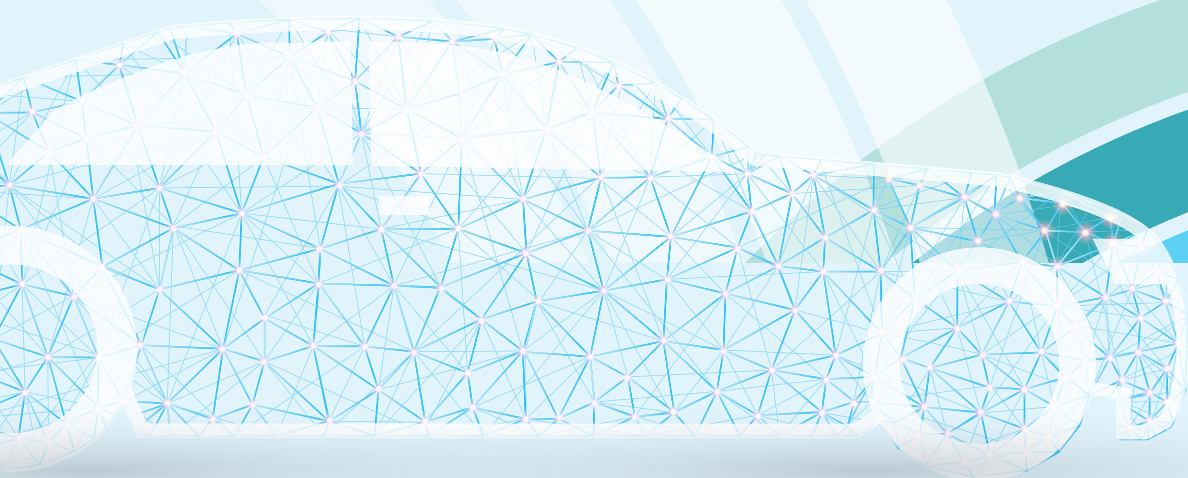
協眾國際控股有限公司

Xiezhong International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3663

Annual Report 2019



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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 Directors
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*

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

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

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

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

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

Hong Kong Share Register
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Hong Kong Legal Advisor

Chungs Lawyers
(in association with DeHeng Law Offices)
28/F, Henley Building
5 Queen's Road Central
Central
Hong Kong

Auditors

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

Company's Website

www.xiezhonginternational.hk

PRC Legal Advisor

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

Principal Bankers

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

Stock Code

3663

Chairman’s Statement

Dear shareholders,

On behalf of the board (the “Board”) of directors (the “Directors”) of Xiezhong International Holdings Limited (“Xiezhong International” or the “Company”, together with its subsidiaries, the “Group”), I am pleased to present to the shareholders of the Company the annual report of the Group for the year ended 31 December 2019 (the “Year”).

As one of the main suppliers of HVAC systems for domestic vehicles in the PRC, the sales of our HVAC systems have been declining for two consecutive years since 2018. On the other hand, the 4S dealership business recorded encouraging results during the Year.

For the Year, the Group recorded revenue of RMB1,973.5 million, representing an increase of 113.6% against that of RMB924.1 million in 2018; the Group recorded a loss attributable to equity shareholders of RMB285.6 million, representing an increase in loss of 3,004% as compared against that of RMB9.2 million in 2018.

The Board did not propose a distribution of final dividend for the Year (2018: nil).

The Board expects that 2020 will be a difficult year for the HVAC system business due to the continuous increase in production costs in maintaining competitiveness as well as the costs in enhancing safety requirements to cope with the development of the automotive industry and the outbreak of novel coronavirus (COVID-19) in early 2020.

The COVID-19 pandemic has brought about uncertainties in the Group’s operating environment in the PRC and overseas. According to the statistics released from China Association of Automobile Manufacturers (中國汽車工業協會) (“CAAM”), the production and sales of vehicles in the PRC were approximately 3.5 million units and 3.7 million units respectively for the three months ended 31 March 2020, representing a decrease of approximately 48.1% and 43.6% as compared to the same period last year. Since the COVID-19 pandemic, the PRC Government has taken emergency measures to prevent the spread of the COVID-19 in the PRC, including, among others, imposing restriction on work resumption date after the statutory holidays for Chinese New Year. Although most of the factories of the Group have resumed since the end of February 2020, the Board expected that there will be a drop in revenue of HVAC business during the first half of 2020.

On the other hand, for the 4S dealership business, we will expand our brand portfolio, apply for more dealership authorization. We will continue to focus on the luxury and mid-to-high-end brand and increase customer retention and satisfaction as well as enhancing the efficiency and quality of the operation of the Group. We will continue to expand business coverage, such as automobile premium, accident car insurance, and used car business, thereby increasing profit sources, optimizing the revenue structure, and preparing for another historic development opportunity.

The COVID-19 pandemic has posed certain impacts on the business operations of the Group and the degree of the impact depends on the pandemic preventive measures and the duration of the pandemic. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 pandemic and evaluating its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 pandemic, in the opinion of the Directors, the related impact on our Group’s financial condition, cash flows and operating results could not be reasonably estimated at this stage and will be reflected in the Group’s 2020 interim and annual financial statements.

Looking forward, the Board will continue to assess the impact of (i) the challenging macroeconomic environment; (ii) the PRC's slow economic growth, and (iii) the COVID-19 on the operation and financial performance of the Group and closely monitor the Group's exposure to the risks and uncertainties. The Company is currently exploring different possible measures, including assets restructuring to improve the financial performance of the Group in the future. The Company will take appropriate measures as necessary and make announcements as and when appropriate.

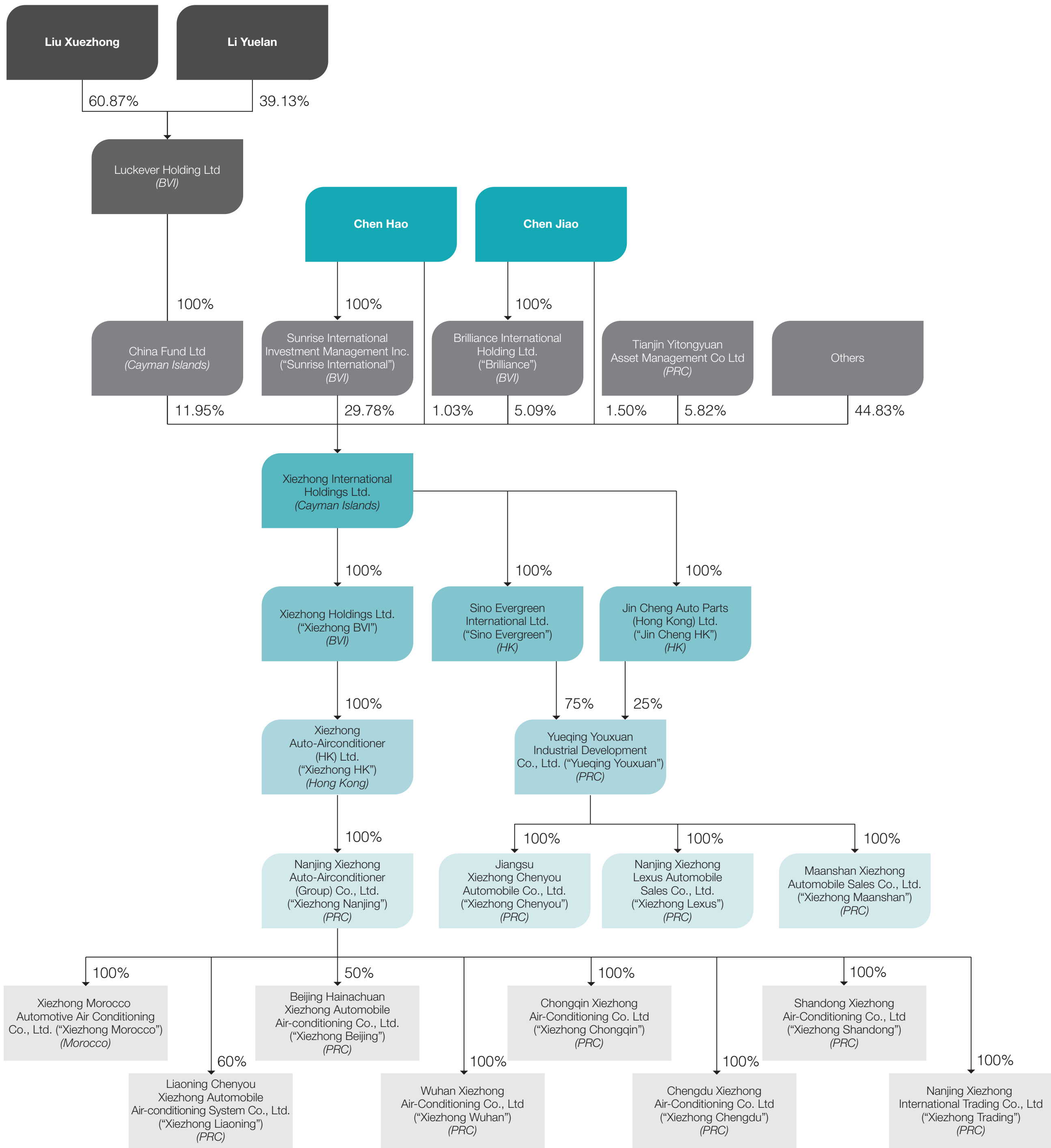
Lastly, on behalf of Xiezhong International, I hereby express my sincere gratitude to all our customers and business partners for their support, and to our management and staff for their strenuous effort. I would also like to take this opportunity to extend my appreciation to our investors and shareholders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

Chen Cunyou
Chairman

27 April 2020

Company Structure

As at 31 December 2019, our corporate and shareholding structure is as follow:



BUSINESS REVIEW

The Group has two lines of business: HVAC business and 4S dealership business.

The Group is one of the leading suppliers of HVAC systems for vehicles. We principally engage in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components, and provide technical testing and related services. Our automotive HVAC systems are mainly used in sport utility vehicles ("SUVs"), pickup trucks, sedans and heavy trucks, in addition to the supply of HVAC systems and HVAC components for new-energy vehicles ("NEVs"), construction machineries and other types of vehicles such as light trucks and buses. The Group's current annual capacity of production is about 4 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.

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 brand and mid-to high-end brand, such as Lexus and FAW-Volkswagen, and is mainly located in Nanjing, Jiangsu Province.

During the Year, the Chinese automotive market experienced its first decline since 2018 and the downward trend continued in 2019. According to the statistical data of CAAM, the production and sales of automobiles in 2019 were 25.7 million and 25.8 million units respectively, decreased by 7.5% and 8.2% respectively, year-on-year. Amongst those motor vehicles, the production and sales of passenger vehicles reached 21.4 million and 21.4 million units respectively, decreased by 9.2% and 9.6% respectively, year-on-year; the production and sales of commercial vehicles manufactured and sold were 4.4 million and 4.3 million units respectively, increased by 1.9% and decreased by 1.1% respectively, year-on-year; and the production and sales of NEVs reached 1.2 million units and 1.2 million units respectively, decreased by 2.3% and 4.0% respectively, year-on-year.

As one of the main suppliers of HVAC systems for domestic vehicles in the PRC, the sales of our HVAC system business have been declining for two consecutive years since 2018.

On the other hand, the 4S dealership business recorded encouraging results as the sales of the Volkswagen and Lexus brands increased significantly during the Year. In addition, we continuously optimize the business process of after-sales services. The revenue from the sales of accessories and other value-added services increased by more than 20% compared with that in 2018.

During the Year, the Group recorded revenue of RMB1,973.5 million, representing an increase of 113.6% compared against that of RMB924.1 million in 2018. The gross profit was RMB175.7 million, representing an increase of 3.4% compared against that of RMB170.0 million in 2018. The loss attributable to equity shareholders was RMB285.6 million, representing an increase of 3,004.3% compared against that of RMB9.2 million in 2018.

HVAC business

Since 2019, the global macro economy has been sluggish. The economies of major developed regions such as the United States, Europe and Japan further slowed down, and the economic growths for most emerging economies have also shown signs of slowing down. Against the backdrop of the slow global economic growth and the rise of protectionism, the downward pressure on China's economy in 2019 continued to increase, and competition in the HVAC industry further intensified. Throughout the years of fierce competition and challenging market environment, the Group's revenue from HVAC business recorded for the Year decreased to approximately RMB878.0 million, showing a decrease of approximately 5.0% as compared against that of RMB924.1 million in 2018. Meanwhile, the gross profit of RMB86.4 million was recorded for the Year, representing a decrease of 49.2% compared against that of RMB170.0 million in 2018.

4S dealership business

The Group's revenue from 4S dealership business amounted to approximately RMB1,095.5 million for the Year, which is approximately 55.5% of the Group's total revenue. The gross profit from 4S dealership business was RMB89.3 million.

FINANCIAL REVIEW

Revenue

During the Year, the Group recorded revenue of RMB1,973.5 million, representing an increase of 113.6% compared against that of RMB924.1 million 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 compared against that in 2018.

	2019		2018	
	RMB'000	**% of segment revenue**	RMB'000	% of segment revenue
HVAC systems				
SUVs and pickup trucks	**119,797**	**13.6%**	197,816	21.4%
Sedans	**351,984**	**40.1%**	235,670	25.5%
Vans	**52,680**	**6.0%**	111,959	12.1%
Heavy trucks	**98,355**	**11.2%**	152,045	16.5%
Construction machineries	**17,227**	**2.0%**	28,276	3.0%
Other vehicles[1]	**134,817**	**15.3%**	103,902	11.5%
HVAC components[2]	**93,531**	**10.7%**	86,849	9.4%
Others[3]	**9,587**	**1.1%**	7,587	0.6%
Subtotal	**877,978**	**100%**	924,104	100%
4S dealership business				
Sales of passengers vehicles	**960,972**	**87.7%**	—	—
After-sales services	**134,532**	**12.3%**	—	—
Subtotal	**1,095,504**	**100%**	—	—
Total	**1,973,482**		924,104	

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

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

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

Gross profit and gross profit margin

During the Year, the gross profit was RMB175.7 million, representing an increase of 3.4% compared against RMB170.0 million in 2018. Such increase was due to gross profit of RMB89.3 million recorded from 4S dealership business during the Year. The gross profit margin was 8.9% compared to 18.4% in 2018. Such decrease was due to gross loss recorded from the Morocco Plant, which has a gross profit margin of -24% due to the extra cost and fees incurred in engaging a third-party contractor to make good of the shortfall of the production output because of its delay in commencement of production.

Write-down of inventories, net of reversals

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

	Year ended 31 December 2019 RMB'000
Inventories for BAIC Yinxiang Automobile Co., Ltd. ("Yinxiang") (note 1.1)	**9,030**
Other inventories (note 1.2)	**27,883**
	36,913

Note:

1.1 Provision for inventories of RMB9.0 million was provided against certain inventories purchased or produced for Yinxiang during the Year, which is explained in section "Impairment losses" on trade and other receivables 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 RMB27.9 million was provided against other inventories during the Year. Movement in inventory provision for other inventories during the Year are as follows:

	HVAC business RMB'000	note	**4S dealership business** RMB'000	**Total** RMB'000
At 1 January 2019	(15,656)		(973)	(16,629)
Provision for impairment	(27,281)	1.2.1	(602)	(27,883)
Transfer to cost of sales upon sale	—		973	973
At 31 December 2019	(42,937)		(602)	(43,539)

1.2.1 The following table sets forth an analysis of the provision for other inventories during the Year.

	Year ended 31 December 2019 RMB'000
Specific provision made*	**5,131**
Provision made for slow moving inventories	**22,419**
Provision made for inventories with low or negative gross margin products	**333**
	27,883

* 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 RMB36.9 million was recognised for the Year.

Other net (loss)/income

During the Year, the other net loss is RMB26.9 million, representing a decrease of 257.3% compared against the net income of RMB17.1 million in 2018. The other net loss for the Year mainly includes service income of RMB55.6 million, the government grant of RMB15.0 million and interest income on financial assets measured at amortised cost of RMB11.7 million from 4S dealership business, and the impairment losses for certain idle equipment, certain capitalisation projects of development costs and goodwill of RMB29.8 million, RMB38.5 million and RMB45.4 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 RMB29.8 million recorded in the Year.

	As of 31 December 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)	16,699	–	(16,699)
Physically damaged equipment	1,986	–	(1,986)
	29,815	–	(29,815)

Note:

1.1 Impairment loss of RMB11.1 million was provided during the Year against certain idle equipment specific for production of goods selling to Yinxiang, which is explained in section Impairment losses on trade and other receivables 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 is specifically designed for Yinxiang. The recoverable amounts of those equipment are estimated to be zero. As a result, a full impairment loss was made against the carrying amounts of those equipment.

1.2 Impairment loss of RMB16.7 million was provided against certain idle equipment for production of goods selling to other customers. The Group gradually terminated business relationship with certain customers during 2019, mainly due to the increased credit risk to continue for doing business with these customers. In addition to the above, the impairment loss is attributable to other idle equipment identified where the sales of the specific vehicle models of the corresponding customers had been suspended. 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 amounts of those equipment are estimated to be zero. As a result, a full impairment loss was made against the carrying amounts of those equipment.

An asset is impaired when its carrying amount exceeds its recoverable amount. An entity shall assess at the end of each reporting year 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 RMB29.8 million was recognised during the Year.

II. *Impairment loss of intangible assets*

The following table sets forth a breakdown of impairment loss of intangible assets of RMB38.5 million recorded in the Year.

	As of 31 December 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 Beiqi Foton Motor Co., Ltd. (note 2.2)	13,194	–	(13,194)
Project with capitalised development costs for PSA Peugeot Citroen (note 2.3)	13,980	–	(13,980)
Project with capitalised development costs for other customer	9,492	–	(9,492)
	38,541	–	(38,541)

Note:

2.1 Impairment loss of RMB1.9 million was provided against the project with capitalised development costs for Yinxiang during the Year, which is explained in section Impairment losses on trade and other receivables 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 RMB13.2 million was provided against a project with capitalised development costs for Beiqi Foton Motor Co., Ltd. ("Beiqi Foton") during the Year. The project with capitalised development cost represented one automotive air conditioning and heating system specifically for one type of vehicle of Beiqi Foton. During the second half of the year of 2019, management noted the sales volume of that vehicle decreased a lot compared with the expectation from management. Moreover, there is no alternative use of the HVAC system which are specifically designed for that vehicle. Therefore, the recoverable amounts of the project with capitalised development costs for that vehicle is estimated to be zero and a full impairment loss was made against the carrying amounts of the project accordingly.

2.3 Impairment loss of RMB14.0 million was provided against a project with capitalised development costs for PSA Peugeot Citroen ("PSA") during the Year. The project with capitalised development cost represented one HVAC cooling system specifically for one type of vehicle of PSA. The vehicle came to the market in the first half year of 2019. During the second half of the year of 2019, management noted there was almost no sales of that vehicle in the market. Moreover, there is no alternative use of the HVAC system which are specifically designed for that vehicle. Therefore, the recoverable amounts of the project with capitalised development costs for that vehicle is estimated to be zero and a full impairment loss was made against the carrying amounts of the project accordingly.

An asset is impaired when its carrying amount exceeds its recoverable amount. An entity shall assess at the end of each reporting year 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.

III. Impairment loss of goodwill

The following table sets forth an analysis of impairment loss of goodwill of RMB45.4 million recorded in the Year.

