,885,452

4 Segment reporting (Continued)

(b) Reconciliation of reportable segment assets and liabilities:

	Note	2018 RMB'000
Assets:		
Reportable segment assets		3,007,392
Goodwill	15	62,040
Deferred tax assets	26(b)	19,344
Unallocated corporate assets		22,510
Consolidated total assets		3,111,286
Liabilities:		
Reportable segment liabilities		1,885,452
Income tax payables	26(a)	25,054
Deferred tax liabilities	26(b)	48,554
Unallocated corporate liabilities		350,303
Consolidated total liabilities		2,309,363

(c) Information about geographical area

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, lease prepayments, intangible assets, goodwill and non-current prepayments ("specified non-current asset"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, lease prepayments and non-current prepayments, and the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

	Revenue from external customers		Specified non-current assets	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Mainland China	872,275	925,824	1,268,471	939,518
The Kingdom of Morocco ("Morocco")	—	—	217,041	72,436
France	50,005	3,880	—	—
The Kingdom of Spain	1,824	—	—	—
	924,104	929,704	1,485,512	1,011,954

4 Segment reporting (Continued)

(d) Information about major customers

The Group's customer base is diversified and includes only 3 customers (2017: 4 customers) with whom transactions have exceeded 10% of the Group's annual revenue during the year. Details of concentrations of credit risk arising from the Group's largest customer and the five largest customers are set out in note 32(a).

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

	2018 RMB'000	2017 RMB'000
Customer A	211,413	238,806
Customer B	159,536	101,445
Customer C	101,668	122,368
Customer D	Less than 10% of total revenue	105,420

5 Revenue

The principal activities of the Group are 1) manufacturing and sales of automotive HVAC systems and HVAC components, testing services and experiment services; 2) sales of automobiles and automobile components and after sales services.

(a) Revenue represents the sales value of goods supplied to customers and revenue from the rendering of services. The amount of each significant category of revenue is as follows:

Revenue from contracts with customers within the scope of IFRS 15	2018 RMB'000	2017 RMB'000
HVAC Business		
Sales of HVAC systems and HVAC components	916,517	921,538
Revenue from the rendering of services	7,587	8,166
	924,104	929,704

(b) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts for products such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of products that had an original expected duration of one year or less.

6 Other net income

	2018 RMB'000	2017 RMB'000
Government grants	**10,578**	6,338
Warehousing and logistic service income	**1,538**	2,399
Interest income on financial assets measured at amortised cost	**291**	871
Net foreign exchange gains/(losses)	**4,465**	(5,890)
Others	**251**	174
	17,123	3,892

7 Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs

	2018 RMB'000	2017 RMB'000
Interest expenses on bank loans and other borrowings	**25,002**	24,125
Interest on discounted bills	**7,406**	6,634
Other finance costs	**—**	1,995
	32,408	32,754

(b) Staff costs

	Note	2018 RMB'000	2017 RMB'000
Salaries, wages, and other benefits		**113,929**	96,004
Contributions to defined contribution retirement plan	(i)	**7,566**	6,549
		121,495	102,553

(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 14%~20% (2017: 19%~20%) of the eligible employees' salaries.

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

7 Loss before taxation (Continued)

(c) Other items

	Note	2018 RMB'000	2017 RMB'000
Amortisation			
— lease prepayments	13	**1,487**	1,306
— intangible assets	14	**9,509**	8,346
Depreciation of property, plant and equipment	12	**74,053**	74,676
Impairment losses on trade debtors	32(a)	**4,200**	25,188
Operating lease charges: minimum lease payments		**11,634**	8,375
Auditors' remuneration			
— audit services		**2,900**	2,430
— other services		**1,700**	—
Research and development ("R&D") costs (other than depreciation & amortisation)		**13,421**	15,619
(Decrease)/increase in provision for product warranties	27	**(308)**	1,686
Cost of inventories	19(b),(i)	**751,684**	781,877

(i) Cost of inventories includes RMB116,893,000 (2017: RMB104,940,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8 Income tax in the consolidated statement of profit or loss

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

	Note	2018 RMB'000	2017 RMB'000
Current tax — PRC income tax			
Provision for the year	26(a)	**2,415**	1,646
Under-provision in respect of prior years	26(a)	**502**	863
		2,917	2,509
Deferred tax			
Origination and reversal of temporary differences	26(b)(i)	**(3,516)**	(8,000)
		(3,516)	(8,000)
		(599)	(5,491)

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

	Note	2018 RMB'000	2017 RMB'000
Loss before taxation		**(16,004)**	(47,898)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	(i)	**(2,137)**	(7,300)
Effect of tax concessions	(ii)	**2,650**	3,044
Under-provision in respect of prior years		**502**	863
Effect of non-deductible expenses		**570**	510
R&D bonus deduction	(iii)	**(4,212)**	(2,805)
Tax effect of unused tax losses not recognised		**2,028**	197
Actual tax expense		**(599)**	(5,491)

8 Income tax in the consolidated statement of profit or loss (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"), 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 (2017: Nil).

The preferential corporate income tax rate for the Group's subsidiary located in Atlantic Free Zone in Morocco is 0% for five years from its operation which is expected to start in 2019 (2017: 0%).

(ii) Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. ("Xiezhong Nanjing") was qualified as a High and New Technology Enterprise in 2009. Xiezhong Nanjing renewed its certificate as a High and New Technology Enterprise in 2012, 2015 and 2017 respectively. As a result, it was entitled to a preferential tax rate of 15% for another three years from 2018 to 2020 pursuant to the current applicable CIT Law and its regulations.

(iii) Under the CIT Law and its relevant regulations, qualified R&D expenses and amortisation of capitalised development costs in intangible assets are subject to income tax deductions at 175% (2017: 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. The Group is required to pay the PRC dividend withholding tax at a rate of 10%. Deferred tax liabilities of RMB27,924,949 (2017: RMB26,126,185) were not recognised in respect of the 10% PRC dividend withholding tax that would be payable on the distribution of retained profits of RMB279,249,491 as at 31 December 2018 (2017: RMB261,261,852) in respect of the Group's subsidiaries in the PRC as the Company controls the dividend policy of these subsidiaries and it was determined that it was probable that these profits would not be distributed in the foreseeable future.

9 Directors' emoluments

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

	Year ended 31 December 2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors					
Mr. Chen Cunyou	–	222	210	63	495
Mr. Ge Hongbing	–	209	210	63	482
Ms. Chen Xiaoting (Appointed on 1 March 2018)	–	416	36	24	476
Mr. Shen Jun (Appointed on 10 September 2018)	–	158	13	–	171
Non-executive Directors					
Mr. Huang Yugang	–	180	180	56	416
Ms. Kwok Chak Sheung (Resigned on 30 July 2018)	–	–	–	–	–
Independent non-executive Directors					
Mr. Cheung Man Sang	154	–	–	–	154
Mr. Lau Ying Kit	154	–	–	–	154
Mr. Zhang Shulin	154	–	–	–	154
Mr. Lin Lei	154	–	–	–	154
	616	1,185	649	206	2,656

9 Directors' emoluments (Continued)

	Year ended 31 December 2017				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors					
Mr. Chen Cunyou	—	195	220	61	476
Mr. Ge Hongbing	—	185	220	61	466
Non-executive Directors					
Mr. Han Yonggui (Resigned on 28 July 2017)	—	—	—	—	—
Mr. Zhu Zhenghua (Resigned on 28 July 2017)	—	—	—	—	—
Mr. Huang Yugang	—	165	200	56	421
Mr. Chen Bao (Resigned on 28 July 2017)	—	—	—	—	—
Ms. Kwok Chak Sheung (Appointed on 3 April 2017)	—	—	—	—	—
Independent non-executive Directors					
Mr. Cheung Man Sang	125	—	—	—	125
Mr. Lau Ying Kit	125	—	—	—	125
Mr. Zhang Shulin	125	—	—	—	125
Mr. Lin Lei	125	—	—	—	125
	500	545	640	178	1,863

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2017: three) are directors of the Company whose remuneration is disclosed in note 9 above. The aggregate of the emoluments in respect of the other one (2017: two) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	584	715
Discretionary bonuses	50	209
Retirement scheme contributions	31	64
	665	988

The emoluments of this one (2017: two) individual with the highest emoluments are within the band Nil to HKD1 million for the year.

11 Loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB9,228,000 (2017: RMB40,323,000) and the number of 800,000,000 ordinary shares (2017: 800,000,000 ordinary shares) in issue during the year.

