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

2019 INTERIM REPORT

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Corporate Information

Board of Directors and Committees

Board of Directors

Executive Directors
Mr. Chen Cunyou *(Chairman)*
Mr. Ge Hongbing
Ms. Chen Xiaoting
Mr. Shen Jun

Non-Executive Director
Mr. Huang Yugang

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

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Principal Share Registrar and Transfer Office
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Authorised Representatives
Mr. Chen Cunyou

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

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Principal Bankers
Construction Bank of Nanjing
Jiangning Economic Development Zone Branch
Agricultural Bank of China, Nanjing
Jiangning Economic Development Zone Branch
Bank of China
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
Industrial and Commercial Bank of China

Stock Code
3663

Management Discussion and Analysis

Business Review

The Company and its subsidiaries (the "**Group**") is one of the leading suppliers of automotive heating, ventilation and cooling ("**HVAC**") systems for vehicles. We principally engage in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components, and provide technical testing and related services. Our automotive HVAC systems are mainly used in sport utility vehicles ("**SUVs**"), pickup trucks, sedans and heavy trucks, in addition to the supply of HVAC systems and HVAC components for new-energy vehicles ("**NEVs**"), construction machineries and other types of vehicles such as light trucks and buses. 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 Sino Evergreen International Limited and its subsidiaries ("**Sino Evergreen Group**"), which engages in 4S dealership business. The 4S dealership business operates 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 brands and mid-to-high end brands, such as Lexus and FAW-Volkswagen, and is mainly located in Nanjing, Jiangsu Province.

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 the first half of 2019 were 12.1 million and 12.3 million units respectively, representing a decrease of approximately 13.7% and 12.4% as compared against that of the previous corresponding period in 2018. Amongst those motor vehicles, the production and sales of passenger vehicles were 10.0 million and 10.1 million units respectively, representing a decrease of approximately 15.8% and 14% as compared against that of the previous corresponding period in 2018; the production and sales of commercial vehicles were 2.2 million and 2.2 million units respectively, representing a decrease of approximately 17.5% and 17.8% as compared against that of the previous corresponding period in 2018. The production and sales of NEVs reached 0.6 million units and 0.6 million units respectively, representing an increase of approximately 48.5% and 49.6% as compared against that of the previous corresponding period in 2018.

During the six months ended 30 June 2019 ("**the Period**"), the Company recorded net loss of approximately RMB120.4 million, representing an increase of approximately 345.8% as compared for the six months ended 30 June 2018, which is mainly due to the net effect of (i) the profit of RMB35.9 million generated from Sino Evergreen Group; (ii) the impairment loss of property, plant and equipment and intangible assets of approximately RMB27.1 million from HVAC business; (iii) the impairment loss on trade and other receivables of RMB56.2 million resulting from the increased credit risks of a customer of HVAC business; (iv) the loss of RMB52.3 million on fair value changes of financial instruments measured at fair value during the Period generated from the Company.

HVAC business

During the Period, the HVAC business recorded revenue of RMB393.3 million, representing a decrease of 9.3% compared against that of RMB433.8 million in the corresponding period in 2018. The gross profit of RMB65.7 million represented a decrease of 12% compared against that of RMB74.7 million in the previous corresponding period in 2018.

4S dealership business

During the Period, the 4S dealership business recorded revenue of RMB508.9 million. The gross profit was RMB44.7 million.

Financial Review

Revenue

During the Period, the Group recorded revenue of RMB902.2 million, representing an increase of 108% compared against that of RMB433.8 million in the corresponding period in 2018. The increase in revenue was due to the net effect of the revenue recorded from 4S dealership business which the Group obtained control on 28 December 2018 and the decrease in revenue from HVAC systems for SUVs and pickup trucks compared against that in the corresponding period in 2018.

	Six months ended 30 June			
	2019		2018	
	RMB'000 (Unaudited)	% of total revenue	RMB'000 (Unaudited)	% of total revenue
HVAC business				
Sedans	137,815	35%	84,544	19.5%
Light trucks	60,353	15%	53,363	12.3%
Heavy trucks	53,890	14%	64,726	14.9%
SUVs and pickup trucks	49,270	13%	120,888	27.9%
Vans	24,720	6%	60,549	14.0%
Construction machineries	11,128	3%	16,320	3.8%
HVAC Components(1)	52,425	13%	31,431	7.2%
Service income(2)	3,742	1%	1,950	0.4%
Subtotal	393,343	100%	433,771	100%
4S dealership business				
Sales of passengers vehicles	455,472	90%	–	–
After-sales services	53,374	10%	–	–
Subtotal	508,846	100%	–	–
Total	902,189		433,771	

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

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

Gross profit and gross profit margin

During the Period, the gross profit was RMB110.4 million, representing an increase of 47.8% compared against RMB74.7 million in the corresponding period in 2018. Such increase was due to gross profit of RMB44.7 million recorded from 4S dealership business during the Period.

During the Period, the gross profit margin was 12.2%, representing a decrease of 5% compared against 17.2% in the corresponding period in 2018. Such decrease was mainly due to the comparatively lower gross profit margin of 4S dealership business during the Period.

Financial Review (continued)

Write-down of inventories, net of reversals

The breakdown of the inventory write-down included in profit or loss, net of reversals during the Period, are as follows:

	Six months ended 30 June 2019 RMB'000
Inventories for BAIC Yinxiang Automobile Co., Ltd. ("**Yinxiang**") (note 1.1)	**9,030**
Other inventories (note 1.2)	**9,843**
	18,873

Note:

1.1 Provision for inventories of RMB9.0 million was provided against certain inventories purchased or produced for Yinxiang during the Period, which is explained in section Impairment losses on trade and other receivables on pages 9–10 for detailed circumstances of Yinxiang. The Group does not expect to sell these inventories to Yinxiang in the foreseeable future, and these goods cannot be modified for sale to other customers due to their unique design. The net realisable value of these inventories is estimated to be zero and therefore provided full provision of those inventories.

1.2 Provision for inventories of RMB9.8 million was provided against other inventories during the Period. Movement in inventory provision for other inventories during the Period are as follows:

	HVAC business	note	4S dealership business	Total
At 1 January 2019	(14,568)		(973)	(15,541)
Provision for impairment	(9,228)	1.2.1	(615)	(9,843)
Transfer to cost of sales upon sale	—		973	973
At 30 June 2019	(23,796)		(615)	(24,411)

1.2.1 The following table sets forth an analysis of the provision for other inventories provided for HVAC business during the Period.

	Six months ended 30 June 2019 RMB'000
Specific provision provided *	**2,611**
Provision provided for slow moving inventories	**6,896**
Reversal of provision for inventories with low or negative gross margin products	**(279)**
	9,228

* The specific provision represented full provisions provided for inventories produced for certain customers with very uncertain purchase demand with which the Group are gradually terminating the business relationship due to the increased credit risk and business risk of these customers.

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

As a result, an inventory write-down included in profit or loss, net of reversals, of RMB18.9 million was recognised for the Period.

Financial Review (continued)

Other net income

During the Period, the other net income is RMB12.3 million, representing an increase of 96.7% compared against RMB6.2 million in the corresponding period in 2018. The other net income for the Period mainly includes service income of RMB24.9 million and interest income on financial assets measured at amortised cost of RMB7.1 million from 4S dealership business, and the impairment losses for certain idle equipment and certain capitalisation projects of development costs of RMB16.5 million and RMB10.6 million respectively from HVAC business.

I. Impairment loss of property, plant and equipment

The following table sets forth a breakdown of impairment loss of property, plant and equipment of RMB16.5 million recorded in the Period.

	As of 30 June 2019 RMB'000		
	Carrying amount before impairment	Recoverable amount	Impairment loss
Idle equipment specific for production of goods selling to Yinxiang (note 1.1)	11,130	–	(11,130)
Idle equipment specific for production of goods selling to other customers (note 1.2)	5,400	–	(5,400)
	16,530	–	(16,530)

Note:

1.1 Impairment loss of RMB11.1 million was provided during the Period against certain idle equipment specific for production of goods selling to Yinxiang, which is explained in section Impairment losses on trade and other receivables on pages 9–10 for detailed circumstances of Yinxiang. The Group does not expect to sell goods to Yinxiang in the foreseeable future, and there is no alternative use of those equipment which are specifically designed for Yinxiang. The recoverable amount of those equipment is estimated to be zero and a full impairment loss was made against the carrying amounts of these equipment accordingly.

1.2 Impairment loss of RMB5.4 million was provided against certain idle equipment for production of goods selling to other customers. The Group gradually terminated business relationship with these customers during the second quarter of 2019, mainly due to the increased credit risk to continue for doing business with these customers. The Group does not expect to have future economic benefits recoverable from the use of those equipment and there is no alternative use of those equipment which are specifically designed. The recoverable amount of those equipment is estimated to be zero and a full impairment loss was made against the carrying amounts of these equipment accordingly.

An asset is impaired when its carrying amount exceeds its recoverable amount. An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The recoverable amount of an asset is determined on the basis of the higher of its fair value less costs of disposal and its value in use calculation. An impairment loss shall be recognised for the asset if the recoverable amount of the asset is less than its carrying amount.

As a result, an impairment loss of property, plant and equipment of RMB16.5 million was recognised during the Period.

Financial Review (continued)

Other net income (continued)

II. Impairment loss of intangible assets

The following table sets forth a breakdown of impairment loss of intangible assets of RMB10.6 million recorded in the Period.

	As of 30 June 2019 RMB'000		
	Carrying amount before impairment	Recoverable amount	Impairment loss
Project with capitalised development costs for Yinxiang (note 2.1)	1,875	–	(1,875)
Project with capitalised development costs for another customer (note 2.2)	9,494	804	(8,690)
	11,369	804	(10,565)

Note:

2.1 Impairment loss of RMB1.9 million was provided against the project with capitalised development costs for Yinxiang during the Period, which is explained in section Impairment losses on trade and other receivables on pages 9–10 for detailed circumstances of Yinxiang. The project with capitalised development cost represented one internal developed HVAC systems specifically for one type of vehicle of Yinxiang. The Group does not expect to sell goods to Yinxiang in the foreseeable future, and there is no alternative use of the HVAC system which are specifically designed for Yinxiang. The recoverable amounts of the project with capitalised development costs for Yinxiang is estimated to be zero and a full impairment loss was made against the carrying amounts of the project accordingly.

2.2 Impairment loss of RMB8.7 million was provided against the project with capitalised development costs for another customer. The project with capitalised development cost represented one internal developed HVAC systems specifically for one type of vehicle of the customer. The Group noticed that the actual sales volume of the vehicles applying this HVAC system was decreasing from May to June 2019 which was an indicator for impairment. The Group reviewed the market performance of the vehicles and negotiated with the customer in respect of its manufacturing and purchasing plan for this type of vehicles through July and August 2019. The customer advised the Group in August that the vehicle model was in the plan to be upgraded and there is uncertainty for a consistent high volume of future purchase orders which will be placed for the HVAC system, as compared with the budget of the project.