	RMB'000
Cost:	
At 1 January 2019 and 31 December 2019	62,040
Accumulated impairment losses:	
At 1 January 2019	—
Impairment loss	(45,370)
At 31 December 2019	(45,370)
Carrying amount:	
At 31 December 2019	16,670
At 1 January 2019	62,040

Impairment tests for cash generated units ("CGUs") containing goodwill

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

	2019 RMB'000	2018 RMB'000
HVAC business	**1,462**	46,832
4S dealership business	**15,208**	15,208
	16,670	62,040

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% and 3% for the HVAC business and 4S dealership business respectively (2018: HVAC business: 3% and 4S dealership business: 3%) which are consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The discount rates applied to the cash flow projections is 14% and 12% for the HVAC business and 4S dealership business respectively (2018 HVAC business: 13%, 4S dealership business: 12%) as at 31 December 2019. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

The impairment loss recognised during the Year solely relates to the Group's HVAC business, and as a result the goodwill allocated to HVAC business has been reduced to RMB1,462,000, it is expected that any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

Distribution costs

Distribution costs increased by 93.7% or RMB50.9 million to RMB105.2 million during the Year from RMB54.3 million in 2018. Such increase was mainly due to the distribution costs of RMB33.6 million recorded from 4S dealership business. On the other hand, most of raw materials of the Morocco Plant has to be transported by Air from the Mainland China, which resulting in increased transportation costs.

Administrative expenses

During the Year, administrative expenses were RMB131.7 million, representing an increase of RMB19.5 million or 17.4% compared against that of RMB112.2 million in 2018. Such increase was mainly due to the administrative expenses of RMB14.7 million recorded from 4S dealership business.

Impairment losses on trade and other receivables

During the Year, the impairment losses on trade and other receivables was RMB63.8 million, representing an increase of RMB59.6 million or 1,419% compared against that of RMB4.2 million 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 namely, Yinxiang, during the Year, 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 approximately 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 approximately 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 approximately 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 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.

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 at that time 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 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. As at the date of this annual report, the trial of the litigation, originally set to be heard in April 2020, is postponed until further notice.

In view of the above facts, 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 the Year.

Finance costs

During the Year, finance costs were RMB65.8 million, representing an increase of RMB33.4 million or 103.1% compared against that of RMB32.4 million in 2018. Such increase was mainly due to the increase of bank loans and other borrowings.

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	Year ended 31 December 2019 RMB'000
Financial assets at FVTPL		
Mandatorily measured at FVTPL		9,255
Financial liabilities at FVTPL		
Designated at FVTPL at initial recognition	1	
— Promissory notes	1.1	25,360
— Convertible bonds tranche 1 ("CB1")	1.2	1,003
		26,363
Mandatorily measured at FVTPL	2	
— Commitment to issue promissory notes	1.1	(2,408)
— Commitment to issue convertible bonds	2.1	30,990
		28,582
Total		64,200

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.

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 year		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	128,198	113,017
Changes in fair value recognised in profit or loss during the year		(29,958)	(25,360)
Exchange difference		—	(2,920)
At 31 December 2019	1.1.3	(85,246)	(76,363)

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

1.1.2 During the period, the promissory notes of RMB113,017,000 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 31 December 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 31/12/2019 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	125,973
Outstanding principal as of the Valuation Date		218,685	218,684	92,711
Coupon rate		4.0%	4.0%	4.0%
Principal receivable on the maturity date		218,685	218,684	92,711
Coupon receivable on the maturity date		26,248	26,266	11,135
Total amount receivable on the maturity date		244,933	244,950	103,846
Discount rate		9.574%	10.110%	10.055%
Discount factor		0.76	0.75	0.82
Fair Value as of the valuation date (HKD'000)	1.1	186,179	183,485	85,246

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.

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)	(93,914)
Changes in fair value recognised in profit or loss during the year		(1,132)	(1,003)
Exchange difference		—	(1,050)
At 31 December 2019	1.2.2	(107,130)	(95,967)

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.

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 31 December 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 31/12/2019 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%	41.84%
Risk free rate		1.65%	1.71%
Spot stock price on the valuation date (HKD)		1.850	1.900
Conversion Price		1.777	1.777
Bond yield		10.289%	10.068%
Expected dividend yield		0.00%	0.00%
Fair Value as of valuation date (HKD'000)	1.2	105,988	107,130

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 HKD1.90 on 31 December 2019.

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	93,914
Changes in fair value recognised in profit or loss during the year		(34,977)	(30,990)
Exchange difference		—	(2,973)
At 31 December 2019	2.1.1	(137,843)	(123,480)

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 31 December 2019 extracted from the valuation report issued by AVISTA Valuation Advisory Limited are as follows:

		Valuation Date 31/12/2018			
Basis	Note	**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			

Basis	Note	CB2	**Valuation Date 31/12/2019** CB3	CB4
Expected issuance date		01/06/2020	01/06/2021	31/12/2021
Bond life (in years)		3	3	3
Expected adjusted issuance principal (in HKD'000)		62,467	57,040	10,462
Coupon rate		8.00%	8.00%	8.00%
Coupon interval (in years)		3	3	3
Volatility		43.79%	43.79%	43.79%
Risk free rate		1.66%	1.61%	1.50%
Conversion Price		Simulated by the Monte—Carlo Method	Simulated by the Monte—Carlo Method	Simulated by the Monte—Carlo Method
Bond yield		10.018%	9.974%	9.862%
Expected dividend yield		0.00%	0.00%	0.00%
Fair Value as of issuance date (in HKD'000)		76,221	67,267	12,184
Time period between issuance date and the valuation date		0.42	1.42	2.00
Discount rate		10.306%	10.121%	10.102%
Discount factor		0.96	0.87	0.82
Fair Value as of the valuation date (in HKD'000)		73,149	58,664	10,051
Probability to achieve the land certificate		NA	NA	60.00%
Fair Value as of the valuation date (in HKD'000)		73,149	58,664	6,030
Total fair value of the commitment to issue CB2-CB4 (in HKD'000)	2.1	137,843		

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; (ii) increase in closing share price; and (iii) decrease in expected time to the issuance CB.

Income tax

During the Year, income tax was RMB5.4 million, representing a decrease of RMB6.0 million compared against with income tax benefit of RMB0.6 million in 2018. Such change was mainly due to the income tax from 4S dealership business during the Year.

Loss for the year

As a result of the foregoing, loss attributable to equity shareholders of the Company was RMB285.6 million as compared to the loss of RMB9.2 million in 2018. The increase of RMB276.4 million in loss is mainly due to the effect of (i) the impairment loss of goodwill allocated to HVAC business of RMB45.4 million; (ii) the impairment loss of property, plant and equipment and intangible assets of approximately RMB68.4 million from HVAC business; (iii) the impairment loss on trade and other receivables of RMB63.8 million resulting from the increased credit risk of certain customers of HVAC business; (iv) the loss of RMB64.2 million on fair value changes of financial instruments measured at fair values during the Year generated from the Company, and (v) inventory provision of approximately RMB36.9 million recognised during the Year.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2019, the Group's trade receivables and bills receivable were RMB492.0 million (31 December 2018: RMB581.6 million) which was mainly due to the decrease in revenue of HVAC business and the accelerated settlement of bills receivables during the Year. The Group's trade receivables due from related parties were RMB102.3 million (31 December 2018: RMB87.9 million), which was due to sales to BAIC increased from RMB211 million in 2018 to RMB260 million during the Year.

The average trade receivables, bills receivable and trade receivables due from related parties turnover days, calculated as revenue divided by average trade receivables, bills receivable and trade receivables due from related parties and multiplied by 365 days, decreased from 233 days in 2018 to 116 days during the Year, while without taking into account the bill receivable, the average turnover days of trade receivables and trade receivables due from related parties, calculated as revenue divided by average trade receivables and trade receivables due from related parties and multiplied by 365 days, decreased from 162 days in 2018 to 83 days in 2019.

Trade payables and bills payable

As at 31 December 2019, the Group's trade payables and bills payable were RMB819.2 million (31 December 2018: RMB643.0 million). Such increase was mainly due to the slow down of payment pace.

The average trade payables and bills payable turnover days, calculated as purchase divided by average trade payables and bills payable and multiplied by 365 days, decreased from 258 days in 2018 to 148 days during the Year.

Cash and deposits with banks and borrowings

As at 31 December 2019, the Group's cash and deposits with banks were RMB122.6 million (31 December 2018: RMB137.0 million).

As at 31 December 2019, we had outstanding bank loans and other borrowings of RMB1,053.8 million (31 December 2018: RMB993.1 million). As at 31 December 2019, our bank loans and other borrowings carried interest rates ranging from 2.8% to 8.4% per annum.

As at 31 December 2019, the banking facilities available to us were RMB828 million (31 December 2018: RMB808 million), of which RMB723 million (31 December 2018: RMB728 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 31 December 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 a coupon rate of 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. On 31 August 2019, the Company early redeemed part of the promissory notes with principal amount of RMB10,593,000 and accumulated interest expenses of approximately RMB257,000.

Convertible bonds

As disclosed in the announcement of the Company dated 31 July 2018 and the circular of the Company 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.

Pursuant to SPA A and SPA B, Vendor A and Vendor B respectively undertook, amongst others, that the applicable audited net profits of Sino Evergreen Group for the year ended 31 December 2018 shall not be less than 110% of the applicable audited net profits of Sino Evergreen Group for the financial year ended 31 December 2017, that is, approximately RMB52,019,000 (the “2018 Performance Guarantee”), and that the applicable net profits of Sino Evergreen Group for the year ended 31 December 2019 shall not be less than 130% of the 2018 Performance Guarantee, that is, approximately RMB67,624,700 (the “2019 Performance Guarantee”). In the event that the applicable audited net profits of Sino Evergreen Group for each of the year ended 31 December 2018 and 31 December 2019 exceeds the 2018 Performance Guarantee and the 2019 Performance Guarantee, respectively, convertible bonds with a pre-agreed principal amount should be issued by the Company to both Vendor A and Vendor B.

The applicable audited 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. As at the date of this annual report, since the applicable audited net profits of the Sino Evergreen Group for the financial year ended 31 December 2019 are being finalised, the relevant tranche of the convertible bonds will be issued pursuant to the terms of SPA A and SPA B, respectively, upon ascertaining whether the 2019 Performance Guarantee can be achieved. The Company will make further announcement(s) as and when necessary pursuant to the Listing Rules. For further details of the convertible bonds, please refer to the circular of the Company dated 11 December 2018.

Gearing ratio

As at 31 December 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 70.9%, 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 Year.

Contingent liabilities

As at 31 December 2019, the Group did not incur any material contingent liabilities.

Significant investments held

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

Future plans for material investments or capital assets

Save as disclosed in capital commitment as at 31 December 2019, the Group did not have other plans for material investments or capital assets at the date of this annual report.

Capital commitments

As at 31 December 2019, the Group's capital commitments to make contracted payments amounted to RMB63.3 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 31 December 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 Year, the Group incurred capital expenditures of RMB302.8 million (2018: RMB272.3 million) primarily representing additions of construction in progress, machineries and equipment and development costs.

Foreign exchange risk

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

Employees

As at 31 December 2019, the Group had 2,233 full-time employees (2018: 1,502). The increase of 731 employers was due to more workers employed by the Morocco Plant and the Wuhan Plant during the Year. They were remunerated by the Group with reference to their performance, qualifications and prevailing market conditions. During the Year, the Group's total expenditure in respect of staff cost was RMB153.4 million (2018: RMB121.5 million), representing 7.8% (2018: 13.1%) 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 Year, no share options had been granted by the Group to the employees in accordance with the Share Option Scheme.

Dividends

The Board did not propose a distribution of final dividend for the Year (2018: nil).

Prospect and Outlook

The Board expects that 2020 will be a difficult year for the HVAC system business due to the continuous increase in production costs in maintaining competitiveness as well as the costs in enhancing safety requirements to cope with the development of the automotive industry and the outbreak of novel coronavirus (COVID-19) in early 2020.

The COVID-19 pandemic has brought about uncertainties in the Group's operating environment in the PRC and overseas. According to the statistics released from CAAM, the production and sales of vehicles in the PRC were approximately 3.5 million units and 3.7 million units respectively for the three months ended 31 March 2020, representing a decrease of approximately 45.2% and 42.4% as compared to the same period last year. Since the COVID-19 pandemic, the PRC Government has taken emergency measures to prevent the spread of the COVID-19 in the PRC, including, among others, imposing restriction on work resumption date after the statutory holidays for Chinese New Year. Although most of the factories of the Group have resumed since the end of February 2020, the Board expected that there will be a drop in revenue of HVAC business during the first half of 2020.

On the other hand, for the 4S dealership business, we will expand our brand portfolio, apply for more dealership authorization. We will continue to focus on the luxury and mid-to-high-end brand and increase customer retention and satisfaction as well as enhancing the efficiency and quality of the operation of the Group. We will continue to expand business coverage, such as automobile premium, accident car insurance, and used car business, thereby increasing profit sources, optimizing the revenue structure, and preparing for another historic development opportunity.

The COVID-19 pandemic has posed certain impacts on the business operations of the Group and the degree of the impact depends on the pandemic preventive measures and the duration of the pandemic. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 pandemic and evaluating its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 pandemic, in the opinion of the Directors, the related impact on our Group's financial condition, cash flows and operating results could not be reasonably estimated at this stage and will be reflected in the Group's 2020 interim and annual financial statements.

Looking forward, the Board will continue to assess the impact of (i) the challenging macroeconomic environment; (ii) the PRC's slow economic growth, and (iii) the COVID-19 on the operation and financial performance of the Group and closely monitor the Group's exposure to the risks and uncertainties. The Company is currently exploring different possible measures, including assets restructuring to improve the financial performance of the Group in the future. The Company will take appropriate measures as necessary and make announcements as and when appropriate.

Corporate Governance Report

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

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

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

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

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

The Board of Directors

Composition

The Directors who hold office during the Year were:

Executive Directors:

Mr. Chen Cunyou *(Chairman and chief executive officer)*
Mr. Ge Hongbing
Ms. Chen Xiaoting
Mr. Shen Jun

Non-executive Directors:

Mr. Huang Yugang

Independent non-executive Directors:

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

The biographical details of each Director are set out in the section "Directors and Senior Management" on pages 35 to 38.

Board Meetings

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

	Number of Board meetings attended/held
Executive Directors	
Mr. Chen Cunyou *(Chairman)*	4/4
Mr. Ge Hongbing	4/4
Ms. Chen Xiaoting	4/4
Mr. Shen Jun	4/4
Non-executive Directors	
Mr. Huang Yugang	4/4
Independent non-executive Directors	
Mr. Lau Ying Kit	4/4
Mr. Cheung Man Sang	4/4
Mr. Zhang Shulin	4/4
Mr. Lin Lei	4/4

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

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

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

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

General Meetings

In 2019, an annual general meeting was held on 24 May 2019. The chairman of the Board (the "Chairman"), as well as chairman of each of the Board committees, or in their absence, members of the respective committees, and the external auditors of the Company, were available to answer questions from shareholders at the annual general meeting. At the annual general meeting, procedures for conducting a poll were explained by the Chairman and a resolution was proposed in respect of each separate issue itemized in the agenda.

The forthcoming 2020 annual general meeting ("2020 AGM") will be held on 15 June 2020.

	Numbers of general meeting attended/held
Executive Directors	
Mr. Chen Cunyou *(Chairman)*	1/1
Mr. Ge Hongbing	1/1
Ms. Chen Xiaoting	1/1
Mr. Shen Jun	1/1
Non-executive Directors	
Mr. Huang Yugang	1/1
Independent non-executive Directors	
Mr. Lau Ying Kit	1/1
Mr. Cheung Man Sang	1/1
Mr. Zhang Shulin	1/1
Mr. Lin Lei	1/1

Responsibilities of the Board and Management

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

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

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

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group. The financial statements set out on pages 67 to 163 were prepared on the basis set out in note 2 to the consolidated financial statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements.

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

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

Confirmation of Independence

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

Continuous Professional Development

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

Appointment, Re-election and Removal

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

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

Corporate Governance Functions

The Board is also responsible for performing the corporate governance duties as set out below:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the continuous professional development of Directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and

5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Nomination Committee

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

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

During the year ended 31 December 2019, the nomination committee had reviewed the structure, size and composition of the Board, and gave full review on the professional qualifications and career background of all candidates to directorships and members of each Board committee as well as the independence of the independent non-executive Directors.

During the Year, one meeting of the nomination committee was held on 29 March 2019. The attendance records of individual Directors are set out below:

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

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

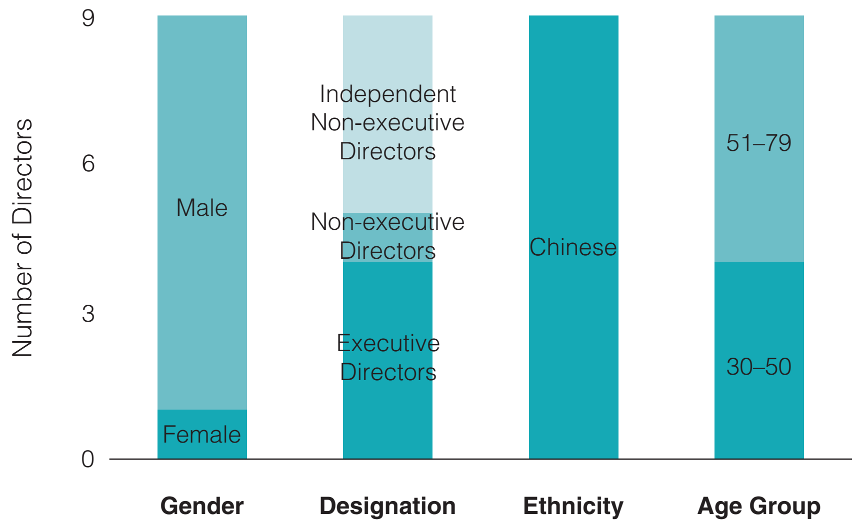
Nomination policy

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

Board diversity policy

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

The following is a chart showing the diversity profile of the Board as at 31 December 2019:



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

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

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

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

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

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

Remuneration Committee

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

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

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

During the year ended 31 December 2019, the remuneration committee had formulated the remuneration policy of Directors, approved the terms in service contracts of Directors and reviewed the bonus distribution for the year based on assessment on performances of the Directors and senior management.

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

	Number of individuals	
Remuneration band	**2019**	2018
Nil to RMB300,000	–	1
RMB300,001 to RMB1,000,000	5	3

During the Year, one meeting was held on 29 March 2019. The attendance records of individual Directors are set out below:

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

Audit Committee

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

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

During the year ended 31 December 2019, the audit committee had performed the following functions: reviewing the half-year and full year results, reviewing the report of the auditors, as well as reviewing the risk management and internal control system and the effectiveness of the Company's internal audit system.

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

During the Year, the audit committee had two meetings on 28 March 2019 and 30 August 2019 with the senior management and independent auditor of the Company to consider the independence and audit scope of independent auditor, and to review and discuss the connected transactions, the risk management and internal control system, interim and annual financial statements of the Company and the opinion and report of independent auditor before submitting to the Board for their approval. The attendance records of individual committee members are set out below:

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

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

Auditor's Remuneration

During the Year, the Company engaged KPMG as the external auditors. The fee of audit services and non-audit services provided by KPMG for the Year approximately amounted to RMB4,220,000 and RMB200,000 respectively.

Details of auditor's responsibilities on the Company's consolidated financial statements are set out in the Independent Auditor's Report on pages 53 to 66.

Company Secretary

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

Risk Management and Internal Controls

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

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

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

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

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

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

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

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

Shareholders' Rights

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

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

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

Principal place of business of the Company in Hong Kong

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

Principal place of business of the Company in the PRC

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

Registered office of the Company

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

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

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

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

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

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

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

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

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

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

Investor Relations and Communication

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

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

From 18 June 2012 (the "Listing Date") and up to 31 December 2019, there has been no significant change in the Company's memorandum and articles of association.

Directors

Executive Directors

Mr. Chen Cunyou, aged 57, is the Chairman and the chief executive officer of the Company and an executive Director. He is also a director of Xiezhong BVI, Xiezhong HK, Xiezhong Nanjing, Xiezhong Beijing, Xiezhong Liaoning, Xiezhong Wuhan, Sino Evergreen, Jin Cheng HK, Xiezhong Trading, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan. He has been appointed as a Director of the Company since 30 September 2011.