Number of shares

	2018	2017
Number of issued ordinary shares at 1 January and 31 December	800,000,000	800,000,000

There were no dilutive potential ordinary shares during 2018 and 2017, therefore, diluted loss per share is the same as the basic loss per share.

12 Property, plant and equipment

	Freehold land RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress "CIP" RMB'000	Total RMB'000
Cost:							
At 1 January 2017	–	193,778	629,425	23,835	12,120	55,812	914,970
Additions	13,249	350	103,295	1,813	1,452	28,587	148,746
Transfer from CIP	–	–	6,496	–	–	(6,496)	–
Disposal	–	–	(22,626)	(4,659)	–	–	(27,285)
At 31 December 2017	13,249	194,128	716,590	20,989	13,572	77,903	1,036,431
At 1 January 2018	**13,249**	**194,128**	**716,590**	**20,989**	**13,572**	**77,903**	**1,036,431**
Additions	**–**	**4,619**	**35,335**	**2,163**	**2,949**	**244,410**	**289,476**
Addition through acquisition of subsidiaries (note 36)	**–**	**67,833**	**3,591**	**5,711**	**16,102**	**–**	**93,237**
Transfer from CIP	**–**	**40,753**	**6,760**	**–**	**–**	**(47,513)**	**–**
At 31 December 2018	**13,249**	**307,333**	**762,276**	**28,863**	**32,623**	**274,800**	**1,419,144**
Accumulated depreciation:							
At 1 January 2017	–	(28,573)	(228,922)	(17,011)	(9,220)	–	(283,726)
Charge for the year	–	(6,537)	(64,038)	(3,179)	(922)	–	(74,676)
Disposal	–	–	22,626	4,659	–	–	27,285
At 31 December 2017	–	(35,110)	(270,334)	(15,531)	(10,142)	–	(331,117)
At 1 January 2018	**–**	**(35,110)**	**(270,334)**	**(15,531)**	**(10,142)**	**–**	**(331,117)**
Charge for the year	**–**	**(6,587)**	**(65,148)**	**(1,449)**	**(869)**	**–**	**(74,053)**
Addition through acquisition of subsidiaries (note 36)	**–**	**(13,332)**	**(2,259)**	**(5,167)**	**(6,348)**	**–**	**(27,106)**
At 31 December 2018	**–**	**(55,029)**	**(337,741)**	**(22,147)**	**(17,359)**	**–**	**(432,276)**
Net book value:							
At 31 December 2018	**13,249**	**252,304**	**424,535**	**6,716**	**15,264**	**274,800**	**986,868**
At 31 December 2017	13,249	159,018	446,256	5,458	3,430	77,903	705,314

Freehold land of the Group are located in Morocco, which is not depreciated.

As at 31 December 2018, property, plant and equipment with carrying amounts of RMB475,255,000 (2017: RMB382,981,000) were pledged as collateral for the Group's bank loans and other borrowings (see note 24).

13 Lease prepayments

	RMB'000
Cost:	
At 1 January 2017	59,504
Additions	12,089
At 31 December 2017	71,593
At 1 January 2018	**71,593**
Additions	**—**
Addition through acquisition of subsidiaries (note 36)	**9,395**
At 31 December 2018	**80,988**
Accumulated amortisation:	
At 1 January 2017	(9,280)
Charge for the year	(1,306)
At 31 December 2017	(10,586)
At 1 January 2018	**(10,586)**
Charge for the year	**(1,487)**
Addition through acquisition of subsidiaries (note 36)	**(380)**
At 31 December 2018	**(12,453)**
Carrying amount:	
At 31 December 2018	**68,535**
At 31 December 2017	61,007

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 2018, land use right with a carrying amount of RMB35,195,000 (2017: RMB21,724,000) was pledged as collateral for the Group's bank loans and other borrowings (see note 24).

14 Intangible assets

	Customer relationships RMB'000	Capitalised development costs RMB'000	Core technology RMB'000	Software and patent RMB'000	Car dealerships RMB'000	Total RMB'000
Cost:						
At 1 January 2017	53,356	52,385	13,835	816	–	120,392
Additions	–	26,969	–	722	–	27,691
At 31 December 2017	53,356	79,354	13,835	1,538	–	148,083
At 1 January 2018	**53,356**	**79,354**	**13,835**	**1,538**	**–**	**148,083**
Additions	**–**	**39,339**	**–**	**4,792**	**–**	**44,131**
Addition through acquisition of subsidiaries (note 36)	**–**	**–**	**–**	**87**	**154,950**	**155,037**
At 31 December 2018	**53,356**	**118,693**	**13,835**	**6,417**	**154,950**	**347,251**
Accumulated amortisation:						
At 1 January 2017	(45,916)	(348)	(11,760)	(595)	–	(58,619)
Charge for the year	(4,960)	(1,929)	(1,384)	(73)	–	(8,346)
At 31 December 2017	(50,876)	(2,277)	(13,144)	(668)	–	(66,965)
At 1 January 2018	**(50,876)**	**(2,277)**	**(13,144)**	**(668)**	**–**	**(66,965)**
Charge for the year	**(2,480)**	**(5,706)**	**(691)**	**(632)**	**–**	**(9,509)**
Addition through acquisition of subsidiaries (note 36)	**–**	**–**	**–**	**(87)**	**–**	**(87)**
At 31 December 2018	**(53,356)**	**(7,983)**	**(13,835)**	**(1,387)**	**–**	**(76,561)**
Net book value:						
At 31 December 2018	**–**	**110,710**	**–**	**5,030**	**154,950**	**270,690**
At 31 December 2017	2,480	77,077	691	870	–	81,118

The car dealerships arise from the Group's relationship with automobile manufacturers, with an estimated useful life of 40 years. The fair value of the car dealerships as at the respective acquisition date was determined by using the multiple excess earning method.

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

Impairment test for intangible asset not yet available for use should be performed annually. Management estimates the recoverable amount of CGU to which these intangible assets belong as at 31 December 2018. As the recoverable amount of the CGU is higher than its carrying value as at 31 December 2018, no impairment loss is recognised.

15 Goodwill

	RMB'000
Cost:	
At 1 January 2018	**46,832**
Addition through business combination (note 36)	**15,208**
At 31 December 2018	**62,040**
Accumulated impairment losses:	
At 1 January 2018 and 31 December 2018	—
Carrying amount:	
At 31 December 2018	**62,040**
At 1 January 2018	46,832

Impairment tests for CGUs containing goodwill

Goodwill is allocated to the Group's CGU identified according to the operating segments as follows.

	2018 RMB'000	2017 RMB'000
HVAC business	**46,832**	46,832
4S dealership business	**15,208**	—
	62,040	46,832

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The discount rates applied to the cash flow projections is 13% and 12% for the HVAC business and 4S dealership business respectively (2017 HVAC business: 13%) as at 31 December 2018. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

(Expressed in Renminbi Yuan)

16 Interests in subsidiaries

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

Name	Place of incorporation and operation	Particulars of issued and paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Xiezhong Holdings Limited ("Xiezhong BVI")	British Virgin Islands	1,005 shares of USD1 each	100%	100%	–	Investment holding
Xiezhong Auto–Airconditioner (Hong Kong) Limited ("Xiezhong Hong Kong")	Hong Kong	2 shares	100%	–	100%	Investment holding
*Xiezhong Nanjing	the PRC	RMB510,000,000	100%	–	100%	Production and sale of automotive air-conditioner and rendering of service
*Liaoning Chenyou Automobile Air-conditioning System Co., Ltd.	the PRC	RMB10,000,000	60%	–	60%	Production and sale of automotive air-conditioner
*Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd. ("Xiezhong Beijing") (note(i))	the PRC	RMB43,000,000	50%	–	50%	Sale of automotive air-conditioner
*Xiezhong Morocco Automotive Air-Conditioning Co., Ltd. ("Xiezhong Morocco")	Morocco	EUR2,000,000	100%	–	100%	Production and sale of automotive air-conditioner and related automotive components
*Wuhan Xiezhong Air Conditioning Co., Ltd. ("Xiezhong Wuhan")	the PRC	RMB100,000,000	100%	–	100%	Production and sale of automotive air-conditioner
*Chongqing Xiezhong Air Conditioning Co., Ltd. ("Xiezhong Chongqing")	the PRC	RMB10,000,000	100%	–	100%	Production and sale of automotive air-conditioner
*Chengdu Xiezhong Air Conditioning Co., Ltd. ("Xiezhong Chengdu") (note (ii))	the PRC	RMB10,000,000	100%	–	100%	Production and sale of automotive air-conditioner