Therefore, the Group reassessed the recoverable amounts of the project with capitalised development costs which were determined on the basis of using value in use calculation that require estimate of inputs including projected cash flow and discount rate, all of which were based on the Group management's expectation of future sales volume, sales price and operating cost derived from the HVAC system, given that the value in use was higher than the fair value less costs of disposal. Based on the revised value in use calculation of the project as at 30 June 2019, the recoverable amount of the project is estimated to be RMB804,000 and an impairment loss was made against the carrying amount of the project with capitalised development costs accordingly.

An asset is impaired when its carrying amount exceeds its recoverable amount. An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The recoverable amount of an asset is determined on the basis of the higher of its fair value less costs of disposal and its value in use calculation. An impairment loss shall be recognised for the asset if the recoverable amount of the asset is less than its carrying amount.

As a result, an impairment loss of intangible assets of RMB10.6 million was recognised during the Period.

Financial Review (continued)

Distribution costs

During the Period, the distribution costs was RMB41.6 million, representing an increase of 46.7% compared against RMB28.4 million in the corresponding period in 2018. Such increase was mainly due to the distribution costs of RMB17.5 million recorded from 4S dealership business.

Administrative expenses

During the Period, administrative expenses were RMB56.0 million, representing an increase of RMB5.7 million or 11.1% compared against that of RMB50.3 million in the corresponding period in 2018. Such increase was mainly due to the administrative expenses of RMB9.8 million recorded from 4S dealership business during the Period.

Impairment losses on trade and other receivables

During the Period, the impairment losses on trade and other receivables was RMB65.9 million, representing an increase of RMB50.8 million or 336% compared against that of RMB15.1 million in the corresponding period in 2018. The increase of impairment losses on trade and other receivables was primarily caused by the increased credit risks of one customer of HVAC business during the Period, which amounts to RMB56.2 million.

The customer, Yinxiang was incorporated in August 2010 in Chongqing, the People's Republic of China, which was owned as to 26.0%, 23.30%, 22.03%, 16.02% and 12.65% by Beijing Automotive Group Co., Ltd* (北京汽車集團有限公司) ("**Beijing Automotive**"), Chongqing Yinxiang Trading Co., Ltd.* (重慶銀翔貿易有限公司) ("**Yinxiang Trading**"), Chongqing Yinxing Industrial Group Co., Ltd.* (重慶銀翔實業集團有限公司) ("**Yinxing Industrial**"), Chongqing Yinxiang Investment Development Co., Ltd* (重慶銀翔投資開發有限公司) ("**Yinxiang Investment**") and CDB Development Fund Co., Ltd* (國開發展基金有限公司) ("**CDB Fund**"), respectively. Beijing Automotive is wholly-owned by Beijing State-owned Capital Operation and Management Center* (北京國有資本經營管理中心), which is in turn wholly-owned by Beijing Municipal Commission of State-owned Assets Supervision* (北京市人民政府國有資產監督管理委員會). Yinxiang Trading is wholly-owned by Chongqing Yinxiang Motor (Group) Co., Ltd.* (重慶銀翔摩托車（集團）有限公司) ("**Yinxiang Motor**"), which is owned as to 92.65% by Yinxiang Industrial and 7.35% by Mr. Bai Tianming (白天明先生). Yinxiang Investment is wholly-owned by Yinxiang Industrial, which is owned as to 85% by Mr. Zhang Ping (張平先生) and 15% by Mr. Zhang Xianlin (張先利先生). CDB Fund is wholly-owned by China Development Bank (中國發展銀行), which is owned as to 36.54%, 34.68%, 27.19% and 1.59% by the Ministry of Finance of the People's Republic of China (中華人民共和國財政部), Central Huijin Investment Ltd. (中央匯金投資有限責任公司), Buttonwood Investment Holding Co., Ltd (梧桐樹投資平台有限公司) and the National Council for Social Security Fund (全國社會保障基金理事會), respectively. Beijing Automotive is the ultimate holding company of Beijing Hainachuan Automobile Parts Co., Ltd., one of the major equity shareholders of the Company until 14 July 2017 and a non-controlling equity holder of Beijing Hainachuan Xiezhong Automotive Air-conditioning Co., Ltd., an indirect subsidiary of the Company. Beijing Automotive and its subsidiaries (together, "**BAIC Group**") is one of the major customers of the Group, the revenue of the Group attributed by BAIC Group for the years ended 31 December 2017 and 31 December 2018 were RMB238.8 million and RMB211.4 million, respectively. Yinxiang has been a customer of the Group for more than three years, and has had no material issue in settling bills of the Group. Accordingly, other than Beijing Automotive, the shareholders of Yinxiang are third parties independent from the Company and its connected persons (has the meaning ascribed to it under Listing Rules).

During the period from March to June 2018, Yinxiang issued of 39 commercial bills amounted to RMB38.2 million to Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd ("**Xiezhong Nanjing**"), and the expiry dates of them range from the end of September 2018 to beginning of December 2018.

Financial Review (continued)

Impairment losses on trade and other receivables (continued)

During the period from October to early December 2018, Xiezhong Nanjing noticed that there were a total of 27 commercial bills amounting to RMB26.1 million which were failed to be settled by Yinxiang after their expiry. Subsequently, a negotiation meeting was held between the Group and Yinxiang on 14 December 2018. Yinxiang expressed that a restructuring was undergoing under the auspices of Beijing Automotive. Yinxiang promised to re-issue the outstanding commercial bills and the outstanding trade and other receivables will be settled. Yinxiang also promised that Chongqing Changhe Automobile Technology Co., Ltd.* (重慶昌河汽車科技有限公司) ("**Chongqing Changhe**"), an indirect subsidiary of Beijing Automotive, will pay in advance of approximately RMB10 million to Xiezhong Nanjing as a prerequisite for re-cooperation, and the advance payment of approximately RMB6 million and RMB4 million were received in January and June 2019 respectively.

Based on the representation made by the management of Yinxiang and in view of the long-term relationship and good cooperation and settlement history of the Group with Beijing Automotive, the management of the Group estimated that the risk in credit of Yinxiang is low.

On 11 January 2019, Xiezhong Nanjing received 10 new commercial bills amounted to RMB38.2 million issued by Yinxiang to replace the outstanding ones, and the expiry dates of them range from 31 March 2019 to 31 December 2019.

In middle of April and early of May 2019, Xiezhong Nanjing noticed that there were two commercial bills amounting to RMB2 million and RMB3 million failed to be settled by Yinxiang after their expiry at 31 March 2019 and 30 April 2019, respectively. Subsequently, one of the deputy general managers of Xiezhong Nanjing had two meetings with Yinxiang's management at the end of April 2019 and the middle of May 2019 to discuss the issue, where Yinxiang expressed that the restructuring was still undergoing. For the purpose of ensuring Yinxiang was able to settle the outstanding commercial bills and other trade receivables, the chairman and executive director of the Group went to negotiate the issue with the top management of Beijing Automotive in person at the end of June 2019. Following the meeting, Beijing Automotive expressed that the restructuring of Yinxiang was still undergoing.

By mid-August 2019, Xiezhong Nanjing noticed that there were five commercial bills amounting to a total of RMB18 million which were failed to be settled by Yinxiang after their expiry.

In view of the above fact, the Group considered the credit risk of Yinxiang has increased significantly, and accordingly, the Group had made a full provision for: (1) trade receivables of RMB14.4 million; (2) bills receivables of RMB38.2 million; and (3) other receivables of RMB4.0 million when preparing the Group's consolidated financial statements for six months ended 30 June 2019. Furthermore, in August 2019, the Group filed an application for litigation to Chongqing First Intermediate People's Court (重慶市第一中級人民法院) to claim against Yinxiang for the outstanding receivables.

Finance costs

During the Period, finance costs were RMB30.2 million, representing an increase of RMB13.5 million or 81.0% compared against that of RMB16.7 million in the corresponding period in 2018. Such increase was mainly due to the increase of bank loans and other borrowings.

Financial Review (continued)

Loss on fair value changes of financial instruments

The breakdown of net losses on financial instruments measured at fair value through profit and loss ("FVTPL") is as follows:

	Note	Six months ended 30 June 2019 RMB'000
Financial assets at FVTPL		
Mandatorily measured at FVTPL — other		5,764
Financial liabilities at FVTPL		
Designated at FVTPL at initial recognition	1	
— Promissory notes	1.1	21,270
— Convertible bonds tranche 1 ("CB1")	1.2	2,373
		23,643
Mandatorily measured at FVTPL — other	2	
— Commitment to issue promissory notes	1.1	(2,408)
— Commitment to issue convertible bonds	2.1	25,271
		22,863
Total		52,270

Note:

1. The promissory notes and the CB1 are designated at fair value through profit or loss under IFRS 9. The Company's functional currency and the denomination of these financial instruments are HKD whereas the Group's presentation currency is RMB. The translation gains/losses are recognised in other comprehensive income as per IAS 21.39.

Financial Review (continued)

Loss on fair value changes of financial instruments (continued)

Note: (continued)

1. (continued)

1.1 The table below shows the reconciliation of the carrying amount of the promissory notes:

	Note	HKD'000	RMB'000
Commitment to issue promissory notes			
At 1 January 2019	1.1.3	(186,179)	(163,508)
Changes in fair value recognised in profit or loss during the period		2,694	2,408
Transfer to promissory notes designated at FVTPL	1.1.1/1.1.3	183,485	161,100
At 23 January 2019		–	–
Promissory notes designated at FVTPL			
At 1 January 2019		–	–
Transfer from commitment to issue promissory notes	1.1.1/1.1.3	(183,485)	(161,100)
Early redemption (principal & accrued interest)	1.1.2	116,143	102,167
Changes in fair value recognised in profit or loss during the period		(24,145)	(21,270)
Exchange difference		–	(278)
At 30 June 2019	1.1.3	(91,487)	(80,481)

1.1.1 The promissory notes are legally issued on 23 January 2019.

1.1.2 During the period, the promissory notes of RMB102,167,000 are early settled.

1.1.3 The fair value of the promissory notes is measured using a discounted cash flow model. The major valuation inputs at the valuation dates of 31 December 2018, 23 January 2019 and 30 June 2019 extracted from the valuation report issued by AVISTA Valuation Advisory Limited are as follows:

Basis	Note	**Valuation Date 31/12/2018 Promissory Note (not issued)**	**Valuation Date 23/01/2019 Promissory Note (issued)**	**Valuation Date 30/06/2019 Promissory Note (issued)**
Issuance date		31/12/2018	23/01/2019	23/01/2019
Maturity date		31/12/2021	23/01/2022	23/01/2022
Principal		218,685	218,684	218,684
Early redemption principal		0	0	(114,202)
Outstanding principal as of the Valuation Date		218,685	218,684	104,482
Coupon rate		4.0%	4.0%	4.0%
Principal receivable on the maturity date		218,685	218,684	104,482
Coupon receivable on the maturity date		26,248	26,266	12,549
Total amount receivable on the maturity date		244,933	244,950	117,031
Discount rate		9.574%	10.110%	10.056%
Discount factor		0.76	0.75	0.78
Fair Value as of the valuation date (HKD'000)	1.1	186,179	183,485	91,487

The fair value change on the promissory notes during the period is mainly due to loss in time value of the early redemption option when part of the promissory notes is early settled.

