

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Xiezhong International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the annual results of the Group for the year ended 31 December 2020 (the “**Year**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

(Expressed in Renminbi Yuan)

	Note	2020 RMB'000	2019 RMB'000
Revenue	3	2,172,073	1,973,482
Cost of sales		<u>(2,106,212)</u>	<u>(1,797,793)</u>
Gross profit		65,861	175,689
Other net loss	4	(962)	(26,896)
Distribution costs		(134,062)	(105,211)
Administrative expenses		(159,379)	(131,734)
Impairment losses on trade and other receivables	5(d)	(20,589)	(63,825)
Other operating expenses		<u>(3,480)</u>	<u>(177)</u>
Loss from operations		(252,611)	(152,154)
Finance costs	5(a)	(57,460)	(65,815)
Gain/(loss) on fair value changes of financial instruments measured at fair value through profit and loss (“FVTPL”)	5(c)	<u>60,528</u>	<u>(64,200)</u>
Loss before taxation		(249,543)	(282,169)
Income tax	6	<u>(14,456)</u>	<u>(5,403)</u>
Loss for the year		<u>(263,999)</u>	<u>(287,572)</u>
Attributable to:			
Equity shareholders of the Company		(263,259)	(285,627)
Non-controlling interests		<u>(740)</u>	<u>(1,945)</u>
Loss for the year		<u>(263,999)</u>	<u>(287,572)</u>
Loss per share (RMB)			
Basic and diluted	7	<u>(0.33)</u>	<u>(0.36)</u>

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

For the year ended 31 December 2020

(Expressed in Renminbi Yuan)

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the year	<u>(263,999)</u>	<u>(287,572)</u>
Other comprehensive income for the year		
<i>Items that will not be reclassified to profit or loss:</i>		
Exchange differences on translation of financial statements of the Company, net of nil tax	20,471	(6,414)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of entities outside Mainland China, net of nil tax	<u>9,477</u>	<u>(4,047)</u>
Other comprehensive income for the year	<u>29,948</u>	<u>(10,461)</u>
Total comprehensive income for the year	<u>(234,051)</u>	<u>(298,033)</u>
Attributable to:		
Equity shareholders of the Company	(233,311)	(296,088)
Non-controlling interests	<u>(740)</u>	<u>(1,945)</u>
Total comprehensive income for the year	<u>(234,051)</u>	<u>(298,033)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(Expressed in Renminbi Yuan)

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment		1,051,888	971,404
Right-of-use assets		131,401	121,146
Intangible assets		226,900	261,312
Goodwill		20,777	16,670
Long-term receivables		18,475	14,165
Non-current prepayments		65,534	121,723
Derivative financial assets		6,213	12,461
Other non-current assets		—	5,402
Amounts due from related parties		98,379	156,852
Deferred tax assets		51,967	38,438
		<u>1,671,534</u>	<u>1,719,573</u>
Current assets			
Inventories	8	485,112	448,270
Trade and other receivables	9	632,696	643,018
Amounts due from related parties		60,130	110,914
Deposits with banks	10	61,439	63,270
Cash and cash equivalents	11	62,280	59,290
		<u>1,301,657</u>	<u>1,324,762</u>
Current liabilities			
Trade and other payables	12	1,486,734	1,013,241
Amounts due to related parties		7,320	13,009
Contract liabilities		11,852	28,179
Loans and other borrowings	13	748,315	978,727
Lease liabilities		8,250	4,654
Income tax payables		32,993	22,215
Provisions		3,879	3,692
		<u>2,299,343</u>	<u>2,063,717</u>
Net current liabilities		<u>(997,686)</u>	<u>(738,955)</u>
Total assets less current liabilities		<u>673,848</u>	<u>980,618</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*As at 31 December 2020**(Expressed in Renminbi Yuan)*

	<i>Note</i>	2020 RMB'000	2019 <i>RMB'000</i>
Non-current liabilities			
Deferred income		69,377	51,071
Loans and other borrowings	<i>13</i>	63,886	75,097
Deferred tax liabilities		46,122	48,482
Acquisition related consideration payables		208,543	295,810
Lease liabilities		16,081	6,268
		404,009	476,728
NET ASSETS		269,839	503,890
CAPITAL AND RESERVES			
Share capital		6,496	6,496
Reserves		242,270	475,581
Total equity attributable to equity shareholders of the Company		248,766	482,077
Non-controlling interests		21,073	21,813
TOTAL EQUITY		269,839	503,890

NOTES

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, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is at Room 1408, 14/F King’s Commercial Building, 2–4 Chatham Court, Tsim Sha Tsui, Kowloon (“**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 information 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 information also comply with applicable disclosure provisions of the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* (the “**Main Board Listing Rules**”).