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

He served as the general manager of 江蘇汽車空調器製造有限公司 (Jiangsu Auto Airconditioner Manufacturing Co., Ltd.#) from 1994 to 1997. Then, he served as the general manager of 南京中港汽車空調器製造有限公司 (Nanjing Zhonggang Auto Air-conditioner Manufacturing Co., Ltd.#) until he founded Xiezhong Nanjing in April 2002.

He is also the founder of Xiezhong Automobile (Group) Company Limited in 2002 which engages in 4S dealership business and sale of FAW Volkswagen, GAC Toyota, Lexus, Audi, BMW and BAIC New Energy brands. In 2007, he led to establish an automobile 4S Park in Dongqi Road, Jiangning District, Nanjing, Jiangsu Province. At present, the park has already become one of the most important 4S park in Jiangsu Province and even East China.

He has served as the chairman of 南京浙商投資有限公司 (Nanjing Zheshang Investment Co., Ltd.#) since 2003 and as the chairman of 南京浙江商會 (Nanjing Zhejiang Chamber of Commerce#) since 2002. He has also served as the co-chairman of 江蘇省蘇商發展促進會 (Jiangsu Sushang Development Promotion Association) since 2016. He is currently a member of the People's Congress of both Jiangsu Province and Nanjing City in the PRC.

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

Mr. Ge Hongbing, aged 49, is our executive deputy general manager and an executive Director. He joined our Group since the establishment of Xiezhong Nanjing and he has been appointed as a Director since 29 November 2011. Mr. Ge is also a director, executive deputy general manager and chief engineer of Xiezhong Nanjing, a director and the general manager of Xiezhong Beijing, a director of Xiezhong BVI, Xiezhong HK, Xiezhong Morocco, Xiezhong Shandong, Sino Evergreen, Jin Cheng HK, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan and the chairman of Xiezhong Liaoning.

Mr. Ge has approximately 20 years of experience in the automobile air conditioner industry. Mr. Ge worked for 東風–派恩汽車鋁熱交換器有限公司 (Aeolus-Pan Automobile Aluminium Heat Exchanger Co., Ltd.#) as a R&D engineer of the technical department from October 1994 to March 1995. Mr. Ge worked as R&D engineer of the technical department in 南京派恩汽車空調有限公司 (Nanjing Pan Automobile Air-conditioning Co., Ltd.#) from April 1995 to March 1996. Mr. Ge served various positions when he worked in 南京中港汽車空調器製造有限公司 (Nanjing Zhonggang Automobile Air Conditioner Manufacturing Co., Ltd.#) between April 1996 to April 2002, including chief engineer, head of technical department and head of sales department. Mr. Ge graduated with a bachelor's degree from 東華大學 (Donghua University) (formerly known as 中國紡織大學 (China Textile University)) in July 1994 majored in heat ventilation and air-conditioning engineering. Mr. Ge obtained his master's degree in business administration from University of Atlanta, formerly known as Barrington University, in May 2003.

Ms. Chen Xiaoting, aged 30, is an executive Director of our Company and has over 4 years of experience in the field of management and financial industry. She joined our Group on 1 March 2018. From December 2014 to August 2017, she was a licensed representative permitted to carry out Type 1 (dealing in securities) regulated activities under the SFO. Ms. Chen graduated from the Guangdong University of Business Studies and received a bachelor's degree in English (International Business Management) in June 2012. In October 2013, Ms. Chen graduated from the Hong Kong Polytechnic University and received a master degree in translating and interpreting. She is also a director of Sino Evergreen, Jin Cheng HK, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan.

Mr. Shen Jun, aged 56, is an executive Director of our Company and has over 26 years of experience in the field of management and financial industry. He joined our Group on 10 September 2018. He is also a director of Sino Evergreen, Jin Cheng HK, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan.

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

Non-executive Director

Mr. Huang Yugang, aged 50, is a non-executive Director of our Company and currently the deputy general manager and the head of the R&D department of Xiezhong Nanjing, who is responsible for overseeing the technical aspect of its production and the R&D of the products. He joined our Group in May 2002. Mr. Huang has also been the general manager of Xiezhong Liaoning since February 2010. Mr. Huang is also a director of Xiezhong Liaoning, Xiezhong Nanjing, Xiezhong BVI, Xiezhong HK, Xiezhong Chongqing, Sino Evergreen, Jin Cheng HK, Yueqing Youxu, Xiezhong Chenyou, Xiezhong Lexus and Xiezhong Maanshan.

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

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

Independent non-executive Directors

Mr. Cheung Man Sang, aged 64, is an independent non-executive Director. He joined our Group on 16 May 2012.

Mr. Cheung served as the deputy general manager of Anhui Shan Ying Paper Industry Co., Ltd and the legal representative and consultant of Shan Ying Investment Management Ltd. and as general manager of Shenzhen Richland Health VC Fund Management Co., Ltd before. From August 2010 to November 2010, he served as the general manager of Vigo Hong Kong Investment Ltd. Prior to that, he served various positions at China Travel Service (Holdings) Hong Kong Limited and its group of companies between June 1996 and June 2010. In 1998, he became the general manager of China Travel Finance & Investment (H.K.) Limited, and was subsequently appointed as deputy general manager of group finance department and as general manager of China Travel Insurance Advisers Hong Kong Limited. During February 2007 to 2009, he served as a director of Tangshan Guofeng Iron & Steel Co., Ltd. In 2009, he was transferred back to group finance department of China Travel Service (Holdings) Hong Kong Limited to serve as deputy general manager. He served as the independent non-executive director of (天津市桂發祥十八街麻花總店有限公司) Tianjin Guifaxiang Mahua Food Group CO., LTD.# from 27 December 2011 to 31 August 2018.

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

Mr. Lau Ying Kit, aged 46, is an independent non-executive Director. He joined our Group on 16 May 2012. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and holds a master degree in finance from the City University of Hong Kong. Mr. Lau gained extensive experience in auditing, accounting and financing across the PRC and Hong Kong. Mr. Lau had worked as the chief financial officer and company secretary in several listed companies in Hong Kong. He is currently an independent non-executive director of four companies listed on the Main Board of the Stock Exchange, namely Kingdom Holdings Limited (Stock Code: 528), China Wood Optimization (Holding) Limited (Stock Code: 1885), United Strength Power Holdings Limited (Stock Code: 2337) and Sinco Pharmaceuticals Holdings Limited (Stock Code: 6833).

Mr. Zhang Shulin, aged 79, is an independent non-executive Director. He joined our Group on 16 May 2012. He has over 40 years of experience in automobile engineering and managing automobile enterprises.

Mr. Zhang is currently the member of 中國汽車工業諮詢委員會 (China Automotive Industry Advisory Committee). Mr. Zhang was previously the deputy director of 國家機械工業局國家機械工業部汽車司 (the Automotive Section of National Mechanical Industry Department under National Industry Bureau#). He was also the associate director and Secretary-General of CAAM.

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

Mr. Lin Lei, aged 52, is an independent non-executive Director. He joined our Group on 25 August 2014. Mr. Lin received a bachelor's degree in Applied Economic Mathematics from the Renmin University of China (中國人民大學) in July 1990. He is the founder of TNS Sinotrust Market Research Consulting (Beijing) Co., Ltd (特恩斯新華信市場諮詢（北京）有限公司) (Formerly known as Sinotrust International Information & Consultant (Beijing) Co. Ltd. (新華信國際信息諮詢（北京）有限公司)) ("Sinotrust"). Mr. Lin was the president and CEO of Sinotrust since January 2007 to December 2014, and he was the chairman of Sinotrust since January 2015 to January 2018. Prior to funding Sinotrust in 1992, from 1990 to 1992, Mr. Lin worked at the Ministry of Foreign Economic Relation and Trade (對外經濟貿易部). At present, Mr. Lin is the managing director of Beijing Centurium Management Advisory Co., Ltd, he is also an independent non-executive directors of New Focus Auto Tech Holdings Limited (Stock code: 360) and Baic Bluepark New Energy Technology Co., Ltd., a company listed on Shanghai Stock Exchange (Stock code: 600733). Mr. Lin was a vice president of China Association of Market Information and Research (CAMIR) (中國市場訊息調查業協會), and was a director of Society of Automotive Engineers of China (中國汽車工程學會), he is currently a commissioner of the expert committee of China Automobile Dealers Association (CADA) (中國汽車流通協會).

Senior Management

Mr. Chen Cunyou, aged 57, is the Chairman and the chief executive officer of the Company and an executive Director. Biographical details of Mr. Chen are set out in the paragraph headed "Directors" under this section.

Mr. Ge Hongbing, aged 49, is an executive Director of the Company. Biographical details of Mr. Ge are set out in the paragraph headed "Directors" under this section.

Ms. Chen Xiaoting, aged 30, is an executive Director of the Company. Biographical details of Ms. Chen are set out in the paragraph headed "Directors" under this section.

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

Mr. Huang Yugang, aged 50, is a non-executive Director of the Company. Biographical details of Mr. Huang are set out in the paragraph headed "Directors" under this section.

Mr. Xin Fangwei, aged 44, is the chief financial officer of the Company. Mr. Xin joined our Group in November 2008. Mr. Xin has accumulated over 18 years of experience in the areas of financial management. Prior to joining our Group, Mr. Xin worked for 南京泉峰國際貿易有限公司 (Nanjing Chervon International Trading Co., Ltd.#) from November 2001 to December 2004 as a finance officer. Mr. Xin was a senior accounting supervisor of 海康人壽保險有限公司 (AEGON-CNOOC Life Insurance Co. Ltd.#) from August 2005 to August 2006 and a senior accounting supervisor of 海康人壽保險有限公司江蘇分公司 (AEGON-CNOOC Life Insurance Co. Ltd., Jiangsu Branch Co.#) from August 2006 to February 2007. Mr. Xin graduated with a bachelor's degree in auditing from 華北電力大學 (North China Electric Power University#) in July 1999. Mr. Xin obtained his master's degree in business administration from 河海大學 (Hohai University#) in June 2010. Mr. Xin has been an accountant since 2004.

Company Secretary

Mr. Chui Wing Fai, aged 54, is the company secretary of the Company. He joined our Group in November 2011.

Prior to joining our Group, Mr. Chui was the company secretary and senior finance manager of China Water Property Group Limited, a company listed on the Main Board of the Stock Exchange, from January 2008 to February 2010. Mr. Chui has over 25 years of experience in audit and accounting.

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

Changes to Information in Respect of Directors

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

Literal translation of the Chinese company name

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

Principal Activities

The Company was incorporated in the Cayman Islands on 30 September 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the following two business (2018: one): 1) the design, production and sale of automotive HVAC systems and a range of automotive HVAC components and providing technical testing and related services ("HVAC business"); and 2) 4S dealership business.

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

Results and Dividends

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

The Board did not recommend the payment of a final dividend for the Year (2018: nil).

Dividend Policy

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

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

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

Share Capital

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

Reserves

Details of the movement in the reserves of the Group and of the Company during the Year are set out in the consolidated statement of changes in equity and in note 31 to the consolidated financial statements respectively.

Distributable Reserve of the Company

As at 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HKD255,030,000 (equivalent to RMB228,456,000) (2018: HKD369,706,000 (equivalent to RMB298,848,000)).

Borrowings

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

Property, Plant and Equipment

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

Equity-Linked Agreements

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

Business Review

A review of the business of the Group during the Year and a discussion on the Group's future development are set out in the Chairman's Statement on pages 4 to 5 and the Management Discussion and Analysis on pages 7 to 23 of this annual report. These discussion form part of this Director's report.

Environmental Policy and Performance

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

Compliance with Relevant Laws and Regulations

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

Relationship with Employees, Customers and Suppliers

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

Principal Risks and Uncertainties

The industry which the Group's business operates in and the performance of the Group are influenced by changes in market conditions, technology advancement, evolvement in industry standards, customers' demands for the Group's products. The Group operates its businesses in accordance with various industry standards and government laws and regulations. In order to meet the market demands for ever-changing product functions and new products, the Group has made relatively substantial investments towards the R&D of new products and new production technologies, notwithstanding that the R&D expenses of certain projects are supplemented by government grants. Further, the Group is affected by market risks (such as currency and interest rate fluctuations), credit risks and liquidity risks during its ordinary course of business. Details of the financial risks management of the Group is set out in note 33 of the consolidated financial statements.

Events After the Year

The outbreak of COVID-19 in the Mainland China and the subsequent quarantine measures imposed by the Mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group, as most of the Group's operations are located in various cities in the Mainland China. The Group had to stop some of its manufacturing and other business activities in the PRC since January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. The Group had resumed its manufacturing and other business activities gradually since late February and March 2020. Up to the date of this annual report, the operating activities in Morocco were still not resumed. As the quarantine measures imposed by the Chinese government effectively controlled the spread of COVID-19 in the Mainland China, the directors of the Company expect the economic activities in China will bounce back in the coming future. As the operations of most of the Group's customers and suppliers are located in the Mainland China, the outbreak of the COVID-19 is expected to have a negative impact on these entities. The Group is in the process of evaluating the impact of the COVID-19 to its financial performance and will perform the necessary impairment assessment on its non-current assets.

In addition, since the beginning of March 2020, the COVID-19 has spread in various countries around the world, Europe and the United States of America have become the epicenter of the COVID-19 and Africa is at risk of spreading. Since 17 March 2020, our overseas customer PSA has suspended its manufacturing temporarily and in order to curb the spread of the pandemic in Morocco, the Government of Morocco issued temporary suspension guidelines, and therefore our Morocco factory has suspended its manufacturing temporarily since 20 March 2020.

As the situation remains fluid as at the date of this annual report, the directors of the Company are in progress to assess the financial effects of the COVID-19 on the Group's consolidated financial statements. Nevertheless, the COVID-19 outbreak is expected to adversely affect the consolidated results of the Group for the year ending 31 December 2020.

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

Tax Relief and Exemption

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

Pre-Emptive Rights

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

Directors

The Directors who hold office during the Year were:

Executive Directors:

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

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

Accordingly, Mr. Ge Hongbing, Mr. Cheung Man Sang and Mr. Lin Lei shall retire from office by rotation at the conclusion of the forthcoming 2020 AGM and Mr. Ge Hongbing and Mr. Cheung Man Sang, being eligible, offer themselves for re-election thereat. Mr. Lin Lei ("Mr. Lin") has informed the Board that he would not offer himself for re-election at the 2020 AGM due to his own decision to devote more time to his personal engagements, and accordingly, will retire as independent non-executive Director at the conclusion of the 2020 AGM. Mr. Lin has confirmed that his retirement is not due to any disagreement with the Board and there is no other matter relating to his retirement that needs to be brought to the attention of the shareholders of the Company. The Board would like to thank Mr. Lin for his contributions to the Company during his tenure of office.

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

Directors' Service Contracts

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

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

Biographical Details of Directors and Senior Management

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

Remuneration of Directors and Five Highest Paid Individuals

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

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

As at 31 December 2019, save as disclosed below, none of the Directors or chief executive of the Company who held office on 31 December 2019 had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

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

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

So far as is known to the Directors, save as disclosed below, our Directors are not aware of any person (other than Directors and chief executive of the Company) who, as at 31 December 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 positions (L) or short positions in Shares

Name of shareholders	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Sunrise International Investment Management Inc ("Sunrise International") (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 Limited ("Brilliance") (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	95,578,000 (L)	11.95%
Luckever Holding Limited (Note 3)	Interest of controlled corporation	95,578,000 (L)	11.95%
Mr. Liu Xuezong (Note 3)	Beneficial owner	95,578,000 (L)	11.95%
Ms. Li Yuelan (Note 3)	Beneficial owner	95,578,000 (L)	11.95%
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$164,013,750 convertible at a conversion price of HK$1.50 per conversion share, representing a maximum of 109,342,500 conversion shares upon full conversion to be issued to Sunrise International. For details, please refer to the circular of the Company dated 11 December 2018. Sunrise International is 100% owned by Mr. Chen Hao. Therefore, Mr. Chen Hao is deemed to be interested in all the shares held by Sunrise International by Virtue of the SFO.

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

3. China Fund Limited is 100% 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.

Save as disclosed above, as at 31 December 2019, the directors were not aware of any other persons who had any interests or short positions in the shares or underlying shares and debentures which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Share Option Scheme

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Competition and Conflict of Interests

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

Arrangements to Purchase Shares or Debentures

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

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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

Controlling Shareholders' Interests in Contracts

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

Contract of Significance

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

Major Customers and Suppliers

During the Year, the Group's five largest customers together accounted for 35.03% of the Group's sales, of which 13.17% was attributable to the largest customer. During the Year, the Group's five largest suppliers together accounted for 61.11% of the Group's purchases of which 27.81% was attributable to the largest supplier. To the best knowledge of the Directors, neither the Directors, their close associates, nor any shareholders who, to the knowledge of the Directors, owned more than 5% of the Company's issued shares, had any beneficial interest in any of the Group's five largest customers and suppliers during the Year.

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

1. Continuing connected transactions in relation to daily operation

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

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

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

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

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

北京汽車股份有限公司株洲分公司 (Zhuzhou Branch of Beijing Automobile Co., Ltd.#) is a branch office of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.#), which is owned as to 51% by BAIC while 北京汽車新能源汽車有限公司 (Beijing Automobile New Energy Automobile Company Limited#) is a wholly-owned subsidiary of 北京汽車股份有限公司 (Beijing Automobile Co., Ltd.#). BAIC owns 60% of the registered capital of Beijing Hainachuan which in turn is the holding company of BHAP, the controlling shareholder of the Company between June 2014 and 14 July 2017. As the controlling shareholder of the Company, BHAP is a connected person of the Company under the Main Board Listing Rules. BAIC as the holding Company of BHAP, is an associate of BHAP and hence a connected person under the Main Board Listing Rules. As BAIC is the holding company of Beijing Hainachuan and Beijing Hainachuan is the major shareholder of the Company, members of the BAIC Group are our connected persons under the Main Board Listing Rules. On 14 July 2017, BHAP has ceased to be the controlling shareholder of the Company, however, Beijing Hainachuan owns 50% of the registered capital of Xiezhong Beijing which has become a subsidiary of our Company since January 2011, members of the BAIC Group are still our connected persons under the Main Board Listing Rules. The transactions contemplated under the Previous Master Agreement II will constitute a continuing connected transaction for our Company.

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

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

The annual cap for the transaction under the New Master Agreement for the Year was RMB616 million. During the Year, the aggregate amount of the transactions under the New Master Agreement was approximately RMB260 million, which was within the annual cap of RMB616 million.

Literal translation of the Chinese company name

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

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

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

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

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

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

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

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

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

4. **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 payment of approximately RMB5.2 million;

(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 payment 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.

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 announcements of the Company dated 29 August 2019, 10 September 2019 and 25 September 2019.

Related Party Transactions

Details of the related party transactions undertaken by the Group are set out in note 35 to the consolidated financial statements. Other than the related party transactions in respect of Beijing Automotive Group and the related party transactions in respect of Xiezhong Guanghua, Xiezhong Haosheng, Xiezhong Automobile and Xiezhong Tangshan as disclosed in the announcements of the Company dated 29 August 2019, 10 September 2019 and 25 September 2019 constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Main Board Listing Rules, the Directors consider that the other related party transactions as set out in note 35 to the consolidated financial statements did not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Main Board Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements. The disclosures required by Chapter 14A of the Main Board Listing Rules are provided in section "Continuing Connected Transactions/Connected Transactions Required For Disclosure Under The Main Board Listing Rules" of the Report of the Directors".

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

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

Sufficiency of Public Float

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

Management Contract

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

Permitted Indemnity Provision

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

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

Corporate Governance

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

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

Environment, Social and Governance Report and Social Responsibility

Please refer to the environment, social and governance report as required by the Main Board Listing Rules, which will be issued separately by the Company before 30 June 2020.

