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Xiezhong International Holdings Limited

協眾國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3663)

ANNOUNCEMENT OF THE UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

The Group recorded revenue of RMB925.5 million for the six months ended 30 June 2020, representing an increase of 2.6% as compared to the revenue of RMB902.2 million for the six months ended 30 June 2019.

Loss attributable to equity shareholders of the Company was RMB96.6 million for the six months ended 30 June 2020, representing a decrease in loss of approximately 18.8% as compared to the loss of RMB119.0 million for the six months ended 30 June 2019.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Xiezhong International Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Period**”). The audit committee of the Company has reviewed the interim financial results of the Group for the Period. KPMG, the independent auditor of the Company, conducted an independent review on the interim results of the Company for the Period in accordance with Hong Kong Standard on Review Engagements 2410 “*Review of interim financial information performed by the independent auditor of the entity*”, issued by the HKICPA, whose unmodified review report is included in the interim report to be sent to shareholders of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020 – unaudited

| | | Six months ended 30 June | |
|---|-------------|--------------------------|----------------|
| | | 2020 | 2019 |
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 3 | 925,485 | 902,189 |
| Cost of sales | | (904,315) | (791,749) |
| Gross profit | | 21,170 | 110,440 |
| Other net income | 4 | 18,568 | 12,260 |
| Distribution costs | | (41,604) | (41,599) |
| Administrative expenses | | (78,465) | (55,971) |
| Impairment losses on trade and other receivables | 5(c) | (1,179) | (65,931) |
| Other operating expenses | | (17) | (152) |
| Loss from operations | | (81,527) | (40,953) |
| Finance costs | 5(a) | (26,680) | (30,163) |
| Gain/(loss) on fair value changes of financial instruments measured at fair value through profit and loss (“FVTPL”) | 5(b) | 27,345 | (52,270) |
| Loss before taxation | | (80,862) | (123,386) |
| Income tax | 6 | (11,451) | 2,987 |
| Loss for the period | | (92,313) | (120,399) |
| Attributable to: | | | |
| Equity shareholders of the Company | | (96,550) | (119,005) |
| Non-controlling interests | | 4,237 | (1,394) |
| Loss for the period | | (92,313) | (120,399) |
| Loss per share (RMB) | 7 | | |
| — Basic | | (0.12) | (0.15) |
| — Diluted | | (0.13) | (0.15) |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 June 2020 – unaudited

| | Six months ended 30 June | |
|--|---------------------------------|----------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Loss for the period | (92,313) | (120,399) |
| Other comprehensive income for the period | | |
| Items that will not be reclassified to profit or loss: | | |
| Exchange differences on translation of financial statements of the Company, net of nil tax | (6,959) | (479) |
| 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 | (4,101) | (759) |
| Other comprehensive income for the period | (11,060) | (1,238) |
| Total comprehensive income for the period | (103,373) | (121,637) |
| Attributable to: | | |
| Equity shareholders of the Company | (107,610) | (120,243) |
| Non-controlling interests | 4,237 | (1,394) |
| Total comprehensive income for the period | (103,373) | (121,637) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 – unaudited

| | | At 30 June 2020 <i>RMB'000</i> | At 31 December 2019 <i>RMB'000</i> |
|--|-------------|---|---|
| | <i>Note</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 1,049,110 | 971,404 |
| Right-of-use assets | 8 | 126,316 | 121,146 |
| Intangible assets | 8 | 255,216 | 261,312 |
| Goodwill | | 20,777 | 16,670 |
| Long-term receivables | | 14,801 | 14,165 |
| Non-current prepayments | | 78,704 | 121,723 |
| Derivative financial assets | | 11,730 | 12,461 |
| Other non-current assets | | 5,081 | 5,402 |
| Amounts due from related parties | | 161,708 | 156,852 |
| Deferred tax assets | | 43,306 | 38,438 |
| | | 1,766,749 | 1,719,573 |
| Current assets | | | |
| Inventories | 9 | 524,684 | 448,270 |
| Trade and other receivables | 10 | 591,806 | 643,018 |
| Amounts due from related parties | | 53,935 | 110,914 |
| Deposits with banks | 11 | 48,160 | 63,270 |
| Cash and cash equivalents | 12 | 46,343 | 59,290 |
| | | 1,264,928 | 1,324,762 |
| Current liabilities | | | |
| Trade and other payables | 13 | 1,247,927 | 1,013,241 |
| Amounts due to related parties | | 4,238 | 13,009 |
| Contract liabilities | | 10,809 | 28,179 |
| Loans and other borrowings | 14 | 827,191 | 978,727 |
| Lease liabilities | | 4,899 | 4,654 |
| Income tax payables | | 27,238 | 22,215 |
| Provisions | | 3,662 | 3,692 |
| | | 2,125,964 | 2,063,717 |
| Net current liabilities | | (861,036) | (738,955) |
| Total assets less current liabilities | | 905,713 | 980,618 |

| | | At 30 June 2020 | At 31 December 2019 |
|--|-------------|-----------------------|---------------------------|
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-current liabilities | | | |
| Deferred income | | 63,686 | 51,070 |
| Loans and other borrowings | 14 | 108,940 | 75,097 |
| Deferred tax liabilities | | 48,211 | 48,482 |
| Acquisition related consideration payables | | 272,711 | 295,810 |
| Lease liabilities | | 11,648 | 6,268 |
| | | <u>505,196</u> | <u>476,728</u> |
| NET ASSETS | | <u>400,517</u> | <u>503,890</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 15 | 6,496 | 6,496 |
| Reserves | | 367,971 | 475,581 |
| Total equity attributable to equity shareholders of the Company | | <u>374,467</u> | <u>482,077</u> |
| Non-controlling interests | | <u>26,050</u> | <u>21,813</u> |
| TOTAL EQUITY | | <u>400,517</u> | <u>503,890</u> |

NOTES

(Expressed in RMB unless otherwise indicated)

1. BASIS OF PREPARATION

This interim results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “IASB”). It was authorised for issue on 31 August 2020.