(Expressed in Renminbi Yuan)

16 Interests in subsidiaries (Continued)

Name	Place of incorporation and operation	Particulars of issued and paid up capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
*Shandong Xiezhong Air Conditioning Co., Ltd. ("Xiezhong Shandong") (note (iii))	the PRC	RMB20,000,000	100%	–	100%	Production and sale of automotive air-conditioner
*Nanjing Xiezhong International Trading Co., Ltd. ("Xiezhong Trading") (note (iv))	the PRC	RMB10,000,000	100%	–	100%	Sale of automotive air-conditioner
*Sino Evergreen International Ltd. ("Sino Evergreen") (note 36)	Hong Kong	RMB129,000,000	100%	100%	–	Investment holding
*Jin Cheng Auto Parts (Hong Kong) Ltd. ("Jin Cheng HK") (note 36)	Hong Kong	RMB63,000,000	100%	100%	–	Investment holding
*Yueqing Youxu Industrial Development Co., Ltd. ("Yueqing Youxu") (note 36)	the PRC	RMB83,000,000	100%	–	100%	Investment holding
*Jiangsu Xiezhong Chenyou Automobile Co., Ltd. ("Xiezhong Chenyou") (note 36)	the PRC	RMB20,000,000	100%	–	100%	4S dealership business
*Nanjing Xiezhong Lexus Automobile Sales Co., Ltd. ("Xiezhong Lexus") (note 36)	the PRC	RMB40,000,000	100%	–	100%	4S dealership business
*Maanshan Xiezhong Automobile Sales Co., Ltd. ("Xiezhong Maanshan") (note 36)	the PRC	RMB20,000,000	100%	–	100%	4S dealership business

* These entities are limited liability companies.

Note:

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

(ii) Xiezhong Chengdu was established by Xiezhong Nanjing in Chengdu, PRC, on 16 June 2018. The registered capital of Xiezhong Chengdu is RMB10,000,000.

(iii) Xiezhong Shandong was established by Xiezhong Nanjing in Shandong, PRC, on 24 December 2018. The registered capital of Xiezhong Shandong is RMB20,000,000.

(iv) Xiezhong Trading was established by Xiezhong Nanjing in Nanjing, PRC, on 24 December 2018. The registered capital of Xiezhong Trading is RMB10,000,000.

17 Non-current prepayments

As at 31 December 2018, non-current prepayments mainly represented the prepayments for procurement of machinery and equipment.

As at 31 December 2018, non-current prepayments with a carrying amount of RMB5,859,000 (2017: 34,753,000) was pledged as collateral for the Group's bank loans and other borrowings (see note 24).

18 Derivative financial assets

As at 31 December 2018, the following derivative financial assets arose from the acquisition of subsidiaries in 2018 (see note 36(a)(iii)).

	Note	2018 RMB'000	2017 RMB'000
Derivative financial assets			
— Put option held by the Group	36(a)(iii)	22,191	—

19 Inventories

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

	2018 RMB'000	2017 RMB'000
HVAC business		
— Raw materials	46,653	43,321
— Work in progress	12,850	9,951
— Finished goods	224,390	185,101
	283,893	238,373
4S dealership business		
— Motor vehicles	54,973	—
— Automobile spare parts	5,054	—
	60,027	—
	343,920	238,373

Inventories with carrying amount of RMB52,544,000 have been pledged as security for bank loans and other borrowings (see note 24(c)) as at 31 December 2018 (2017: Nil)

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

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	746,028	775,525
Write down of inventories	5,656	6,352
	751,684	781,877

20 Trade and other receivables/Amounts due from related parties

	2018 RMB'000	2017 RMB'000
Trade receivables due from third parties, net of loss allowance	**360,722**	398,120
Bills receivable	**220,874**	199,388
Other debtors, deposits and prepayments	**136,149**	58,750
Trade and other receivables	**717,745**	656,258
Trade receivables due from related parties, net of loss allowance	**87,947**	121,919
Advances to related parties	**94,982**	—
Amounts due from related parties	**182,929**	121,919
Total	**900,674**	778,177

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

Transfers of financial assets

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

As at 31 December 2018, the Group discounted certain bank acceptance bills with a carrying amount of RMB118,517,000 (2017: RMB55,235,000) to banks for cash proceeds and endorsed certain bank acceptance bills with a carrying amount of RMB99,251,000 (2017: RMB103,149,000) to suppliers for settling trade payables of the same amount on a full recourse basis. In the opinion of the directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated trade payables settled, and has recognised the cash received on the transfer as a secured borrowing.

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

As at 31 December 2018, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of each reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2018, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to banks or suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB214,591,000 and RMB114,983,000 (2017: RMB50,695,000 and RMB146,994,000) respectively.

20 Trade and other receivables/Amounts due from related parties (Continued)

(a) Ageing analysis

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

	2018 RMB'000	2017 RMB'000
Within 3 months	527,512	548,824
3 to 6 months	76,487	101,132
6 to 12 months	50,387	49,772
Over 12 months	15,157	19,699
Total	669,543	719,427

Trade debtors and bills receivable are mainly due within 1 month to 6 months from the date of billing. Further details on the Group's credit policy are set out in note 32(a).

21 Deposits with banks

	2018 RMB'000	2017 RMB'000
Pledged deposits	63,845	22,710

22 Cash

(a) Cash comprises:

	2018 RMB'000	2017 RMB'000
Cash on hand	450	44
Cash at bank	72,678	20,843
	73,128	20,887

As at 31 December 2018, cash includes cash at bank and on hand of RMB61,422,000 (2017: RMB12,665,000) 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.

22 Cash (Continued)

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

	Note	2018 RMB'000	2017 RMB'000
Loss before taxation		**(16,004)**	(47,898)
Adjustments for:			
Impairment losses on trade debtors	7(c)	**4,200**	25,188
Impairment losses on inventories	19(b)	**5,656**	6,352
Depreciation of property, plant and equipment	12	**74,053**	74,676
Amortisation of lease prepayments	13	**1,487**	1,306
Amortisation of intangible assets	14	**9,509**	8,346
Interest income	6	**(291)**	(871)
Finance costs	7(a)	**32,408**	32,754
Foreign exchange (gain)/loss		**(4,890)**	4,229
Deferred income released to profit or loss	29	**(2,070)**	(2,466)
Changes in working capital:			
Increase in inventories		**(51,176)**	(25,351)
Decrease/(increase) in trade and other receivables		**7,721**	(62,944)
Decrease in amounts due from related parties		**36,019**	89,852
Increase in pledged deposits with banks		**(106)**	(19,710)
Increase in trade and other payables		**91,460**	91,936
(Decrease)/increase in amounts due to related parties		**(30,757)**	5,838
Increase in contract liabilities		**2,999**	—
Increase in discounted bank acceptance bills		**3,282**	9,703
Decrease in provision		**(21)**	(725)
Increase in deferred income	29	**1,478**	8,000
Cash generated from operating activities		**164,957**	198,215

22 Cash (Continued)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans and other borrowings RMB'000
At 1 January 2018	**545,180**
Changes from financing cash flows:	
Proceeds from new bank loans and other borrowings	**654,404**
Repayment of bank loans and other borrowings	**(484,780)**
Payment of guarantee deposit	**(2,046)**
Total changes from financing cash flows	**167,578**
Exchange adjustments	**5,557**
Addition from acquisition of subsidiaries (note 36)	**274,744**
At 31 December 2018	**993,059**

	Bank loans and other borrowings RMB'000
At 1 January 2017	568,138
Changes from financing cash flows:	
Proceeds from new bank loans and other borrowings	524,232
Repayment of bank loans and other borrowings	(545,055)
Payment of guarantee deposit	(7,500)
Total changes from financing cash flows	(28,323)
Exchange adjustments	5,365
At 31 December 2017	545,180

Note: Bank loans and other borrowings consist of bank loans and loans from leasing companies as disclosed in notes 24.