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 information.

(b) Basis of preparation of the financial information

In determining the appropriate basis of preparation of financial information, 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 RMB264 million for the year ended 31 December 2020. As at 31 December 2020, the Group had net current liabilities of RMB998 million, total borrowings of RMB812 million, acquisition related consideration payables of RMB209 million and contracted capital commitments of RMB129 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 during the year ended 31 December 2020 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 2020, the Group had available unutilised banking facilities of RMB136 million. In addition, the Group obtained further banking facility of RMB100 million in March 2021;
- (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 2021;
- (5) the Group can extend maturity dates of borrowings from related parties and delay the repayment schedule of amounts of not less than RMB54 million;
- (6) in accordance with the agreement dated 8 May 2020 in relation to land resumption (the "**Land Resumption Agreement**") and the agreement dated 10 August 2020 in relation to loss for business suspension (the "**Supplemental Agreement**") entered into with the Management Committee of Nanjing Jiangning High and New Technology Industrial Development Zone Management Committee (the "**Jiangning Management Committee**") (see notes 12(i) and 12(ii)), the Group would be entitled to a total compensation of approximately RMB413 million, 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 (the "**Loss for Business Suspension**"). As at 31 December 2020, the Group had received amounts of RMB320 million which is recorded in trade and other payables. The Group would obtain the remaining compensation after the removal which is expected to happen before 10 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.

The consolidated financial information for the year ended 31 December 2020 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial information is the historical cost except derivative financial instruments and acquisition related consideration payables which have been measured at fair value.

The preparation of financial information 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.

(c) Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to these financial information 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 financial information. 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

(a) 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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers within the scope of IFRS 15		
HVAC business		
Sales of HVAC systems and HVAC components	1,023,326	868,391
Revenue from the rendering of services	<u>12,529</u>	<u>9,587</u>
	<u>1,035,855</u>	<u>877,978</u>
4S dealership business		
Sales of passengers vehicles	998,352	960,972
After-sales services	<u>137,866</u>	<u>134,532</u>
	<u>1,136,218</u>	<u>1,095,504</u>
	<u><u>2,172,073</u></u>	<u><u>1,973,482</u></u>

- (ii) Revenue expected to be recognised 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.

(b) 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 automobiles and a range of automobile components and rendering of after sales services.

(i) 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, amounts due to related parties, contract liabilities, loans and other borrowings, provision, lease liabilities and deferred income with the exception of income tax payables, deferred tax liabilities and corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "reportable segment (loss)/profit" which exclude impairment losses of non-current assets, depreciation and amortisation, finance costs, gain/(loss) on fair value changes of financial instruments measured at FVTPL, taxes and other head office or corporate administration costs.

In addition to receiving segment information concerning reportable segment (loss)/profit, management is provided with segment information concerning revenue from external customers, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses of non-current segment assets used by the segments in their operations.

Disaggregation of revenue from contracts with customers by the 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 years ended 31 December 2020 and 2019 is set out below.

	HVAC business		4S dealership business		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Disaggregated by timing of revenue recognition						
Point in time	<u>1,035,855</u>	<u>877,978</u>	<u>1,136,218</u>	<u>1,095,504</u>	<u>2,172,073</u>	<u>1,973,482</u>
Revenue from external customers	1,035,855	877,978	1,136,218	1,095,504	2,172,073	1,973,482
Inter-segment revenue	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Reportable segment revenue	<u>1,035,855</u>	<u>877,978</u>	<u>1,136,218</u>	<u>1,095,504</u>	<u>2,172,073</u>	<u>1,973,482</u>
Reportable segment (loss)/profit	<u>(182,075)</u>	<u>(5,626)</u>	<u>114,100</u>	<u>115,473</u>	<u>(67,975)</u>	<u>109,847</u>
Interest income	1,407	527	7,378	11,128	8,785	11,655
Interest expense	47,173	55,474	10,287	10,341	57,460	65,815
Depreciation and amortisation for the year	116,840	130,788	12,265	12,654	129,105	143,442
Impairment of non-current assets						
— Property, plant and equipment	959	29,815	—	—	959	29,815
— Intangible assets	49,186	38,541	—	—	49,186	38,541
— Goodwill	—	45,370	—	—	—	45,370
Impairment losses on trade and other receivables	20,589	63,825	—	—	20,589	63,825
Reportable segment assets	2,391,538	2,423,748	660,235	697,804	3,051,773	3,121,552
Additions to non-current segment assets during the year	263,792	295,514	6,441	7,907	270,233	303,421
Reportable segment liabilities	2,306,303	1,948,446	261,317	368,120	2,567,620	2,316,566