The interim results has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

This interim results contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Xiezhong International Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

In determining the appropriate basis of preparation of interim results, 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 RMB92 million for the six months ended 30 June 2020. As at 30 June 2020, the Group had net current liabilities of RMB861 million, total borrowings of RMB936 million, acquisition related consideration payables of RMB273 million and capital commitments which had been contracted for RMB70 million.

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

- (1) the Group generated net cash inflows from operating activities of approximately RMB105 million during the six months period ended 30 June 2020 and expects to continue to improve its working capital management and generate positive operating cash flows for the next twelve months;
- (2) as at 30 June 2020, the Group had available unutilised bank facilities of RMB83 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 twelve-month period ending 30 June 2021;
- (5) in accordance with the Compensation Agreement for Resumption of State-owned Land Use Right (the "**Land Resumption and Compensation Agreement**") and the Supplemental Agreement entered into with the Management Committee of Nanjing Jiangning High-tech Industrial Development Zone (the "**Nanjing Jiangning High-tech Committee**"), the Group would be entitled to a total compensation of approximately RMB415 million, subject to the final assessment to be made by the relevant department of the local government, for the resumption of land and buildings currently owned by Xiezhong Nanjing, a subsidiary of the Company, and for losses to be incurred by Xiezhong Nanjing for its production and business suspension attributable to the plant relocation. As at 30 June 2020, the Group has received amounts of RMB150 million; and
- (6) the largest shareholder and an executive director of the Group confirmed that they will provide adequate financial support to the Group as is necessary to ensure its continuing operation for a period of at least twelve months from the end of the reporting period.

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 to finance its operations for the twelve-month period ending 30 June 2021. 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.

This interim results is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, *Definition of a Business*
- Amendment to IFRS 16, *Covid-19-Related Rent Concessions*

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

3 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments (2019: two).

- Automotive heat, ventilation and cooling (HVAC) business: this segment operates the manufacture and sales of automotive HVAC systems and a range of automotive HVAC components and rendering of services.
- 4S dealership business: this segment operates the sales of automobile and a range of automobile components and rendering of after sales services.

(a) **Disaggregation of revenue**

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

| | Six months ended 30 June | |
|---|---------------------------------|-----------------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| HVAC business | | |
| — Sales of HVAC systems and HVAC components | 422,591 | 389,602 |
| — Revenue from the rendering of services | 10,421 | 3,741 |
| | 433,012 | 393,343 |
| 4S dealership business | | |
| — Sales of passengers vehicles | 436,152 | 455,472 |
| — After-sales services | 56,321 | 53,374 |
| | 492,473 | 508,846 |
| | 925,485 | 902,189 |

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

(b) Information about profit or loss, assets and liabilities

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

| <i>For the six months ended</i> | HVAC business | | 4S dealership business | | Total | |
|---|------------------|-----------------|------------------------|----------------|------------------|----------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Disaggregated by timing of revenue recognition | | | | | | |
| Point in time | <u>433,012</u> | 393,343 | <u>492,473</u> | 508,846 | <u>925,485</u> | 902,189 |
| Revenue from external customers | 433,012 | 393,343 | 492,473 | 508,846 | 925,485 | 902,189 |
| Inter-segment revenue | — | — | — | — | — | — |
| Reportable segment revenue | <u>433,012</u> | <u>393,343</u> | <u>492,473</u> | <u>508,846</u> | <u>925,485</u> | <u>902,189</u> |
| Reportable segment (loss)/profit | <u>(53,103)</u> | <u>(20,724)</u> | <u>52,071</u> | <u>57,096</u> | <u>(1,032)</u> | <u>36,372</u> |
| Impairment of | | | | | | |
| — Property, plant and equipment | — | (16,530) | — | — | — | (16,530) |
| — Intangible assets | (17,753) | (10,565) | — | — | (17,753) | (10,565) |
| <i>As at 30 June/31 December</i> | | | | | | |
| Reportable segment assets | 2,409,731 | 2,423,748 | 597,937 | 697,804 | 3,007,668 | 3,121,552 |
| Reportable segment liabilities | 2,090,612 | 1,948,446 | 240,757 | 368,120 | 2,331,369 | 2,316,566 |

The measure used for reporting segment profit is “reportable segment (loss)/profit” which excludes 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.

(c) Reconciliation of reportable segment profit or loss

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Reportable segment profit | (1,032) | 36,372 |
| Elimination of inter-segment profits | — | — |
| Reportable segment profit derived from | | |
| group's external customers | (1,032) | 36,372 |
| Impairment loss of non-current assets | (17,753) | (27,095) |
| Depreciation and amortisation | (62,007) | (48,226) |
| Finance costs | (26,680) | (30,163) |
| Gain/(loss) on fair value changes of | | |
| financial instruments measured at FVTPL | 27,345 | (52,270) |
| Unallocated head office and corporate expenses | (735) | (2,004) |
| Consolidated loss before taxation | <u>(80,862)</u> | <u>(123,386)</u> |

(d) 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, 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 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 | |
|---------------------------------------|---------------------------------|----------------|------------------------------|------------------|
| | Six months ended 30 June | | At | At |
| | 2020 | 2019 | 30 June | 31 December |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Mainland China | 778,620 | 863,124 | 1,267,249 | 1,240,812 |
| The Kingdom of Morocco (“Morocco”) | 9,919 | — | 280,780 | 251,443 |
| France | 20,659 | 37,989 | — | — |
| Germany | 64 | — | — | — |
| The United Kingdom | 412 | — | — | — |
| The Kingdom of Spain | 112,313 | 1,076 | — | — |
| Slovakia | 3,498 | — | — | — |
| | <u>925,485</u> | <u>902,189</u> | <u>1,548,029</u> | <u>1,492,255</u> |

4 OTHER NET INCOME

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Government grants | 6,964 | 5,031 |
| Net foreign exchange gain | 4,094 | 174 |
| Service income | 20,167 | 24,939 |
| Interest income on financial assets measured at amortised cost | 4,494 | 7,104 |
| Net gain on disposal of property, plant and equipment | 714 | 347 |
| Impairment loss of | | |
| — property, plant and equipment | — | (16,530) |
| — intangible assets (note 8(b)) | (17,753) | (10,565) |
| Others | (112) | 1,760 |
| | <u>18,568</u> | <u>12,260</u> |