Annual General Meeting

The 2020 AGM, will be held on 15 June 2020, shareholders should refer to details regarding the 2020 AGM in the circular of the Company dated 14 May 2020 and the notice of meeting and form of proxy accompanying thereto.

Closure of Register of Members

The register of members of the Company will be closed Wednesday, 10 June 2020 to Monday, 15 June 2020, both days inclusive, during such period no transfer of shares will be registered. In order to be entitled to attend the 2020 AGM of the Company and vote at the meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration before 4:30 p.m. on Tuesday, 9 June 2020.

Auditor

KPMG was appointed as auditor of the Company since the Listing and will retire at the forthcoming AGM. A resolution will be proposed at the forthcoming 2020 AGM to re-appoint KPMG as the auditor of the Company.

ON BEHALF OF THE BOARD

Chen Cunyou
Chairman

Hong Kong
27 April 2020

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Xiezhong International Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 67 to 163, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Key audit matters (continued)

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

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

The Key Audit Matter	How the matter was addressed in our audit
The Group incurred a net loss of RMB288 million for the year ended 31 December 2019. As at 31 December 2019, the Group had net current liabilities of RMB739 million, total borrowings of RMB1,054 million, acquisition consideration payables of RMB296 million and capital commitments which had been contracted for of RMB63 million. Note 2(b) to the consolidated financial statements explains how the directors of the Company have formed a judgement that the going concern basis is appropriate in preparing the consolidated financial statements of the Group. The directors of the Group evaluated the Group's ability to continue as a going concern based upon an assessment of the Group's cash position, a cash flow forecast, and its availability of financing facilities. This required the exercise of significant management judgement, particularly in forecasting the Group's future revenue, gross profit, operating expenses and capital expenditure and in assessing the Group's ability to renew the existing banking facilities. Based on their assessment, the directors concluded that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.	Our audit procedures to assess whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern included the following: • walking through the business planning process and assessing the design, implementation and operating effectiveness of management's key internal controls over the assessment of the Group's ability to continue as a going concern; • challenging the key assumptions in the cash flow forecasts (including future revenue, gross profit margin, operating expenses and capital expenditure) with reference to historical information, current performance, internal investment and future plans; • considering the accuracy and reliability of cash flow forecasts made by management in prior years by comparing them with the current year's results; • assessing the availability of banking and other financing facilities and arrangements by inspecting underlying documentation, which included banking facility agreements signed before and after the reporting period end, and assessing the impact of any covenants and other restrictive terms therein;

Key audit matters (continued)

Assessment of the Group's ability to continue as a going concern (continued)
Refer to note 2(b) to the consolidated financial statements.

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

Key audit matters (continued)

Loss allowance for trade receivables

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

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019, the Group's gross trade receivables due from third party customers and related parties for the automotive heating, ventilation and cooling ("HVAC") business segment totalled RMB530 million, against which loss allowance of RMB97 million was recorded. The Group's trade receivables mainly arose from sales of products to automobile manufacturers in the HVAC business segment. Management measured the loss allowance at an amount equal to lifetime expected credit loss based on estimated loss rates. The estimated loss rates take into account of the ageing of trade receivable balances, the repayment history of the Group's customers, current market conditions, customer-specific conditions, and forward-looking information. Such assessment involves significant management judgement and estimation. We identified loss allowance for trade receivables as a key audit matter because accounts receivables and loss allowance are material to the Group and because the recognition of expected credit losses is inherently subjective and requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, segmentation of accounts receivable, and estimating the expected credit losses allowance; • obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by management, including the basis of the segmentation of the trade receivables based on credit risk characteristics, the historical default data, and the assumptions involved in management's estimated loss rate; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • assessing whether items were correctly categorised in the trade receivables ageing report by comparing a sample of individual items with the underlying goods delivery notes, sales invoices and other relevant underlying documentation; and • comparing, on a sample basis, cash receipts from debtors subsequent to the financial year end relating to trade receivable balances at 31 December 2019 with bank-in slips.

Key audit matters (continued)

Valuation of inventories

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

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019, the carrying amount of the Group's inventories totalled RMB448 million. Inventories held at the year end principally comprise HVAC systems and a range of automotive HVAC components in the HVAC business segment, and automobiles and automobile components in the 4S dealership business segment. Sales of inventories in the automobile industry can be volatile due to keen competition in the market and technical innovation. The Group may sell or dispose of slow-moving inventories at a markdown from the original price to open new market or maintain the existing market share. Accordingly, the actual future selling prices of some items of inventory may fall below their cost. Management assess the net realisable value of slow moving and obsolete inventories and inventories with low or negative gross margins with reference to the inventory ageing report, future utilisation plans, anticipated future selling prices, sales forecasts and costs to sell. Inventories are written down to their net realisable value where this falls below their cost.	Our audit procedures to assess the valuation of inventories included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to the identification of slow moving and obsolete inventories and inventories with low or negative gross margins, monitoring inventory ageing and making relevant inventory provisions; • evaluating the Group's inventory write-down and provision policy with reference to the requirements of the prevailing accounting standards; • assessing whether the inventory write-downs and provisions made at the reporting date were consistent with the Group's inventory write-down and provision policy by recalculating the inventory write-downs and provisions based on the relevant parameters in the Group's policy; • assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation, which included purchase invoices, goods receipt notes and production records;

Key audit matters (continued)

Valuation of inventories (continued)

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

The Key Audit Matter	How the matter was addressed in our audit
We identified the valuation of inventories as a key audit matter because of the significant management judgement required to determine the appropriate level of inventory write-downs and provisions which involves predicting the excess quantities of inventories which will remain unused or unsold after the end of the reporting period and the mark-downs necessary to sell such slow moving inventories, which are inherently uncertain due to changing market conditions and technical innovation in the automotive industry.	• obtaining the list of slow moving and obsolete inventories identified by management and comparing this information, on a sample basis, with our observations during our attendance at the year-end inventory count and the data contained in the inventory ageing report; • performing a retrospective review of the provisions for inventories recorded as at 31 December 2018 by examining movements in the balance during the current year and new provisions made for inventory items as at 31 December 2018 during the current year to assess the historical accuracy of inventory provision made by management; and • assessing, on a sample basis, whether inventories were stated at the lower of cost and net realisable value at the reporting date with reference to selling prices achieved and costs to sell after the financial year end.

Key audit matters (continued)

Capitalisation of development costs

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

The Key Audit Matter	How the matter was addressed in our audit
During the year ended 31 December 2019, the Group capitalised development costs totalling RMB45 million within intangible assets for the development of HVAC systems for sports utility vehicles, pickup trucks, heavy trucks and new-energy vehicles. As at 31 December 2019, the carrying amount of the Group's capitalised development costs totalled RMB105 million. Management is required to exercise significant judgement in assessing whether the costs incurred meet the criteria for capitalisation as set out in the prevailing accounting standards, in determining when amortisation of these costs should commence and in estimating the economic useful lives of these development costs. We identified the capitalisation of development costs as a key audit matter because of the significant development costs incurred in the current year and because of the significant level of management judgement involved in determining whether the criteria for capitalisation were met, in determining the commencement date of amortisation and in determining the estimated useful lives of these development costs.	Our audit procedures to assess the capitalisation of development costs included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to capturing, categorising and approving the capitalisation of development costs, in monitoring the progress of development projects and in determining the commencement date of amortisation and the economic useful lives of development costs; • evaluating management's assessment of the technical and commercial feasibility of development projects by holding discussions with the Group's engineers, inspecting the corresponding feasibility reports and inspecting product development agreements signed with automobile manufacturers; • comparing, on a sample basis, capitalised development costs recorded during the year with relevant underlying documentation to assess whether these items met the criteria for capitalisation with reference to the requirements of the prevailing accounting standards; • assessing the reasons for delays of ongoing development projects by holding discussions with the Group's engineers and automobile manufacturers, and evaluating management's assessment on identifying impairment indicators;

Key audit matters (continued)

Capitalisation of development costs (continued)

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

The Key Audit Matter	How the matter was addressed in our audit
	• assessing the point at which the developed technology became available for commercial use by inspecting the corresponding project completion reports prepared by the Group's engineers and inspecting contractual documentation with automobile manufacturers and confirmed sales orders, if any; and • challenging management's assessment of the estimated economic useful lives for all technology newly developed in the current year by comparing the estimates of economic useful lives with past performance for similar projects and available industry practice information.

Key audit matters (continued)

Impairment assessment of goodwill, property, plant and equipment and intangible assets related to HVAC business

Refer to note 12,14 and 15 to the consolidated financial statements and the accounting policies note 2(g), (h) and (i).

The Key Audit Matter	How the matter was addressed in our audit
Considering the downturn of the auto industry in 2019 and the Group's HVAC business has been loss making since 2017, management considered that there were impairment indicators of goodwill, property, plant and equipment and intangible assets in relation to the HVAC business ("the HVAC assets"). Individual assets of the HVAC business were tested for impairment on a stand-alone basis where the indication of possible impairment was at the level of the single asset and where the value in use of the asset could be estimated to be its fair value less costs of disposal. The remaining assets were tested for impairment as part of the cash generating unit ("CGU") and the recoverable amount of the cash generating unit which conducts the HVAC business was determined by management using the value in use method based on a discounted cash flow forecast as the fair value of this cash generating unit is not readily available.	Our audit procedures to assess potential impairment of the HVAC assets included the following: • assessing the reasonableness of the fair value less costs of disposal used by management to determine the recoverable amount of assets assessed individually with reference to our understanding of the business; • involving our internal valuation specialists in evaluating the methodology used by management in the preparation of the discounted cash flow forecast for the cash generating unit containing the remaining assets with reference to the requirements of the prevailing accounting standards; • involving our internal valuation specialists in assessing whether the discount rate applied in the discounted cashflow forecast was within the range adopted by other companies in the same industry;

Key audit matters (continued)

Impairment assessment of goodwill, property, plant and equipment and intangible assets related to HVAC business (continued)

Refer to note 12,14 and 15 to the consolidated financial statements and the accounting policies note 2(g), (h) and (i).

The Key Audit Matter	How the matter was addressed in our audit
We identified assessing impairment of non-current assets in relation to the HVAC business as a key audit matter because of the inherent complexity involved and the subjective judgement and assumptions made by management in the impairment assessment, particularly in respect of the future revenue growth rates, the long-term growth rates and the discount rates applied, which could be subject to management bias.	• comparing the most significant inputs adopted in the discounted cash flow forecast, including future revenue, gross profit margin and operating expenses based on the historical performance of the Group, and challenging the Group's key assumptions and estimates used to determine the recoverable amount of the CGU; • performing a retrospective review of the prior year's discounted cash flow forecast and comparing the forecast revenue and results with the current year's actual results to assess the reliability of management's forecasting process; and • considering the disclosures in the consolidated financial statements in respect of the assessment of impairment of the HVAC assets with reference to the requirements of the prevailing accounting standards.

Key audit matters (continued)

Recognition of vendor rebates from automobile manufacturers
Refer to note 20 to the consolidated financial statements and the accounting policies note 2(w).

The Key Audit Matter	How the matter was addressed in our audit
The Group is entitled to vendor rebates under numerous different arrangements with automobile manufacturers. Rebate arrangements vary between different automobile manufacturers and in different fiscal years. The Group manually calculates vendor rebates and recognises them when the associated conditions for recognition are met. We identified recognition of vendor rebates as a key audit matter because there are many different kinds of rebate arrangements in place and because the manual calculation of the Group's entitlement to such rebates increases the risk that vendor rebates could be recognised before the entitlement conditions have been met.	Our audit procedures to assess the recognition of vendor rebates from automobile manufacturers included the following: • obtaining an understanding of the design and implementation of management's key internal controls in relation to the recognition of vendor rebates; • assessing the Group's accounting policy on the recognition of vendor rebates by inspecting the terms and conditions of the vendor rebate arrangements for all automobile manufacturers and with reference to the requirements of the prevailing accounting standards; • selecting a sample of vendor rebates recognised and settled during the year and comparing the recognised rebate amounts with credit notes issued by the vendors or bank payment slips; • for vendor rebate receivables at the reporting date, performing recalculations of the receivable amounts, on a sample basis, based on the terms of the underlying vendor rebate arrangements and relevant inputs, including sales and purchase volume data, rebate rates and other specific criteria as set out in the respective vendor rebate arrangements; • evaluating, on a sample basis, the above relevant inputs used to calculate vendor rebates by comparing the inputs with relevant underlying documentation; and • assessing, on a sample basis, whether vendor rebates accrued at the previous financial reporting date were subsequently settled in the current year.

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants

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

27 April 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	Note	2019 RMB'000	2018 (Note) RMB'000
Revenue	5	**1,973,482**	924,104
Cost of sales		**(1,797,793)**	(754,111)
Gross profit		**175,689**	169,993
Other net (loss)/income	6	**(26,896)**	17,123
Distribution costs		**(105,211)**	(54,321)
Administrative expenses		**(131,734)**	(112,185)
Impairment losses on trade and other receivables	7(d)	**(63,825)**	(4,200)
Other operating expenses		**(177)**	(6)
(Loss)/profit from operations		**(152,154)**	16,404
Finance costs	7(a)	**(65,815)**	(32,408)
Loss on fair value changes of financial instruments measured at fair value through profit and loss ("FVTPL")	7(c)	**(64,200)**	—
Loss before taxation		**(282,169)**	(16,004)
Income tax	8	**(5,403)**	599
Loss for the year		**(287,572)**	(15,405)
Attributable to:			
Equity shareholders of the Company		**(285,627)**	(9,228)
Non-controlling interests		**(1,945)**	(6,177)
Loss for the year		**(287,572)**	(15,405)
Loss per share (RMB)			
Basic and diluted	11	**(0.36)**	(0.01)

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(c).

The notes on pages 73 to 163 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	2019 RMB'000	2018 (Note) RMB'000
Loss for the year	**(287,572)**	(15,405)
Other comprehensive income for the year		
Items that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company, net of nil tax	**(6,414)**	1,809
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of entities outside Mainland China, net of nil tax	**(4,047)**	(6,588)
Other comprehensive income for the year	**(10,461)**	(4,779)
Total comprehensive income for the year	**(298,033)**	(20,184)
Attributable to:		
Equity shareholders of the Company	**(296,088)**	(14,007)
Non-controlling interests	**(1,945)**	(6,177)
Total comprehensive income for the year	**(298,033)**	(20,184)

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.

The notes on pages 73 to 163 form part of these financial statements.

Consolidated Statement of Financial Position

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	Note	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Non-current assets			
Property, plant and equipment	12	**971,404**	986,868
Right-of-use assets	13	**121,146**	—
Lease prepayments	13	**—**	68,535
Intangible assets	14	**261,312**	270,690
Goodwill	15	**16,670**	62,040
Long-term receivables		**14,165**	32,254
Non-current prepayments	17	**121,723**	97,379
Derivative financial assets	18	**12,461**	22,191
Other non-current assets		**5,402**	4,594
Amounts due from related parties	35(c)	**156,852**	165,824
Deferred tax assets	27(b)	**38,438**	19,344
		1,719,573	1,729,719
Current assets			
Inventories	19	**448,270**	343,920
Trade and other receivables	20	**643,018**	717,745
Amounts due from related parties	35(c)	**110,914**	182,929
Deposits with banks	21	**63,270**	63,845
Cash	22(a)	**59,290**	73,128
		1,324,762	1,381,567
Current liabilities			
Trade and other payables	23	**1,013,241**	824,091
Amounts due to related parties	35(c)	**13,009**	7,998
Contract liabilities	29	**28,179**	31,410
Loans and other borrowings	24	**978,727**	892,957
Lease liabilities	25	**4,654**	—
Income tax payables	27(a)	**22,215**	25,054
Provisions	28	**3,692**	4,036
		2,063,717	1,785,546
Net current liabilities		**(738,955)**	(403,979)
Total assets less current liabilities		**980,618**	1,325,740

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(c).

The notes on pages 73 to 163 form part of these financial statements.

Consolidated Statement of Financial Position

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	Note	31 December 2019 RMB'000	31 December 2018 (Note) RMB'000
Non-current liabilities			
Deferred income	30	51,071	28,222
Loans and other borrowings	24	75,097	100,102
Deferred tax liabilities	27(b)	48,482	48,554
Acquisition related consideration payables	31	295,810	346,939
Lease liabilities	25	6,268	—
		476,728	523,817
NET ASSETS		503,890	801,923
CAPITAL AND RESERVES	32		
Share capital		6,496	6,496
Reserves		475,581	771,669
Total equity attributable to equity shareholders of the Company		482,077	778,165
Non-controlling interests		21,813	23,758
TOTAL EQUITY		503,890	801,923

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(c).

Approved and authorised for issue by the Board of Directors on 27 April 2020.

Chen Cunyou
Chairman

Ge Hongbing
Director

The notes on pages 73 to 163 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	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 2018:										
Loss for the year	–	–	–	–	–	–	(9,228)	(9,228)	(6,177)	(15,405)
Other comprehensive income	–	–	–	–	–	(4,779)	–	(4,779)	–	(4,779)
Total comprehensive income for the year	–	–	–	–	–	(4,779)	(9,228)	(14,007)	(6,177)	(20,184)
Appropriation to statutory reserves	–	–	2,032	–	–	–	(2,032)	–	–	–
Balance at 31 December 2018 and 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 2019:										
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(285,627)**	**(285,627)**	**(1,945)**	**(287,572)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(10,461)**	**–**	**(10,461)**	**–**	**(10,461)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(10,461)**	**(285,627)**	**(296,088)**	**(1,945)**	**(298,033)**
Balance at 31 December 2019	**6,496**	**65,298**	**58,009**	**291,546**	**17,919**	**(9,216)**	**52,025**	**482,077**	**21,813**	**503,890**

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(c).

The notes on pages 73 to 163 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	Note	2019 RMB'000	2018 RMB'000
Operating activities			
Cash generated from operations	22(b)	**341,486**	164,957
Finance costs paid		**(73,126)**	(32,408)
Income tax paid	27(a)	**(27,408)**	(3,518)
Net cash generated from operating activities		**240,952**	129,031
Investing activities			
Payment for purchase of property, plant and equipment and intangible assets		**(302,825)**	(272,305)
Proceeds from disposal of property, plant and equipment		**3,988**	—
Interest received		**5,989**	291
Repayment of advance to related parties		**102,750**	—
Settlement of consideration payables		**(113,017)**	—
Net cash inflow from acquisition of subsidiaries		**—**	27,305
Net cash used in investing activities		**(303,115)**	(244,709)
Financing activities			
Proceeds from new bank loans and other borrowings	22(c)	**1,785,028**	654,404
Repayment of bank loans and other borrowings	22(c)	**(1,722,854)**	(484,780)
Payment of guarantee deposit		**(5,150)**	(2,046)
Capital element of lease rentals paid	22(c)	**(5,661)**	–
Net cash generated from financing activities		**51,363**	167,578
Net (decrease)/increase in cash		**(10,800)**	51,900
Cash at 1 January	22(a)	**73,128**	20,887
Effect of foreign exchange rate changes		**(3,038)**	341
Cash at 31 December	22(a)	**59,290**	73,128

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(c).

The notes on pages 73 to 163 form part of these financial statements.

1 General information

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

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

2 Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

The Group incurred a net loss of RMB288 million for the year ended 31 December 2019. As at 31 December 2019, the Group had net current liabilities of RMB739 million, total borrowings of RMB1,054 million, acquisition related consideration payables of RMB296 million and capital commitments which had been contracted for RMB63 million.