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

	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
Revenue		
Reportable segment revenue	2,172,073	1,973,482
Elimination of inter-segment revenue	—	—
	<hr/>	<hr/>
Consolidated revenue (note 3(a))	2,172,073	1,973,482
	<hr/> <hr/>	<hr/> <hr/>
	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 RMB'000
(Loss)/profit		
Reportable segment (loss)/profit	(67,975)	109,847
Elimination of inter-segment profits	—	—
	<hr/>	<hr/>
Reportable segment (loss)/profit derived from Group's external customers	(67,975)	109,847
Impairment losses of non-current assets	(50,145)	(113,726)
Depreciation and amortisation	(129,105)	(143,442)
Finance costs	(57,460)	(65,815)
Gain/(loss) on fair value changes of financial instruments measured at FVTPL	60,528	(64,200)
Unallocated head office and corporate expenses	(5,386)	(4,833)
	<hr/>	<hr/>
Consolidated loss before taxation	(249,543)	(282,169)
	<hr/> <hr/>	<hr/> <hr/>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Assets:		
Reportable segment assets	3,051,773	3,121,552
Elimination of inter-segment receivables	<u>(158,216)</u>	<u>(145,817)</u>
	2,893,557	2,975,735
Goodwill	20,777	16,670
Deferred tax assets	51,967	38,438
Unallocated corporate assets	<u>6,890</u>	<u>13,492</u>
Consolidated total assets	<u><u>2,973,191</u></u>	<u><u>3,044,335</u></u>
Liabilities:		
Reportable segment liabilities	2,567,620	2,316,566
Elimination of inter-segment payables	<u>(158,216)</u>	<u>(145,817)</u>
	2,409,404	2,170,749
Income tax payables	32,993	22,215
Deferred tax liabilities	46,122	48,482
Unallocated corporate liabilities	<u>214,833</u>	<u>298,999</u>
Consolidated total liabilities	<u><u>2,703,352</u></u>	<u><u>2,540,445</u></u>

(iii) Geographic information

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	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	1,797,457	1,912,209	1,206,027	1,240,812
The Kingdom of Morocco ("Morocco")	28,764	545	290,473	251,443
France	28,491	49,499	—	—
The Kingdom of Spain	300,162	8,398	—	—
Slovakia	14,331	2,831	—	—
Germany	2,456	—	—	—
The United Kingdom	412	—	—	—
	<u><u>2,172,073</u></u>	<u><u>1,973,482</u></u>	<u><u>1,496,500</u></u>	<u><u>1,492,255</u></u>

(iv) Information about major customers

The Group's customer base is diversified and includes only 1 customer (2019: 1 customer) with whom transactions have exceeded 10% of the Group's revenue during the year.

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:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	<u>329,000</u>	<u>259,810</u>

4 OTHER NET LOSS

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	12,827	15,036
Net foreign exchange (loss)/gain	(10,599)	811
Service income	44,739	55,566
Interest income on financial assets measured at amortised cost	8,785	11,655
Impairment losses of		
— property, plant and equipment	(959)	(29,815)
— intangible assets	(49,186)	(38,541)
— goodwill	—	(45,370)
Net (loss)/gain on disposal of property, plant and equipment	(11,044)	672
Others	<u>4,475</u>	<u>3,090</u>
	<u>(962)</u>	<u>(26,896)</u>

5 LOSS BEFORE TAXATION

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

(a) Finance costs

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank loans and other borrowings	54,031	60,975
Interest on lease liabilities	1,604	993
Interest on discounted bills	1,825	8,998
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	57,460	70,966
Less: interest expense capitalised into properties under development	—	(5,151)
	<hr/>	<hr/>
	57,460	65,815
	<hr/> <hr/>	<hr/> <hr/>