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Finance costs

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Interest on bank loans and other borrowings | 24,328 | 27,927 |
| Interest on lease liabilities | 336 | 370 |
| Interest on discounted bills | 2,016 | 4,850 |
| | <u>26,680</u> | <u>33,147</u> |
| Total interest expense on financial liabilities not at fair value through profit or loss | 26,680 | 33,147 |
| Less: interest expense capitalised into properties under development | — | (2,984) |
| | <u>26,680</u> | <u>30,163</u> |

(b) Gain/(loss) on fair value change on financial instruments measured at FVTPL

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Financial assets at FVTPL | | |
| Mandatorily measured at FVTPL | <u>(1,288)</u> | <u>(5,764)</u> |
| Financial liabilities at FVTPL | | |
| Designated at initial recognition | | |
| — Promissory notes | (3,569) | (21,270) |
| — Convertible bonds tranche 1 (“CB1”) | 17,596 | (2,373) |
| — Convertible bonds tranche 2 (“CB2”) | <u>(499)</u> | <u>—</u> |
| | <u>13,528</u> | <u>(23,643)</u> |
| Mandatorily measured at FVTPL | | |
| — Commitment to issue promissory notes | — | 2,408 |
| — Commitment to issue convertible bonds | <u>15,105</u> | <u>(25,271)</u> |
| | <u>15,105</u> | <u>(22,863)</u> |
| | <u>27,345</u> | <u>(52,270)</u> |

(c) Other items

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Amortisation of intangible assets | 6,346 | 8,710 |
| Depreciation charge | | |
| — owned property, plant and equipment | 51,727 | 35,864 |
| — right-of-use assets | 3,934 | 3,652 |
| Research and development (“R&D”) costs (other than depreciation & amortisation) | 6,330 | 5,207 |
| Impairment losses | | |
| — trade and other receivables | 1,179 | 65,931 |
| — property, plant and equipment | — | 16,530 |
| — intangible assets | 17,753 | 10,565 |
| Inventory write-down and losses, net of reversals | 12,726 | 18,873 |
| Cost of inventories | 848,875 | 772,065 |

6 INCOME TAX

| | Six months ended 30 June | |
|--|--------------------------|------------------------|
| | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
| Current tax — the PRC corporate income tax (“CIT”) | 17,222 | 12,311 |
| Deferred taxation | 17,222 (5,771) | 12,311 (15,298) |
| | 11,451 | (2,987) |

- (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 period (2019: 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% (2019: 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.

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the six months ended 30 June 2020 is based on the loss attributable to equity shareholders of the Company of RMB96,550,000 (six months ended 30 June 2019: loss of RMB119,005,000) and the weighted average of 800,000,000 ordinary shares (six months ended 30 June 2019: 800,000,000 shares) in issue during the six months ended 30 June 2020.

(b) Diluted loss per share

The calculation of diluted loss per share for the six months ended 30 June 2020 is based on the loss attributable to equity shareholders of the Company of RMB114,145,000 and the weighted average number of ordinary shares of 846,870,000.

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

8 PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

(a) Acquisitions and disposals of owned assets

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment with a cost of RMB41,181,000 (six months ended 30 June 2019: RMB13,882,000), incurred construction costs for buildings of RMB80,854,000 (six months ended 30 June 2019: RMB63,137,000) and capitalised development costs of RMB16,508,000 (six months ended 30 June 2019: RMB22,760,000).

In addition to above, on 25 May 2020, the Group had additions in property, plant and equipment, intangible assets, right-of-use assets and goodwill with provisional fair value of RMB9,072,000, RMB935,000, RMB9,171,000 and RMB4,107,000 respectively through the acquisition of Beijing Rothwell Automobile Spares Co., Ltd. (“**Beijing Rothwell**”) from Jiangsu Rothwell Electric Co., Ltd (“**Jiangsu Rothwell**”).

Items of plant and machinery with a net book value of RMB1,674,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB1,434,000), resulting in gains on disposal of RMB714,000 (six months ended 30 June 2019: gains on disposal of RMB347,000).

(b) Impairment losses

During the six months ended 30 June 2020, 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 RMB17,753,000 (six months ended 30 June 2019: RMB10,565,000) was recognized in “other net income”.

9 INVENTORIES

During the six months ended 30 June 2020, a provision of RMB12,726,000 (six months ended 30 June 2019: RMB18,873,000) to write down certain inventories items to their estimated net realisable value has been recognised as an expense in profit or loss.

10 TRADE AND OTHER RECEIVABLES

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), based on the invoice date and net of allowance for doubtful debts, is as follows.:

| | At 30 June 2020 <i>RMB'000</i> | At 31 December 2019 <i>RMB'000</i> |
|---|---|---|
| Within 3 months | 341,262 | 415,248 |
| 3 to 6 months | 39,739 | 43,161 |
| 6 to 12 months | 34,473 | 18,591 |
| Over 12 months | 13,621 | 15,015 |
| | <hr/> | <hr/> |
| Trade receivables and bills receivable, net of loss allowance | 429,095 | 492,015 |
| Other receivables, deposits and prepayments | 162,711 | 151,003 |
| | <hr/> | <hr/> |
| | 591,806 | 643,018 |
| | <hr/> <hr/> | <hr/> <hr/> |

Trade receivables and bills receivable are mainly due within 1 month to 6 months from the date of billing.

Transfers of financial assets

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

As at 30 June 2020, the Group discounted certain bank acceptance bills with a carrying amount of RMB63,931,000 (31 December 2019: RMB113,179,000) to banks for cash proceeds. The Group also endorsed certain bank acceptance bills and commercial bills with a carrying amount of RMB54,726,000 (31 December 2019: RMB90,606,000) and RMB2,973,000 (31 December 2019: RMB4,749,000), respectively, to suppliers for settling trade payables of the same amount on a full recourse basis. As 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 30 June 2020, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity

date of less than six months from the end of the reporting period. As 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.

As at 30 June 2020, 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 RMB15,940,000 and RMB65,917,000 (31 December 2019: RMB73,800,000 and RMB52,450,000) respectively.