Financial Review (continued)

Loss on fair value changes of financial instruments (continued)

Note: (continued)

1. (continued)

1.2 The table below shows the reconciliation of the carrying amount of the CB1:

	Note	HKD'000	RMB'000
At 1 January 2019		–	–
Transfer from commitment to issue convertible bonds	1.2.1/1.2.2	(105,998)	(93,066)
Changes in fair value recognised in profit or loss during the period		(2,702)	(2,373)
Exchange difference		–	(185)
At 30 June 2019	1.2.2	(108,700)	(95,624)

1.2.1 CB1 is legally issued on 1 June 2019 because Sino Evergreen Group meets the 2018 Performance Guarantee which is explained in section convertible bonds on pages 17–18.

1.2.2 The fair value of the CB1 is measured under binomial model. The major valuation inputs at the valuation dates of 1 June 2019 and 30 June 2019 extracted from the valuation report issued by AVISTA Valuation Advisory Limited are as follows:

Basis	Note	Valuation Date 01/06/2019 CB1	**Valuation Date 30/06/2019 CB1**
Actual issuance date		01/06/2019	**01/06/2019**
Bond life (in years)		3.0	**3.0**
Actual issuance principal (HKD'000)		83,288	**83,288**
Coupon rate		8.0%	**8.0%**
Coupon interval (in years)		3.0	**3.0**
Volatility		44.08%	**44.58%**
Risk free rate		1.65%	**1.51%**
Spot stock price on the valuation date (HKD)		1.850	**1.920**
Conversion Price		1.777	**1.777**
Bond yield		10.289%	**10.037%**
Expected dividend yield		0.00%	**0.00%**
Fair Value as of valuation date (HKD'000)	1.2	105,988	**108,700**

The change in fair value of CB1 during the period is mainly due to the increase in closing stock price of the Company from HKD1.85 on issuance date to HKD1.92 on 30 June 2019.

Financial Review (continued)

Loss on fair value changes of financial instruments (continued)

Note: (continued)

2. The commitment to issue convertible bonds is a contingent consideration arising from the business acquisition of Sino Evergreen Group and Jin Cheng Auto Parts (Hong Kong) Limited ("**Jin Cheng HK**") and is mandatorily measured at FVTPL under IFRS 3.58(b)(i). The Company's functional currency and the denomination of these financial instruments are HKD whereas the Group's presentation currency is RMB. The translation gains/losses are recognised in other comprehensive income as per IAS 21.39.

2.1 The table below shows the reconciliation of the carrying amount of the commitment to issue convertible bonds:

	Note	HKD'000	RMB'000
At 1 January 2019	2.1.1	(208,864)	(183,431)
Transfer to CB1	1.2.1/1.2.2	105,998	93,066
Changes in fair value recognised in profit or loss during the period		(28,783)	(25,271)
Exchange difference		—	(175)
At 30 June 2019	2.1.1	(131,649)	(115,811)

2.1.1 The fair value of the commitment to issue convertible bonds is measured under binomial model and the Monte-Carlo model. The major valuation inputs at the valuation dates of 31 December 2018 and 30 June 2019 extracted from the valuation report issued by AVISTA Valuation Advisory Limited are as follows:

Basis	Note	Valuation Date 31/12/2018 CB1 (not issued yet)	CB2 (not issued yet)	CB3 (not issued yet)	CB4 (not issued yet)
Expected issuance date		30/04/2019	30/04/2020	30/04/2021	31/12/2021
Bond life (in years)		3.0	3.0	3.0	3.0
Expected adjusted issuance principal (in HKD'000)		83,289	58,816	57,499	10,462
Coupon rate		8.0%	8.0%	8.0%	8.0%
Coupon interval (in years)		3.0	3.0	3.0	3.0
Volatility		40.22%	40.22%	40.22%	40.22%
Risk free rate		1.78%	1.90%	1.99%	2.04%
Conversion Price		Simulated by the Monte-Carlo Method	Simulated by the Monte-Carlo Method	Simulated by the Monte-Carlo Method	Simulated by the Monte-Carlo Method
Bond yield		9.511%	9.627%	9.721%	9.774%
Expected dividend yield		0.00%	0.00%	0.00%	0.00%
Fair Value as of issuance date (in HKD'000)		96,577	66,133	63,579	11,470
Time period between issuance date and the valuation date		0.33	1.33	2.33	3.00
Discount rate		9.541%	9.547%	9.558%	9.574%
Discount factor		0.97	0.89	0.81	0.76
Fair Value as of the valuation date (in HKD'000)		93,688	58,563	51,382	8,719
Probability to achieve the land certificate		NA	NA	NA	60.0%
Fair Value as of the valuation date (in HKD'000)		93,688	58,563	51,382	5,231
Total fair value of the commitment to issue CB1-CB4 (in HKD'000)	2.1	208,864			

Financial Review (continued)

Loss on fair value changes of financial instruments (continued)

Note: (continued)

2. (continued)

2.1 (continued)

2.1.1 (continued)

Basis	Note	Valuation Date 30/06/2019 CB2 (not issued yet)	CB3 (not issued yet)	CB4 (not issued yet)
Expected issuance date		01/06/2020	01/06/2021	31/12/2021
Bond life (in years)		3.0	3.0	3.0
Expected adjusted issuance principal (in HKD'000)		62,467	59,028	10,462
Coupon rate		8.0%	8.0%	8.0%
Coupon interval (in years)		3.0	3.0	3.0
Volatility		44.01%	44.01%	44.01%
Risk free rate		1.34%	1.25%	1.25%
Conversion Price		Simulated by the Monte-Carlo Method	Simulated by the Monte-Carlo Method	Simulated by the Monte-Carlo Method
Bond yield		9.870%	9.776%	9.776%
Expected dividend yield		0.00%	0.00%	0.00%
Fair Value as of issuance date(in HKD'000)		74,968	68,992	12,085
Time period between issuance date and the valuation date		0.92	1.92	2.50
Discount rate		10.180%	10.090%	10.059%
Discount factor		0.91	0.83	0.79
Fair Value as of the valuation date(in HKD'000)		68,575	57,368	9,510
Probability to achieve the land certificate		NA	NA	60.0%
Fair Value as of the valuation date (in HKD'000)		68,575	57,368	5,706
Total fair value of the commitment to issue CB2-CB4 (in HKD'000)	2.1	131,649		

The fair value change of the commitment to issue convertible bonds is mainly due to the (i) increase in expected issuance principal which is based on the estimated financial performance of the Sino Evergreen Group and (ii) increase in share price volatility.

Income tax

During the Period, income tax was RMB3.0 million, representing an increase of RMB0.4 million compared against that of RMB2.6 million in the corresponding period in 2018, with no material change.

Financial Review (continued)

Loss for the period

As a result of the foregoing, loss for the period was RMB120.4 million as compared to the loss of RMB27.0 million in the corresponding period in 2018. The increase of RMB93.4 million in loss is mainly due to the net effect of (i) the profit of RMB35.9 million generated from Sino Evergreen Group; (ii) the impairment loss of property, plant and equipment and intangible assets of approximately RMB27.1 million from HVAC business; (iii) the impairment loss on trade and other receivables of RMB56.2 million resulting from the increased credit risks of a customer of HVAC business; (iv) the loss of RMB52.3 million on fair value changes of financial instruments measured at fair value during the Period generated from the Company.

Liquidity and Financial Resources

Inventories

As at 30 June 2019, the Group's inventory balance RMB343.3 million which comprised of HVAC business of RMB284.0 million (31 December 2018: RMB283.9 million) and 4S dealership business of RMB59.3 million (31 December 2018: RMB60 million).

The average inventory turnover days of HVAC business, calculated as cost of sales divided by average inventory and multiplied by 181 days, increased from 126 days during the twelve months ended 31 December 2018 to 157 days during the Period. This is mainly due to decreased sales as a result of the change of line production for some vehicles model.

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

As at 30 June 2019, the Group's trade debtors and bills receivable from third parties were RMB415.2 million (31 December 2018: RMB581.6 million) which was mainly due to the decrease of sales and the increase in provision of doubtful debts on trade debtors during the Period. The Group's trade debtors due from related parties were RMB92.7 million (31 December 2018: RMB87.9 million).

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 181 days, decreased from 233 days during the twelve months ended 31 December 2018 to 230 days during the Period, 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 181 days, increased from 162 days during the twelve months ended 31 December 2018 to 165 days during the Period.

Trade payables and bills payable

As at 30 June 2019, the Group's trade payables and bills payable were RMB606.0 million (31 December 2018: RMB643.0 million). Such decrease was mainly due to the decrease of purchase of materials.

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 181 days, increased from 258 days during the twelve months ended 31 December 2018 to 298 days during the Period. Such increase was mainly due to the slow down of payment pace.

Cash and deposits with banks and borrowings

As at 30 June 2019, the Group's cash and deposits with banks were RMB122.4 million (31 December 2018: RMB137.0 million).

Liquidity and Financial Resources (continued)

Cash and deposits with banks and borrowings (continued)

As at 30 June 2019, we had outstanding bank loans and other borrowings of RMB982.0 million (31 December 2018: RMB993.1 million). As at 30 June 2019, our bank loans and other borrowings carried interest rates ranging from 4.13% to 9% per annum.

As at 30 June 2019, the banking facilities available to us were RMB731.0 million (31 December 2018: RMB808.0 million), of which RMB628.0 million (31 December 2018: RMB728 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 30 June 2019, 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.

Promissory notes

On 23 January 2019, the Company issued two unsecured promissory notes with an aggregate amount of HKD218,684,000 as part of the consideration for the acquisition of Sino Evergreen Group and Jin Cheng HK (the "**Acquisition**"). For further details of the Acquisition, please refer to the circular of the Company dated 11 December 2018 and the poll results announcement of the Company dated 28 December 2018. The promissory notes bear interest at 4% per annum and are repayable in three years from the date of issue. On 30 June 2019, the Company early redeemed part of the promissory notes with principal amount of RMB100,417,000 and accumulated interest expenses of approximately RMB1,750,000. Further details of the promissory notes are set out in Note 18(a).