(b) Staff costs

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries, wages, and other benefits	147,096	145,258
Contributions to defined contribution retirement plan	3,433	8,116
	<hr/>	<hr/>
	150,529	153,374
	<hr/> <hr/>	<hr/> <hr/>

(c) Gain/(loss) on fair value changes on financial instruments measured at FVTPL

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Financial assets at FVTPL		
Mandatorily measured at FVTPL	(11,073)	(9,255)
Financial liabilities at FVTPL		
Designated at initial recognition		
— Promissory notes	(7,410)	(25,360)
— Convertible bonds tranche 1 (“CB1”)	14,108	(1,003)
— Convertible bonds tranche 2 (“CB2”)	(527)	—
	6,171	(26,363)
Mandatorily measured at FVTPL		
— Commitment to issue promissory notes	—	2,408
— Commitment to issue convertible bonds	65,430	(30,990)
	65,430	(28,582)
	60,528	(64,200)

(d) Other items

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
	<i>Note</i>	
Amortisation cost of intangible assets [#]	15,908	17,817
Depreciation charge [#]		
— owned property, plant and equipment	103,419	117,519
— right-of-use assets	9,778	8,106
Impairment losses		
— trade and other receivables	20,589	63,825
— property, plant and machinery	959	29,815
— intangible assets	49,186	38,541
— goodwill	—	45,370
Research and development (“R&D”) costs (other than depreciation and amortisation costs)	39,421	11,450
Increase/(decrease) in provision for product warranties	7,106	(1,512)
Cost of inventories [#]	8	2,105,674
		1,796,414

[#] Cost of inventories includes RMB146,294,000 (2019: RMB120,059,000) relating to staff costs, depreciation and amortisation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax-PRC income tax		
Provision for the year	29,512	24,710
Under/(over)-provision in respect of prior years	1,464	(141)
	<u>30,976</u>	<u>24,569</u>
Deferred tax		
Origination of temporary differences	(16,520)	(19,166)
	<u>(16,520)</u>	<u>(19,166)</u>
	<u>14,456</u>	<u>5,403</u>

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

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Loss before taxation		<u>(249,543)</u>	<u>(282,169)</u>
Notional tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	<i>(i)</i>	(74,858)	(42,105)
Tax effect of non-deductible expenses		1,334	722
Effect of additional deduction on R&D expenses	<i>(ii)</i>	(9,793)	(4,448)
Tax effect of unused tax losses not recognised		34,782	17,500
Effect of tax concession	<i>(iii)</i>	61,527	33,875
Under/(over)-provision in respect of prior years		1,464	(141)
Actual tax expense		<u>14,456</u>	<u>5,403</u>

- (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 (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 is based on the loss attributable to ordinary equity shareholders of the Company of RMB263,259,000 (2019: RMB285,627,000) and the number of 800,000,000 ordinary shares (2019: 800,000,000 ordinary shares) in issue during the year.

Number of shares

	2020	2019
Number of issued ordinary shares at 1 January and 31 December	<u>800,000,000</u>	<u>800,000,000</u>

(b) Diluted loss per share

Diluted loss per share was the same as basic loss per share for the year ended 31 December 2020 as the potential ordinary shares under the conversion of convertible bonds have anti-dilutive effects on the basic loss per share.

8 INVENTORIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
HVAC business		
— Raw materials	111,569	72,160
— Work in progress	42,390	22,742
— Finished goods	270,901	299,851
	<u>424,860</u>	<u>394,753</u>
4S dealership business		
— Motor vehicles	53,418	48,445
— Automobile spare parts	6,834	5,072
	<u>60,252</u>	<u>53,517</u>
	<u>485,112</u>	<u>448,270</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Carrying amount of inventories sold	2,076,429	1,759,501
Write-down of inventories	29,245	36,913
	<u>2,105,674</u>	<u>1,796,414</u>

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

9 TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables due from third parties, net of loss allowance	381,995	341,707
Bills receivable	101,097	150,308
Other debtors, deposits and prepayments	149,604	151,003
Total	<u>632,696</u>	<u>643,018</u>

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 RMB22,370,000 (2019: RMB26,729,000).