23 Trade and other payables

	2018 RMB'000	2017 RMB'000
Trade payables	**429,082**	457,057
Bills payable	**213,873**	92,350
	642,955	549,407
Other payables	**168,579**	99,697
Other tax payables	**12,557**	6,271
	824,091	655,375

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

	2018 RMB'000	2017 RMB'000
Within 3 months	**565,109**	475,955
Over 3 months but less than 6 months	**33,415**	44,877
Over 6 months but less than 12 months	**36,720**	20,534
Over 12 months	**7,711**	8,041
	642,955	549,407

24 Interest-bearing borrowings

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

		2018 RMB'000	2017 RMB'000
Current portion:			
— Bank loans	(a)	609,502	304,452
— Bank advances under discounted bills		118,517	55,235
— Loans from leasing companies	(b)	90,547	73,978
— Loans from financing companies	(c)	66,291	—
— Loan from a director	(d)	8,100	—
		892,957	433,665
Non-current portion:			
— Bank loans		46,936	—
— Loans from leasing companies	(b)	53,166	111,515
		100,102	111,515
		993,059	545,180

(a) A bank loan amounting to EUR11,700,000 (RMB equivalent: 91,813,000) as at 31 December 2018 is subject to the fulfilment of covenants as stipulated in the loan agreement. The Group has failed to fulfil certain covenants relating to financial ratios at the reporting date. Accordingly, such bank loan amounting to EUR11,700,000 became payable on demand and was classified as current liabilities.

Other than the above, as at 31 December 2018, none of the covenant requirements has been breached. Further details of the Group's management of liquidity risk are set out in note 32(b).

(b) As at 31 December 2018, Xiezhong Nanjing, a subsidiary of the Company, entered into three sales and leaseback agreements with three leasing companies for certain machinery and equipment of Xiezhong Nanjing ("Secured Assets") and the leasing period is 2 to 3 years. Upon maturity, Xiezhong Nanjing will be entitled to purchase the Secured Assets at a nominal value of RMB100, RMB100 and RMB10,000 respectively. The Group considered that it was almost certain that Xiezhong Nanjing would exercise these repurchase options. As the substantial risks and rewards of the Secured Assets were retained by Xiezhong Nanjing before and after these arrangements, the Group recorded such transaction as secured borrowings.

As at 31 December 2018, the loans from leasing companies of the Group amounting to RMB143,713,000 (2017: RMB185,493,000) were secured by certain machinery and equipment of the Group with the carrying amount of RMB213,258,000 (2017: RMB220,974,000).

24 Interest-bearing borrowings (Continued)

(c) As at 31 December 2018, a loan of RMB50,000,000 was borrowed by Xiezhong Nanjing from a financing company. The loan bears interest at a fixed rate of 9% per annum, is secured by the trade receivables due from Xiezhong Beijing and repayable on 11 November 2019.

A loan of RMB16,291,000 was borrowed by Xiezhong Lexus from the auto finance companies of the respective automobile manufacturers for purchase of motor vehicles. The loan bears interest at fixed rate of 7.68% per annum, is secured by the pledged deposits amounting to RMB7,500,000 and inventories amounting to RMB19,669,000 and repayable on 3 April 2019.

(d) The loan is from a director of the Company. It bears interest at 5.4% per annum, is unsecured and repayable within one year.

As at 31 December 2018, the interest-bearing borrowings were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year or on demand	892,957	433,665
After 1 year but within 2 years	63,401	71,317
After 2 years but within 5 years	36,701	40,198
	100,102	111,515
	993,059	545,180

As at 31 December 2018, the interest-bearing borrowings were secured as follows:

	Note	2018 RMB'000	2017 RMB'000
Bank loans			
— Secured	(e)	499,438	172,452
— Unsecured		157,000	132,000
Bank advances under discounted bills		118,517	55,235
Loans from leasing companies	(e)	143,713	185,493
Loans from financing companies	(e)	66,291	—
Loan from an executive director		8,100	—
		993,059	545,180

24 Interest-bearing borrowings (Continued)

(e) As at 31 December 2018, the bank loans and other borrowings of the Group were secured by the following assets:

	Note	2018 RMB'000	2017 RMB'000
Property, plant and equipment	12	**475,255**	382,981
Lease prepayments	13	**35,195**	21,724
Non-current prepayment	17	**5,859**	34,753
Inventory	19	**52,544**	—
Other receivables		**17,046**	7,500
Pledged deposits	21	**51,029**	10,000
		636,928	456,958

In addition, the Group's bank loans amounting to RMB144,450,000 were guaranteed by related parties as at 31 December 2018 (2017:Nil). Please see note 34(e) for detail.

25 Equity settled share-based transactions

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

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

No share option was granted under the share option scheme during the years ended 31 December 2018 and 2017.

26 Income tax in the consolidated statement of financial position

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

	2018 RMB'000	2017 RMB'000
At beginning of the year	**4,955**	9,119
Under-provision in respect of prior year (note 8(a))	**502**	863
Provision for PRC income tax (note 8(a))	**2,415**	1,646
PRC income tax paid	**(3,518)**	(6,673)
Addition through acquisition of subsidiaries (note 36)	**20,700**	—
At end of the year	**25,054**	4,955

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

(b) Deferred tax assets and liabilities recognised:

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

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year ended 31 December 2018 are as follows:

	Property, plant and equipment RMB'000	Lease prepayments RMB'000	Intangible assets RMB'000	Inventories RMB'000	Allowance for bad debt RMB'000	Tax Losses RMB'000	Other liabilities RMB'000	Unrealised profit from intra-group transaction RMB'000	Total RMB'000
Deferred tax arising from:									
At 1 January 2017	(303)	(3,890)	(1,746)	547	1,473	–	5,896	2,104	4,081
(Charged)/credited to profit or loss	(142)	196	1,268	1,005	4,432	49	1,737	(545)	8,000
At 31 December 2017 and 1 January 2018	**(445)**	**(3,694)**	**(478)**	**1,552**	**5,905**	**49**	**7,633**	**1,559**	**12,081**
(Charged)/credited to profit or loss	**28**	**65**	**478**	**945**	**1,037**	**(49)**	**2,102**	**(1,090)**	**3,516**
Addition through business combination (note 36)	**(4,636)**	**(1,678)**	**(38,738)**	**245**	**–**	**–**	**–**	**–**	**(44,807)**
At 31 December 2018	**(5,053)**	**(5,307)**	**(38,738)**	**2,742**	**6,942**	**–**	**9,735**	**469**	**(29,210)**

(ii) Reconciliation to consolidated statement of financial position

	2018 RMB'000	2017 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**19,344**	14,982
Net deferred tax liability recognised in the consolidated statement of financial position	**(48,554)**	(2,901)
	(29,210)	12,081

(iii) Deferred tax assets not recognized

In accordance with the accounting policy set out in the note 2(t), the Group has not recognized deferred tax assets in respect of cumulative tax losses of RMB9,170,974 (2017: RMB786,835) as it is not probable that future taxable profits against which the tax losses deductible temporary differences can be utilised will be available in the relevant tax jurisdiction before they expire.

27 Provisions

Provision for product warranties

	RMB'000
At beginning of the year	4,057
Additional provisions made	(308)
Provisions utilised	287
At end of the year	4,036

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

28 Contract liabilities

	2018 RMB'000	2017 RMB'000
Contract liabilities		
Render of service		
— Advanced receipts from customers	2,999	—
Sale of automobile		
— Advanced receipts from customers	28,411	—
	31,410	—

(a) Movements in contract liabilities

	2018 RMB'000
Balance at 1 January	—
Increase in contract liabilities as a result of receiving advance payment in respect of unfulfilled performance obligation as at 31 December	2,999
Addition from acquisition of subsidiaries (note 36)	28,411
Balance at 31 December	31,410

29 Deferred income

Government grants

	Note	2018 RMB'000	2017 RMB'000
At beginning of the year		**28,814**	23,280
Additions		**1,478**	8,000
Released to the consolidated statement of profit or loss	22(b)	**(2,070)**	(2,466)
At end of the year		**28,222**	28,814

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 Acquisition consideration payables

	Note	2018 RMB'000	2017 RMB'000
Acquisition of subsidiaries	36		
— Promissory notes		**163,508**	—
— Commitment to issue convertible bonds		**183,431**	—
		346,939	—

31 Capital, reserves and dividends

(a) Movements in components of equity

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

The Company

	Share capital RMB'000 (Note 31(c))	Share premium RMB'000 (Note 31(d)(i))	Capital reserve RMB'000 (Note 31(d)(iii))	Exchange reserve RMB'000 (Note 31(d)(v))	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017	6,496	65,298	275,209	6,585	(17,343)	336,245
Changes in equity for 2017:						
Loss for the year	–	–	–	–	(15,989)	(15,989)
Other comprehensive income	–	–	–	(3,458)	–	(3,458)
Total comprehensive income for the year	–	–	–	(3,458)	(15,989)	(19,447)
Balance at 31 December 2017 and 1 January 2018	**6,496**	**65,298**	**275,209**	**3,127**	**(33,332)**	**316,798**
Changes in equity for 2017:						
Loss for the year	**–**	**–**	**–**	**–**	**(8,327)**	**(8,327)**
Other comprehensive income	**–**	**–**	**–**	**1,809**	**–**	**1,809**
Total comprehensive income for the year	**–**	**–**	**–**	**1,809**	**(8,327)**	**(6,518)**
Balance at 31 December 2018	**6,496**	**65,298**	**275,209**	**4,936**	**(41,659)**	**310,280**

(b) Dividends

(i) No dividend attributable to the year was declared in 2018 or proposed after the end of the reporting period (2017: RMB Nil).