Convertible bonds

As disclosed in the announcement of the Company dated 31 July 2018 and the circular dated 11 December 2018, (i) Sunrise International Investment Management Inc. ("**Vendor A**"), Mr. Chen Hao and the Company entered into the sale and purchase agreement ("**SPA A**"), pursuant to which the Vendor A agreed to sell, and the Company agreed to purchase, the entire issued share capital of Sino Evergreen Group, at a consideration of HKD328,027,500; and (ii) Jin Cheng Auto Parts Trade & Investment Co., Ltd. ("**Vendor B**"), Mr. Wang Zuocheng and the Company entered into the sale and purchase agreement ("**SPA B**"), pursuant to which the Vendor B agreed to sell, and the Company agreed to purchase, the entire issued share capital of Jin Cheng HK, at a consideration of HKD109,342,500.

Vendor A is 100% owned by Mr. Chen Hao who owns an aggregate of 44.48% of interests in the Company, of which 43.45% of interests in the Company is held through Vendor A. Mr. Chen Hao is the controlling shareholder of the Company and is the son of Mr. Chen Cunyou, the chairman of the Board. Therefore, Vendor A is an associate of Mr. Chen Hao, being a connected person of the Company under the Listing Rules.

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

Liquidity and Financial Resources (continued)

Convertible bonds (continued)

Pursuant to SPA A and SPA B, Vendor A and Vendor B respectively undertook that the applicable net profits of Sino Evergreen Group for the year ended 31 December 2018 shall not be less than 110% of the applicable net profits of Sino Evergreen Group for the financial year ended 31 December 2017, that is, approximately RMB52,019,000 (the "**2018 Performance Guarantee**"). In the event that the applicable net profits of Sino Evergreen Group for the year ended 31 December 2018 exceeds the 2018 Performance Guarantee, convertible bonds with a pre-agreed principal amount should be issued by the Company to both Vendor A and Vendor B.

The applicable net profits of the Sino Evergreen Group for the financial year ended 31 December 2018 has exceeded the 2018 Performance Guarantee. Accordingly, convertible bonds with an aggregate principal amount of HK$83,288,000, were issued on 1 June 2019 to Vendor A and Vendor B pursuant to the terms of SPA A and SPA B, respectively. The initial conversion price for the issuance of the convertible bonds is HK$1.77, representing a discount of approximately 4.32% (to the closing price of HK$1.85 on the last trading day before the issue date, which is 31 May 2019). The convertible bonds bear interest at a coupon rate of 8% per annum and will be matured on 1 June 2022. For further details of the convertible bonds, please refer to Note 18(b) below and the circular of the Company dated 11 December 2018.

Gearing ratio

As at 30 June 2019, 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 63.2%, compared against 60.8% as at 31 December 2018, which was due to the increase of bank and other borrowings and bills payable during the Period.

Contingent liabilities

As at 30 June 2019, the Group did not incur any material contingent liabilities.

Significant investments held

Except for investment in subsidiaries, during the Period, 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 30 June 2019, 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

The Group had no material acquisitions and disposals of subsidiaries and affiliated companies during the Period.

Capital commitments

As at 30 June 2019, the Group's capital commitments to make contracted payments amounted to RMB104.1 million (31 December 2018: RMB74.6 million). Such capital commitments were used for the purchase of property, plant and equipment. In addition, capital commitment of RMB162.7 million was authorized but not contracted for as at 30 June 2019 (31 December 2018: RMB208.4 million). They will be financed by the Group's internal resources and/or external bank financing, as appropriate.

Capital expenditures

During the Period, the Group incurred capital expenditures of RMB99.0 million (six months ended 30 June 2018: RMB145.9 million) primarily representing additions of construction in progress, machineries and equipment and development costs.

Liquidity and Financial Resources (continued)

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 Period. 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.

Pledge of assets

As at 30 June 2019, property, plant and equipment with carrying amounts of RMB478,412,000 (31 December 2018: RMB475,255,000) were pledged as collateral for the Group's bank loans and other borrowings. Details are set out in note 17.

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 subsidiary in the People's Republic of China (the "**PRC**") 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 Period, the Group did not employ any financial instrument for hedging purposes.

Employees

As at 30 June 2019, the Group had 1,571 full-time employees (31 December 2018: 1,502). They were remunerated by the Group with reference to their performance, qualifications and prevailing market conditions. During the Period, the Group's total expenditure in respect of staff cost was RMB73.7 million (six months ended 30 June 2018: RMB52.3 million), representing 8.2% (six months ended 30 June 2018: 10.1%) 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 Period, no share options had been granted by the Group to the employees in accordance with the Share Option Scheme.

Connected Transactions

During January to July 2019, the following agreements were entered into between Jiangsu Xiezhong Chenyou Automobile Co., Ltd.* (江蘇協眾晨友汽車有限公司), Nanjing Xiezhong Lexus Automobile Sales & Service Co., Ltd.* (南京協眾雷克薩斯汽車銷售服務有限公司) and Maanshan Xiezhong Automobile Sales Co., Ltd.* (馬鞍山協眾汽車銷售有限公司) (together as "**the 4S Dealership Group**") (as the case may be) on one hand, with certain companies (together as "**Chen's Trading Companies**") which were controlled by Mr. Chen Cunyou ("**Mr. Chen**") and his associates on the other:

(a) the 4S Dealership Group entered into the sale agreements (the "**Sale Agreements**") with certain of the Chen's Trading Companies, namely, Nanjing Tangshan Xiezhong Lexus Automobile Sales & Service Co., Ltd.* (南京湯山協眾雷克薩斯汽車銷售服務有限公司) ("**Tangshan Xiezhong**"), Wuhu Xiezhong Automobile Sales & Service Co., Ltd.* (蕪湖協眾汽車銷售服務有限公司) ("**Wuhu Xiezhong**"), Nanjing Xiezhong Dongqi Automobile Co., Ltd.* (南京協眾東麒汽車有限公司) ("**Xiezhong Dongqi**") and Nanjing Xiezhong Ruidong Automobile Co., Ltd.* (南京協眾瑞東汽車有限公司) ("**Xiezhong Ruidong**"), pursuant to which the 4S Dealership Group agreed to sell and such Chen's Trading Companies agreed to purchase automobiles and automobile parts for an aggregate consideration of approximately RMB5.2 million;

Liquidity and Financial Resources (continued)

Connected Transactions (continued)

(b) the 4S Dealership Group entered into the purchase agreements (the "**Purchase Agreements**") with certain of the Chen's Trading Companies, namely, Nanjing Jiangbei Xiezhong Automobile Sales & Service Co., Ltd.* (南京江北協眾汽車銷售服務有限公司), Nanjing Lishui Xiezhong Automobile Sales & Service Co., Ltd.* (南京溧水協眾汽車銷售服務有限公司), Wuhu Xiezhong, Xiezhong Dongqi, Nanjing Xiezhong Guanghua Automobile Co., Ltd.* (南京協眾光華汽車有限公司) and Xiezhong Ruidong, pursuant to which the 4S Dealership Group agreed to purchase and such Chen's Trading Companies agreed to sell automobiles and automobile parts for an aggregate consideration of approximately RMB7.7 million; and

(c) the 4S Dealership Group entered into the fee arrangement agreements (the "**Fee Arrangement Agreements**") with certain of the Chen's Trading Companies, namely Jiangsu Xiezhong Haosheng Old Motor Vehicle Trading Market Co., Ltd.* (江蘇協眾浩盛舊機動車交易市場有限公司) ("**Xiezhong Haosheng**") and Jiangsu Xiezhong Automobile (Group) Company Limited* (江蘇協眾汽車集團有限公司) ("**Xiezhong Automobile**"), pursuant to which (i) the 4S Dealership Group agreed to consign second-hand cars to Xiezhong Haosheng in return for a service fee upon the sale of the consigned second-hand cars by Xiezhong Haosheng; and (ii) the 4S Dealership Group agreed to introduce insurance transactions to Xiezhong Automobile in return for a service fee. The aggregate amount of the fee paid under the fee arrangement agreements amounted to approximately RMB8.7 million.

As each of the Chen's Trading Companies is an associate (has the meaning ascribed to it under the Listing Rules) of Mr. Chen, who is the chairman of the Board and an executive Director, when the Sale Agreements, the Purchase Agreements and the Fee Arrangement Agreements were entered into, each of the Chen's Trading Companies were, at the material time, a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of each of the Sale Agreements, the Purchase Agreements and the Fee Arrangement Agreements and the transactions contemplated thereunder (the "**Transactions**") constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, as the Sale Agreements, the Purchase Agreements and the Fee Arrangement Agreements were entered into by the 4S Dealership Group with the Chen's Trading Companies within a 12-month period and are of a similar trading nature arising out of the ordinary course of business of the 4S Dealership Group, the Transactions should be aggregated.

After aggregation of the Transactions, as one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Transactions exceed 0.1% but are less than 5%, the Transactions constitute connected transactions of the Company which are subject to the reporting and announcement requirements but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

During the period immediately after the Acquisition, it took some time for the personnel of the Group to familiarise themselves with the business of the 4S Dealership Group and its day-to-day operation, which is a new business of the Company. Due to an unintentional and inadvertent oversight, the Company did not make timely disclosure of the Transactions, which is not in compliance with Rule 14A.35 of the Listing Rules. Such non-compliance came to the notice of the Board in August 2019 and the Group has ceased all connected transactions as those contemplated under the Sale Agreements, the Purchase Agreements and the Fee Arrangement Agreements with the Chen's Trading Companies. The Board also took prompt actions to comply with the requirements of the Listing Rules by disclosing the Transactions.

Liquidity and Financial Resources (continued)

Connected Transactions (continued)

The Directors (including the independent non-executive Directors) are of the view that the Transactions are (a) fair and reasonable; (b) on normal commercial terms or better which have been negotiated on an arm's length basis and in the ordinary and usual course of business of the Group; and (c) in the interests of the Company and the shareholders of the Company as a whole.

For further details of the above connected transactions, please refer to the announcement of the Company dated 29 August 2019.

Events after the Period

In view of the fact that the Group has recognised significant provision for doubtful debts of trade and other receivables and impairment loss on property, plant and equipment and inventories due to the increased credit risk of Yinxiang, a customer of Xiezhong Nanjing, the Group filed an application for litigation to the local court in the PRC in August 2019.

Save as disclosed above and in Note 23, there was no significant event that took place after the reporting period and up to the date of approval of the report.

Dividends

The Board did not propose a distribution of interim dividend for the Period (six months ended 30 June 2018: nil).

Outlook

During the Period, the global economy and China's economy showed a slowdown in growth. Nevertheless, according to the National Bureau of Statistics of the PRC, China's GDP exceeded RMB45.1 trillion in the first half of 2019, representing a growth of 6.3% as compared against that of the previous period in 2018.

China's automobile production and sales volume has occupied nearly one-third of the global automobile market and China, as a result, is important to the 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 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 maintain 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. On the other hand, the market of HVAC systems for passenger vehicles is immense. In addition, 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 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.

Liquidity and Financial Resources (continued)

Outlook (continued)

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.