2 Significant accounting policies (Continued)

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

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 RMB241 million during the year ended 31 December 2019 and expects to continue to improve its working capital management and generate positive operating cash flows for the next twelve months;

(2) at 31 December 2019, the Group had available unutilised bank facilities of RMB105 million;

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

(4) the Group can adjust the schedule of certain planned capital expenditure for the year ending 31 December 2020;

(5) the Group can extend maturity dates of borrowings from related parties and delay the repayment schedule of amounts of not less than RMB120 million;

(6) the Group entered into an agreement with government in April 2020. Based on the agreement, the Group can obtain a government subsidy of an amount of not less than RMB200 million in respect of plant relocation during the year ending 31 December 2020; and

(7) the largest shareholder, an executive director of the Group and a related party of the Group, Jiangsu Xiezhong Automobile (Group) Company Limited ("Xiezhong Automobile") confirmed that they will provide adequate financial support to the Group as is necessary to ensure its continuing operation for a period of at least twelve months from the end of the reporting period.

In addition to the above, the Group plans to dispose of certain land use right and properties for a consideration of approximately RMB110 million, and is in negotiation with several commercial banks to obtain further banking facilities of RMB150 million to finance its operations for the year ending 31 December 2020. Consequently, the directors have concluded that the Group has adequate resources to continue in operational existence for the foreseeable future and that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

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

2 Significant accounting policies (Continued)

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

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

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

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

(c) Changes in accounting policies

The IASB has issued a new IFRSs, 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. 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.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach, performed an assessment on the impact of cumulative effect of initial application and concluded there is no 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 Significant accounting policies (Continued)

(c) 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. 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.

b. Lessee accounting and transitional impact

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 which are exempted. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 34(b). For an explanation of how the Group applies lessee accounting, see note 2(j)(i).

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).

2 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

b. Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in note 34(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.

2 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

b. Lessee accounting and 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 prepayments	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**

c. Impact on the financial result, segment results 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 (see note 22(c)). The capital element is classified as financing cash outflow, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflow, 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 (see note 22(d)).

2 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

c. Impact on the financial result, segment results and cash flows of the Group (Continued)

The following tables 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 year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated 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 year ended 31 December 2019 impacted by the adoption of IFRS 16:					
(Loss)/profit from operations	(152,154)	8,106	(9,879)	(153,927)	16,404
Finance costs	(65,815)	993	—	(64,822)	(32,408)
Loss before taxation	(282,169)	9,099	(9,879)	(282,949)	(16,004)
Loss for the year	(287,572)	9,099	(9,879)	(288,352)	(15,405)
Reportable segment (loss)/ profit for the year ended 31 December 2019 (note 4(a)) impacted by the adoption of IFRS 16:					
— HVAC business	(5,626)	—	(6,427)	(12,053)	68,645
— 4S business	115,473	—	(1,255)	114,218	—
— Total	109,847	—	(7,682)	102,165	68,645

2 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

c. Impact on the financial result, segment results 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 consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	341,486	(6,654)	334,832	164,957
Finance costs paid	(73,126)	993	(72,133)	(32,408)
Net cash generated from operating activities	240,952	(5,661)	235,291	129,031
Capital element of lease rentals paid	(5,661)	5,661	—	—
Net cash generated from financing activities	51,363	5,661	57,024	167,578

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 generated from financing activities as if IAS 17 still applied.

(d) Business combination

The Group accounts for business combination using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 2(k)). Any gain on a bargain purchase is recognized in profit and loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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

2 Significant accounting policies (Continued)

(e) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

(f) Derivative financial instruments

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

2 Significant accounting policies (Continued)

(g) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(h) Property, plant and equipment

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

— right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and

— items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(j)).

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

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

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

— Freehold land	Not depreciated
— Plant and buildings	15–38 years
— Machinery and equipment	3–10 years
— Furniture, fixtures and office equipment	3–5 years
— Motor vehicles	4–5 years
— Leasehold improvement	Over the shorter of the unexpired term of the lease and the estimated useful lives

2 Significant accounting policies (Continued)

(h) Property, plant and equipment (Continued)

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

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

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

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

(i) Intangible assets (other than goodwill)

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

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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

Customer relationships	5–10 years
Core technology	10 years
Software and patent	5–10 years
Capitalised development costs	5 years
Car dealership	40 years

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

Both the period and method of amortisation are reviewed annually.

2 Significant accounting policies (Continued)

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

(i) As a lease

(A) Policy applicable from 1 January 2019

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.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. 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.

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 (see notes 2(h) and 2(k)(ii)).

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.

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

2 Significant accounting policies (Continued)

(j) Leased assets (Continued)

(i) As a lease (Continued)

(B) Policy applicable prior to 1 January 2019

(i) Lease prepayments

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

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

(ii) Operating lease charges

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

(k) Credit loss and impairment of assets

(i) Credit losses from financial instruments

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

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

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

Measurement of ECLs

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

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

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

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

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

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

2 Significant accounting policies (Continued)

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

(i) Credit losses from financial instruments (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

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

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

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

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

Significant increases in credit risk

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

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

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

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

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

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

2 Significant accounting policies (Continued)

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

(i) Credit losses from financial instruments (Continued)

Significant increases in credit risk (Continued)

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

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

Basis of calculation of interest income

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

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

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

— significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

2 Significant accounting policies (Continued)

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

(ii) Impairment of other non-current assets

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

— property, plant and equipment;

— right-of-use assets;

— intangible assets;

— goodwill; and

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

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

2 Significant accounting policies (Continued)

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

(iii) Interim financial reporting and impairment

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

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

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

(i) HVAC business

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

(ii) 4S business

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase after deducting rebates from suppliers and other costs incurred in bringing the inventories to their present location and condition.

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(m) Trade and other receivables

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

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

2 Significant accounting policies (Continued)

(n) Cash and cash equivalents

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

(o) Loans and other borrowings

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

(p) Trade and other payables

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

(q) Contract liabilities

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

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

(r) Convertible notes

Convertible notes issued by the Group have been designated as at fair value through profit or loss. At initial recognition, the instruments are measured at fair value. Transaction costs that relate to the issue of the instruments are recognised immediately in profit or loss. The instruments are subsequently remeasured at fair value, with any gain or loss on remeasurement to fair value recognised in profit or loss. When a holder of the instruments exercises the right to convert the instruments into ordinary shares, the fair value of the related instruments is transferred to share capital and share premium as consideration for the shares issued. When the instruments are redeemed by the Group, any difference between the amount paid and the carrying amount of the instruments is recognised in profit or loss.

(s) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plan

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

2 Significant accounting policies (Continued)

(s) Employee benefits (Continued)

(iii) Share-based payments

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

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

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(t) Income tax

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

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

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

2 Significant accounting policies (Continued)

(t) Income tax (Continued)

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

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

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

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

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

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

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

    - the same taxable entity; or

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

2 Significant accounting policies (Continued)

(u) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

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

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

(ii) Contingent liabilities assumed in business combinations

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

(v) Revenue and other income

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

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

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

2 Significant accounting policies (Continued)

(v) Revenue and other income (Continued)

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

(i) Sale of goods

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

(ii) Service income

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

(iii) Commission income

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

(iv) Interest income

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

(w) Government grants

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

(x) Vendor rebates

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

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

(y) Translation of foreign currency

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

2 Significant accounting policies (Continued)

(y) Translation of foreign currency (Continued)

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

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

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

(z) Borrowing costs

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

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

(aa) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

2 Significant accounting policies (Continued)

(aa) Related parties (Continued)

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

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

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

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

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

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

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

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

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

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

(bb) Segment reporting

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

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

3 Accounting judgements and estimates

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

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

Recognition of income taxes and deferred tax assets

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

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Depreciation and amortisation

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

After conducting a review on the useful lives of the property, plant and equipment and intangible assets of the Group, in order to more accurately reflect the useful lives of the property, plant and equipment and intangible assets, and to ensure that the property, plant and equipment and intangible assets and their related depreciation and amortisation expenses more appropriately reflect the Group's actual usage conditions, the Group resolved to change the accounting estimates of the useful lives of moulds and capitalised development costs from 8 years to 5 years. The useful lives of moulds and capitalised development costs were changed from 1 September 2019 as explained further below.

Certain HVAC systems are developed through research and development activities and related expenses charged to qualified expenditures are capitalised as development costs in intangible assets. During the production process, the HVAC products are generally produced through moulds, which are recorded under machinery and equipment. Those capitalised development costs and moulds are designed to fulfill respective sales orders for different automobiles. Management had previously expected that the moulds and capitalised development costs could be generally used for 8 years, which is in line with the average sales cycle of automobiles. With the development in auto industry and the market downturns, the sales cycle of most automobile is shortened, which in turn shorten the expected useful lives of moulds and capitalised development costs. Therefore, considering the above facts, circumstances and report from internal technicians, it is expected that the current expected useful life of the moulds and capitalised development costs are different from the useful lives originally estimated.

3 Accounting judgements and estimates (Continued)

(b) Sources of estimation uncertainty (Continued)

(i) Depreciation and amortisation (Continued)

These changes in estimated useful lives of the moulds and capitalised development costs were accounted for as changes in accounting estimates effective since 1 September 2019. The impact of these changes for the four months period ended 31 December 2019 was an increase in depreciation and amortisation expenses of RMB21 million and RMB2 million respectively. The effect of such changes in estimated useful lives represents a temporary difference and does not have any effect on the total depreciation and amortisation expenses of those assets during the assets' lives.

(ii) Capitalisation of intangible assets

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

(iii) Impairment of intangible assets

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

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

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

(iv) Net realisable value of inventories

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

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

3 Accounting judgements and estimates (Continued)

(b) Sources of estimation uncertainty (Continued)

(v) Loss allowance of trade and other receivables

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

(vi) Warranty provision

As explained in note 28, the Group makes provision under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(vii) Determining the lease term

As explained in policy note 2(j), 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 favourable 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.

4 Segment reporting

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

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

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

(a) Segment results, assets and liabilities

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

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

4 Segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2019 is set out below:

	HVAC business		4S dealership business*		Total	
	2019	2018 (Note)	**2019**	2018 (Note)	**2019**	2018 (Note)
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Disaggregated by timing of revenue recognition						
Point in time	**877,978**	924,104	**1,095,504**	—	**1,973,482**	924,104
Revenue from external customers	**877,978**	924,104	**1,095,504**	—	**1,973,482**	924,104
Inter-segment revenue	**—**	—	**—**	—	**—**	—
Reportable segment revenue	**877,978**	924,104	**1,095,504**	—	**1,973,482**	924,104
Reportable segment (loss)/profit	**(5,626)**	68,645	**115,473**	—	**109,847**	68,645
Interest income from bank deposits	**527**	291	**11,128**	—	**11,655**	291
Interest expense	**55,474**	32,408	**10,341**	—	**65,815**	32,408
Depreciation and amortisation for the year	**130,788**	85,049	**12,654**	—	**143,442**	85,049
Impairment of						
— Property, plant and equipment	**29,815**	—	**—**	—	**29,815**	—
— Intangible assets	**38,541**	—	**—**	—	**38,541**	—
— Goodwill	**45,370**	—	**—**	—	**45,370**	—
Reportable segment assets	**2,423,748**	2,300,580	**697,804**	706,812	**3,121,552**	3,007,392
Reportable segment liabilities	**1,948,446**	1,553,686	**368,120**	331,766	**2,316,566**	1,885,452

* As 4S dealership business was acquired on 28 December 2018, no segment profit/(loss) information for the year ended 31 December 2018 is presented.

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(c).

The measure used for reporting segment profit is "reportable segment (loss)/profit" which exclude impairment loss of non-current 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.

4 Segment reporting (Continued)

(b) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities:

	For the year ended 31 December 2019 RMB'000
Revenue	
Reportable segment revenue	1,973,482
Elimination of inter-segment revenue	–
Consolidated revenue	1,973,482

	For the year ended 31 December 2019 RMB'000
Profit	
Reportable segment profit	109,847
Elimination of inter-segment profits	–
Reportable segment profit derived from Group's external customers	109,847
Impairment loss of non-current assets	(113,726)
Depreciation and amortisation	(143,442)
Finance costs	(65,815)
Loss on fair value changes of financial instruments measured at FVTPL	(64,200)
Unallocated head office and corporate expenses	(4,833)
Consolidated loss before taxation	(282,169)

4 Segment reporting (Continued)

(b) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities: (Continued)

	2019 RMB'000	2018 RMB'000 (Note)
Assets:		
Reportable segment assets	3,121,552	3,007,392
Elimination of inter-segment receivables	(145,817)	—
	2,975,735	3,007,392
Goodwill	16,670	62,040
Deferred tax assets	38,438	19,344
Unallocated corporate assets	13,492	22,510
Consolidated total assets	3,044,335	3,111,286
Liabilities:		
Reportable segment liabilities	2,316,566	1,885,452
Elimination of inter-segment payables	(145,817)	—
	2,170,749	1,885,452
Income tax payables	22,215	25,054
Deferred tax liabilities	48,482	48,554
Unallocated corporate liabilities	298,999	350,303
Consolidated total liabilities	2,540,445	2,309,363

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(c).

4 Segment reporting (Continued)

(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 assets"). 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		Specified non-current assets	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China	**1,912,209**	872,275	**1,240,812**	1,268,471
The Kingdom of Morocco ("Morocco")	**545**	—	**251,443**	217,041
France	**49,499**	50,005	**—**	—
The Kingdom of Spain	**8,398**	1,824	**—**	—
Slovakia	**2,831**	—	**—**	—
	1,973,482	924,104	**1,492,255**	1,485,512

(d) Information about major customers

The Group's customer base is diversified and includes only 1 customer (2018: 3 customers) with whom transactions have exceeded 10% of the Group's annual revenue during the year. Details of concentrations of credit risk arising from the Group's largest customer and the five largest customers are set out in note 33(a).

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

	2019	2018
	RMB'000	RMB'000
Customer A	**259,810**	211,413
Customer B	**Less than 10% of total revenue**	159,536
Customer C	**Less than 10% of total revenue**	101,668

5 Revenue

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

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

Revenue from contracts with customers within the scope of IFRS 15	2019 RMB'000	2018 RMB'000
HVAC business		
Sales of HVAC systems and HVAC components	868,391	916,517
Revenue from the rendering of services	9,587	7,587
	877,978	924,104
4S dealership business		
Sales of passengers vehicles	960,972	—
After-sales services	134,532	—
	1,095,504	—
	1,973,482	924,104

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

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

6 Other net (loss)/income

	2019 RMB'000	2018 RMB'000
Government grants	**15,036**	10,578
Net foreign exchange gain	**811**	4,465
Service income	**55,566**	1,538
Interest income on financial assets measured at amortised cost	**11,655**	291
Impairment loss of		
— property, plant and equipment (note 12)	**(29,815)**	—
— intangible assets (note 14)	**(38,541)**	—
— goodwill (note 15)	**(45,370)**	—
Others	**3,762**	251
	(26,896)	17,123

7 Loss before taxation

Loss before taxation is arrived at after charging:

(a) Finance costs

	2019 RMB'000	2018 (Note) RMB'000
Interest on bank loans and other borrowings	**60,975**	28,068
Interest on lease liabilities (note 22(c))	**993**	—
Interest on discounted bills	**8,998**	7,406
Total interest expense on financial liabilities not at fair value through profit or loss	**70,966**	35,474
Less: interest expense capitalised into properties under development*	**(5,151)**	(3,066)
	65,815	32,408

* The borrowing costs have been capitalised at a rate of 2.75%–6.18% per annum (2018: 2.75%–6.18%).

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

7 Loss before taxation (Continued)

(b) Staff costs

	Note	2019 RMB'000	2018 RMB'000
Salaries, wages, and other benefits		**145,258**	113,929
Contributions to defined contribution retirement plan	(i)	**8,116**	7,566
		153,374	121,495

(i) Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in defined contribution retirement benefit schemes (the "scheme") organised by the PRC government authorities whereby the Group is required to make contributions to the scheme at the rate of 14%–20% (2018: 14%~20%) of the eligible employees' salaries.

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

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

	2019 RMB'000	2018 RMB'000
Financial assets at FVTPL		
Mandatorily measured at FVTPL	**9,255**	—
Financial liabilities at FVTPL		
Designated at initial recognition		
— Promissory notes	**25,360**	—
— Convertible bonds tranche 1 ("CB1")	**1,003**	—
	26,363	—
Mandatorily measured at FVTPL		
— Commitment to issue promissory notes	**(2,408)**	—
— Commitment to issue convertible bonds	**30,990**	—
	28,582	—
	64,200	—

7 Loss before taxation (Continued)

(d) Other items

	Note	2019 RMB'000	2018 RMB'000
Amortisation#			
— lease prepayments*		—	1,487
— intangible assets	14	17,817	9,509
Depreciation charge#			
— owned property, plant and equipment	12	117,519	74,053
— right-of-use assets*	13	8,106	—
Total minimum lease payments for leases previously classified as operating leases under IAS 17*#		—	11,634
Impairment losses			
— trade and other receivables	33(a)	63,825	4,200
— property, plant and machinery	12	29,815	—
— intangible assets	14	38,541	—
— goodwill	15	45,370	—
Auditors' remuneration			
— audit services		4,220	2,900
— other services		200	1,700
Research and development ("R&D") costs (other than depreciation & amortisation)		11,450	13,421
Decrease in provision for product warranties	28	(1,512)	(308)
Cost of inventories#	19	1,796,414	751,684

* The Group has initially applied IFRS 16 using the modified retrospective approach to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

\# Cost of inventories includes RMB120,059,000 (2018: RMB116,893,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8 Income tax in the consolidated statement of profit or loss

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

	Note	2019 RMB'000	2018 RMB'000
Current tax-PRC income tax			
Provision for the year	27(a)	24,710	2,415
(Over)/under-provision in respect of prior years	27(a)	(141)	502
		24,569	2,917
Deferred tax			
Origination and reversal of temporary differences	27(b)	(19,166)	(3,516)
		(19,166)	(3,516)
		5,403	(599)

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

	Note	2019 RMB'000	2018 RMB'000
Loss before taxation		(282,169)	(16,004)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	(i)	(42,105)	(2,137)
Tax effect of non-deductible expenses		722	570
Effect of additional deduction on R&D expenses	(ii)	(4,448)	(4,212)
Tax effect of unused tax losses not recognised		17,500	2,028
Effect of tax concession	(iii)	33,875	2,650
(Over)/under-provision in respect of prior years		(141)	502
Actual tax expense		5,403	(599)

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

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

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

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

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not derive any income which was subject to Hong Kong Profit Tax during the year (2018: Nil).

The statutory income tax rate for the subsidiary located in Morocco is 30%.

(ii) Under the CIT Law and its relevant regulations, qualified R&D expenses and amortisation of capitalised development costs in intangible assets are subject to income tax deductions at 175% (2018: 175%) on the amount actually incurred.

(iii) 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 a period from 2018 to 2020 pursuant to the current applicable CIT Law and its regulations.

According to the tax policy of Atlantic Free Zone of Morocco, the Group's subsidiary located in Morocco is entitled to a preferential income tax rate of 0% from 2019 to 2023, and 8.75% from 2024 and thereafter.

9 Directors' emoluments

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

	Year ended 31 December 2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive Directors					
Mr. Chen Cunyou	–	233	200	56	489
Mr. Ge Hongbing	–	220	210	56	486
Ms. Chen Xiaoting	–	537	45	16	598
Mr. Shen Jun	–	537	45	–	582
Non-executive Director					
Mr. Huang Yugang	–	194	180	50	424
Independent non-executive Directors					
Mr. Cheung Man Sang	161	–	–	–	161
Mr. Lau Ying Kit	161	–	–	–	161
Mr. Zhang Shulin	161	–	–	–	161
Mr. Lin Lei	161	–	–	–	161
	644	1,721	680	178	3,223

9 Directors' emoluments (Continued)

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

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2018: four) are directors of the Company whose remuneration is disclosed in note 9 above. The aggregate of the emoluments in respect of the other two (2018: one) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	1,291	584
Discretionary bonuses	102	50
Retirement scheme contributions	60	31
	1,453	665

The emoluments of these two (2018: one) individual with the highest emoluments are within the band Nil to HKD1 million for the year.

11 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB285,627,000 (2018: RMB9,228,000) and the number of 800,000,000 ordinary shares (2018: 800,000,000 ordinary shares) in issue during the year.