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

	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HKD Nil per share (2017: HKD Nil per share)	**–**	–

31 Capital, reserves and dividends (Continued)

(c) Share capital

The share capital of the Group at 31 December 2018 represented the amount of issued and paid-up capital of the Company, with details set out below:

		2018		2017	
	Par value HKD	Number of shares '000	Nominal value of ordinary shares HKD'000	Number of shares '000	Nominal value of ordinary shares HKD'000
Authorised:					
At 1 January & 31 December	0.01	2,000,000	20,000	2,000,000	20,000

		2018			2017		
		Number	Nominal value of		Number	Nominal value of	
	Par value	of shares	ordinary shares		of shares	ordinary shares	
	HKD	'000	HKD'000	RMB'000	'000	HKD'000	RMB'000
Issued and fully paid:							
At 1 January & 31 December	0.01	800,000	8,000	6,496	800,000	8,000	6,496

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory reserves

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

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

31 Capital, reserves and dividends (Continued)

(d) Nature and purpose of reserves (Continued)

(iii) Capital reserve

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

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

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

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

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

(iv) Other reserve

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

(v) Exchange reserve

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

(e) Capital management

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

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

The Group monitors its capital structure on the basis of the adjusted net debt-to-capital ratio. For this purpose adjusted net debt is calculated as interest-bearing borrowings, acquisition consideration payables 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.

31 Capital, reserves and dividends (Continued)

(e) Capital management (Continued)

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt.

The Group's adjusted net debt-to-capital ratio at 31 December 2018 and 2017 was as follows:

	Note	2018 RMB'000	2017 RMB'000
Current liabilities:			
Interest-bearing borrowings	24	892,957	433,665
Bills payable	23	213,873	92,350
		1,106,830	526,015
Non-current liabilities:			
Interest-bearing borrowings	24	100,102	111,515
Acquisition consideration payables	36	346,939	—
Total debt		1,553,871	637,530
Less: Cash and cash equivalents	22(a)	(73,128)	(20,887)
Deposits with banks	21	(63,845)	(22,710)
Adjusted net debt		1,416,898	593,933
Total equity attributable to equity shareholders of the Company		778,165	792,172
Adjusted capital		778,165	792,172
Adjusted net debt-to-capital ratio		182%	75%

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

32 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, trade and other payables and other financial liabilities.

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.

32 Financial risk management and fair values (Continued)

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and bills receivable is limited because the counterparties are banks and financial institutions with high credit ratings, for which the Group considers to have low 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.

HVAC business

Trade receivables

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

	2018 **RMB'000**	2017 RMB'000
Largest customer	**91,900**	127,919
Five largest customers	**260,212**	261,572

In respect of trade 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 are mainly due within 1 month to 6 months from the date of billing.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

32 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables (Continued)

HVAC business (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Not past due	0.5	290,095	1,450
Less than 6 months past due	1	114,337	1,143
7 to12 months past due	8	26,618	2,129
13 to 18 months past due	9	6,879	619
19 to 24 months past due	20	122	24
Over 24 months past due	100	439	439
		438,490	5,804
Individually impaired		33,359	33,359
		471,849	39,163

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Other receivables

The Group measures loss allowances for other receivables, including other debtors, deposits and prepayments at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with IFRS 9 for other debtors, deposits and prepayments as at 31 December 2018.

4S dealership business

Trade receivables

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group. The mortgage is normally settled within one month directly by major financial institutions. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as the balances are considered fully recoverable. Normally, the Group does not obtain collateral from customers.

32 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables (Continued)

4S dealership business (Continued)

Trade receivables (Continued)

At the end of the reporting period, 72% and 47% of the total trade receivables were due from the Group's five largest debtors and the largest single debtor respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with IFRS 9 for trade receivables as at 31 December 2018.

Other debtors and prepayments

Credit risk in respect of other debtors and prepayments is limited since the counterparties are mainly reputable automobile manufacturers.

The Group measures loss allowances for other debtors and prepayments at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with IFRS 9 for other debtors and prepayments as at 31 December 2018.

Advances to related parties

The Group measures loss allowances for advances to related parties at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with IFRS 9 for advances to related parties as at 31 December 2018.

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(k)(B) — policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables due from third party customers and related parties of RMB34,963,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	550,088
Less than 1 month past due	38,218
1 to 3 months past due	41,949
3 to 12 months past due	27,164
6 to 12 months past due	10,212
Over 12 months past due	—
	117,543
Total	667,631

32 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables (Continued)

Comparative information under IAS 39 (Continued)

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade receivables due from third party customers and related parties during the year is as follows:

	2018 RMB'000	2017 RMB'000
Balance at 31 December under IAS 39	34,963	9,775
Impact on initial application of IFRS 9 (note 2(k)(i))	—	—
Adjusted balance at 1 January	34,963	9,775
Acquired from business combination	—	—
Impairment losses recognised during the year	4,200	25,188
Balance at 31 December	39,163	34,963

(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.

Other than discounted and endorsed bills with full recourse which were derecognised by the Group (see note 20), the following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group can be required to pay.

32 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

At 31 December 2018

	Carrying amount at 31 Dec RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Secured bank loans (i)	499,438	521,415	467,759	12,747	40,909	–
Unsecured bank loans (i)	157,000	161,418	161,418	–	–	–
Loans from leasing companies (i)	143,713	153,225	98,302	54,923	–	–
Loans from financing companies (i)	66,291	70,639	70,639	–	–	–
Loan from a director (i)	8,100	8,217	8,217	–	–	–
Bank advances under discounted bills (i)	118,517	118,517	118,517	–	–	–
Trade and other payables	824,091	824,091	824,091	–	–	–
Acquisition consideration payable	346,939	261,195	7,682	7,682	243,625	2,206
	2,164,089	2,118,717	1,756,625	75,352	284,534	2,206

(i) In respect of secured bank loans, unsecured bank loans, loans from leasing companies, loans from financing companies, loan from a director and bank advances under discounted bills as at 31 December 2018, these interest-bearing borrowings due within 3 months or on demand of RMB131,148,063 were repaid or refinanced in the first quarter of 2019. The Group additionally obtained new loans from a leasing company amounting to RMB50 million and utilized them in the first quarter of 2019. These new borrowings during the first quarter of 2019 will be due from 2019 to 2022.

At 31 December 2017

	Carrying amount at 31 Dec RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000
Secured bank loans (i)	172,452	176,263	176,263	–	–
Unsecured bank loans (i)	132,000	135,469	135,469	–	–
Loans from leasing companies (i)	185,493	204,387	84,768	78,138	41,481
Bank advances under discounted bills (i)	55,235	55,235	55,235	–	–
Trade and other payables	686,693	686,693	686,693	–	–
	1,231,873	1,258,047	1,138,428	78,138	41,481

32 Financial risk management and fair values (Continued)

(c) Interest rate risk

(i) Interest rate profile

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

The Group's interest-bearing borrowings and interest rates as at 31 December 2018 are set out as follows:

	2018 Effective Interest rate %	2018 RMB '000	2017 Effective Interest rate %	2017 RMB '000
Fixed rate borrowings				
Bank loans	2.75–6.53	550,988	2.75–5.66	252,453
Bank advances under discounted bills	4.06–7.92	118,517	3.70–7.93	55,235
Loan from a financing company	9	50,000	—	—
Loan from a director	5.4	8,100	—	—
		727,605		307,688
Variable rate borrowings				
Bank loans	4.56–6.53	105,450	4.57–5.00	51,999
Loans from leasing companies	4.57–8.34	143,713	4.57–6.35	185,493
Loan from a financing company	7.68	16,291	—	—
		265,454		237,492
Total borrowings		993,059		545,180
Fixed rate borrowings as a percentage of total borrowings		73%		56%

(ii) Sensitivity analysis

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

As at 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax for the year and retained earnings by approximately RMB2,112,646 (2017: RMB2,018,702). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the change was applied to the Group's variable rate borrowings at that date with exposure to cash flow interest rate risk. The impact on the Group's profit after tax and retained earnings is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2017.