Report on Review of Interim Financial Report

KPMG

Review report to the board of directors of
Xiezhong International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 24 to 63 which comprises the consolidated statement of financial position of Xiezhong International Holdings Limited (the "Company") as of 30 June 2019 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

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

30 August 2019

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Revenue	4	**902,189**	433,771
Cost of sales		**(791,749)**	(359,074)
Gross profit		**110,440**	74,697
Other net income	5	**12,260**	6,233
Distribution costs		**(41,599)**	(28,360)
Administrative expenses		**(55,971)**	(50,348)
Impairment losses on trade and other receivables		**(65,931)**	(15,139)
Other operating expenses		**(152)**	—
Loss from operations		**(40,953)**	(12,917)
Finance costs	6(a)	**(30,163)**	(16,668)
Loss on fair value changes of financial instruments measured at fair value through profit and loss ("**FVTPL**")	6(c)	**(52,270)**	—
Loss before taxation		**(123,386)**	(29,585)
Income tax	7	**2,987**	2,577
Loss for the period		**(120,399)**	(27,008)
Attributable to:			
Equity shareholders of the Company		**(119,005)**	(26,511)
Non-controlling interests		**(1,394)**	(497)
Loss for the period		**(120,399)**	(27,008)
Loss per share *(RMB)*	8		
Basic and diluted		**(0.149)**	(0.033)

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 30 to 63 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019 – unaudited

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Loss for the period	**(120,399)**	(27,008)
Other comprehensive income for the period		
Items that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company, net of nil tax	**(479)**	349
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	**(759)**	(1,313)
Other comprehensive income for the period	**(1,238)**	(964)
Total comprehensive income for the period	**(121,637)**	(27,972)
Attributable to:		
Equity shareholders of the Company	**(120,243)**	(27,475)
Non-controlling interests	**(1,394)**	(497)
Total comprehensive income for the period	**(121,637)**	(27,972)

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 30 to 63 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2019 – unaudited

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment	9	**1,010,059**	986,868
Right-of-use assets	10	**79,670**	–
Lease prepayment		**–**	68,535
Intangible assets	11	**274,572**	270,690
Goodwill		**62,040**	62,040
Long-term receivables		**39,611**	32,254
Non-current prepayments		**127,343**	97,379
Derivative financial assets		**16,031**	22,191
Other non-current assets		**5,015**	4,594
Amounts due from related parties		**153,350**	165,824
Deferred tax assets		**35,147**	19,344
		1,802,838	1,729,719
Current assets			
Inventories	12	**343,294**	343,920
Trade and other receivables	13	**533,051**	717,745
Amounts due from related parties	13	**108,856**	182,929
Deposits with banks	14	**93,318**	63,845
Cash	15	**29,114**	73,128
		1,107,633	1,381,567
Current liabilities			
Trade and other payables	16	**813,664**	824,091
Amounts due to related parties		**4,232**	7,998
Contract liabilities		**27,497**	31,410
Interest-bearing borrowings	17	**864,642**	892,957
Lease liabilities	2(d)	**5,158**	–
Income tax payables		**20,092**	25,054
Provisions		**3,667**	4,036
		1,738,952	1,785,546
Net current liabilities		**(631,319)**	(403,979)
Total assets less current liabilities		**1,171,519**	1,325,740

The notes on pages 30 to 63 form part of this interim financial report.

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Non-current liabilities			
Deferred income		**27,435**	28,222
Interest-bearing borrowings	17	**117,329**	100,102
Deferred tax liabilities		**49,058**	48,554
Acquisition related consideration payables	18	**291,916**	346,939
Lease liabilities	2(d)	**5,495**	–
		491,233	523,817
NET ASSETS		**680,286**	801,923
CAPITAL AND RESERVES	19		
Share capital		**6,496**	6,496
Reserves		**651,426**	771,669
Total equity attributable to equity shareholders of the Company		**657,922**	778,165
Non-controlling interests		**22,364**	23,758
TOTAL EQUITY		**680,286**	801,923

Approved and authorised for issue by the Board of Directors on 30 August 2019.

Chen Cunyou
Director

Ge Hongbing
Director

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 30 to 63 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019 – unaudited

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018	6,496	65,298	55,977	291,546	17,919	6,024	348,912	792,172	29,935	822,107
Changes in equity for the six months ended 30 June 2018:										
Loss for the period	–	–	–	–	–	–	(26,511)	(26,511)	(497)	(27,008)
Other comprehensive income	–	–	–	–	–	(964)	–	(964)	–	(964)
Total comprehensive income	–	–	–	–	–	(964)	(26,511)	(27,475)	(497)	(27,972)
Balance at 30 June 2018 and 1 July 2018	6,496	65,298	55,977	291,546	17,919	5,060	322,401	764,697	29,438	794,135
Changes in equity for the six months ended 31 December 2018:										
Profit/(loss) for the period	–	–	–	–	–	–	17,283	17,283	(5,680)	11,603
Other comprehensive income	–	–	–	–	–	(3,815)	–	(3,815)	–	(3,815)
Total comprehensive income	–	–	–	–	–	(3,815)	17,283	13,468	(5,680)	7,788
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
Balance at 1 January 2019	6,496	65,298	58,009	291,546	17,919	1,245	337,652	778,165	23,758	801,923
Changes in equity for the six months ended 30 June 2019:										
Loss for the period	–	–	–	–	–	–	(119,005)	(119,005)	(1,394)	(120,399)
Other comprehensive income	–	–	–	–	–	(1,238)	–	(1,238)	–	(1,238)
Total comprehensive income	–	–	–	–	–	(1,238)	(119,005)	(120,243)	(1,394)	(121,637)
Balance at 30 June 2019	6,496	65,298	58,009	291,546	17,919	7	218,647	657,922	22,364	680,286

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 30 to 63 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Operating activities			
Cash generated from operations		72,927	108,469
Income tax paid		(17,274)	(1,414)
Net cash generated from operating activities		55,653	107,055
Investing activities			
Payment for the purchase of property, plant and equipment and intangible assets		(98,992)	(145,915)
Proceeds from disposal of property, plant and equipment		1,781	—
Interest received		5,023	200
Repayment of advance to related parties		94,550	—
Settlement of consideration payables		(102,167)	—
Net cash used in investing activities		(99,805)	(145,715)
Financing activities			
Proceeds from new bank loans and other borrowings		574,745	210,843
Repayment of bank loans and other borrowings		(565,417)	(176,475)
Advance from related parties		71,560	—
Repayment of advance from related parties		(71,160)	—
Payment of guarantee deposit		(5,150)	—
Capital element of lease rentals paid		(3,162)	—
Interest element of lease rentals paid		(370)	—
Net cash generated from financing activities		1,046	34,368
Net decrease in cash		(43,106)	(4,292)
Cash at 1 January	15	73,128	20,887
Effect of foreign exchange rate changes		(908)	1,924
Cash at 30 June	15	29,114	18,519

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 30 to 63 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on 30 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

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

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

The Group incurred a net loss of RMB120 million for the six months ended 30 June 2019. Furthermore, as at 30 June 2019, the Group had net current liabilities of RMB631 million, total borrowings of RMB982 million and acquisition related consideration payables of RMB292 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 RMB56 million during the six months period ended 30 June 2019 and expects to continue to improve its working capital management and generate positive operating cash flows for the next twelve months;

(2) at 30 June 2019, the Group had available unutilised bank facilities of RMB103 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 twelve-month period ending 30 June 2020; and

1. Basis of preparation (continued)

(5) the largest shareholder, an executive director of the Group and a related party of the Group, Jiangsu Xiezhong Automobile (Group) Company Limited ("**Xiezhong Automobile**") confirm 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 interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on pages 23.

2. Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases, and the related interpretations*, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases — incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

2. Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 10.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2. Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

(a) Changes in the accounting policies (continued)

(ii) Lessee accounting (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

— right-of-use assets that meet the definition of investment property are carried at fair value;

— right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and

— right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favorable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

2. Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

(c) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 7.8% for Automotive heat, ventilation and cooling (HVAC) reporting segment and 5.34% for 4S reporting segment.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment.

The following table reconciles the operating lease commitments as disclosed in note 21(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
	RMB'000
Operating lease commitments at 31 December 2018	12,717
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(24)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	138
	12,831
Less: total future interest expenses	(883)
Total lease liabilities recognised at 1 January 2019	11,948

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

2. Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

(c) Transitional impact (continued)

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Right-of-use assets	—	80,732	80,732
Lease prepayment	68,535	(68,535)	—
Total non-current assets	1,729,719	12,197	1,741,916
Trade and other receivables	717,745	(249)	717,496
Current assets	1,381,567	(249)	1,381,318
Lease liabilities (current)	—	5,711	5,711
Current liabilities	1,785,546	5,711	1,791,257
Net current liabilities	(403,979)	(5,960)	(409,939)
Total assets less current liabilities	1,325,740	6,237	1,331,977
Lease liabilities (non-current)	—	6,237	6,237
Total non-current liabilities	523,817	6,237	530,054
Net assets	801,923	—	801,923

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019 RMB'000	At 1 January 2019 RMB'000
Right-of-use assets	**79,670**	80,732

2. Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	5,158	5,292	5,711	5,867
After 1 year but within 2 years	2,990	3,252	2,885	3,122
After 2 year but within 5 years	2,505	2,898	3,249	3,722
After 5 years	—	—	103	120
	10,653	11,442	11,948	12,831
	10,653		11,948	
Less: total future interest expenses		(789)		(883)
Present value of lease liabilities		10,653		11,948

(e) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported loss from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

2. Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

(e) Impact on the financial result and cash flows of the Group (continued)

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating lease as if under IAS 17 (note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB'000	Compared to amounts reported under IAS 17 RMB'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:					
Loss from operations	(40,953)	3,652	(3,765)	(41,066)	(12,917)
Finance costs	(30,163)	370	–	(29,793)	(16,668)
Loss before taxation	(123,386)	4,022	(3,765)	(123,129)	(29,585)
Loss for the year	(120,399)	4,022	(3,765)	(120,142)	(27,008)
Reportable segment (loss)/ profit for the six months ended 30 June 2019 (note 3(a)) impacted by the adoption of IFRS 16:					
– HVAC business	(20,724)	–	(2,251)	(22,975)	(27,008)
– 4S business	57,096	–	(625)	56,471	–
Total	36,372	–	(2,876)	33,496	(27,008)

2. Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

(e) Impact on the financial result and cash flows of the Group (continued)

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported under IAS 17 RMB'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	72,927	(3,532)	69,395	108,469
Net cash generated from operating activities	55,653	(3,532)	52,121	107,055
Capital element of lease rentals paid	(3,162)	3,162	–	–
Interest element of lease rentals paid	(370)	370	–	–
Net cash generated from financing activities	1,046	3,532	4,578	34,368

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

3. 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 two reportable segments (2018: two).