(a) Transfers of financial assets

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

As at 31 December 2020, the Group discounted certain bank acceptance bills with a carrying amount of RMB13,560,000 (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 RMB87,576,000 (31 December 2019: RMB90,606,000) and RMB502,000 (31 December 2019: RMB4,749,000), 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 2020, 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. 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 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 RMB19,630,000 and RMB135,053,000 (31 December 2019: RMB73,800,000 and RMB52,450,000) respectively.

(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.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	458,698	506,186
3 to 6 months	57,907	48,551
6 to 12 months	5,917	22,904
Over 12 months	700	16,686
Total	523,222	594,327

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

10 DEPOSITS WITH BANKS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Guarantee deposits for issuance of letter of credit	—	10,000
Guarantee deposits for bank and other borrowings	46,226	35,473
Guarantee deposits for bank acceptance bills	15,213	17,797
	61,439	63,270

11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cash at bank and on hand	62,280	59,290

As at 31 December 2020, cash of the Group held in banks and financial institutions in the PRC amounted to RMB61,194,000 (2019: RMB55,236,000). 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.

12 TRADE AND OTHER PAYABLES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Trade payables	741,456	697,133
Bills payable	108,904	122,032
Other payables	295,779	183,040
Other tax payables	20,595	11,036
Advance received for compensation for the resumption of land and buildings (i)	200,000	—
Advance received for compensation for the loss for business suspension (ii)	120,000	—
	<u>1,486,734</u>	<u>1,013,241</u>

- (i) As at 8 May 2020, Xiezhong Nanjing entered into the Land Resumption Agreement with the Jiangning Management 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 Agreement, Xiezhong Nanjing is required to complete the handover of the land and buildings to Jiangning Management 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 RMB200 million from the Nanjing Jiangning High-tech Committee during the year ended 31 December 2020.
- (ii) As at 10 August 2020, Xiezhong Nanjing also entered into the Supplemental Agreement with the Jiangning Management Committee for the Loss for Business Suspension. According to the Supplemental Agreement, the compensation for the Loss for Business Suspension is determined to be approximately RMB173 million, subject to the final assessment to be made by the relevant department of the local government. The Group received amounts of RMB120 million from the Nanjing Jiangning High-tech Committee during the year ended 31 December 2020.

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:

	2020 RMB'000	2019 RMB'000
Within 3 months	612,577	674,580
Over 3 months but less than 6 months	118,306	100,634
Over 6 months but less than 12 months	92,944	30,128
Over 12 months	26,533	13,823
	<u>850,360</u>	<u>819,165</u>

13 LOANS AND OTHER BORROWINGS

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

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Current portion:			
— Bank loans	<i>(a)</i>	581,177	607,890
— Bank advances under discounted bills		13,560	113,179
— Loans from leasing companies	<i>(b)</i>	42,927	89,865
— Loans from financing companies	<i>(c)</i>	53,635	13,731
— Loans from related parties		46,916	121,850
— Loans from third parties	<i>(d)</i>	10,100	32,212
		<u>748,315</u>	<u>978,727</u>
Non-current portion:			
— Bank loans		26,739	36,635
— Loans from leasing companies	<i>(b)</i>	37,147	38,462
		<u>63,886</u>	<u>75,097</u>
		<u>812,201</u>	<u>1,053,824</u>

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 EUR7,700,000 (RMB equivalent: RMB61,793,000) as at 31 December 2020 (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 EUR7,700,000 became payable on demand and was classified as current liabilities.
- (b) As at 31 December 2020, Xiezhong Nanjing, a subsidiary of the Company, has three sales and leaseback agreements with three leasing companies for certain machinery and equipment of Xiezhong Nanjing (“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, and RMB100 respectively. The Group considered that it was almost certain that Xiezhong Nanjing would exercise these purchase option. 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 2020, the loans from leasing companies of the Group amounting to RMB80,074,000 (2019: RMB128,327,000) were secured by certain machinery and equipment of the Group with the carrying amount of RMB108,123,000 (2019: RMB206,776,000).

- (c) A loan of RMB41,348,000 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 RMB12,287,000 was borrowed by Xiezhong Lexus from an auto financing company of the respective automobile manufacturer for purchase of motor vehicles. The loan bears interest at a rate of 7.68% per annum, is secured by the long-term receivables amounting to RMB10,000,000, prepayment amounting to RMB1,788,000 and inventories amounting to RMB1,497,000.