Number of shares

	2019	2018
Number of issued ordinary shares at 1 January and 31 December	800,000,000	800,000,000

(b) Diluted loss per share

Diluted loss per share was the same as basic loss per share for the year ended 31 December 2019 as the potential ordinary shares under the conversion of convertible bonds have anti-dilutive effects on the basic loss per share.

12 Property, plant and equipment

	Freehold land (Note)	Plant and buildings	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress ("CIP")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 1 January 2018	13,249	194,128	716,590	20,989	13,572	77,903	1,036,431
Additions	—	4,619	35,335	2,163	2,949	244,410	289,476
Addition through acquisition of subsidiaries	—	67,833	3,591	5,711	16,102	—	93,237
Transfer from CIP	—	40,753	6,760	—	—	(47,513)	—
At 31 December 2018	13,249	307,333	762,276	28,863	32,623	274,800	1,419,144
At 1 January 2019	**13,249**	**307,333**	**762,276**	**28,863**	**32,623**	**274,800**	**1,419,144**
Additions	**—**	**19,800**	**82,714**	**6,705**	**7,520**	**66,838**	**183,577**
Transfer from CIP	**—**	**39,440**	**139,865**	**—**	**—**	**(179,305)**	**—**
Disposal	**—**	**(3,895)**	**(65,953)**	**(2,792)**	**(7,388)**	**—**	**(80,028)**
At 31 December 2019	**13,249**	**362,678**	**918,902**	**32,776**	**32,755**	**162,333**	**1,522,693**
Accumulated depreciation and impairment:							
At 1 January 2018	—	(35,110)	(270,334)	(15,531)	(10,142)	—	(331,117)
Charge for the year	—	(6,587)	(65,148)	(1,449)	(869)	—	(74,053)
Addition through acquisition of subsidiaries	—	(13,332)	(2,259)	(5,167)	(6,348)	—	(27,106)
At 31 December 2018	—	(55,029)	(337,741)	(22,147)	(17,359)	—	(432,276)
At 1 January 2019	**—**	**(55,029)**	**(337,741)**	**(22,147)**	**(17,359)**	**—**	**(432,276)**
Charge for the year	**—**	**(11,471)**	**(99,976)**	**(1,927)**	**(4,145)**	**—**	**(117,519)**
Impairment loss	**—**	**—**	**(29,815)**	**—**	**—**	**—**	**(29,815)**
Written back on disposals	**—**	**—**	**24,347**	**2,378**	**1,596**	**—**	**28,321**
At 31 December 2019	**—**	**(66,500)**	**(443,185)**	**(21,696)**	**(19,908)**	**—**	**(551,289)**
Net book value:							
At 31 December 2019	**13,249**	**296,178**	**475,717**	**11,080**	**12,847**	**162,333**	**971,404**
At 31 December 2018	13,249	252,304	424,535	6,716	15,264	274,800	986,868

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

During the year ended 31 December 2019, a number of equipment in the property development division were idle or physically damaged. The Group does not expect to have future economic benefits recoverable from the use of those equipment. There is no alternative use of those equipment which is specifically designed. The recoverable amounts of those equipment are estimated to be zero. As a result, a full impairment loss of RMB29,815,000 was made against the carrying amounts of those equipment and recognised in "other net (loss)/income".

13 Right-of-use assets

(a) Reconciliation of carrying amount

	Ownership interests in land and buildings held for own use carried at cost RMB'000	Other properties leased for own use carried at cost RMB'000	Total RMB'000
Cost:			
At 1 January 2018	–	–	–
Additions	–	–	–
Addition through acquisition of subsidiaries	–	–	–
At 31 December 2018	–	–	–
Impact on initial application of IFRS 16 (Note)	**80,988**	**12,197**	**93,185**
At 1 January 2019	**80,988**	**12,197**	**93,185**
Additions	**43,232**	**5,288**	**48,520**
At 31 December 2019	**124,220**	**17,485**	**141,705**
Accumulated amortisation:			
At 1 January 2018	–	–	–
Charge for the year	–	–	–
Addition through acquisition of subsidiaries	–	–	–
At 31 December 2018	–	–	–
Impact on initial application of IFRS 16 (Note)	**(12,453)**	**–**	**(12,453)**
At 1 January 2019	**(12,453)**	**–**	**(12,453)**
Charge for the year	**(2,197)**	**(5,909)**	**(8,106)**
At 31 December 2019	**(14,650)**	**(5,909)**	**(20,559)**
Net book value:			
At 31 December 2019	**109,570**	**11,576**	**121,146**
At 31 December 2018	–	–	–

Note: 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. See note 2(c).

13 Right-of-use assets (Continued)

(b) The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	31 December 2019 RMB'000	1 January 2019 RMB'000
Land use right	(i)	109,570	68,535
Other properties leased for own use	(ii)	11,576	12,197
		121,146	80,732

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 (Note) RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use right	2,197	1,487
Other properties leased for own use	5,909	—
	8,106	1,487
Interest on lease liabilities (note 7(a))	993	—
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	810	—
Total minimum lease payments for leases previously classified as operating leases under IAS 17	—	11,634

Note: The Group has initially applied IFRS 16 using the modified retrospective approach to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

13 Right-of-use assets (Continued)

(b) (Continued)

During the year ended 31 December 2019, additions to right-of-use assets were RMB48,520,000. This amount included the purchase of a land use right of RMB43,232,000, and the remainder primarily related to the capitalised lease payments payable under new lease agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 22(d) and 25, respectively.

(i) Land use right

Land use right represented land use rights in the PRC where certain manufacturing facilities are located. The land use right are typically granted for 50 years, on the expiry of which the land reverts back to the PRC state. The payment for leasing the land is normally made in full at the start of the land use right period.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its manufacturing facilities, warehouses and office buildings through lease agreements. The leases typically run for an initial period of 1 to 6 years. None of the leases includes variable lease payments.

14 Intangible assets

	Customer relationships RMB'000	Capitalised development costs RMB'000	Core technology RMB'000	Software and patent RMB'000	Car dealerships RMB'000	Total RMB'000
Cost:						
At 1 January 2018	53,356	79,354	13,835	1,538	–	148,083
Additions	–	39,339	–	4,792	–	44,131
Addition through acquisition of subsidiaries	–	–	–	87	154,950	155,037
At 31 December 2018	53,356	118,693	13,835	6,417	154,950	347,251
At 1 January 2019	**53,356**	**118,693**	**13,835**	**6,417**	**154,950**	**347,251**
Additions	**–**	**45,327**	**–**	**1,653**	**–**	**46,980**
At 31 December 2019	**53,356**	**164,020**	**13,835**	**8,070**	**154,950**	**394,231**
Accumulated amortisation and impairment:						
At 1 January 2018	(50,876)	(2,277)	(13,144)	(668)	–	(66,965)
Charge for the year	(2,480)	(5,706)	(691)	(632)	–	(9,509)
Addition through acquisition of subsidiaries	–	–	–	(87)	–	(87)
At 31 December 2018	(53,356)	(7,983)	(13,835)	(1,387)	–	(76,561)
At 1 January 2019	**(53,356)**	**(7,983)**	**(13,835)**	**(1,387)**	**–**	**(76,561)**
Charge for the year	**–**	**(12,581)**	**–**	**(1,362)**	**(3,874)**	**(17,817)**
Impairment loss	**–**	**(38,541)**	**–**	**–**	**–**	**(38,541)**
At 31 December 2019	**(53,356)**	**(59,105)**	**(13,835)**	**(2,749)**	**(3,874)**	**(132,919)**
Net book value:						
At 31 December 2019	**–**	**104,915**	**–**	**5,321**	**151,076**	**261,312**
At 31 December 2018	–	110,710	–	5,030	154,950	270,690

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

During the year ended 31 December 2019, the Group assessed that the carrying amounts of certain capitalised development costs may not be recoverable. The Group assessed the recoverable amounts of those capitalised development costs based on value-in-use calculations. As a result, the carrying amounts of those capitalized development costs were written down to their recoverable amounts and an impairment loss of RMB38,541,000 was recognized in "other net (loss)/income".

15 Goodwill

	RMB'000
Cost:	
At 1 January 2019 and 31 December 2019	62,040
Accumulated impairment losses:	
At 1 January 2019	—
Impairment loss	(45,370)
At 31 December 2019	**(45,370)**
Carrying amount:	
At 31 December 2019	**16,670**
At 1 January 2019	62,040

Impairment tests for CGUs containing goodwill

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

	2019 RMB'000	2018 RMB'000
HVAC business	**1,462**	46,832
4S dealership business	**15,208**	15,208
	16,670	62,040

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% and 3% for the HVAC business and 4S dealership business respectively (2018: HVAC business: 3% and 4S dealership business: 3%) which are consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The discount rates applied to the cash flow projections are 14% and 12% for the HVAC business and 4S dealership business respectively (2018: HVAC business: 13% and 4S dealership business: 12%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

The impairment loss recognised during the year solely relates to the Group's HVAC business, and as a result the goodwill allocated to HVAC business has been reduced to RMB1,462,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

(Expressed in Renminbi Yuan)

16 Interests in subsidiaries

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

			Proportion of ownership interest			
Name	Place of incorporation and operation	Particulars of issued and paid-up capital/registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Xiezhong Holdings Limited ("Xiezhong BVI")	British Virgin Islands	1,005 shares of USD1 each	100%	100%	–	Investment holding
Xiezhong Auto – Airconditioner (Hong Kong) Limited ("Xiezhong Hong Kong")	Hong Kong	2 shares	100%	–	100%	Investment holding
Xiezhong Nanjing	the PRC	RMB510,000,000	100%	–	100%	Production and sale of automotive air-conditioner and rendering of service
Liaoning Chenyou Automobile Air-conditioning System Co., Ltd.	the PRC	RMB10,000,000	60%	–	60%	Production and sale of automotive air-conditioner
Beijing Hainachuan Xiezhong Automobile Air-conditioning Co., Ltd. ("Xiezhong Beijing") (note (i))	the PRC	RMB43,000,000	50%	–	50%	Sale of automotive air-conditioner
Xiezhong Morocco Automotive Air Conditioning Co., Ltd. ("Xiezhong Morocco")	Morocco	EUR2,000,000	100%	–	100%	Production and sale of automotive air-conditioner and related automotive components
Wuhan Xiezhong Air Conditioning Co., Ltd. ("Xiezhong Wuhan")	the PRC	RMB100,000,000	100%	–	100%	Production and sale of automotive air-conditioner
Chongqing Xiezhong Air Conditioning Co., Ltd. ("Xiezhong Chongqing")	the PRC	RMB10,000,000	100%	–	100%	Production and sale of automotive air-conditioner
Chengdu Xiezhong Air Conditioning Co., Ltd. ("Xiezhong Chengdu")	the PRC	RMB10,000,000	100%	–	100%	Production and sale of automotive air-conditioner
Shandong Xiezhong Air Conditioning Co., Ltd. ("Xiezhong Shandong")	the PRC	RMB20,000,000	100%	–	100%	Production and sale of automotive air-conditioner
Nanjing Xiezhong International Trading Co., Ltd. ("Xiezhong Trading")	the PRC	RMB10,000,000	100%	–	100%	Sale of automotive air-conditioner
Sino Evergreen International Ltd. ("Sino Evergreen")	Hong Kong	RMB129,000,000	100%	100%	–	Investment holding
Jin Cheng Auto Parts (Hong Kong) Ltd. ("Jin Cheng HK")	Hong Kong	RMB63,000,000	100%	100%	–	Investment holding
Yueqing Youxu Industrial Development Co., Ltd. ("Yueqing Youxu")	the PRC	RMB83,000,000	100%	–	100%	Investment holding
Jiangsu Xiezhong Chenyou Automobile Co., Ltd. ("Xiezhong Chenyou")	the PRC	RMB20,000,000	100%	–	100%	4S dealership business
Nanjing Xiezhong Lexus Automobile Sales Co., Ltd. ("Xiezhong Lexus")	the PRC	RMB40,000,000	100%	–	100%	4S dealership business
Maanshan Xiezhong Automobile Sales Co., Ltd. ("Xiezhong Maanshan")	the PRC	RMB20,000,000	100%	–	100%	4S dealership business

Note:

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

17 Non-current prepayments

As at 31 December 2019, non-current prepayments mainly represented the prepayments for procurement of machinery and equipment.

As at 31 December 2019, no non-current prepayments (2018: RMB5,859,000) was pledged as collateral for the Group's bank loans and other borrowings (see note 24).

18 Derivative financial assets

As at 31 December 2019, the following derivative financial assets arose from the acquisition of 4S dealership business in 2018.

	2019 RMB'000	2018 RMB'000
Derivative financial assets		
— Put option held by the Group	12,461	22,191

19 Inventories

	2019 RMB'000	2018 RMB'000
HVAC business		
— Raw materials	72,160	46,653
— Work in progress	22,742	12,850
— Finished goods	299,851	224,390
	394,753	283,893
4S dealership business		
— Motor vehicles	48,445	54,973
— Automobile spare parts	5,072	5,054
	53,517	60,027
	448,270	343,920

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

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	1,759,501	746,028
Write-down of inventories	36,913	5,656
	1,796,414	751,684

All of the inventories are expected to be recovered within one year.

20 Trade and other receivables

	2019 RMB'000	2018 RMB'000
Trade receivables due from third parties, net of loss allowance	**341,707**	360,722
Bills receivable	**150,308**	220,874
Other debtors, deposits and prepayments	**151,003**	136,149
Total	**643,018**	717,745

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

Other debtors, deposits and prepayments contain vendor rebates due from reputable automobile manufacturers amounted to RMB26,729,000 (2018: RMB32,678,000).

(a) Transfers of financial assets

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

As at 31 December 2019, the Group discounted certain bank acceptance bills with a carrying amount of RMB113,179,000 (31 December 2018: RMB118,517,000) to banks for cash proceeds. The Group also endorsed certain bank acceptance bills and commercial bills with a carrying amount of RMB90,606,000 (31 December 2018: RMB99,251,000) and RMB4,749,000 (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.

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

As at 31 December 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 derecognized 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 31 December 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 RMB73,800,000 and RMB52,450,000 (31 December 2018: RMB214,591,000 and RMB114,983,000) respectively.

20 Trade and other receivables (Continued)

(b) Ageing analysis

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

	2019 **RMB'000**	2018 RMB'000
Within 3 months	**506,186**	527,512
3 to 6 months	**48,551**	76,487
6 to 12 months	**22,904**	50,387
Over 12 months	**16,686**	15,157
Total	**594,327**	669,543

Trade receivables and bills receivable are mainly due within 1 month to 6 months from the date of billing. Further details on the Group's credit policy are set out in note 33(a).

21 Deposits with banks

	2019 **RMB'000**	2018 RMB'000
Guarantee deposits for issuance of letter of credit	**10,000**	10,000
Guarantee deposits for bank and other borrowings	**35,473**	41,029
Guarantee deposits for bank acceptance bills	**17,797**	12,816
	63,270	63,845

22 Cash

(a) Cash comprises:

	2019 **RMB'000**	2018 RMB'000
Cash at bank and on hand	**59,290**	73,128

As at 31 December 2019, cash of the Group held in banks and financial institutions in the PRC amounted to RMB55,236,000 (2018: RMB61,422,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

22 Cash (Continued)

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

	Note	2019 RMB'000	2018 (Note) RMB'000
Loss before taxation		**(282,169)**	(16,004)
Adjustments for:			
Impairment losses on trade and other receivables	7(d)	**63,825**	4,200
Impairment losses on property, plant and equipment	12	**29,815**	—
Impairment losses on intangible assets	14	**38,541**	—
Impairment losses on goodwill	15	**45,370**	—
Depreciation of property, plant and equipment	12	**117,519**	74,053
Amortisation of lease prepayments		**—**	1,487
Amortisation of right-of-use assets	13	**8,106**	—
Amortisation of intangible assets	14	**17,817**	9,509
Interest income	6	**(11,655)**	(291)
Interest expense	7(a)	**65,815**	32,408
Loss on sale of property, plant and equipment		**(672)**	—
Changes in fair value of financial instruments carried at FVTPL	7(c)	**64,200**	—
Foreign exchange gain		**(811)**	(4,890)
Deferred income released to profit or loss	30	**(1,117)**	(2,070)
Changes in working capital:			
Increase in inventories		**(103,377)**	(45,520)
Decrease in trade and other receivables		**79,290**	7,721
(Increase)/decrease in amounts due from related parties		**(8,577)**	36,019
Increase in long-term receivables		**(2,500)**	—
Decrease/(increase) in pledged deposits with banks		**575**	(106)
Increase in trade and other payables		**208,417**	91,460
Increase/(decrease) in amounts due to related parties		**5,707**	(30,757)
(Decrease)/increase in contract liabilities		**(13,679)**	2,999
(Decrease)/increase in discounted bank acceptance bills		**(1,408)**	3,282
Decrease in provision		**(1,512)**	(21)
Increase in deferred income		**23,966**	1,478
Cash generated from operations		**341,486**	164,957

22 Cash (Continued)

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

Note: The Group has initially applied IFRS 16 using the modified retrospective approach to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB11,634,000 were classified as operating activities in the consolidated cash flow statement. Under IFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 22(c)) and the capital element is classified as financing cash outflow and the interest element is classified as operating cash outflow. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in note 2(c).

(c) Reconciliation of liabilities arising from financing activities

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

	Loans and other borrowings RMB'000	Lease Liabilities RMB'000	Total RMB'000
At 31 December 2018	993,059	—	993,059
Impact on initial application of IFRS 16 (Note)	—	11,948	11,948
At 1 January 2019	993,059	11,948	1,005,007
Changes from financing cash flows:			
Proceeds from new bank loans and other borrowings	1,785,028	—	1,785,028
Repayment of bank loans and other borrowings	(1,722,854)	—	(1,722,854)
Capital element of lease rentals paid	—	(5,661)	(5,661)
Total changes from financing cash flows	62,174	(5,661)	56,513
Exchange adjustments	(1,409)	—	(1,409)
Other Change:			
Interest element of lease rentals paid	—	(993)	(993)
Increase in lease liabilities from entering into new leases during the year	—	5,628	5,628
At 31 December 2019	**1,053,824**	**10,922**	**1,064,746**

Note: The Group has initially applied IFRS 16 using the modified retrospective method to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See notes 2(c) and 22(b).

22 Cash (Continued)

(c) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans and other borrowings RMB'000
At 1 January 2018	545,180
Changes from financing cash flows:	
Proceeds from new bank loans and other borrowings	654,404
Repayment of bank loans and other borrowings	(484,780)
Total changes from financing cash flows	169,624
Exchange adjustments	3,511
Addition from acquisition of subsidiaries	274,744
At 31 December 2018	993,059

(d) Total cash outflow for leases

Amount included in the cash flow statement for leases comprises the following:

	2019 RMB'000	2018 (Note) RMB'000
Within operating cash flows	1,803	11,634
Within investing cash flows	43,232	—
Within financing cash flows	5,661	—

Note: As explained in the note to note 22(b), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 RMB'000	2018 RMB'000
Lease rentals paid	7,464	11,634
Purchase of land use right	43,232	—
	50,696	11,634

23 Trade and other payables

	31 December 2019 RMB'000	31 December 2018 RMB'000
Trade payables	**697,133**	429,082
Bills payable	**122,032**	213,873
Other payables	**183,040**	168,579
Other tax payables	**11,036**	12,557
	1,013,241	824,091

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

	2019 RMB'000	2018 RMB'000
Within 3 months	**674,580**	565,109
Over 3 months but less than 6 months	**100,634**	33,415
Over 6 months but less than 12 months	**30,128**	36,720
Over 12 months	**13,823**	7,711
	819,165	642,955

24 Loans and other borrowings

The analysis of the carrying amount of loans and other borrowings is as follows:

	Note	2019 RMB'000	2018 RMB'000
Current portion:			
— Bank loans	(a)	**607,890**	609,502
— Bank advances under discounted bills		**113,179**	118,517
— Loans from leasing companies	(b)	**89,865**	90,547
— Loans from financing companies	(c)	**13,731**	66,291
— Loans from related parties	35(c)	**121,850**	8,100
— Loans from third parties	(d)	**32,212**	—
		978,727	892,957
Non-current portion:			
— Bank loans		**36,635**	46,936
— Loans from leasing companies	(b)	**38,462**	53,166
		75,097	100,102
		1,053,824	993,059

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

(a) A bank loan amounting to EUR10,700,000 (RMB equivalent: RMB83,626,000) as at 31 December 2019 (2018: EUR11,700,000 (RMB equivalent: RMB91,813,000)) 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 EUR10,700,000 became payable on demand and was classified as current liabilities.