— Automotive heat, ventilation and cooling (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) Information about profit or loss, assets and liabilities

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as 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 period is set out below.

As 4S dealership business was acquired on 28 December 2018, no segment (loss)/profit information for the six months ended 30 June 2018 is presented.

	Six months ended 30 June 2019		
	HVAC business RMB'000	**4S dealership business RMB'000**	**Total RMB'000**
Reportable segment revenue	**393,343**	**508,846**	**902,189**
Reportable segment (loss)/profit	**(20,724)**	**57,096**	**36,372**

	At 30 June 2019		
	HVAC business RMB'000	**4S dealership business RMB'000**	**Total RMB'000**
Reportable segment assets	**2,208,109**	**690,082**	**2,898,191**
Reportable segment liabilities	**1,582,143**	**286,459**	**1,868,602**

	At 31 December 2018		
	HVAC business RMB'000	4S dealership business RMB'000	Total RMB'000
Reportable segment assets	2,300,580	706,812	3,007,392
Reportable segment liabilities	1,553,686	331,766	1,885,452

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

3. Segment reporting (continued)

(a) Information about profit or loss, assets and liabilities (continued)

The measure used for reporting segment profit is "reportable segment (loss)/profit" which exclude impairment loss of property, plant and equipment and intangible assets, depreciation and amortization, finance costs, loss on fair value changes of financial instruments measured at FVTPL and other head office or corporate administration costs.

(b) Reconciliation of reportable segment profit or loss

	Six months ended 30 June 2019 RMB'000
Reportable segment profit	36,372
Impairment loss of property, plant and equipment and intangible assets	(27,095)
Depreciation and amortisation	(48,226)
Finance costs	(30,163)
Loss on fair value changes of financial instruments measured at FVTPL	(52,270)
Unallocated head office and corporate expenses	(2,004)
Consolidated loss before taxation	(123,386)

(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, right-of-use assets, 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, right-of-use assets, 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 Six months ended 30 June		Specified non-current assets	
			At 30 June	At 31 December
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Mainland China	863,124	420,977	1,324,406	1,268,471
The Kingdom of Morocco ("Morocco")	–	–	229,278	217,041
France	37,989	11,958	–	–
The Kingdom of Spain	1,076	836	–	–
	902,189	433,771	1,553,684	1,485,512

4. 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.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
HVAC business		
Sales of HVAC systems and HVAC components	**389,602**	431,821
Revenue from the rendering of services	**3,741**	1,950
	393,343	433,771
4S dealership business		
Sales of passengers vehicles	**455,472**	—
After-sales services	**53,374**	—
	508,846	—
	902,189	433,771

5. Other net income

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Government grants	**5,031**	4,525
Net foreign exchange gain	**174**	490
Service income	**24,939**	—
Interest income on financial assets measured at amortised cost	**7,104**	—
Impairment loss of		
— property, plant and equipment (note 9)	**(16,530)**	—
— intangible assets (note 11)	**(10,565)**	—
Others	**2,107**	1,218
	12,260	6,233

6. Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Interest on bank loans and other borrowings	22,292	13,828
Interest on lease liabilities	370	–
Less: interest expense capitalised into properties under development	2,984	1,394
	19,678	12,434
Interest on discounted bills	4,850	4,234
Other finance costs	5,635	–
Total interest expense on financial liabilities not at fair value through profit or loss	30,163	16,668

(b) Staff costs

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Salaries, wages and other benefits	69,751	48,820
Contributions to defined contribution retirement plan	3,975	3,451
	73,726	52,271

(c) Loss on fair value change on financial instruments measured at FVTPL

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Financial assets at FVTPL – net change in fair value		
– Mandatorily measured at FVTPL – other	5,764	–
Financial liabilities at FVTPL – net change in fair value		
– Designated at initial recognition	23,643	–
– Mandatorily measured at FVTPL – other	22,863	–
	52,270	–

6. Loss before taxation (continued)

(d) Other items

	Note	Six months ended 30 June 2019 RMB'000	2018 RMB'000 (Note)
Amortisation			
— lease prepayments		–	743
— Intangible assets		8,710	5,716
Depreciation charge			
— owned property, plant and equipment		35,864	37,854
— right-of-use assets		3,652	—
Impairment losses on trade and other receivables		65,931	15,139
Research and development ("**R&D**") costs (other than depreciation and amortisation)		5,207	6,268
Increase in provision for product warranties		664	2,626
Cost of inventories	12(b), (i)	790,938	358,140

Notes:

(i) Cost of inventories includes RMB58,889,000 (six months ended 30 June 2018: RMB54,528,000) relating to staff costs, depreciation and amortisation for the six months ended 30 June 2019, which amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

(ii) The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

7. Income tax

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Current tax		
Provision for current period	12,059	2,181
Under provision in respect of prior year	252	502
	12,311	2,683
Deferred tax		
Origination and reversal of temporary differences	(15,298)	(5,260)
	(2,987)	(2,577)

7. Income tax (continued)

(i) Under the Corporate Income Tax Law of the PRC (the "**CIT Law**"), the PRC's statutory income tax rate is 25%. The Group's PRC subsidiaries are subject to income tax at the statutory tax rate unless otherwise specified.

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

No provision for Hong Kong profits tax was made for the subsidiary located in Hong Kong as the subsidiary did not derive any income which was subject to Hong Kong profits tax during the six months ended 30 June 2019 (six months ended 30 June 2018: 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 the fourth quarter of 2019 (2018: 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, 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 RMB20,020,155 (30 June 2018: RMB24,747,404) were not recognised in respect of the 10% PRC dividend withholding tax that would be payable on the distribution of retained profits of RMB200,201,547 as at 30 June 2019 (30 June 2018: RMB247,474,047) in respect of the Group's subsidiaries in the PRC as the Company controls the dividend policy of these subsidiaries and it was determined that it was probable that these profits would not be distributed in the foreseeable future.

8. Loss per share

(a) Basic loss per share

The calculation of basic loss per share for the six months ended 30 June 2019 is based on the loss attributable to equity shareholders of the Company of RMB119,005,000 (six months ended 30 June 2018: loss of RMB26,511,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2018: 800,000,000 shares) in issue during the six months ended 30 June 2019.

(b) Diluted loss per share

Diluted loss per share was the same as basic loss per share for the six months ended 30 June 2019 as the potential ordinary shares under the conversion of convertible bonds have anti-dilutive effects on the basic loss per share.

9. Property, plant and equipment

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Net book value, at 1 January	986,868	705,314
Additions	77,019	355,607
Disposals	(1,434)	—
Depreciation charge for the period/year	(35,864)	(74,053)
Impairment losses (note (a))	(16,530)	—
At 30 June/31 December	1,010,059	986,868

(a) Impairment losses

During the six months ended 30 June 2019, the Group assessed that the carrying amounts of certain idle equipment may not be recoverable. The Group assessed the recoverable amounts of those equipment and as a result the carrying amount of the equipment was written down to their recoverable amount of RMB zero. An impairment loss of RMB16,530,000 was recognised in "other net income" based on management estimates of recoverable amounts.

10. Right-of-use assets

As discussed in note 2, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 2.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of warehouses and therefore recognised the additions to right-of-use assets of RMB2,485,233.

11. Intangible assets

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Net book value, at 1 January	**270,690**	81,118
Additions (notes (a))	**23,157**	199,081
Amortization charge for the period/year	**(8,710)**	(9,509)
Impairment losses (note (b))	**(10,565)**	—
At 30 June/31 December	**274,572**	270,690

(a) Additions

During the six months ended 30 June 2019, additions to intangible assets by capitalisation in respect of development costs amounted to approximately RMB22,760,000 (six months ended 30 June 2018: RMB16,677,000).

(b) Impairment losses

During the six months ended 30 June 2019, the Group assessed that the carrying amounts of certain capitalisation projects of development costs may not be recoverable. The Group assessed the recoverable amounts of those capitalisation projects of development costs and as a result the carrying amounts were written down to their recoverable amount of RMB804,000. An impairment loss of RMB10,565,000 was recognised in "other net income" based on management assessment of value in use model.

12. Inventories

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
HVAC business		
— Raw materials	55,987	46,653
— Work in progress	9,928	12,850
— Finished goods	218,091	224,390
	284,006	283,893
4S dealership business		
— Motor vehicles	55,043	54,973
— Automobile spare parts	4,245	5,054
	59,288	60,027
	343,294	343,920

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

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	772,065	354,264
Write down of inventories, net of reversals	18,873	3,876
	790,938	358,140

13. Trade and other receivables/Amounts due from related parties

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 3 months	323,297	527,512
3 to 6 months	133,224	76,487
6 to 12 months	48,462	50,387
Over 12 months	2,885	15,157
Trade receivables due from third parties and related parties and bills receivable, net of loss allowance	507,868	669,543
Other receivables, deposits and prepayments, net of loss allowance	117,923	136,149
Advances to related parties	16,116	94,982
Total	641,907	900,674
Amounts due from third parties	533,051	717,745
Amounts due from related parties	108,856	182,929
Total	641,907	900,674

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

Transfers of financial assets

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

As at 30 June 2019, the Group discounted certain bank acceptance bills with a carrying amount of RMB98,100,000 (31 December 2018: RMB118,517,000) to banks for cash proceeds and endorsed certain bank acceptance bills and commercial bills with a carrying amount of RMB32,484,000 (31 December 2018: RMB99,251,000) and RMB9,905,000 (31 December 2018: RMB10,938,000), respectively 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 commercial 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.

13. Trade and other receivables/Amounts due from related parties (continued)

Transfers of financial assets (continued)

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

As at 30 June 2019, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills and commercial bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period, and these derecognised commercial bills had already matured at the end of 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 bank acceptance bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable. The Group also considered issuers of the commercial bills are of good credit quality and the demand payment of these matured bills is not probable.

As at 30 June 2019, 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 or issuers fail to settle the bills on maturity date, amounted to RMB147,350,000 and RMB58,445,000 (31 December 2018: RMB214,591,000 and RMB114,983,000) respectively.

14. Deposits with banks

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Pledged deposits	**93,318**	63,845

15. Cash

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Cash on hand	**1,594**	450
Cash at bank	**27,520**	72,678
	29,114	73,128

16. Trade and other payables

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 3 months	**511,115**	565,109
Over 3 months but less than 6 months	**62,982**	33,415
Over 6 months but less than 12 months	**23,680**	36,720
Over 12 months	**8,231**	7,711
Total trade creditors and bills payable	**606,008**	642,955
Other payables	**198,493**	168,579
Other tax payables	**9,163**	12,557
	813,664	824,091

17. Interest-bearing borrowings

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

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Current portion:			
— Bank loans	(a)	**567,474**	609,502
— Bank advances under discounted bills		**98,100**	118,517
— Loans from leasing companies	(b)	**105,132**	90,547
— Loan from financing companies	(c)	**71,636**	66,291
— Loan from related parties	22(b)	**18,900**	—
— Loan from a director	22(b)	**—**	8,100
— Loan from third parties		**3,400**	—
		864,642	892,957
Non-current portion:			
— Bank loans		**41,811**	46,936
— Loans from leasing companies	(b)	**75,518**	53,166
		117,329	100,102
		981,971	993,059

17. Interest-bearing borrowings (continued)

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

(a) A bank loan amounting to EUR11,200,000 (RMB equivalent: 87,550,400) as at 30 June 2019 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 EUR11,200,000 became payable on demand and was classified as current liabilities.