32 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 HKD and Moroccan Dirham ("MAD"). 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.

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.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in RMB'000)	
	USD	**MAD**
At 31 December 2018		
Cash	**277**	**390**
Trade and other payables	**—**	**(6,331)**
Net exposure arising from recognised assets and liabilities	**277**	**(5,941)**

	Exposure to foreign currencies (expressed in RMB'000)	
	HKD	MAD
At 31 December 2017		
Cash	—	137
Other receivables	118,187	—
Trade and other payables	—	(11,003)
Net exposure arising from recognised assets and liabilities	118,187	(10,866)

32 Financial risk management and fair values (Continued)

(d) Foreign currency risk (Continued)

The Group is mainly exposed to the fluctuation in USD against RMB and MAD against Euro for certain entities. For a 5% weakening of RMB against USA and Euro against MAD, there will be a decrease in the loss after tax of RMB9,477 and increase in the loss after tax of RMB297,050 for the year ended 31 December 2018 respectively. There will be an equal but opposite impact on the loss after tax for the year for a 5% strengthen of RMB against HKD and Euro against MAD.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations in the Group's presentation currency. The analysis is performed on the same basis for 2017.

(e) Fair values measurement

Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has engaged an external valuer to perform valuation for the financial instruments, including put option held by the Company and commitment to issue convertible bonds which are categorised into Level 3 of the fair value hierarchy. A valuation report with analysis of changes in fair value measurement is prepared by the external valuer at 31 December 2018, and is reviewed and approved by the Group's management.

32 Financial risk management and fair values (Continued)

(e) Fair values measurement (Continued)

Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

Recurring fair value measurements	Note	Fair value at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Assets:					
Derivative financial assets					
— Put option held by the Group	36(iii)	22,191	–	–	22,191
		22,191	–	–	22,191
Liabilities:					
Acquisition consideration payable					
— Promissory notes	36(i)	163,508	–	163,508	–
— Commitment to issue Convertible bonds	36(ii)	183,431	–	–	183,431
		346,939	–	163,508	183,431

During the years ended 31 December 2017 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the promissory notes is determined by discounting the cash flow amounts of the principal and interest of the promissory notes with market interest based on the bond yield of comparable bonds in the market.

32 Financial risk management and fair values (Continued)

(e) Fair values measurement (Continued)

Financial assets and liabilities measured at fair value (Continued)

(iii) Information about Level 3 fair value measurements

Description	Note	Fair value RMB'000	Valuation techniques	Significant unobservable inputs	Range of unobservable inputs
Commitment to issue convertible bonds	(a)	183,431	Binomial model	Convertible bond life	From 30 April 2019 to 31 December 2021
				Risk free interest rate	1.78%~2.04%
				Expected dividend	Nil
				Expected volatility	40.2%
				Bond discount rate	9.5%~9.8%
Put option held by the Company	(b)	22,191	Binomial model	Convertible bond life	From 30 April 2019 to 31 December 2021
				Risk free interest rate	1.78%~2.04%
				Expected dividend	Nil
				Expected volatility	40.2%
				Bond discount rate	9.5%~9.8%
				the probability of failure to meet performance guarantee	0%~3%

(a) The fair value of the commitment to issue convertible bonds amounting to RMB183,431,000 is measured based on binomial model prepared by the Directors. The risk-free interest rate is estimated based on the forward interest rate of Hong Kong Government Bond. The expected volatility of the ordinary shares of the Company is estimated based on the Company's historical share price with a period equal to the convertible bond life. The bond discount rate is based on the bond yield of comparable bonds in the market. In addition to the assumptions adopted above, the Company's estimates of (1) the expected audited net profits after tax and excluding any income or loss generated by activities outside the ordinary and usual course of business (the "Applicable Net Profits") of the Target Group A for the three years ending 31 December 2018, 2019 and 2020 as a percentage to the Performance Guarantee and (2) the probability of obtaining relevant title deeds and documents of Yueqing Land were also factored into the determination of the fair value of the convertible bonds.

(b) The fair value of the derivative financial asset-put option held by the Company was determined based on (1) the expected future cash inflows to the Company in the event that the Applicable Net Profits of the Target Group A for either of the three financial years ending 31 December 2018, 2019 and 2020 are less than 90% of the 2018 Performance Guarantee, 2019 Performance Guarantee and/or 2020 Performance Guarantee, respectively ("Profit Shortfall") when the Company requested vendors to buy back sales shares of the Target Group and (2) the probability of a Profit Shortfall estimated by the Directors.

33 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Contracted for	74,577	142,364
Authorised but not contracted for	208,355	259,822
	282,932	402,186

(b) Lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	5,924	2,205
After 1 year but within 5 years	6,793	2,594
	12,717	4,799

34 Material related party transactions

(a) Name and relationship with related parties

During the year ended 31 December 2018, transactions with the following parties are considered as related party transactions:

Name of related party	Relationship
Beijing Automotive Group Co., Ltd.	Ultimate holding Company of Beijing Hainachuan Automobile Parts Co., Ltd. ("Beijing Hainachuan"), one of the major equity shareholders of the Company until 14 July 2017 and non-controlling equity holder of Xiezhong Beijing (Beijing Automotive Group Co., Ltd. and its subsidiaries together referred to as "Beijing Automotive Group")
Sunrise International Investment Management Inc. ("Sunrise International")	One of the major equity shareholders of the Company
Sanhua Holding Group Co.,Ltd ("Sanhua Group")	One of the major equity shareholders of the Company from 14 July 2017 to 2 January 2018

34 Material related party transactions (Continued)

(a) Name and relationship with related parties (Continued)

Name of related party	Relationship
Mr. Chen Cunyou	A director of the Company
Ms. Ni Xianglian	Spouse of Chen Cunyou
Ms. Chen Jiao	An equity shareholder of the Company
Mr. Chen Hao	An equity shareholder of the Company
Mr. Bao Jianguang	A director of Sino Evergreen
Nanjing Zheshang Venture Capital Management Co., Ltd ("Nanjing Zheshang")	Controlled by Mr. Chen Cunyou
Xiezhong Automobile (Group) Company Ltd. ("Xiezhong Automobile")	Controlled by Mr. Chen Cunyou
Nanjing Xiezhong Guanghua Automobile Company Limited ("Xiezhong Guanghua")	Controlled by Mr. Chen Cunyou
Jiangsu Xiezhong Haosheng Used Vehicle Trading Market Company Limited ("Xiezhong Haosheng")	Controlled by Mr. Chen Cunyou
Nanjing Xiezhong Youxu Automobile Company Limited ("Xiezhong Youxu")	Controlled by Mr. Chen Cunyou
Xiezhong Dongqi Automobile Co., Ltd. ("Xiezhong Dongqi")	Controlled by Mr. Chen Cunyou
Nanjing Xiezhong Qibao Automobile Sales Company Limited ("Xiezhong Qibao")	Controlled by Mr. Chen Cunyou
Nanjing Xiezhong Group Real Estate Development Co., Ltd. ("Xiezhong Real Estate")	Controlled by Mr. Chen Cunyou
Nanjing Xiezhong Ruidong Automobile Company Limited ("Xiezhong Ruidong")	Controlled by Xiezhong Automobile
Nanjing Lishui Xiezhong Automobile Sales Company Limited ("Xiezhong Lishui")	Controlled by Xiezhong Automobile
Nanjing Xiezhong Kaijie Automobile Company Limited ("Xiezhong Kaijie")	Controlled by Xiezhong Automobile
Nanjing Xieao Automobile Sales Company Limited ("Xieao Automobile")	Controlled by Xiezhong Automobile
Nanjing Gaochun Xiezhong Automobile Sales Company Limited ("Xiezhong Gaochun")	Controlled by Xiezhong Automobile

34 Material related party transactions (Continued)

(b) Transactions with related parties

Transactions with related parties during the year ended 31 December 2018 are as follows:

Recurring transactions

		2018 RMB'000	2017 RMB'000
Sales of goods			
— Beijing Automotive Group		211,413	237,504
Services rendered			
— Beijing Automotive Group		–	1,302
— Sanhua Group	(i)	–	827
Purchase of goods			
— Sanhua Group	(i)	41	12,060

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

The directors consider that the above related party transactions during the year ended 31 December 2018 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

Non-recurring transactions

		2018 RMB'000	2017 RMB'000
Advance from a related party			
— Sunrise International	(ii)	–	88,000
Repayment of advance from a related party			
— Sunrise International		–	88,000
Repayment of loan from a director			
— Chen Cunyou		33,000	–
Loan from a director			
— Chen Cunyou	(iii)	41,100	–

(ii) Sunrise International is one of the Company's equity shareholders. The advance from a related party is interest-free and repayable on demand.