- (d) Loans of RMB10,100,000 were borrowed by Xiezhong Nanjing from third parties. The loans bear interest at a rate of 4.35% per annum, are unsecured and repayable within one year.

As at 31 December 2020, the loans and other borrowings were repayable as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year or on demand	<u>748,315</u>	<u>978,727</u>
After 1 year but within 2 years	47,147	48,462
After 2 years but within 5 years	<u>16,739</u>	<u>26,635</u>
	<u>63,886</u>	<u>75,097</u>
	<u>812,201</u>	<u>1,053,824</u>

As at 31 December 2020, the loans and other borrowings were secured as follows:

	<i>Note</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank loans			
— Secured	<i>(e)</i>	475,916	505,525
— Unsecured		132,000	139,000
Bank advances under discounted bills		13,560	113,179
Secured loans from leasing companies	<i>(e)</i>	80,074	128,327
Secured loans from financing companies	<i>(e)</i>	53,635	13,731
Unsecured loans from related parties		46,916	121,850
Unsecured loans from third parties		<u>10,100</u>	<u>32,212</u>
		<u>812,201</u>	<u>1,053,824</u>

- (e) As at 31 December 2020, the loans and other borrowings of the Group were secured by the following assets:

	2020	2019
	RMB'000	<i>RMB'000</i>
Property, plant and equipment	350,589	467,424
Right-of-use assets	31,190	34,282
Long-term receivables	10,000	10,000
Inventories	44,525	39,285
Other receivables	13,291	11,645
Guarantee deposits for finance lease	8,750	14,696
Guarantee deposits for issuance of letter of credit	—	10,000
Guarantee deposits for bank and other borrowings	46,226	35,473
Guarantee deposits for bank acceptance bills	15,213	17,797
	519,784	640,602

In addition, the Group's bank loans and other borrowings amounting to RMB344,487,000 were guaranteed by related parties as at 31 December 2020 (2019: RMB344,830,000).

14 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 2020 and 2019.

15 CAPITAL, RESERVES AND DIVIDENDS

Dividends

- (i) No dividend attributable to the year was declared in 2020 or proposed after the end of the reporting period (2019: RMB Nil).
- (ii) Dividends payable to equity shareholders of the Company attribute to the previous financial year, approved and paid during the year.

	2020	2019
	RMB'000	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HKD Nil per share (2019: HKD Nil per share)	—	—

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

The Company is an investment holding company which through its subsidiaries is principally engaged in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components, provide technical testing and related services and operate 4S dealership stores in the PRC.

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 2020. According to the statistical data of CAAM (中國汽車工業協會), the production and sales of automobiles in 2020 were 25.2 million and 25.3 million units respectively, decreased by 2.0% and 1.9% respectively, year-on-year. Amongst those motor vehicles, the production and sales of passenger vehicles reached 20.0 million and 20.2 million units respectively, decreased by 6.5% and 6.0% respectively, year-on-year; the production and sales of commercial vehicles manufactured and sold were 5.2 million and 5.1 million units respectively, increased by 20.0% and 18.7% respectively, year-on-year; and the production and sales of NEVs reached 1.4 million units and 1.4 million units respectively, increased by 7.5% and 10.9% respectively, year-on-year.

During the Year, the Group recorded revenue of RMB2,172.1 million, representing an increase of 10.1% compared against that of RMB1,973.5 million in 2019. The gross profit was RMB65.9 million, representing a decrease of 62.5% compared against that of RMB175.7 million in 2019. The loss attributable to equity shareholders was RMB263.3 million, representing a decrease of 7.8% compared against that of RMB285.6 million in 2019.

HVAC business

Despite the COVID-19 pandemic in the first-half of 2020, the HVAC revenue increased from approximately RMB878.0 million for the year ended 31 December 2019 to approximately RMB1,035.9 million for the Year, representing an increase of 18.0%, which was due to the commencement of full-scale production of the Morocco Plant since November 2019. The HVAC gross profit decreased from approximately RMB86.4 million for the year ended 31 December 2019 to a gross loss of approximately RMB24.5 million for the Year, representing a decrease of approximately 128.4%. The HVAC gross (loss)/profit margin for the Year was approximately -2.4%, as compared to approximately 9.8% for the year ended 31 December 2019.