Other than the above, as at 31 December 2019, none of the covenant requirements has been breached. Further details of the Group's management of liquidity risk are set out in note 33(b).

(b) As at 31 December 2019, Xiezhong Nanjing, a subsidiary of the Company, has four sales and leaseback agreements with four leasing companies for certain machinery and equipment of Xiezhong Nanjing ("Secured Assets") and the leasing period is 2 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 these repurchase options. As the substantial risks and rewards of the Secured Assets were retained by Xiezhong Nanjing before and after these arrangements, the Group recorded such transaction as secured borrowings.

As at 31 December 2019, the loans from leasing companies of the Group amounting to RMB128,327,000 (2018: RMB143,713,000) were secured by certain machinery and equipment of the Group with the carrying amount of RMB206,776,000 (2018: RMB213,258,000).

24 Loans and other borrowings (Continued)

(c) A loan of RMB13,731,000 was borrowed by Xiezhong Lexus from an auto finance company of the respective automobile manufacturer for purchase of motor vehicles. The loan bears interest at rate of 7.68% per annum, is secured by the long-term receivables amounting to RMB10,000,000 and inventories amounting to RMB12,151,000.

(d) Loans of RMB32,212,000 were borrowed by Xiezhong Nanjing from third parties. The loans bear interest at rate of 4.35% per annum, are unsecured and repayable within one year.

As at 31 December 2019, the loans and other borrowings were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year or on demand	**978,727**	892,957
After 1 year but within 2 years	**48,462**	63,401
After 2 years but within 5 years	**26,635**	36,701
	75,097	100,102
	1,053,824	993,059

As at 31 December 2019, the loans and other borrowings were secured as follows:

	Note	2019 RMB'000	2018 RMB'000
Bank loans			
— Secured	(e)	**505,525**	499,438
— Unsecured		**139,000**	157,000
Bank advances under discounted bills		**113,179**	118,517
Secured loans from leasing companies	(e)	**128,327**	143,713
Secured loans from financing companies	(e)	**13,731**	66,291
Unsecured loans from related parties		**121,850**	8,100
Unsecured loans from third parties		**32,212**	—
		1,053,824	993,059

24 Loans and other borrowings (Continued)

(e) As at 31 December 2019, the loans and other borrowings of the Group were secured by the following assets:

	2019 RMB'000	2018 RMB'000
Property, plant and equipment	467,424	475,255
Lease prepayments	—	35,195
Right-of-use assets	34,282	—
Non-current prepayment	—	5,859
Long-term receivables	10,000	—
Inventories	39,285	52,544
Other receivables	11,645	7,500
Guarantee deposits for finance lease	14,696	9,546
Guarantee deposits for issuance of letter of credit	10,000	10,000
Guarantee deposits for bank and other borrowings	35,473	41,029
Guarantee deposits for bank acceptance bills	17,797	12,816
	640,602	649,744

In addition, the Group's bank loans amounting to RMB344,830,490 were guaranteed by related parties as at 31 December 2019 (2018: RMB144,450,000). Please see note 35(e) for detail.

25 Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	31 December 2019		At 1 January 2019 (Note)	
	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	4,654	4,788	5,711	5,867
After 1 year but within 2 years	3,631	4,022	2,885	3,122
After 2 year but within 5 years	2,637	3,268	3,249	3,722
After 5 years	—	—	103	120
	6,268	7,290	6,237	6,964
	10,922	12,078	11,948	12,831
Less: total future interest expenses		(1,156)		(883)
Present value of lease liabilities		10,922		11,948

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to IFRS 16 are set out in note 2(c).

26 Equity settled share-based transactions

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

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

No share option was granted under the share option scheme during the years ended 31 December 2019 and 2018.

27 Income tax in the consolidated statement of financial position

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

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**25,054**	4,955
(Over)/under-provision in respect of prior year (note 8(a))	**(141)**	502
Provision for PRC income tax (note 8(a))	**24,710**	2,415
PRC income tax paid	**(27,408)**	(3,518)
Addition through acquisition of subsidiaries	**—**	20,700
At the end of the year	**22,215**	25,054

(b) Deferred tax assets and liabilities recognised:

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

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year ended 31 December 2019 are as follows:

	Property, plant and equipment RMB'000	**Depreciation charge of right-of-use assets** RMB'000	**Intangible assets** RMB'000	**Inventories** RMB'000	**Allowance for bad debt** RMB'000	**Tax Losses** RMB'000	**Other liabilities** RMB'000	**Unrealised profit from intra-group transaction** RMB'000	**Total** RMB'000
Deferred tax arising from:									
At 31 December 2017 and 1 January 2018	(445)	(3,694)	(478)	1,552	5,905	49	7,633	1,559	12,081
(Charged)/credited to profit or loss	28	65	478	945	1,037	(49)	2,102	(1,090)	3,516
Addition through business combination	(4,636)	(1,678)	(38,738)	245	–	–	–	–	(44,807)
At 31 December 2018 and 1 January 2019	(5,053)	(5,307)	(38,738)	2,742	6,942	–	9,735	469	(29,210)
(Charged)/credited to profit or loss	4,285	(11)	5,781	4,202	8,079	–	(586)	(2,584)	19,166
At 31 December 2019	**(768)**	**(5,318)**	**(32,957)**	**6,944**	**15,021**	**–**	**9,149**	**(2,115)**	**(10,044)**

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

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

(ii) Reconciliation to consolidated statement of financial position

	2019 **RMB'000**	2018 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	**38,438**	19,344
Net deferred tax liability recognised in the consolidated statement of financial position	**(48,482)**	(48,554)
	(10,044)	(29,210)

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in the note 2(t), the Group has not recognized deferred tax assets in respect of cumulative tax losses of RMB104,241,000 (2018: RMB8,897,000) as it is not probable that future taxable profits against which the tax losses deductible temporary differences can be utilised will be available in the relevant tax jurisdiction before they expire.

(d) Deferred tax liabilities not recognized

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 RMB8,927,489 (2018: RMB27,924,949) were not recognised in respect of the 10% PRC dividend withholding tax that would be payable on the distribution of retained profits of RMB89,274,887 as at 31 December 2019 (2018: RMB279,249,491) 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.

28 Provisions

Provision for product warranties

	RMB'000
At the beginning of the year	4,036
Reversal of provisions	(1,512)
Provisions utilised	1,168
At the end of the year	3,692

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

29 Contract liabilities

	2019 RMB'000	2018 RMB'000
Contract liabilities		
Render of service		
— Advanced receipts from customers	**13,448**	2,999
Sale of automobile		
— Advanced receipts from customers	**14,731**	28,411
	28,179	31,410

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Made-to-order manufacturing arrangements

When the Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised when control over a product transferred to the customers. The Group typically receives a deposit on acceptance of orders from new customers, the amount of the deposit, if any, was negotiated on a case by case basis with customers.

(a) Movements in contract liabilities

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**31,410**	—
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities as at 1 January	**(28,411)**	—
Net increase in contract liabilities as a result of receiving advance payments and recognising revenue during the year	**25,180**	2,999
Addition from acquisition of subsidiaries	**—**	28,411
Balance at 31 December	**28,179**	31,410

30 Deferred income

Government grants

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**28,222**	28,814
Additions	**23,966**	1,478
Released to the consolidated statement of profit or loss	**(1,117)**	(2,070)
At the end of the year	**51,071**	28,222

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

31 Acquisition related consideration payables

	Note	2019 RMB'000	2018 RMB'000
Acquisition of subsidiaries			
— Promissory notes	(a)	**76,363**	—
— Commitment to issue promissory notes	(a)	**—**	163,508
— Convertible bonds	(b)	**95,967**	—
— Commitment to issue convertible bonds	(c)	**123,480**	183,431
		295,810	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 International Limited and its subsidiaries ("Sino Evergreen Group") and Jin Cheng Auto Parts (Hong Kong) Ltd. ("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.

On 31 August 2019, the Company early redeemed part of the promissory notes with principal amount of RMB10,593,000 and accumulated interest expenses of approximately RMB257,000.

31 Acquisition related consideration payables (Continued)

(a) Promissory notes and commitment to issue promissory notes (Continued)

The entire promissory notes are designated as financial liabilities at FVTPL as at 31 December 2019. As at 31 December 2019, the fair value of the promissory notes of RMB76,363,000 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 31 December 2019.

As at 31 December 2019, the fair value of the 2019 Convertible Bonds of RMB95,967,000 is measured based on binomial model.

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

As at 31 December 2018, the commitment to issue CB represented a maximum aggregate principal 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 31(b)) and the remaining commitment to issue CB as at 31 December 2019 represented a maximum aggregate principal amount of HKD135,397,000.

As at 31 December 2019, the fair value of the commitment to issue convertible bonds of RMB123,480,000 is measured based on binomial model.

32 Capital, reserves and dividends

(a) Movements in components of equity

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

The Company

	Share capital RMB'000 (Note 32(c))	Share premium RMB'000 (Note 32(d)(i))	Capital reserve RMB'000 (Note 32(d)(iii))	Exchange reserve RMB'000 (Note 32(d)(v))	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2018	6,496	65,298	275,209	3,127	(33,332)	316,798
Changes in equity for 2018:						
Loss for the year	–	–	–	–	(8,327)	(8,327)
Other comprehensive income	–	–	–	1,809	–	1,809
Total comprehensive income for the year	–	–	–	1,809	(8,327)	(6,518)
Balance at 31 December 2018 and 1 January 2019	**6,496**	**65,298**	**275,209**	**4,936**	**(41,659)**	**310,280**
Changes in equity for 2019:						
Loss for the year	**–**	**–**	**–**	**–**	**(70,392)**	**(70,392)**
Other comprehensive income	**–**	**–**	**–**	**(6,414)**	**–**	**(6,414)**
Total comprehensive income for the year	**–**	**–**	**–**	**(6,414)**	**(70,392)**	**(76,806)**
Balance at 31 December 2019	**6,496**	**65,298**	**275,209**	**(1,478)**	**(112,051)**	**233,474**

Note:

The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See notes 2(c) and 38.

32 Capital, reserves and dividends (Continued)

(b) Dividends

(i) No dividend attributable to the year was declared in 2019 or proposed after the end of the reporting period (2018: RMB Nil).

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

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HKD Nil per share (2018: HKD Nil per share)	–	–

(c) Share capital

The share capital of the Group at 31 December 2019 represented the amount of issued and paid-up capital of the Company, with details set out below:

	Par value HKD	2019 Number of shares '000	2019 Nominal value of ordinary shares HKD'000	2018 Number of shares '000	2018 Nominal value of ordinary shares HKD'000
Authorised:					
At 1 January & 31 December	0.01	2,000,000	20,000	2,000,000	20,000

	Par value HKD	2019 Number of shares '000	2019 Nominal value of ordinary shares HKD'000	2019 Nominal value of ordinary shares RMB'000	2018 Number of shares '000	2018 Nominal value of ordinary shares HKD'000	2018 Nominal value of ordinary shares RMB'000
Issued and fully paid:							
At 1 January & 31 December	0.01	800,000	8,000	6,496	800,000	8,000	6,496

32 Capital, reserves and dividends (Continued)

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory reserves

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

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

(iii) Capital reserve

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

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

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

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

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

32 Capital, reserves and dividends (Continued)

(d) Nature and purpose of reserves (Continued)

(iv) Other reserve

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

(v) Exchange reserve

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

(e) Capital management

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

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

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

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognizes right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused an increase in the Group's total debt and hence the Group's adjusted net debt-to-capital ratio rose from 182% to 184% on 1 January 2019 when compared to its position as at 31 December 2018.

32 Capital, reserves and dividends (Continued)

(e) Capital management (Continued)

The Group's adjusted net debt-to-capital ratio at 31 December 2019 and 2018 and at the date of transition to IFRS 16 was as follows:

	Note	31 December 2019 RMB'000	1 January 2019 (Note) RMB'000	31 December 2018 (Note) RMB'000
Current liabilities:				
Loans and other borrowings	24	978,727	892,957	892,957
Bills payable	23	122,032	213,873	213,873
Lease liabilities	25	4,654	5,711	—
		1,105,413	1,112,541	1,106,830
Non-current liabilities:				
Loans and other borrowings	24	75,097	100,102	100,102
Acquisition consideration payables	31	295,810	346,939	346,939
Lease liabilities	25	6,268	6,237	—
Total debt		1,482,588	1,565,819	1,553,871
Less: Cash and cash equivalents	22(a)	(59,290)	(73,128)	(73,128)
Deposits with banks	21	(63,270)	(63,845)	(63,845)
Adjusted net debt		1,360,028	1,428,846	1,416,898
Total equity attributable to equity shareholders of the Company		482,077	778,165	778,165
Adjusted capital		482,077	778,165	778,165
Adjusted net debt-to-capital ratio		282%	184%	182%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2(c).

33 Financial risk management and fair values

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

Financial assets of the Group include cash, deposits with banks and trade and other receivables. Financial liabilities of the Group include loans and other borrowings, trade and other payables and other financial liabilities.

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

(a) Credit risk

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

(i) Trade and other receivables, and amounts due from related parties

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

Trade receivables due from third parties and related parties

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 61% and 23% (2018: 58% and 20%) of the total trade receivables due from third parties and related parties were due from the Group's five largest debtors and the largest single debtor respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are mainly due within 1 month to 6 months from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables due from third parties and related parties at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates different loss patterns for different customer segments, the loss allowance based on past due status is distinguished between HVAC business and 4S dealership business.

33 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables, and amounts due from related parties (Continued)

Trade receivables (Continued)

HVAC business

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables due from third party customers and related parties for the HVAC business segment:

	2019 Expected loss rate %	2019 Gross carrying amount RMB'000	2019 Loss allowance RMB'000
Not past due	0.8	348,995	2,855
Less than 6 months past due	2	68,287	1,381
7 to 12 months past due	11	17,783	2,019
13 to 18 months past due	15	4,224	644
19 to 24 months past due	23	635	146
Over 24 months past due	100	96	96
		440,020	7,141
Individually impaired		89,915	89,915
		529,935	97,056

	2018 Expected loss rate %	2018 Gross carrying amount RMB'000	2018 Loss allowance RMB'000
Not past due	0.5	290,095	1,450
Less than 6 months past due	1	114,337	1,143
7 to 12 months past due	8	26,618	2,129
13 to 18 months past due	9	6,879	619
19 to 24 months past due	20	122	24
Over 24 months past due	100	439	439
		438,490	5,804
Individually impaired		33,359	33,359
		471,849	39,163

33 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables, and amounts due from related parties (Continued)

Trade receivables (Continued)

HVAC business (Continued)

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

4S dealership business

Trade receivables of 4S dealership business are mortgage granted by major financial institutions to customers of the Group. The mortgage is normally settled within one month directly by major financial institutions. Credit risk in respect of the mortgage is limited since credit sales are offered in rare cases subject to high level management's approval. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as the balances are considered fully recoverable.

Other receivables

The Group measures loss allowances for other receivables, including other debtors, deposits and prepayments at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with IFRS 9 for other debtors, deposits and prepayments as at 31 December 2019.

Other debtors and prepayments

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

The Group measures loss allowances for other debtors and prepayments at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with IFRS 9 for other debtors and prepayments as at 31 December 2019.

Advances to related parties

The Group measures loss allowances for advances to related parties at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with IFRS 9 for advances to related parties as at 31 December 2019.

33 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables, and amounts due from related parties (Continued)

Trade receivables (Continued)

Advances to related parties (Continued)

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

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**39,163**	34,963
Impairment losses recognised during the year	**63,825**	4,200
Balance at 31 December	**102,988**	39,163

(ii) Deposits with banks

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

(b) Liquidity risk

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

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

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

33 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

At 31 December 2019

	Carrying amount at 31 December RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Loans and other borrowings (i)	1,053,824	1,105,106	1,021,665	42,093	40,451	897
Trade and other payables	1,013,241	1,013,241	1,013,241	–	–	–
Acquisition related consideration payable	295,810	336,265	–	–	331,767	4,498
Lease liabilities (note)	10,922	12,078	4,788	4,022	3,268	–
	2,373,797	2,466,690	2,039,694	46,115	375,486	5,395

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2(c).

At 31 December 2018

	Carrying amount at 31 December RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Loans and other borrowings	993,059	1,033,431	924,852	67,670	40,909	–
Trade and other payables	824,091	824,091	824,091	–	–	–
Acquisition consideration payable	346,939	261,195	–	–	258,989	2,206
	2,164,089	2,118,717	1,748,943	67,670	299,898	2,206

As shown in the above analysis, loans and other borrowings amounting to RMB1,021,665,000 were due to be repaid during 2020, including bank loans amounting to RMB628,935,000 to be repaid during 2020. In the first half year of 2020, bank loans amounting to RMB285,810,000 were due to be repaid.

As of the date of approval of these financial statements, bank loans with principal amounting to RMB250,300,000 were due and repaid by the Group, among which bank loans with principal amounting to RMB221,095,000 were refinanced. Further information on management's plans to manage the Group's liquidity needs is set out in note 2(b).

33 Financial risk management and fair values (Continued)

(c) Interest rate risk

(i) Interest rate profile

Loans and other borrowings and lease liabilities are the major types of the Group's financial instruments subject to interest rate risk.

The following table details the interest rate profile of the Group's loans and other borrowings and lease liabilities:

	Note	2019 Effective Interest rate %	2019 RMB'000	2018 Effective Interest rate %	2018 RMB'000
Fixed rate borrowings and lease liabilities					
Bank loans	24	**2.75–6.50**	**422,595**	2.75–6.53	550,988
Bank advances under discounted bills	24	**2.75–7.03**	**113,179**	4.06–7.92	118,517
Loan from a financing company	24	**—**	**—**	9.00	50,000
Loan from a director	24	**—**	**—**	5.40	8,100
Loans from related parties	24	**4.35**	**121,850**		—
Loans from third parties	24	**4.35**	**32,212**		—
Lease liabilities (note)	25	**5.34–7.80**	**10,922**		—
			700,758		727,605
Variable rate borrowings					
Bank loans	24	**4.13–6.09**	**221,930**	4.56–6.53	105,450
Loans from leasing companies	24	**4.57–8.34**	**128,327**	4.57–8.34	143,713
Loan from a financing company	24	**7.68**	**13,731**	7.68	16,291
			363,988		265,454
Total borrowings and lease liabilities			**1,064,746**		993,059
Fixed rate borrowings and lease liabilities as a percentage of total borrowings and lease liabilities			**66%**		73%

Note: The Group has initially applied IFRS 16 using the modified retrospective approach to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note 2(c).

33 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

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

As at 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax for the year and retained earnings by approximately RMB3,016,000 (2018: RMB2,112,646). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the change was applied to the Group's variable rate borrowings at that date with exposure to cash flow interest rate risk. The impact on the Group's loss after tax and retained earnings is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2018.

(d) Foreign currency risk

The Group is exposed to currency risk primarily arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily HKD and Moroccan Dirham ("MAD"). Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate.