(iii) The loan from a director bears interest at 5.4% per annum, is unsecured and repayable within one year.

34 Material related party transactions (Continued)

(c) Amounts due from/to related parties

At 31 December 2018, the Group had the following balances with related parties:

		2018 RMB'000	2017 RMB'000
Trade debtors due from			
— Beijing Automotive Group		**82,929**	121,919
Trade creditors due to			
— Sanhua Group		**—**	16,359
Advance receipts from			
— Beijing Automotive Group		**—**	14,959
Loan from a director			
— Chen Cunyou	(iv)	**8,100**	—
Interest payable due to a director			
— Chen Cunyou		**562**	—
Acquisition consideration payables			
— Sunrise International		**260,204**	—
Trade debtors due from related parties	(v)		
— Xiezhong Ruidong		**928**	—
— Xiezhong Haosheng		**3,419**	—
— Xiezhong Automobile		**428**	—
— Xiezhong Lishui		**243**	—
		5,018	—
Advance to related parties	(vi)		
— Xiezhong Ruidong		**418**	—
— Xiezhong Guanghua		**161,349**	—
— Xiezhong Haosheng		**20,170**	—
— Xiezhong Automobile		**69,639**	—
— Xiezhong Lishui		**6**	—
— Xiezhong Youxu		**150**	—
— Xiezhong Dongqi		**29**	—
— Xiezhong Kaijie		**47**	—
— Xiezhong Real Estate development		**22**	—
— Xieao Automobile		**8,976**	—
		260,806	—

34 Material related party transactions (Continued)

(c) Amounts due from/to related parties (Continued)

		2018 RMB'000	2017 RMB'000
Trade creditors to related parties	(vii)		
— Xiezhong Guanghua		5,988	—
— Xiezhong Dongqi		503	—
— Xiezhong Ruidong		247	—
		6,738	—
Interest payable to related parties	(vii)		
— Bao Jianguang		2	—
— Ms. Ni Xianglian		78	—
— Xiezhong Qibao		618	—
		698	—

(iv) The loan is included in "interest-bearing borrowings" (note 24). The loan was repaid in the first quarter of 2019.

(v) These amounts due from related parties arose from the acquisition (see note 36).

(vi) These advances to related parties arising from the acquisition (see note 36) are unsecured with interest rates ranged from 6.0%~6.5% per annum.

(vii) These amounts due to related parties arose from the acquisition (see note 36).

(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:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	4,186	3,675

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

34 Material related party transactions (Continued)

(e) Other transactions with related parties

At 31 December 2018, the Group's following bank loans were guaranteed by the related parties:

1) A bank loan amounting to RMB60,000,000 was guaranteed by Chen Cunyou and Ni Xianglian and secured by 70% stocks rights of Nanjing Zheshang and by land use right owned by Nanjing Zheshang;

2) Bank loans amounting to RMB84,450,000 were secured by investment properties owned by Chen Cunyou, Chen Jiao, Chen Hao, Ni Xianglian, and by land use right owned by Chen Cunyou, Ni Xianglian, and by investment properties owned by Xiezhong Real Estate.

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

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

35 Company-level statement of financial position

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Interest in subsidiaries	(a)	755,291	422,396
Derivative Financial assets	36	22,191	—
		777,482	422,396
Current assets			
Trade and other receivables		1,100	2,793
Cash and cash equivalents		116	586
		1,216	3,379
Current liabilities			
Trade and other payables		121,479	108,977
		121,479	108,977
Net current liabilities		(120,263)	(105,598)
Total assets less current liabilities		657,219	316,798
Non-current liabilities			
Acquisition consideration payable	36	346,939	—
NET ASSETS		310,280	316,798
CAPITAL AND RESERVES	28(a)		
Share capital		6,496	6,496
Reserves		303,784	310,302
TOTAL EQUITY		310,280	316,798

35 Company-level statement of financial position (Continued)

(a) Interest in subsidiaries

	2018 RMB'000	2017 RMB'000
Unlisted shares, at cost	599,957	275,210
Amount due from a subsidiary	155,334	147,186
	755,291	422,396

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

36 Acquisition of subsidiaries

On 31 July 2018, 31 October 2018 and 11 December 2018, the Company entered into sales and purchase agreements and supplemental sale and purchase agreements ("SPAs") with Sunrise International ("Vendor A"), a related party of the Group, and Jin Cheng Auto Parts Trade & Investment Co., Ltd. ("Vendor B"), a third party, respectively, pursuant to which: 1) Vendor A conditionally agreed to sell and the Company conditionally agreed to purchase the entire issued share capital of Target Group A at the consideration of HKD328,027,500; and 2) Vendor B conditionally agreed to sell and the Company conditionally agreed to purchase the entire issued share capital of Target Company B at the consideration of HKD109,342,500 (1 and 2 collectively the "Acquisition Arrangement").

Vendor A and Vendor B held 75% and 25% equity interest in Yueqing Youxu respectively, and Yueqing Youxu holds 100% equity interest in each of Xiezhong Chenyou, Xiezhong Maanshan and Xiezhong Lexus. The Target Group is principally engaged in the operation of 4S dealership stores in Nanjing, PRC.

On 28 December 2018 ("the Acquisition Date"), the Acquisition Arrangement was approved by the shareholders of the Company and the Group obtained control of the Target Group.

The total consideration (subject to adjustments) agreed in sales and purchase agreements comprises: 1) HKD164,013,750 and HKD54,671,250 satisfied by way of issue of promissory notes to Vendor A and Vendor B respectively; and 2) convertible bonds in the maximum aggregate principal amount of HKD164,013,750 and HKD54,671,250 to be issued to Vendor A and Vendor B respectively, in different tranches based on business performance of Target Group A for the financial years ending 31 December 2018, 2019 and 2020, and the satisfaction of other conditions as set out in the SPAs ("Convertible Bond Consideration").

(Expressed in Renminbi Yuan)

36 Acquisition of subsidiaries (Continued)

(a) Set forth below is the calculation of goodwill

Consideration	
— Promissory notes (i)	163,508
— Commitment to issue Convertible bonds (ii)	183,431
— Put option held by the Company (iii)	(22,191)
Total consideration	324,784
Less: fair value of net identifiable assets acquired (note (b))	309,540
Goodwill (note 15)	15,208

(i) Promissory notes

At the Acquisition date, the fair value of the promissory notes of RMB163,508,000 is determined by discounting the cash flow amounts of the principal and interest of the promissory notes with market interest rate by the Directors. The market interest rate was based on the bond yield of comparable bonds in the market. The promissory notes were included in acquisition consideration payables (note 30).

(ii) Commitment to issue convertible bonds

Tranche 1 convertible bonds shall be issued within 21 business days after issuance of the audit report for the financial year ended 31 December 2018 of the Target Group A as follows:

(a) in the event that Target Group A meets the 2018 Performance Guarantee (i.e. 110% (the Applicable Net Profits of Target Group A for the financial year ended 31 December 2017), the principal amount of the tranche 1 convertible bonds would be 40% of the Convertible Bonds Consideration; and

(b) in the event that Target Group A cannot meet the 2018 Performance Guarantee, but its Applicable Net Profits for the year ended 31 December 2018 equals to or exceeds 90% of the 2018 Performance Guarantee, the principal amount of the tranche 1 convertible bonds would be 40% of the Convertible bonds Consideration x (the actual Applicable Net Profits of Target Group A for the year ended 31 December 2018/the 2018 Performance Guarantee);

Tranche 2 convertible bonds shall be issued within 21 business days after issuance of the audit report for the financial year ending 31 December 2019 of the Target Group A as follows:

(a) in the event that Target Group A meets the 2019 Performance Guarantee (i.e. 130% of the 2018 Performance Guarantee), the principal amount of the tranche 2 convertible bonds would be 30% of the Convertible Bonds Consideration; and

(b) in the event that Target Group A cannot meet the 2019 Performance Guarantee, but its Applicable Net Profits for the year ending 31 December 2019 equals to or exceeds 90% of the 2019 Performance Guarantee, the principal amount of the tranche 2 convertible bonds would be 30% of the Convertible bonds Consideration x (the actual Applicable Net Profits of Target Group A for the year ending 31 December 2019/the 2019 Performance Guarantee);