4S dealership business

The Group's revenue from 4S dealership business increased from approximately RMB1,095.5 million for the year ended 31 December 2019 to RMB1,136.2 million for the Year, representing an increase of approximately 3.7%. The gross profit increased from approximately RMB89.3 million for the for the year ended 31 December 2019 to RMB90.4 million for the Year, representing an increase of approximately 1.2%, whilst the gross profit margin decreased from approximately 8.2% for the year ended 31 December 2019 to 8.0% for the Year.

FINANCIAL REVIEW

Revenue

During the Year, the Group recorded revenue of RMB2,172.1 million, representing an increase of 10.1% compared against that of RMB1,973.5 million in 2019.

	2020		2019	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
HVAC systems				
HVAC components ⁽²⁾	372,973	36.0%	93,531	10.7%
Sedans	233,052	22.5%	351,984	40.1%
Heavy trucks	174,498	16.9%	98,355	11.2%
Other vehicles ⁽¹⁾	148,070	14.3%	134,817	15.3%
SUVs and pickup trucks	76,086	7.3%	119,797	13.6%
Vans	14,332	1.4%	52,680	6.0%
Construction machineries	4,315	0.4%	17,227	2.0%
Others⁽³⁾	12,529	1.2%	9,587	1.1%
Subtotal	1,035,855	100%	877,978	100%
4S dealership business				
Sales of passengers vehicles	998,352	87.9%	960,972	87.7%
After-sales services	137,866	12.1%	134,532	12.3%
Subtotal	1,136,218	100%	1,095,504	100%
Total	2,172,073		1,973,482	

(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 RMB65.9 million, representing a decrease of 62.5% compared against RMB175.7 million in 2019, and the gross profit margin was 3.0%, representing a decrease of 5.9% compared against 8.9% in 2019. Such decrease was mainly due to the gross loss of RMB92.3 million recorded from the Morocco Plant, which has a

gross loss margin 29.4% during the Year which was caused by (i) low production efficiency of the Morocco Plant during its start-up stage; and (ii) overseas air freight cost of RMB46.2 million as most of raw materials was transported from China to Morocco.

Other net loss

During the Year, the other net loss is RMB1.0 million, representing a decrease of 96.3% compared against of RMB26.9 million in 2019. The other net loss for the Year mainly includes an impairment loss of intangible assets of RMB49.2 million, net foreign exchange loss of RMB10.6 million and net loss on disposal of property, plant and equipment of RMB11.0 million, offset by government grants of RMB12.8 million, service income of RMB44.7 million and interest income on financial assets measured at amortised cost of RMB8.8 million.

Impairment loss of intangible assets

The following table sets forth a breakdown of impairment loss of intangible assets of RMB49.2 million recorded during the Year.

	As at 31 December 2020		
	<i>RMB'000</i>		
	Carrying amount before impairment	Recoverable amount	Impairment loss
Project with capitalized development costs for 北京新能源汽車股份有限公司 ("BAIC BJEV") (Note 1)	17,753	—	17,753
Projects with capitalized development costs for 東風日產乘用車公司 ("Dongfeng Nissan") (Note 2)	19,346	—	19,346
Projects with capitalized development costs for 一汽解放汽車有限公司 ("FAW") (Note 3)	<u>12,087</u>	<u>—</u>	<u>12,087</u>

Note 1: An impairment loss of RMB17.8 million was provided against a project with capitalized development costs for BAIC BJEV during the Year. The project with capitalized development cost represented one HVAC system designed specially for one type of vehicles of BAIC BJEV. During the Year, management of the Group noted there was almost few 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.

Note 2: An impairment loss of RMB19.3 million was provided against the project with capitalised development costs for Dongfeng Nissan during the Year. The project with capitalized development cost represented one HVAC system specially designed for one type of vehicles of Dongfeng Nissan. Based on the trial production performed during the fourth quarter of 2020, the actual production cost is much higher than expectation and exceeds the estimated selling price. 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.

Note 3: An impairment loss of RMB12.1 million was provided against the project with capitalised development costs for FAW during the Year. The project with capitalized development cost represented one HVAC systems specifically designed for one type of vehicle of FAW. The Group was not selected as the supplier for that HVAC system by FAW in the fourth quarter of 2020, and no sales happened in 2020. 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

Distribution costs was RMB134.1 million, representing an increase of 27.5% compared against that of RMB105.2 million in 2019, which was due to increase in transportation and storage costs as a result of full-scale production of the Morocco Plant during the Year.