(b) As at 30 June 2019, Xiezhong Nanjing, a subsidiary of the Company, has four sales and leaseback agreements with four leasing companies for certain machinery and equipment ("**Secured Assets**") and the leasing period is 3 years. Upon maturity, Xiezhong Nanjing will be entitled to purchase the Secured Assets at a nominal value of RMB100, RMB100, RMB100 and RMB10,000 respectively. The Group considered that it was almost certain that Xiezhong Nanjing would exercise this repurchase option. As the substantial risk and rewards of the Secured Assets were retained by Xiezhong Nanjing before and after these arrangements, the Group recorded such transaction as secured borrowings.

As at 30 June 2019, the above loans from leasing companies amounting to RMB180,650,000 were secured by certain machinery and equipment with the carrying amount of RMB218,976,000 (31 December 2018: RMB143,713,000 was secured by certain machinery and equipment with the carrying amount of RMB213,258,000).

(c) As at 30 June 2019, 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 a third-party customer. and repayable on 11 November 2019.

A loan of RMB21,636,060 was borrowed by Nanjing Xiezhong Lexus Automobile Sales Service Co., Ltd. ("**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 long-term receivables amounting to RMB10,000,000 and inventories amounting to RMB19,112,000.

As at 30 June 2019, the interest-bearing borrowings were repayable as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within one year or on demand	**864,642**	892,957
Over one year but within two years	**67,922**	63,401
Over two years but within five years	**49,407**	36,701
	117,329	100,102
	981,971	993,059

17. Interest-bearing borrowings (continued)

As at 30 June 2019, the interest-bearing borrowings were secured as follows:

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Bank loans and other borrowings			
— Secured	(i)	**459,285**	499,438
— Unsecured		**150,000**	157,000
Bank advances under discounted bills		**98,100**	118,517
Secured loans from leasing companies	(i)	**180,650**	143,713
Secured loans from financing companies	(i)	**71,636**	66,291
Unsecured loans from related parties		**18,900**	8,100
Unsecured loans from third parties		**3,400**	—
		981,971	993,059

(i) As at 30 June 2019, the carrying amounts of the assets of the Group secured against bank loans and other borrowings were analysed as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Property, plant and equipment	**478,412**	475,255
Lease prepayments	**—**	35,195
Right-of-use assets	**34,739**	—
Non-current prepayment	**5,859**	5,859
Inventory	**47,119**	52,544
Long term receivables	**10,000**	—
Other receivables	**14,696**	17,046
Pledged deposits	**45,482**	51,029
	636,307	636,928

In addition, the Group's bank loans and other borrowings amounting to RMB272,636,000 were guaranteed by related parties as at 30 June 2019 (31 December 2018: RMB144,450,000). Please see note 22(d) for detail.

18. Acquisition Related Consideration Payable

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Acquisition of subsidiaries			
— Promissory notes	(a)	**80,481**	—
— Commitment to issue promissory notes	(a)	**—**	163,508
— Convertible bonds	(b)	**95,624**	—
— Commitment to issue convertible bonds	(c)	**115,811**	183,431
		291,916	346,939

(a) Promissory notes and commitment to issue promissory notes

As at 31 December 2018, the commitment to issue promissory notes represented an aggregate amount of HKD218,684,000 to be issued as part of the consideration for the acquisition of Sino Evergreen Group and Jin Cheng HK.

On 23 January 2019, the Company fully issued two unsecured promissory notes with an aggregate amount of HKD218,684,000. The promissory notes bear interest at 4% per annum and are repayable in three years from the date of issue.

The Company may redeem (in full or in part) the promissory notes at any time after the date of issue of the promissory notes and before the maturity date by serving prior notice to the promissory notes holder.

On 30 June 2019, the Company early redeemed part of the promissory notes with principal amount of RMB100,417,000 and accumulated interest expenses of approximately RMB1,750,000.

The entire promissory notes are designated as financial liabilities at FVTPL as at 30 June 2019. As at 30 June 2019, the fair value of the promissory notes of RMB80,481,000 is determined by discounting the cash flow amounts of the principal and interest of the promissory notes with market interest rate based on the bond yield of comparable bonds in the market.

(b) Convertible bonds

On 1 June 2019, the Company issued convertible bonds (the "**2019 Convertible Bonds**") with aggregate principal amount of HKD83,288,000 as part of the consideration for the acquisition of Sino Evergreen Group and Jin Cheng HK. The convertible bonds bear interest at a coupon rate of 8% per annum and maturity on 1 June 2022. Pursuant to the terms of the 2019 Convertible Bonds, the bond holders could convert part of or the entire outstanding bond balances at the holder's option into fully paid ordinary shares of the Company at an initial conversion price of HKD1.77 per share, subject to adjustments under certain terms and conditions of the 2019 Convertible Bonds.

The entire convertible bonds are designated as financial liabilities at FVTPL as at 30 June 2019.

As at 30 June 2019, the fair value of the 2019 Convertible Bonds of RMB95,624,000 is measured based on binomial model.

18. Acquisition Related Consideration Payable (continued)

(c) Commitment to issue Convertible bonds ("CB")

As at 31 December 2018, the commitment to issue CB represented a maximum aggregate principle amount of HKD218,685,000 to be issued for the acquisition of Sino Evergreen Group and Jin Cheng HK, in different tranches based on certain terms as set out in the circular issued by the Group on 22 December 2018.

On 1 June 2019, the Company issued convertible bonds with aggregate principal amount of HKD83,288,000 as 2019 Convertible Bonds (see note 18(b)) and the remaining commitment to issue CB as at 30 June 2019 represented a maximum aggregate principle amount of HKD135,397,000.

As at 30 June 2019, the fair value of the commitment to issue Convertible bonds of RMB115,811,000 is measured based on binomial model.

19. Capital, reserves and dividends

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

The directors of the Company do not propose the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: HKD nil).

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

The dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period is HKD nil per ordinary share (six month period ended 30 June 2018: HKD nil).

20. Fair value measurement

(a) 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:

(i) 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.

(ii) 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.

(iii) 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, convertible bonds 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 30 June 2019, and is reviewed and approved by the Group's management.

20. Fair value measurement (continued)

(a) Financial assets and liabilities measured at fair value (continued)

(i) Fair value hierarchy (continued)

Recurring fair value measurements	Note	**Fair value at 30 June 2019**	**Fair value measurements as at 30 June 2019 categorised into**		
			Level 1	**Level 2**	**Level 3**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets:					
Other non-current assets		**5,015**	**–**	**–**	**5,015**
Derivative financial assets					
– Put option held by the Company		**16,031**	**–**	**–**	**16,031**
		21,046	**–**	**–**	**21,046**
Liabilities:					
Acquisition related consideration payable					
– Promissory notes	18(a)	**80,481**	**–**	**80,481**	**–**
– Convertible bonds	18(b)	**95,624**	**–**	**–**	**95,624**
– Commitment to issue convertible bonds	18(c)	**115,811**	**–**	**–**	**115,811**
		291,916	**–**	**80,481**	**211,435**

Recurring fair value measurements	Note	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
			Level 1	Level 2	Level 3
		RMB'000	RMB'000	RMB'000	RMB'000
Assets:					
Other non-current assets		4,594	–	–	4,594
Derivative financial assets					
– Put option held by the Company		22,191	–	–	22,191
		26,785	–	–	26,785
Liabilities:					
Acquisition related consideration payable					
– Commitment to issue promissory notes	18(a)	163,508	–	163,508	–
– Commitment to issue convertible bonds	18(c)	183,431	–	–	183,431
		346,939	–	163,508	183,431

20. Fair value measurement (continued)

(a) Financial assets and liabilities measured at fair value (continued)

(i) Fair value hierarchy (continued)

During the six months ended 30 June 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: nil). 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 rate based on the bond yield of comparable bonds in the market.

(iii) Information about Level 3 fair value measurements

Description	Fair value RMB'000	Valuation techniques	Significant unobservable inputs	Range of unobservable inputs
Convertible bonds and commitment to issue convertible bonds	211,435	Binomial model	Convertible bond life	From 1 June 2019 to 31 December 2021
			Risk free interest rate	1.25%~1.65%
			Expected dividend	Nil
			Expected volatility (note a)	44.0%~44.6%
			Bond discount rate	9.7%~10.3%
Other non-current assets	5,015	Binomial model	Convertible bond life	From 1 June 2019 to 31 December 2021
			Risk free interest rate	1.25%~1.65%
			Expected dividend	Nil
			Expected volatility (note a)	44.0%~44.6%
			Bond discount rate	9.7%~10.3%
Put option held by the Company	16,031	Discounted Cash flow model	Convertible bond life	From 1 June 2019 to 31 December 2021
			Risk free interest rate	1.25%~1.65%
			Expected dividend	Nil
			Expected volatility (note a)	44.0%~44.6%
			Bond discount rate	9.7%~10.3%
			The probability of failure to meet performance guarantee (note b)	3%~5%

(a) As at 30 June 2019, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have increased/decreased the Group's loss by RMB1,808,000/RMB6,157,000.

(b) As at 30 June 2019, it is estimated that with all other variables held constant, an increase/decrease in the probability of failure to meet performance guarantee by 5% would have decreased/increased the Group's loss by RMB800,000.