36 Acquisition of subsidiaries (Continued)

(a) Set forth below is the calculation of goodwill (Continued)

(ii) Commitment to issue convertible bonds (Continued)

Tranche 3 convertible bonds shall be issued within 21 business days after issuance of the audit report for the financial year ending 31 December 2020 of the Target Group A as follows:

(a) in the event that Target Group A meets the 2020 Performance Guarantee (i.e. 130% of the 2019 Performance Guarantee), the principal amount of the tranche 3 convertible bonds would be 30% of the Convertible bonds Consideration; and

(b) in the event that Target Group A cannot meet the 2020 Performance Guarantee, but its Applicable Net Profits for the year ending 31 December 2020 equals to or exceeds 90% of the 2020 Performance Guarantee, the principal amount of the tranche 3 convertible bonds would be 30% of the Convertible Bonds Consideration x (the actual Applicable Net Profits of Target Group A for the year ending 31 December 2020/the 2020 Performance Guarantee); and

Tranche 4 convertible bonds shall be issued within 21 business days after the Vendor A and Vendor B obtain all relevant documents necessary to prove the respective titles in a land where Xiezhong Lexus is located at, an area of 12,760 m^2 situated at Dong Qi Road, Dong Shan Street, Jiangning District, Nanjing, Jiangsu Province, PRC ("Yueqing Land"), or equivalent land owned by Xiezhong Lexus satisfactory to the Company to ensure continuous operation of Xiezhong Lexus.

Fair value of Convertible bond to be issued:

Convertible bonds Tranche	RMB'000
Tranche 1 convertible bonds with principal amount of HKD83,289,200	82,279
Tranche 2 convertible bonds with principal amount of HKD62,466,900	51,432
Tranche 3 convertible bonds with principal amount of HKD62,466,900	45,126
Tranche 4 convertible bonds with principal amount of HKD10,462,000	4,594
	183,431

As at the Acquisition date, the fair value of the Convertible Bond Consideration amounting to RMB183,431,000 is measured based on a binomial model prepared by the Directors. Please refer to note 32(e) which shows the key valuation assumptions used to determine the fair value of the derivative financial liabilities — commitment to issue of convertible bonds as at the Acquisition Date.

36 Acquisition of subsidiaries (Continued)

(a) Set forth below is the calculation of goodwill (Continued)

(iii) Put option held by the Company

Pursuant to SPA, the Company is entitled but not obliged to request Vendor A and Vendor B to buy back share capital of Target Group A and Target Company B respectively if the Applicable Net Profits of the Target Group A for either of the financial years ending 31 December 2018, 31 December 2019 or 31 December 2020 is less than 90% of the 2018 Performance Guarantee, 2019 Performance Guarantee and 2020 Performance Guarantee, respectively. Such put option held by the Company is a contingent consideration which should be measured at fair value and recorded as a derivative financial asset at date of acquisition.

As at the Acquisition date, the Directors determined that the fair value of derivative financial asset amounted to RMB22,191,000. Please refer to note 32(e) which shows the key valuation assumptions used to determine the fair value of the put option held by the Group as at the Acquisition Date.

(b) Fair value of net identifiable assets acquired

	Note	**Pre-acquisition Carrying amounts** RMB'000	**Fair value Adjustments** RMB'000	**Recognised Values on Acquisition** RMB'000
Property, plant and equipment	12	47,588	18,543	66,131
Lease prepayment	13	2,304	6,711	9,015
Intangible assets	14	—	154,950	154,950
Other non-current asset	(i)	—	4,594	4,594
Long-term receivables		7,500	—	7,500
Deferred tax assets/(liabilities)	26(b)	244	(45,051)	(44,807)
Inventories	19	60,027	—	60,027
Trade and other receivables		70,436	—	70,436
Amounts due from related parties		265,825	—	265,825
Cash and cash equivalents		27,305	—	27,305
Deposits with banks		41,029	—	41,029
Trade and other payables		(21,174)	—	(21,174)
Interest bearing borrowings	22(c)	(274,744)	—	(274,744)
Contract liabilities	28(a)	(28,411)	—	(28,411)
Amounts due to related parties		(7,436)	—	(7,436)
Income tax payables	26(a)	(20,700)	—	(20,700)
Fair value net identified assets		169,793	139,747	309,540

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values. The valuation adjustments on identifiable assets and liabilities are calculated by deducting carrying amount of identifiable assets and liabilities from the fair value of identifiable assets and liabilities as at 28 December 2018.

36 Acquisition of subsidiaries (Continued)

(b) Fair value of net identifiable assets acquired (Continued)

Intangible assets arising from the acquisition represents the car dealerships. Fair value of car dealerships of RMB154,950,000 was determined using multi-period excess earning method under the income approach.

(i) Other non-current asset

The other non-current asset represents the indemnification asset arising from the acquisition. Pursuant to the SPA, Tranche 4 convertible bonds shall be issued within 21 business days after Vendor A and Vendor B have obtained all the relevant documents necessary to prove the respective titles in the Yueqing Land where the store of Xiezhong Lexus located or equivalent land owned by Xiezhong Lexus satisfactory to the Company to ensure continuous operation of Xiezhong Lexus. Thus Vendor A and Vendor B are contractually obliged to indemnify the Company for the outcome of a contingency related to the Yueqing Land, that is, the commitment to issue Tranche 4 convertible bonds. An indemnification asset is recognised at the same time and measured on the same basis as the commitment to issue Tranche 4 convertible bonds according to paragraph 27 of IFRS 3.

(c) Net cash inflow in respect of the acquisition

	RMB'000
Cash consideration paid	—
Less: cash acquired	27,305
Net cash inflow in acquisition	27,305

(d) Impact of acquisition on the results of the Group

The post-acquisition revenue and net profit that the Target Group contributed to the Group for the year ended 31 December 2018 are Nil respectively.

Had the acquisition occurred on 1 January 2018, management estimates that the Group's consolidated revenue and consolidated profit for the year ended 31 December 2018 would have been RMB1,882,290,000 and RMB38,041,000 respectively.

In determining these amounts, management has assumed that the fair value of acquisition consideration payables, put option held by the Company and indemnification asset arose on the above acquisition would have been the same had the acquisition occurred on 1 January 2018.

37 Comparative Figures

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

(Expressed in Renminbi Yuan)

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretation which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendments to IAS 28, *Long-term interest in associate and Joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretation is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

IFRS 16 *Leases*

As disclosed in note 2(i), currently the Group enters into certain leases arrangements as the lessee and classifies leases into operating leases.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (Continued)

IFRS 16 *Leases* (Continued)

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 33(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB12,717,000, the majority of which is payable after 1 but within 5 years after the reporting date. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB11,840,000 and RMB12,090,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material.

Financial Summary

RESULTS	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
	Years ended 31 December				
Revenue	**924,104**	929,704	896,762	698,822	744,703
Cost of sales	**(754,111)**	(784,314)	(727,132)	(551,765)	(570,720)
Gross profit	**169,993**	145,390	169,630	147,057	173,983
Other net income	**17,123**	3,892	11,838	10,660	7,718
Distribution costs	**(54,321)**	(48,908)	(43,489)	(33,735)	(43,340)
Administrative expenses	**(116,385)**	(115,405)	(76,487)	(54,773)	(73,224)
Other operating expenses	**(6)**	(113)	(1)	(2)	(5)
(Loss)/profit from operations	**16,404**	(15,144)	61,491	69,207	65,132
Finance costs	**(32,408)**	(32,754)	(18,838)	(14,558)	(15,881)
(Loss)/profit before taxation	**(16,004)**	(47,898)	42,653	54,649	49,251
Income tax	**599**	5,491	525	(11,590)	(7,263)
(Loss)/profit for the year	**(15,405)**	(42,407)	43,178	43,059	41,988
Attributable to:					
Equity shareholders of the Company	**(9,228)**	(40,323)	43,309	41,299	40,208
Non-controlling interests	**(6,177)**	(2,084)	(131)	1,760	1,780
(Loss)/profit for the year	**(15,405)**	(42,407)	43,178	43,059	41,988

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
	As at 31 December				
TOTAL ASSETS	**3,111,286**	2,094,707	1,985,074	1,601,701	1,553,843
TOTAL LIABILITIES	**(2,309,363)**	(1,272,600)	(1,137,331)	(767,939)	(740,150)
NON-CONTROLLING INTERESTS	**(23,758)**	(29,935)	(32,019)	(32,150)	(30,390)
	778,165	792,172	815,724	801,612	783,303