11 DEPOSITS WITH BANKS

| | At 30 June 2020 <i>RMB'000</i> | At 31 December 2019 <i>RMB'000</i> |
|---|---|---|
| Guarantee deposits for issuance of letter of credit | 10,000 | 10,000 |
| Guarantee deposits for bank and other borrowings | 20,000 | 35,473 |
| Guarantee deposits for bank acceptance bills | 18,160 | 17,797 |
| | <u>48,160</u> | <u>63,270</u> |

12 CASH AND CASH EQUIVALENTS

| | At 30 June 2020 <i>RMB'000</i> | At 31 December 2019 <i>RMB'000</i> |
|--------------------------|---|---|
| Cash at bank and on hand | 46,343 | 59,290 |
| | <u>46,343</u> | <u>59,290</u> |

13 TRADE AND OTHER PAYABLES

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

| | At 30 June 2020 <i>RMB'000</i> | At 31 December 2019 <i>RMB'000</i> |
|---|---|---|
| Within 3 months | 605,446 | 674,580 |
| Over 3 months but less than 6 months | 109,234 | 100,634 |
| Over 6 months but less than 12 months | 84,228 | 30,128 |
| Over 12 months | 30,538 | 13,823 |
| Total trade creditors and bills payable | 829,446 | 819,165 |
| Advance received for compensation for the resumption of land and buildings (i) | 150,000 | — |
| Other payables | 261,505 | 183,040 |
| Other tax payables | 6,976 | 11,036 |
| | <u>1,247,927</u> | <u>1,013,241</u> |

- (i) During the six-month period ended 30 June 2020, the Company's subsidiary, Xiezhong Nanjing, entered into the Land Resumption and Compensation Agreement with the Nanjing Jiangning High-tech Committee for the resumption of land use right and the plant and buildings erected on the land located in Nanjing, Jiangsu Province. According to the Land Resumption and Compensation Agreement, Xiezhong Nanjing is required to complete the handover of the land and buildings to Nanjing Jiangning High-tech Committee during the first half of 2021, the compensation for the resumption is determined to be approximately RMB240 million, subject to the final assessment to be made by the relevant department of the local government. Such amount covers mainly the value of the land use right, plant and buildings resumed and the costs for plant relocation. The Group received amounts of RMB150 million from the Nanjing Jiangning High-tech Committee during the six-month period ended 30 June 2020.

14 LOANS AND OTHER BORROWINGS

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

| | | At 30 June 2020 <i>RMB'000</i> | At 31 December 2019 <i>RMB'000</i> |
|--|-------------|---|---|
| | <i>Note</i> | | |
| Current portion: | | | |
| — Bank loans | <i>(a)</i> | 584,206 | 607,890 |
| — Bank advances under discounted bills | | 63,931 | 113,179 |
| — Loans from leasing companies | <i>(b)</i> | 57,657 | 89,865 |
| — Loan from financing companies | <i>(c)</i> | 57,027 | 13,731 |
| — Loan from related parties | | 50,950 | 121,850 |
| — Loan from third parties | <i>(d)</i> | 13,420 | 32,212 |
| | | 827,191 | 978,727 |
| Non-current portion: | | | |
| — Bank loans | | 89,844 | 36,635 |
| — Loans from leasing companies | <i>(b)</i> | 19,096 | 38,462 |
| | | 108,940 | 75,097 |
| | | 936,131 | 1,053,824 |

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 EUR9,200,000 (RMB equivalent: 73,241,000) as at 30 June 2020 (31 December 2019: EUR10,700,000 (RMB equivalent: RMB83,626,000)) 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 EUR9,200,000 became payable on demand and was classified as current liabilities.
- (b) As at 30 June 2020, Xiezhong Nanjing, a subsidiary of the Company, has four sales and leaseback agreements with four leasing companies for certain machinery and equipment (“Secured Assets”) and the leasing period is 3 years. Upon maturity, Xiezhong Nanjing will be entitled to purchase the Secured Assets at a nominal value of RMB100, RMB100, RMB100 and RMB10,000 respectively. The Group considered that it was almost certain that Xiezhong Nanjing would exercise this repurchase option. As the substantial risk and rewards of the Secured Assets were retained by Xiezhong Nanjing before and after these arrangements, the Group recorded such transaction as secured borrowings.

As at 30 June 2020, the above loans from leasing companies amounting to RMB76,753,000 were secured by certain machinery and equipment with the carrying amount of RMB152,376,000 (31 December 2019: RMB128,327,000 was secured by certain machinery and equipment with the carrying amount of RMB206,776,000).

- (c) As at 30 June 2020, a loan of RMB27,300,000 was borrowed by Xiezhong Nanjing from a financing company. The loan bears interest at a fixed rate of 7% per annum and is secured by the trade receivables due from a third-party customer and repayable within one year.

A loan of RMB29,727,000 was borrowed by Nanjing Xiezhong Lexus Automobile Sales Service Co., Ltd. (“Xiezhong Lexus”) from the auto finance companies of the respective automobile manufacturers for purchase of motor vehicles. The loan bears interest at a fixed rate of 7.68% per annum and is secured by the long-term receivables amounting to RMB10,000,000 and inventories amounting to RMB15,203,000.

- (d) As at 30 June 2020, loans of RMB13,420,000 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 30 June 2020, the loans and other borrowings were repayable as follows:

| | At 30 June 2020 <i>RMB'000</i> | At 31 December 2019 <i>RMB'000</i> |
|---------------------------------------|---|---|
| Within one year or on demand | 827,191 | 978,727 |
| After one year but within two years | 87,572 | 48,462 |
| After two years but within five years | 21,368 | 26,635 |
| | <u>108,940</u> | <u>75,097</u> |
| | <u>936,131</u> | <u>1,053,824</u> |