20. Fair value measurement (continued)

(a) Financial assets and liabilities measured at fair value (continued)

(iv) The movement during the period in the balance of level 3 fair value measurements is as follows:

Financial assets at FVTPL — net change in fair value	RMB'000
At 1 January 2019	26,785
Changes in fair value recognised in profit or loss during the period	(5,764)
Exchange difference	25
At 30 June 2019	21,046

Financial liabilities at FVTPL — net change in fair value	RMB'000
At 1 January 2019	(183,431)
Changes in fair value recognised in profit or loss during the period	(27,644)
Exchange difference	(360)
At 30 June 2019	(211,435)

21. Commitments

(a) Capital commitments

Capital commitments outstanding at 30 June 2019 not provided for in the interim financial report are as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Contracted for	**104,142**	74,577
Authorised but not contracted for	**162,744**	208,355
	266,886	282,932

(b) Lease commitments

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

	Warehouses RMB'000	**Others** RMB'000
Within 1 year	4,703	1,221
After 1 year but within 5 years	5,581	1,212
	10,284	2,433

21. Commitments (continued)

(b) Lease commitments (continued)

The Group is the lessee in respect of a number of warehouses held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

22. Material related party transactions

(a) Transactions with related parties

Transactions with related parties during the six months ended 30 June 2019 are as follows:

	Note	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Sales of goods			
— Beijing Automotive Group Co., Ltd. and its subsidiaries ("**Beijing Automotive Group**")		**106,978**	105,860
— Jiangsu Xiezhong Automobile (Group) Company Limited and its subsidiaries ("**Xiezhong Automobile Group**")		**1,216**	—
— Nanjing Tangshan Xiezhong Lexus Automobile Sales Co., Ltd. ("**Xiezhong Tangshan**")		**1,915**	—
		110,109	105,860
Purchase of goods			
— Sanhua Holding Group Co., Ltd ("**Sanhua Group**")	(i)	**—**	1,982
— Nanjing Xiezhong Guanghua Automobile Company Limited ("**Xiezhong Guanghua**")		**5,309**	—
— Xiezhong Automobile Group		**980**	—
		6,289	1,982

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Repayment of advance to related parties		
— Xiezhong Guanghua	**74,550**	—
— Xiezhong Automobile Group	**18,000**	—
— Xiezhong Haosheng	**2,000**	—
	94,550	—

22. Material related party transactions (continued)

(a) Transactions with related parties (continued)

	Note	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Advance from related parties	(ii)		
— Xiezhong Guanghua		47,000	—
— Xiezhong Automobile Group		11,460	—
— Nanjing Xiezhong Group Real Estate Development Co., Ltd. ("**Xiezhong Real Estate**")		2,300	—
— Nanjing Zheshang Venture Capital Management Co., Ltd. ("**Nanjing Zheshang**")		3,000	—
— Mr. Chen Cunyou		1,300	—
— Ms. Ni Xianglian		6,100	—
— Ms. Bao Chenmeng		400	—
		71,560	—
Repayment of advance from related parties			
— Xiezhong Guanghua		47,000	—
— Xiezhong Automobile Group		11,460	—
— Xiezhong Real Estate		2,300	—
— Nanjing Zheshang Venture Capital Management Co., Ltd. ("**Nanjing Zheshang**")		3,000	—
— Mr. Chen Cunyou		1,300	—
— Ms. Ni Xianglian		6,100	—
		71,160	—
Loan from a director			
— Mr. Chen Cunyou		—	29,100
Repayment of the loan from a director			
— Mr. Chen Cunyou		8,100	5,000
Loans from related parties			
— Ms. Bao Chenmeng		4,500	—
— Xiezhong Automobile Group		59,900	—
		64,400	—

22. Material related party transactions (continued)

(a) Transactions with related parties (continued)

	Note	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Repayment of loans from related parties			
— Xiezhong Automobile Group		45,500	–
Agency income from pre-owned vehicle			
— Xiezhong Haosheng		2,136	–
Insurance agency income received through			
— Xiezhong Automobile Group		5,156	–
Settlement of promissory notes			
— Sunrise International Investment Management Inc. ("**Sunrise International**")	18(a)	102,167	–
Interest income			
— Xiezhong Guanghua		4,083	–
— Xiezhong Automobile Group		2,271	–
— Xiezhong Haosheng		636	–
		6,990	–
Interest expense			
— Xiezhong Automobile Group		40	–
— Xiezhong Real Estate		2	–
— Mr. Chen Cunyou		44	–
— Ms. Ni Xianglian		53	–
		139	–

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

(ii) These advances to/from related parties are unsecured with interest rates ranged from 5.56% ~ 6.5% per annum.

(iii) Loan from a director bears interest at 5.56% per annum, is unsecured and repayable within one year.

The directors consider that the above related party transactions during the six months period ended 30 June 2019 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

22. Material related party transactions (continued)

(b) Amounts due from/to related parties

As at 30 June 2019, the Group had the following balances with related parties:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Trade debtors		
— Beijing Automotive Group	88,846	82,929
— Nanjing Xiezhong Automotive New Energy Technology Development Co., Ltd.	10	—
— Xiezhong Haosheng	487	3,419
— Xiezhong Automobile Group	3,397	1,599
	92,740	87,947
Loan due to a director		
— Mr. Chen Cunyou	—	8,100
Loans due to related parties		
— Ms. Bao Chenmeng	4,500	—
— Xiezhong Automobile Group	14,400	—
	18,900	—
Interest payable to a director		
— Mr. Chen Cunyou	—	562
Acquisition related consideration payables		
— Sunrise International	196,945	260,204
Amount due from related parties		
— Xiezhong Guanghua	87,150	161,349
— Xiezhong Automobile Group	63,780	79,265
— Xiezhong Haosheng	18,536	20,170
— Xiezhong Real Estate	—	22
	169,466	260,806

22. Material related party transactions (continued)

(b) Amounts due from/to related parties

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Trade creditors to related parties		
— Xiezhong Guanghua	3,487	5,988
— Xiezhong Haosheng	274	—
— Xiezhong Automobile Group	65	750
	3,826	6,738
Amount due to related parties		
— Ms. Bao Chenmeng	400	—
— Mr. Bao Jianguang	—	2
— Ms. Ni Xianglian	—	78
— Xiezhong Automobile Group	—	618
— Mr. Chen Cunyou	4	—
— Xiezhong Real Estate	2	—
	406	698

(c) Key management personnel remuneration

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

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Short-term employee benefits	2,228	1,414

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

22. Material related party transactions (continued)

(d) Other transactions with related parties

At 30 June 2019, the Group's following bank loans and other borrowings were guaranteed by the related parties:

(1) A bank loan of RMB60,000,000 was guaranteed by Chen Cunyou and Ni Xianglian and secured by 70% equity share of Nanjing Zheshang and by land use right owned by Nanjing Zheshang;

(2) A bank loan of RMB30,000,000 was guaranteed by Xiezhong Automobile, Chen Cunyou, Ni Xianglian, Chen Hao and Bao Chenmeng;

(3) Bank loans and other borrowings of RMB60,500,000 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.

(4) Bank loans and other borrowings of RMB122,136,000 were guaranteed by Chen Cunyou, Chen Hao, Ni Xianglian, Bao Jiangguang, Xiezhong Real Estate, Xiezhong Automobile, Xiezhong Youxu and Xiezhong Qibao.

23. Non-adjusting events after the reporting period

Pursuant to the board of directors' resolution of the Company passed on 30 August 2019, the board of directors of the Company cancelled a total investment amounting to RMB160 million in its subsidiary, Chongqing Xiezhong Auto-Air conditioning Co., Ltd., which covers land acquisition, construction of plant and purchase of equipment. As a result, the authorised but not contracted for capital commitment as of 30 June 2019 will be decreased by RMB160 million.

24. Comparative Figures

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

Corporate Governance and Other Information

Corporate governance

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

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

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

Share option scheme

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

During the Period, no share options were granted, exercised, lapsed or cancelled in accordance with the terms of the share option scheme.

Directors' and chief executives' interest in securities

As at 30 June 2019, save as disclosed below, none of the Directors or chief executive of our Company who held office had any interests or short positions in the shares of the Company (the "**Shares**"), underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions) which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("**Model Code**"):

Long Position (L) in Shares

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

Substantial shareholders' interests in securities

So far as is known to the Directors, save as disclosed below, our Directors are not aware of any persons (other than Directors and chief executive of the Company) who, as at 30 June 2019, had interests or short positions in any Shares or underlying Shares which are required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register acquired to be kept under section 336 of the SFO:

Long Position (L) in Shares

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Sunrise International Investment Management Inc. (note 1)	Beneficial owner	347,602,500 (L)	43.45%
Mr. Chen Hao (note 1)	Beneficial owner	8,208,000 (L)	1.03%
	Interest of controlled corporation	347,602,500 (L)	43.45%
Brilliance International Holding Ltd. (note 2)	Beneficial owner	40,763,400 (L)	5.09%
Ms. Chen Jiao (note 2)	Beneficial owner	12,000,000 (L)	1.50%
	Interest of controlled corporation	40,763,400 (L)	5.09%
China Fund Limited (note 3)	Investment manager	114,575,000 (L)	14.32%
Luckever Holdings Limited (note 3)	Interest of controlled corporation	115,575,000 (L)	14.45%
Mr. Liu Xuezhong (note 3)	Interest of controlled corporation	115,575,000 (L)	14.45%
Ms. Li Yuelan (note 3)	Interest of controlled corporation	115,575,000 (L)	14.45%
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 Investment Management Inc. is 100% owned by Mr. Chen Hao, therefore, Mr. Chen Hao is deemed to be interested in all the Shares held by Sunrise International Investment Management Inc. by virtue of the SFO.

2. Brilliance International Holding Ltd. is 100% owned by Ms. Chen Jiao. Therefore, Ms. Chen Jiao is deemed to be interested in all the Shares held by Brilliance International Holding Ltd. by virtue of the SFO.

3. China Fund Limited is wholly owned by Luckever Holding Limited, which is owned as to 60.87% by Mr. Liu Xuezhong and 39.13% by Ms. Li Yuelan (spouse of Mr. Liu Xuezhong), therefore, each of Luckever Holding Limited, Mr. Liu Xuezhong and Ms. Li Yuelan is deemed to be interested in all the Shares held by China Fund Limited by virtue of the SFO.

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

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the Model Code as its own code of conduct for securities transactions. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings as set out in the Model Code during the Period.

Remuneration committee

Our Company established a remuneration committee on 21 May 2012 with its written terms of reference in compliance with the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to evaluate the performance and make recommendations on the remuneration of our senior management and members of the Board.

As at the date of this report, the remuneration committee of the Company comprises four members, being Mr. Lau Ying Kit, Mr. Cheung Man Sang, Mr. Zhang Shulin and Mr. Lin Lei. Mr. Cheung Man Sang currently serves as the chairman of our remuneration committee.

Nomination committee

Our Company established a nomination committee on 21 May 2012 with its written terms of reference in compliance with the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

As at the date of this report, the nomination committee of the Company comprises four members, being Mr. Lau Ying Kit, Mr. Cheung Man Sang, Mr. Zhang Shulin and Mr. Lin Lei. Mr. Zhang Shulin currently serves as the chairman of our nomination committee.

Audit committee

Our Company established an audit committee on 21 May 2012 with its written terms of reference in compliance with the CG Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board.

As at the date of this report, the audit committee of the Company comprises four independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Cheung Man Sang, Mr. Zhang Shulin and Mr. Lin Lei. Mr. Lau Ying Kit currently serves as the chairman of our audit committee. The audit committee discussed with the management over internal control and financial reporting matters related to the preparation of the interim financial result for the Period. The audit committee also reviewed the interim financial result.

Publication of the interim results and interim report

The interim results announcement and this interim report are published on the websites of the Company at www.xiezhonginternational.hk and the Stock Exchange at www.hkex.com.hk.

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

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

Hong Kong, 30 August 2019

* For identification purposes only