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

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

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

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

33 Financial risk management and fair values (Continued)

(d) Foreign currency risk (Continued)

	Exposure to foreign currencies (expressed in RMB'000)	
	USD	**MAD**
At 31 December 2019		
Cash	**500**	**1,018**
Trade and other receivables	**—**	**211**
Trade and other payables	**—**	**(4,158)**
Net exposure arising from recognised assets and liabilities	**500**	**(2,929)**

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

The Group is mainly exposed to the fluctuation in USD against RMB and MAD against Euro for certain entities. For a 5% weakening of RMB against USA and Euro against MAD, there will be a decrease in the loss after tax of RMB21,000 and increase in the loss after tax of RMB3,000 for the year ended 31 December 2019 respectively. There will be an equal but opposite impact on the loss after tax for the year for a 5% strengthen of RMB against HKD and Euro against MAD.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations in the Group's presentation currency. The analysis is performed on the same basis for 2018.

33 Financial risk management and fair values (Continued)

(e) Fair values measurement

Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

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

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

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

The Group has engaged an external valuer to perform valuation for the financial instruments, including put option held by the Group and commitment to issue convertible bonds which are categorised into Level 3 of the fair value hierarchy. A valuation report with analysis of changes in fair value measurement is prepared by the external valuer at 31 December 2019, and is reviewed and approved by the Group's management.

Recurring fair value measurements	Note	Fair value at 31 December 2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Assets:					
Other non-current assets					
— Indemnification assets		5,402	—	—	5,402
Derivative financial assets					
— Put option held by the Group		12,461	—	—	12,461
		17,863	—	—	17,863
Liabilities:					
Acquisition related consideration payable					
— Promissory notes	31(a)	76,363	—	76,363	—
— Convertible bonds	31(b)	95,967	—	—	95,967
— Commitment to issue Convertible bonds	31(c)	123,480	—	—	123,480
		295,810	—	76,363	219,447

33 Financial risk management and fair values (Continued)

(e) Fair values measurement (Continued)

(i) Fair value hierarchy (Continued)

Recurring fair value measurements	Note	Fair value at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Assets:					
Other non-current assets					
— Indemnification 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					
— Promissory notes	31(a)	163,508	—	163,508	—
— Commitment to issue convertible bonds	31(c)	183,431	—	—	183,431
		346,939	—	163,508	183,431

During the years ended 31 December 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 based on the bond yield of comparable bonds in the market.

33 Financial risk management and fair values (Continued)

(e) Fair values measurement (Continued)

(iii) Information about Level 3 fair value measurements

Description	Fair value RMB'000	Valuation techniques	Significant unobservable inputs	Range of unobservable inputs
Convertible bond and commitment to issue convertible bonds	219,447	Binomial model	Convertible bond life	From 1 June 2019 to 31 December 2021
			Risk free interest rate	1.50%~1.71%
			Expected dividend	Nil
			Expected volatility (note a)	41.8%~43.8%
			Bond discount rate	9.9%~10.1%
Indemnification assets	5,402	Binomial model	Convertible bond life	From 1 June 2019 to 31 December 2021
			Risk free interest rate	1.50%~1.71%
			Expected dividend	Nil
			Expected volatility (note a)	41.8%~43.8%
			Bond discount rate	9.9%~10.1%
Put option held by the Company	12,461	Discounted cash flow model	Convertible bond life	From 1 June 2019 to 31 December 2021
			Risk free interest rate	1.50%~1.71%
			Expected dividend	Nil
			Expected volatility (note a)	41.8%~43.8%
			Bond discount rate	9.9%~10.1%
			The probability of failure to meet performance guarantee (note b)	0%~3%

(a) As at 31 December 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 RMB4,532,000/RMB4,711,000.

(b) As at 31 December 2019, it is estimated that with all other variables held constant, an increase/decrease in the probability of failure to meet performance guarantee by 3% would have decreased/increased the Group's loss by RMB12,461,000.

33 Financial risk management and fair values (Continued)

(e) Fair values measurement (Continued)

(iv) The movement during the year 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 year	(9,255)
Exchange difference	333
At 31 December 2019	**17,863**

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 year	(31,993)
Exchange difference	(4,023)
At 31 December 2019	**(219,447)**

34 Commitments

(a) Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 **RMB'000**	2018 RMB'000
Contracted for	**63,270**	74,577
Authorised but not contracted for	**162,744**	208,355
	226,014	282,932

34 Commitments (Continued)

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were 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

The Group is the lessee in respect of a number of properties and items of plant 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, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. 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(j), and the details regarding the Group's future lease payments are disclosed in note 25.

35 Material related party transactions

(a) Name and relationship with related parties

During the year ended 31 December 2019, transactions with the following parties are considered as related party transactions:

Name of related party	Relationship
Beijing Automotive Group Co., Ltd.	Ultimate holding Company of Beijing Hainachuan Automobile Parts Co., Ltd. ("Beijing Hainachuan"), one of the major equity shareholders of the Company until 14 July 2017 and non-controlling equity holder of Xiezhong Beijing (Beijing Automotive Group Co., Ltd. and its subsidiaries together referred to as "Beijing Automotive Group")
Sunrise International Investment Management Inc. ("Sunrise International")	One of the major equity shareholders of the Company
Nanjing Zheshang Venture Capital Management Co., Ltd. ("Nanjing Zheshang")	Controlled by Mr. Chen Cunyou
Nanjing Xiezhong Guanghua Automobile Company Limited ("Xiezhong Guanghua")	Controlled by Mr. Chen Cunyou
Jiangsu Xiezhong Haosheng Used Vehicle Trading Market Company Limited ("Xiezhong Haosheng")	Controlled by Mr. Chen Cunyou
Xiezhong Automobile (Group) Company Limited ("Xiezhong Automobile")	Controlled by Mr. Chen Cunyou (Xiezhong Automobile (Group) Company Limited and its subsidiaries together referred to as "Xiezhong Automobile Group")
Nanjing Xieao Automobile Sales Company Limited ("Xieao Automobile")	A subsidiary of Xiezhong Automobile
Nanjing Xiezhong Qibao Automobile Sales Company Limited ("Xiezhong Qibao")	A subsidiary of Xiezhong Automobile
Nanjing Xiezhong Youxu Automobile Company Limited ("Xiezhong Youxu")	A subsidiary of Xiezhong Automobile

35 Material related party transactions (Continued)

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

Name of related party	Relationship
Nanjing Tangshan Xiezhong Lexus Automobile Sales Co., Ltd. ("Xiezhong Tangshan")	Controlled by Mr. Chen Cunyou
Nanjing Xiezhong Group Real Estate Development Co., Ltd. ("Xiezhong Real Estate")	Controlled by Mr. Chen Cunyou
Nanjing Xiezhong Automotive New Energy Technology Development Co., Ltd. ("Xiezhong New Energy")	Controlled by Mr. Chen Hao
Mr. Chen Cunyou	A director of the Company
Ms. Ni Xianglian	Spouse of Chen Cunyou
Ms. Chen Jiao	An equity shareholder of the Company
Mr. Zhang Liangliang	Spouse of Chen Jiao
Mr. Chen Hao	An equity shareholder of the Company
Ms. Bao Chenmeng	Spouse of Chen Hao
Mr. Bao Jianguang	Senior management of Maanshan Xiezhong
Mr. Chen Tonglin	Senior management of Xiezhong Shandong
Mr. Zhang Yiping	Legal representative of Nanjing Zheshang
Mr. Xin Fangwei	Senior management of the Company

35 Material related party transactions (Continued)

(b) Transactions with related parties

Transactions with related parties during the year ended 31 December 2019 are as follows:

	Note	2019 RMB'000	2018 RMB'000
Sales of goods			
— Beijing Automotive Group	(f)	**259,810**	211,413
— Xiezhong Automobile Group	(f)	**1,558**	—
— Xiezhong Tangshan	(f)	**3,031**	—
		264,399	211,413
Purchase of goods			
— Sanhua Holding Group Co., Ltd ("Sanhua Group")	(i)	**—**	41
— Xiezhong Guanghua	(f)	**5,741**	—
— Xiezhong Automobile Group	(f)	**1,056**	—
		6,797	41
Repayment of advance to related parties			
— Xiezhong Guanghua		**77,550**	—
— Xiezhong Automobile Group		**21,200**	—
— Xiezhong Haosheng		**4,000**	—
		102,750	—

35 Material related party transactions (Continued)

(b) Transactions with related parties (Continued)

	Note	2019 RMB'000	2018 RMB'000
Advance from related parties	(ii)		
— Xiezhong Guanghua		64,400	—
— Xiezhong Real Estate		2,300	—
— Xiezhong Automobile Group		41,460	—
— Nanjing Zheshang		3,000	—
— Mr. Chen Cunyou		1,300	—
— Ms. Ni Xianglian		7,000	—
— Ms. Bao Chenmeng		400	—
		119,860	—
Repayment of advance from related parties			
— Xiezhong Guanghua		56,000	—
— Xiezhong Real Estate		2,300	—
— Xiezhong Automobile Group		41,460	—
— Nanjing Zheshang		3,000	—
— Ms. Ni Xianglian		6,100	—
— Mr. Chen Cunyou		1,300	—
— Ms. Bao Chenmeng		400	—
		110,560	—

35 Material related party transactions (Continued)

(b) Transactions with related parties (Continued)

	Note	2019 RMB'000	2018 RMB'000
Loans from related parties			
— Mr. Chen Cunyou	(iii)	–	41,100
— Ms. Ni Xianglian	(iii)	29,000	—
— Ms. Bao Chenmeng	(iii)	5,500	—
— Ms. Chen Jiao	(iii)	1,000	—
— Mr. Zhang Liangliang	(iii)	800	—
— Mr. Chen Tonglin	(iii)	1,800	—
— Mr. Zhang Yiping	(iii)	3,000	—
— Mr. Xin Fangwei	(iii)	1,000	—
— Xiezhong New Energy	(iv)	123,320	—
— Xiezhong Real Estate	(iv)	65,750	—
— Xiezhong Automobile Group	(iv)	165,270	—
— Xiezhong Haosheng	(iv)	800	—
		397,240	41,100
Repayment of loans from related parties			
— Mr. Chen Cunyou		8,100	33,000
— Ms. Ni Xianglian		28,800	—
— Ms. Bao Chenmeng		5,500	—
— Mr. Zhang Yiping		3,000	—
— Mr. Xin Fangwei		1,000	—
— Xiezhong New Energy		60,170	—
— Xiezhong Real Estate		32,400	—
— Xiezhong Automobile Group		143,720	—
— Xiezhong Haosheng		800	—
		283,490	33,000

35 Material related party transactions (Continued)

(b) Transactions with related parties (Continued)

	Note	2019 RMB'000	2018 RMB'000
Agency income from pre-owned vehicle			
— Xiezhong Haosheng	(f)	2,363	—
Insurance agency income received through			
— Xiezhong Automobile Group	(f)	5,767	—
Settlement of promissory notes			
— Sunrise International Investment Management Inc. ("Sunrise International")	31(a)	113,017	—
Interest income			
— Xiezhong Guanghua		5,815	—
— Xiezhong Automobile Group		3,617	—
— Xiezhong Haosheng		1,115	—
		10,547	—
Interest expense			
— Mr. Chen Cunyou		44	—
— Mr. Bao Jianguan		—	—
— Ms. Ni Xianglian		159	—
— Ms. Bao Chengmeng		16	—
— Xiezhong Automobile Group		1,439	—
— Xiezhong Real Estate		692	—
— Xiezhong New Energy		617	—
		2,967	—

(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) Except for loans from Ms. Ni Xianglian and Ms. Bao Chenmeng, which are unsecured with interest rate of 4.35% per annum, loans from personnel-related parties are unsecured and bear no interest.

(iv) These loans from entity-related parties are unsecured with interest rate of 4.35% per annum.

The directors consider that the above related party transactions during the year ended 31 December 2019 were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

35 Material related party transactions (Continued)

(c) Amounts due from/to related parties

At 31 December 2019, the Group had the following balances with related parties:

	2019 RMB'000	2018 RMB'000
Trade receivables due from		
— Beijing Automotive Group	100,835	82,929
— Xiezhong New Energy	79	—
— Xiezhong Haosheng	—	3,419
— Xiezhong Automobile Group	1,398	1,599
	102,312	87,947
Loans from related parties		
— Mr. Chen Cunyou	—	8,100
— Mr. Chen Tonglin	1,800	—
— Ms. Ni Xianglian	200	—
— Ms. Chen Jiao	1,000	—
— Mr. Zhang Liangliang	800	—
— Xiezhong New Energy	63,150	—
— Xiezhong Automobile Group	21,550	—
— Xiezhong Real Estate	33,350	—
	121,850	8,100
Acquisition related consideration payables		
— Sunrise International	195,918	260,204

35 Material related party transactions (Continued)

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

	2019 RMB'000	2018 RMB'000
Amounts due from related parties (non-trade)		
— Xiezhong Guanghua	86,231	161,349
— Xiezhong Automobile Group	62,141	79,265
— Xiezhong Haosheng	17,082	20,170
— Xiezhong Real Estate	—	22
	165,454	260,806
Trade payables due to related parties		
— Xiezhong Guanghua	880	5,988
— Xiezhong Automobile Group	—	750
	880	6,738
Amounts due to related parties (non-trade)		
— Mr. Chen Cunyou	—	562
— Mr. Bao Jianguang	—	2
— Ms. Bao Chengmeng	16	—
— Ms. Ni Xianglian	1,006	78
— Xiezhong Guanghua	8,400	—
— Xiezhong Real Estate	691	—
— Xiezhong New Energy	617	—
— Xiezhong Automobile Group	1,399	618
	12,129	1,260

(d) Transactions with management

Key management personnel remuneration

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	5,085	4,186

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

35 Material related party transactions (Continued)

(e) Other transactions with related parties

At 31 December 2019, the Group's following bank loans were guaranteed by the related parties:

1) A bank loan of RMB39,000,000 was guaranteed by Mr. Chen Cunyou and Xieao Automobile and secured by investment properties owned by Mr. Chen Hao;

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

3) A bank loan of RMB20,000,000 was guaranteed by Mr. Chen Cunyou and Xieao Automobile and secured by land use right owned by Xiezhong Real Estate;

4) Bank loans and other borrowings of RMB90,100,000 were guaranteed by Mr. Chen Cunyou, Ms. Ni Xianglian, Mr. Bao Jianguang and Xiezhong Automobile and were secured by investment properties owned by Mr. Chen Cunyou, Ms. Chen Jiao, Mr. Chen Hao, Ms. Ni Xianglian, and by land use right owned by Mr. Chen Cunyou, Ms. Ni Xianglian, and by investment properties owned by Xiezhong Real Estate and Xiezhong Qibao.

5) Bank loans and other borrowings of RMB165,730,490 were guaranteed by Mr. Chen Cunyou, Mr. Chen Hao, Ms. Ni Xianglian, Xiezhong Automobile, Xiezhong Youxu and Xieao Automobile.

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

These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Main Board Listing Rules.

The disclosures required by Chapter 14A of the Main Board Listing Rules are provided in section "Continuing Connected Transactions/Connected Transactions Required For Disclosure Under The Main Board Listing Rules" of the Report of the Directors.

(g) Related party transactions not constitute connected transactions

Except for those transactions mentioned in note 35 (f), the Directors consider that the other related party transactions as set out in note 35 to the consolidated financial statements did not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Main Board Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements.

36 Company-level statement of financial position

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Interest in subsidiaries	(a)	759,612	755,291
Derivative financial assets		12,461	22,191
		772,073	777,482
Current assets			
Trade and other receivables		124	205
Amounts due from subsidiaries		1,010	895
Cash and cash equivalents		908	116
		2,042	1,216
Current liabilities			
Trade and other payables		3,189	3,364
Amounts due to subsidiaries		241,642	118,115
		244,831	121,479
Net current liabilities		(242,789)	(120,263)
Total assets less current liabilities		529,284	657,219
Non-current liabilities			
Acquisition consideration payable		295,810	346,939
NET ASSETS		233,474	310,280
CAPITAL AND RESERVES	32(a)		
Share capital		6,496	6,496
Reserves		226,978	303,784
TOTAL EQUITY		233,474	310,280

(a) Interest in subsidiaries

	2019 RMB'000	2018 RMB'000
Unlisted shares, at cost	599,957	599,957
Amount due from a subsidiary	159,655	155,334
	759,612	755,291

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

37 Non-adjusting events after the reporting period

The wide spread of COVID-19 in China ("COVID-19 Outbreak") since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group had to stop part of its operating activities in China and Morocco since the beginning of February 2020 and the end of March 2020 respectively due to mandatory government quarantine and voluntary measures in an effort to contain the spread of COVID-19. The Group had resumed its operating activities in China since late February 2020. Till the end of the date of the report, the operating activities in Morocco were still not resumed. COVID-19 Outbreak has had a negative impact on the Group's financial result and business operation for the period as at the date of this report. Management has taken relevant actions to minimise the unfavourable impact to the Group.

As far as the Group's businesses are concerned, the COVID-19 Outbreak may cause delays in production and delivery of products by the Group. In the case of a prolonged COVID-19 crisis, the Group expects its business to be greatly impacted and this may potentially affect the Group's business performance in the first half of 2020, as well as the impairment assessment of goodwill, property, plant and equipment and intangible assets. The estimated future cash flows of the Group's CGUs which are used for the impairment assessment will be updated continuously based on the development of the COVID-19 Outbreak. The recoverable amount of the Group's CGUs may be lower if the COVID-19 Outbreak continues for a prolonged period. Moreover, the COVID-19 Outbreak may also impact the repayment abilities of the Group's debtors, which in turn may result in additional impairment losses on the Group's trade receivables.

These potential impacts have not been reflected in the financial statements as of 31 December 2019. The actual impacts of the Group may differ from these estimated potential impacts as situation continues to evolve and when further information becomes available.

COVID-19 Outbreak is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

38 Comparative Figures

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

(Expressed in Renminbi Yuan)

39 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2021
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2022

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

Financial Summary

RESULTS	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
	Years ended 31 December				
Revenue	**1,973,482**	924,104	929,704	896,762	698,822
Cost of sales	**(1,797,793)**	(754,111)	(784,314)	(727,132)	(551,765)
Gross profit	**175,689**	169,993	145,390	169,630	147,057
Other net income	**(26,896)**	17,123	3,892	11,838	10,660
Distribution costs	**(105,211)**	(54,321)	(48,908)	(43,489)	(33,735)
Administrative expenses	**(131,734)**	(112,185)	(90,217)	(72,515)	(54,485)
Impairment losses on trade and other receivables	**(63,825)**	(4,200)	(25,188)	(3,972)	(288)
Other operating expenses	**(177)**	(6)	(113)	(1)	(2)
(Loss)/profit from operations	**(152,154)**	16,404	(15,144)	61,491	69,207
Finance costs	**(65,815)**	(32,408)	(32,754)	(18,838)	(14,558)
Loss on fair value changes of financial instruments measured at fair value through profit and loss	**(64,200)**	—	—	—	—
(Loss)/profit before taxation	**(282,169)**	(16,004)	(47,898)	42,653	54,649
Income tax	**(5,403)**	599	5,491	525	(11,590)
(Loss)/profit for the year	**(287,572)**	(15,405)	(42,407)	43,178	43,059
Attributable to:					
Equity shareholders of the Company	**(285,627)**	(9,228)	(40,323)	43,309	41,299
Non-controlling interests	**(1,945)**	(6,177)	(2,084)	(131)	1,760
(Loss)/profit for the year	**(287,572)**	(15,405)	(42,407)	43,178	43,059

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
	As at 31 December				
TOTAL ASSETS	**3,044,335**	3,111,286	2,094,707	1,985,074	1,601,701
TOTAL LIABILITIES	**(2,540,445)**	(2,309,363	(1,272,600)	(1,137,331)	(767,939)
NON-CONTROLLING INTERESTS	**(21,813)**	(23,758)	(29,935)	(32,019)	(32,150)
	482,077	778,165	792,172	815,724	801,612