As at 30 June 2020, the loans and other borrowings were secured as follows:

| | | At 30 June 2020 <i>RMB'000</i> | At 31 December 2019 <i>RMB'000</i> |
|--|-----|---|---|
| Bank loans and other borrowings | | | |
| — Secured | (i) | 527,050 | 505,525 |
| — Unsecured | | 147,000 | 139,000 |
| Bank advances under discounted bills | | 63,931 | 113,179 |
| Secured loans from leasing companies | (i) | 76,753 | 128,327 |
| Secured loans from financing companies | (i) | 57,027 | 13,731 |
| Unsecured loans from related parties | | 50,950 | 121,850 |
| Unsecured loans from third parties | | 13,420 | 32,212 |
| | | <u>936,131</u> | <u>1,053,824</u> |

- (i) As at 30 June 2020, the carrying amounts of the assets of the Group secured against bank loans and other borrowings were analysed as follows:

| | At 30 June 2020 <i>RMB'000</i> | At 31 December 2019 <i>RMB'000</i> |
|---|---|---|
| Property, plant and equipment | 467,177 | 467,424 |
| Right-of-use assets | 89,978 | 34,282 |
| Inventories | 52,264 | 39,285 |
| Long-term receivables | 10,000 | 10,000 |
| Other receivables | 15,199 | 11,645 |
| Guarantee deposits for finance lease | 14,347 | 14,696 |
| Guarantee deposits for issuance of letter of credit | 10,000 | 10,000 |
| Guarantee deposits for bank and other borrowings | 20,000 | 35,473 |
| Guarantee deposits for bank acceptance bills | 18,160 | 17,797 |
| | <u>697,125</u> | <u>640,602</u> |

In addition, the Group's bank loans and other borrowings amounting to RMB429,129,000 were guaranteed by related parties as at 30 June 2020 (31 December 2019: RMB344,830,490).

15 CAPITAL, RESERVES AND DIVIDENDS

Dividends

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

The directors of the Company do not propose the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: HKD nil).

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

The dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period is HKD nil per ordinary share (six month period ended 30 June 2019: HKD nil).

16 ACQUISITION OF A SUBSIDIARY

During the six months ended 30 June 2020, Xiezhong Nanjing entered into a sales and purchase agreement with Jiangsu Rothwell, pursuant to which, Jiangsu Rothwell agreed to sell and Xiezhong Nanjing agreed to purchase the entire issued share capital of Beijing Rothwell at the consideration of RMB16,395,000.

On 25 May 2020, the Group obtained control of Beijing Rothwell.

(a) Set forth below is the calculation of goodwill

| | |
|--|---------------------|
| Total consideration | 16,395 |
| Less: fair value of net identifiable assets acquired (<i>note (b)</i>) | <u>(12,288)</u> |
| Goodwill | <u><u>4,107</u></u> |

(b) Fair value of net identifiable assets acquired

| | Pre-acquisition carrying amounts RMB'000 | Fair value adjustments RMB'000 | Recognised values on acquisition RMB'000 |
|----------------------------------|---|---|---|
| Property, plant and equipment | 7,434 | 1,638 | 9,072 |
| Intangible assets | 189 | 746 | 935 |
| Right-of-use assets | 9,171 | — | 9,171 |
| Inventories | 1,748 | 141 | 1,889 |
| Trade and other receivables | 16,248 | — | 16,248 |
| Cash and cash equivalents | 173 | — | 173 |
| Trade and other payables | (15,398) | — | (15,398) |
| Deferred tax liabilities | — | (631) | (631) |
| Lease liabilities | (9,171) | — | (9,171) |
| | <u>10,394</u> | <u>1,894</u> | <u>12,288</u> |
| Fair value net identified assets | <u>10,394</u> | <u>1,894</u> | <u>12,288</u> |

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values. The valuation adjustments on identifiable assets and liabilities are calculated by deducting carrying amount of identifiable assets and liabilities from the fair value of identifiable assets and liabilities as at 25 May 2020.

17 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 10 August 2020, the Company's subsidiary, Xiezhong Nanjing, entered into a Supplemental Agreement to the Land Resumption and Compensation Agreement with the Nanjing Jiangning High-tech Committee. Pursuant to the Supplemental Agreement, the Group will be entitled to receive further compensation of approximately RMB173 million for losses to be incurred by Xiezhong Nanjing for its production and business suspension attributable to the plant relocation.

18 IMPACTS OF COVID-19 PANDEMIC

The outbreak of the COVID-19 pandemic since the beginning of 2020 is a challenging situation faced by the society both in the PRC and on a global basis. The Group has been assessing the overall impact of the situation on the operation and business of the Group in the PRC and elsewhere from time to time and endeavors to manage the impact.

The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures. The outbreak of the COVID-19 pandemic globally has an adverse effect on the Group's business in the first half of 2020. The revenue of the Group in the second quarter of 2020 has improved when compared to that in the first quarter. Barring unforeseen circumstances and subject to factors including the development of the COVID-19 situation in the PRC and globally and the market conditions, the Board currently expects that the revenue of the Group will continue to improve in the second half of 2020. While the Company expects the Group's different business segments for the PRC market will achieve revenue growth at different rates, the Group's international business in certain other segments may undergo a decline in revenue. The Group will keep the contingency measures under review as the situation evolves.

MANAGEMENT DISCUSSION AND ANALYSIS

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. The Group's HVAC business principally involves in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components, and extends to the provision of 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 four million sets of HVAC systems, the major customers are Beijing Auto, PSA, Dongfeng Peugeot-Citroën, etc.

The 4S dealership business operates three stores, two of which are located in Nanjing, Jiangsu province, one of which is located in Ma'anshan, Anhui Province, one and two stores are dedicated to luxury brand and mid-to-high end brand, respectively. The 4S dealership business engages in automobile sales and provide a comprehensive range of after-sales services, such as repair and maintenance service and sales of spare parts and accessories.

The automotive market in China experienced its first decline since 2018 and the downward trend continued in 2020. According to the statistical data of China Association of Automobile Manufacturers, the production and sales of automobiles in the first half of 2020 were 10.1 million and 10.3 million units respectively, representing a decrease of approximately 16.5% and 16.3% as compared against that of the corresponding period in 2019. Amongst those motor vehicles, the production and sales of passenger vehicles were 7.8 million and 7.9 million units respectively, representing a decrease of approximately 22.0% and 21.8% as compared against that of the previous corresponding period in 2019; the production and sales of commercial vehicles were 2.4 million and 2.4 million units respectively, representing an increase of approximately 9.1% and 9.1% as compared against that of the previous corresponding period in 2019. The production and sales of NEVs reached 0.4 million units and 0.4 million units respectively, representing a decrease of approximately 33.3% and 33.3% as compared against that of the previous corresponding period in 2019.

During the Period, the Group recorded revenue of RMB925.5 million, representing an increase of 2.6% compared against that of RMB902.2 million in the corresponding period in 2019. The gross profit was RMB21.2 million, representing a decrease of 80.8% compared against that of RMB110.4 million in the corresponding period in 2019. The loss attributable to equity shareholders was RMB96.6 million, representing a decrease of 18.8% compared against that of RMB119.0 million in the corresponding period in 2019.

HVAC business

Despite the COVID-19 pandemic in the first-half of 2020, the HVAC revenue increased from approximately RMB393.3 million for the six months ended 30 June 2019 to approximately RMB433.0 million for the Period, representing an increase of 10.1%, which was due to the commencement of full-scale production of the Morocco Plant in November 2019. The HVAC gross profit, however, decreased dramatically from approximately RMB65.7 million for the six months ended 30 June 2019 to a loss of approximately RMB18.8 million for the Period, representing a decrease of approximately 128.6%. The HVAC gross profit margin for the Period was approximately -4.3%, as compared to approximately 16.7% for the six months ended 30 June 2019.

4S dealership business

Due to the impact of the COVID-19 pandemic, the Group's revenue from 4S dealership business decreased from approximately RMB508.8 million for the six months 30 June 2019 to RMB492.5 million for the Period, representing a decrease of approximately 3.2%. The gross profit decreased from approximately RMB44.7 million for the six months ended 30 June 2019 to RMB40.0 million for the Period, representing a decrease of approximately 10.5%, whilst the gross profit margin decreased from approximately 8.8% for the six months ended 30 June 2019 to 8.1% for the Period.

FINANCIAL REVIEW

Revenue

During the Period, the Group recorded revenue of RMB925.5 million, representing an increase of 2.6% compared against that of RMB902.2 million in the corresponding period in 2019.

| | Six months ended 30 June | | Six months ended 30 June | |
|--------------------------------|--------------------------|---|--------------------------|---|
| | 2020 | | 2019 | |
| | <i>RMB'000</i> | <i>Approximate % of segment revenue</i> | <i>RMB'000</i> | <i>Approximate % of segment revenue</i> |
| HVAC systems | | | | |
| SUVs and pickup trucks | 27,916 | 6% | 49,270 | 13% |
| Sedans | 256,575 | 59% | 137,815 | 35% |
| Vans | 8,707 | 2% | 24,720 | 6% |
| Heavy trucks | 59,231 | 14% | 53,890 | 14% |
| Construction machineries | 7,004 | 2% | 11,128 | 3% |
| Other vehicles ⁽¹⁾ | 57,847 | 14% | 60,353 | 15% |
| HVAC components ⁽²⁾ | 5,311 | 1% | 52,425 | 13% |
| Others⁽³⁾ | 10,421 | 2% | 3,742 | 1% |
| Subtotal | 433,012 | 100% | 393,343 | 100% |
| 4S dealership business | | | | |
| Sales of passengers vehicles | 436,152 | 89% | 455,472 | 90% |
| After-sales services | 56,321 | 11% | 53,374 | 10% |
| Subtotal | 492,473 | 100% | 508,846 | 100% |
| Total | 925,485 | | 902,189 | |

(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 Period, the gross profit was RMB21.2 million, representing a decrease of 80.8% compared against RMB110.4 million in the corresponding period in 2019, and the gross profit margin was 2.3%, representing a decrease of 9.9% compared against 12.2% in the corresponding period in 2019. Such decrease was mainly due to the gross loss of RMB53.7 million recorded from the Morocco Plant, which has a gross loss margin 45.1% during the Period which was caused by i) low production efficiency in the start-up stage of Morocco Plant; ii) overseas air freight cost of RMB33.6 million as most of raw materials was transported from China to Morocco.

Since the beginning of March 2020, the COVID-19 pandemic has spread in various countries around the world, Europe and the United States of America have become the epicentre of the COVID-19 pandemic and Africa is at risk of spreading. Since mid-March 2020, the Peugeot Group, one of the Group's customers, has suspended its manufacturing temporarily, and has only partially resumed business operation as at the date of this announcement, and in order to curb the spread of the pandemic in Morocco, the Government of Morocco issued temporary suspension guidelines, hence, the Group's plant in Morocco has suspended its manufacturing temporarily since 20 March 2020. As at the date of this announcement, the Morocco Plant has fully resumed production.

Other net income

During the Period, the other net income is RMB18.6 million, representing an increase of 51.2% compared against RMB12.3 million in the corresponding period in 2019. The other net income for the Period mainly includes government grants of RMB7.0 million, service income of RMB20.2 million and interest income on financial assets measured at amortised cost of RMB4.5 million, offset by an impairment loss of intangible assets of RMB17.8 million.

Impairment loss of intangible assets

The following table sets forth a breakdown of impairment loss of intangible assets of RMB17.8 million recorded during the Period.

| | As at 30 June 2020 | | |
|---|--|-----------------------|--------------------|
| | RMB'000 | | |
| | Carrying amount before impairment | Recoverable amount | Impairment loss |
| Project with capitalized development costs for 北京新能源汽车股份有限公司 ("BAIC BJEV") (note) | 17,753 | — | 17,753 |

Note: An impairment loss of RMB17.8 million was provided against a project with capitalized development costs for BAIC BJEV during the Period. The project with capitalized development cost represented one HVAC system designed specially for one type of vehicles of BAIC BJEV. During the Period, management of the Group noted there was almost no sales of the vehicle in the market. Moreover, there is no alternative use of the HVAC system which was specially designed for the vehicle. Therefore, the recoverable amounts of the project with capitalized 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.

Distribution costs

During the Period, the distribution costs was RMB41.6 million, which was similar to that in the corresponding period in 2019.

Administrative expenses

During the Period, administrative expenses were RMB78.5 million, representing an increase of RMB22.5 million or 40.2% compared against that of RMB56.0 million in the corresponding period in 2019. The increase was mainly due to research and development costs of approximately RMB17.1 million in respect of certain new R&D projects commenced since 2020, which were expensed and charged to the income statement during the Period.

Impairment losses on trade and other receivables

During the Period, impairment losses on trade and other receivables was RMB1.2 million, representing a decrease of 98.2% compared against that of RMB65.9 million in the corresponding period in 2019. The loss recognized during the Period was mainly based on expected credit losses (ECLs).

Finance costs

During the Period, finance costs were RMB26.7 million, representing a decrease of RMB3.5 million or 11.6% compared against that of RMB30.2 million in the corresponding period in 2019. Such decrease was mainly due to the decrease of loans and other borrowings.

Income tax

During the Period, income tax was RMB11.5 million, representing an increase of RMB14.5 million compared against the tax benefit of RMB3.0 million in the corresponding period in 2019.

Loss for the Period

As a result of the foregoing, loss for the Period was RMB92.3 million as compared to the loss of RMB120.4 million in the previous corresponding period in 2019.

LIQUIDITY AND FINANCIAL RESOURCES

Inventories

As at 30 June 2020, the Group's inventory balance was RMB524.7 million (31 December 2019: RMB448.3 million).

The average inventory turnover days of HVAC business, calculated as cost of sales divided by average inventory and multiplied by 17 days, increased from 156 days during the twelve months ended 31 December 2019 to 173 days during the Period.

Trade and other receivables

As at 30 June 2020, the Group's trade and other receivables were RMB591.8 million (31 December 2019: RMB643.0 million).

The average trade receivables, bills receivable and trade receivables due from related parties turnover days of HVAC business, calculated as revenue divided by average trade receivables, bills receivable and trade receivables due from related parties and multiplied by 33 days, decreased from 225 days during the twelve months ended 31 December 2019 to 191 days during the Period, 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 debtors and trade debtors due from related parties and multiplied by 6 days, decreased from 157 days in during the twelve months ended 31 December 2019 to 151 days during the Period.

Trade payables and bills payable

As at 30 June 2020, the Group's trade payables and bills payable were RMB829.4 million (31 December 2019: RMB819.2 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 18 days, increased from 148 days during the twelve months ended 31 December 2019 to 166 days during the Period.

Cash and deposits with banks and borrowings

As at 30 June 2020, the Group's cash and deposits with banks were RMB94.5 million (31 December 2019: RMB122.6 million).

As at 30 June 2020, the Group had outstanding loans and other borrowings of RMB936.1 million (31 December 2019: RMB1,053.8 million). As at 30 June 2020, our bank loans and other borrowings carried interest rates ranging from 3.5% to 7.68% per annum.

As at 30 June 2020, the banking facilities available to us were RMB612 million (31 December 2019: RMB828 million), of which RMB529 million (31 December 2019: RMB723 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 30 June 2020, 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.

Convertible bonds

As disclosed in the announcement and circular of the Company dated 31 July 2018 and 11 December 2018, respectively and the poll results announcement of the Company dated 28 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 International Limited (“**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 Auto Parts (Hong Kong) Ltd., at a consideration of HK\$109,342,500.

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 2019 has exceeded the 2019 Performance Guarantee. Accordingly, convertible bonds with an aggregate principal amount of HK\$62,466,000, were issued on 1 June 2020 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\$1.50, representing a premium of approximately 59.6% (to the closing price of HK\$0.94 on the last trading day before the issue date, which is 29 May 2020). The convertible bonds bear interest at a coupon rate of 8% per annum and will be matured on 1 June 2023.

Gearing ratio

As at 30 June 2020, 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 73.1%, compared against 70.9% as at 31 December 2019, which was due to the increase of bank and other borrowings and bills payable during the Period.

Contingent liabilities

As at 30 June 2020, the Group did not incur any material contingent liabilities.

Significant investments held

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

Future plans for material investments or capital assets

Save as disclosed in capital commitment as at 30 June 2020, the Group did not have other plans for material investments or capital assets at the date of this announcement.

Capital commitments

As at 30 June 2020, the Group's capital commitments to make contracted payments amounted to RMB70.4 million (31 December 2019: RMB63.3 million). Such capital commitments were used for the purchase of property, plant and equipment. In addition, capital commitment of RMB104.4 million was authorized but not contracted for as at 30 June 2020 (31 December 2019: RMB162.7 million). They will be financed by the Group's internal resources and/or external bank financing, as appropriate.

Capital expenditures

During the Period, the Group acquired property, plant and equipment with a cost of RMB41.2 million (six months ended 30 June 2019: RMB13.9 million), incurred construction costs for buildings of RMB80.9 million (six months ended 30 June 2019: RMB63.1 million) and capitalised development costs of RMB16.5 million (six months ended 30 June 2019: RMB22.8 million).

Foreign exchange risk

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

Employees

As at 30 June 2020, the Group had 2,082 full-time employees (31 December 2019: 2,233). They were remunerated by the Group with reference to their performance, qualifications and prevailing market conditions. During the Period, the Group's total expenditure in respect of staff cost was RMB73.6 million (six months ended 30 June 2019: RMB73.7 million), representing 8.0% (six months ended 30 June 2019: 8.2%) of the total revenue of the Group. The Group provided regular training to its staff to enhance their knowledge and skills.

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

Events after the Period

On 10 August 2020, the Company's subsidiary, Xiezhong Nanjing, entered into a Supplemental Agreement to the Land Resumption and Compensation Agreement with the Nanjing Jiangning High-tech Committee. Pursuant to the Supplemental Agreement, the Group will be entitled to receive further compensation of approximately RMB173 million for losses to be incurred by Xiezhong Nanjing for its production and business suspension attributable to the plant relocation.

Save for the above and save as disclosed in this announcement, there was no significant event that took place after the reporting period and up to the date of this announcement.

Dividends

The Board did not propose a distribution of interim dividend for the Period (six months ended 30 June 2019: nil).

Relocation and land compensation

Pursuant to the Land Resumption and Compensation Agreement and the Supplemental Agreement entered into by Xiezhong Nanjing with the Nanjing Jiangning Hightech Committee in May 2020 and August 2020 respectively, the Group would be entitled to a total compensation of approximately RMB415 million, subject to the final assessment to be made by the relevant department of the local government, for the resumption of land and buildings currently owned by Xiezhong Nanjing, and for losses to be incurred by Xiezhong Nanjing for the interruption on its manufacturing and business operation attributable to the resumption and relocation. As at 30 June 2020, the Group has received amounts of RMB150 million.

- Relocation schedule: as at the date of this announcement, the new plant has been in progress of construction, and it is expected that the relocation will be commenced in February 2021 and be completed in April 2021 and that the manufacturing of Xiezhong Nanjing may be suspended for about 15 to 30 days.
- The impact of the relocation: in order to minimize the impact to the operation of the manufacturing of Xiezhong Nanjing, the Group plans to reserve extra inventory in advance before the start of the relocation to ensure sufficient inventory for the continued sales during the period when the manufacturing of Xiezhong Nanjing is suspended. It is expected that the suspension will not have a material impact on the Group's continued operations.
- The compensation for the resumption and relocation: the company expects that the compensation received by the Company can cover the value of the property, plant and equipment resumed by the government, as well as the estimated loss during the relocation.

The Board agreed that the resumption and relocation will not have a material impact on the operation of the business and there is no significant doubt on the Group's ability to continue as a going concern.

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 COVID-19 pandemic in early 2020.

The COVID-19 pandemic has brought about uncertainties in the Group's operating environment in the PRC and overseas.

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.

Looking forward, according to a market research report commissioned by the Group and prepared by an independent market and consulting company, the total sales volume of new passenger vehicles in the Yangtze River Delta is expected to grow from approximately 3.6 million units in 2019 to 3.7 million units in 2024, representing a compound annual growth rate (“CAGR”) of approximately 0.5%, whilst the car ownership in Nanjing and Maanshan Cities is expected to grow from 3.2 million owners in 2019 to 4.6 million owners in 2024, representing a CAGR of approximately 7.5%. It is expected by the management of the 4S Dealership Group that it can benefit from the growing market in the upcoming years.

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 pandemic 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 AND OTHER INFORMATION

Corporate governance

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

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

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

- under code provision A.2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual, but for the purpose of our Group, the roles of the chairman and the chief executive of the Company are not separate and both are performed by Mr. Chen Cunyou. Since the Directors meet regularly to consider major matters regarding the operations of the Company, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Company and believe that, with the effective operations of the Board which comprises experienced and high-calibre individuals, this structure will enable the Company to make and implement decisions promptly and efficiently.
- under code provision A.6.7 of the CG Code, all non-executive Directors should attend general meetings of the Company. Except Mr. Lin Lei, the independent non-executive Director (retired at the AGM by rotation in accordance with the articles of association of the Company) was absent from the AGM due to pre-arranged business commitments, all non-executive Directors of the Company (including independent non-executive Directors) attended the annual general meeting of the Company held on 15 June 2020 (the “AGM”)

Share option scheme

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

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

Directors’ and chief executives’ interest in securities

As at 30 June 2020, save as disclosed below, none of the Directors or chief executive of the Company who held office on 30 June 2020 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 (Resigned on 30 June 2020) | Beneficial owner | 1,500,000 (L) | 0.1875% |
| Mr. Guo Zhenjun (Appointed on 30 June 2020) | Beneficial owner | 848,000 (L) | 0.11% |

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' interests in securities

So far as is known to the Directors, save as disclosed below, our Directors are not aware of any persons (other than Directors and chief executive of the Company) who, as at 30 June 2020, had interests or short positions in any shares and 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) in shares and underlying shares

| Name of Shareholder | Nature of interest | Number of Shares | Approximate percentage of shareholding in our Company |
|--|------------------------------------|------------------|---|
| Sunrise International Investment Management Inc (“ Sunrise International ”) <i>(Note 1)</i> | Beneficial owner | 347,602,500 (L) | 43.45% |
| Mr. Chen Hao <i>(Note 1)</i> | Beneficial owner | 8,208,000 (L) | 1.03% |
| | Interest of controlled corporation | 347,602,500 (L) | 43.45% |

| Name of Shareholder | Nature of interest | Number of Shares | Approximate percentage of shareholding in our Company |
|--|------------------------------------|------------------|---|
| Brilliance International Holding Limited (“ Brilliance ”) <i>(Note 2)</i> | Beneficial owner | 40,763,400 (L) | 5.09% |
| Ms. Chen Jiao <i>(Note 2)</i> | Beneficial owner | 12,000,000 (L) | 1.50% |
| | Interest of controlled corporation | 40,763,400 (L) | 5.09% |
| China Fund Limited <i>(Note 3)</i> | Investment Manager | 124,918,000 (L) | 15.61% |
| Mr. Liu Xuezhong <i>(Note 3)</i> | Beneficial owner | 124,918,000 (L) | 15.61% |
| Ms. Li Yuelan <i>(Note 3)</i> | Beneficial owner | 124,918,000 (L) | 15.61% |
| Tianjin Yitongyuan Asset Management Co Ltd* (天津禱童源資產管理有限公司) | Investment Manager | 46,564,000 (L) | 5.82% |

Notes:

1. Pursuant to SPA A, 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 are 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.

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

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

Code of Conduct for Securities Transactions by Directors

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct for securities transactions by the Directors. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings as set out in the Model Code during the Period.

Remuneration committee

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

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

Nomination committee

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

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

Audit committee

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

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

Publication of the interim results and interim report

The interim results announcement is published on the websites of the Company at www.xiezhonginternational.hk and the Stock Exchange at www.hkex.com.hk. The interim report of the Company for the Period containing all the information required by the Listing Rules is to be dispatched to shareholders of the Company and made available on the same websites in due course.

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

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

* *For identification purposes only*

Hong Kong, 31 August 2020

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Chen Cunyou, Mr. Ge Hongbing, Ms. Chen Xiaoting and Mr. Shen Jun; one non-executive Director, namely Mr. Guo Zhenjun; and three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Cheung Man Sang and Mr. Zhang Shulin.