Administrative expenses

During the Year, administrative expenses were RMB159.4 million, representing an increase of RMB27.7 million or 21.0% compared against that of RMB131.7 million in 2019. The increase was mainly due to increased research and development costs of approximately RMB27.5 million in respect of certain new R&D projects commenced since 2020, which were expensed and charged to the income statement during the Year.

Impairment losses on trade and other receivables

During the Year, impairment losses on trade and other receivables was RMB20.6 million, representing a decrease of 67.7% compared against that of RMB63.8 million in 2019. The loss recognized during the Year was mainly based on expected credit losses (ECLs).

Income tax

During the Year, income tax was RMB14.5 million, representing an increase of RMB9.1 million compared against that of RMB5.4 million in 2019.

Loss for the year

As a result of the foregoing, loss attributable to equity shareholders of the Company was RMB263.3 million as compared to the loss of RMB285.6 million in 2019.

LIQUIDITY AND FINANCIAL RESOURCES

Inventories

As at 31 December 2020, the Group's inventory balance was RMB485.1 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 365 days, decreased from 156 days in 2019 to 141 days during the Year.

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

As at 31 December 2020, the Group's trade debtors and bills receivable were RMB483.1 million (31 December 2019: RMB492.0 million). The Group's trade debtors due from related parties were RMB40.1 million (31 December 2019: RMB102.3 million).

The average trade debtors, bills receivable and trade debtors due from related parties turnover days, calculated as revenue divided by average trade debtors, bills receivable and trade debtors due from related parties and multiplied by 365 days, decreased from 116 days in 2019 to 94 days during the Year, while without taking into account the bill receivable, the average turnover days of trade debtors and trade debtors due from related parties, calculated as revenue divided by average trade debtors and trade debtors due from related parties and multiplied by 365 days, decreased from 83 days in 2019 to 73 days in 2020.

Trade payables and bills payable

As at 31 December 2020, the Group's trade payables and bills payable were RMB850.4 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 365 days, decreased from 148 days in 2019 to 145 days during the Year.

Cash and deposits with banks and borrowings

As at 31 December 2020, the Group's cash and deposits with banks were RMB123.7 million (31 December 2019: RMB122.6 million).

As at 31 December 2020, the Group had outstanding bank loans and other borrowings of RMB812.2 million (31 December 2019: RMB1,053.8 million). As at 31 December 2020, our bank loans and other borrowings carried interest rates ranging from 0% to 8.3% per annum.

As at 31 December 2020, the banking facilities available to us were RMB668 million (31 December 2019: RMB828 million), of which RMB532 million (31 December 2019: RMB663 million) had been utilized.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities, as at 31 December 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 (“**Sale Shares A**”) 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 (“**Sale Shares B**”) 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**”), 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**”), and that the applicable net profits of Sino Evergreen Group for the year ended 31 December 2020 shall not be less than 130% of the 2019 Performance Guarantee, that is, RMB87,912,110 (the “**2020 Performance Guarantee**”).

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.

Based on the information available to the Board, it is expected that the 2020 Performance Guarantee will not be fulfilled. Pursuant to the terms of the SPA A and SPA B, the Company, without prejudice to its other rights and interest, is entitled but not obliged to request Vendor A and Vendor B to, amongst others, buy back Sale Shares A and Sale Shares B, respectively. For further details, please refer to the circular of the Company dated 11 December 2018. As the audited financial statements of Sino Evergreen Group for the year ended 31 December 2020 is not yet available as at the date of this announcement, the Group has not yet concluded whether to request Vendor A and Vendor B to buy back Sale Shares A and Sale Shares B respectively and will make further announcement(s) as and when necessary pursuant to the Listing Rules.

Gearing ratio

As at 31 December 2020, the Group's gearing ratio, calculated based on debt (including loans and other borrowings and bills payable) divided by the total of equity attributable to equity shareholders of the Company and debt, increased to 78.7%, compared against 71.0% as at 31 December 2019, which was due to the significant decrease of equity attributable to equity shareholders of the Company in light of the loss recorded in the Year.

Contingent liabilities

As at 31 December 2020, 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 below regarding capital commitment as at 31 December 2020, the Group did not have other plans for material investments or capital assets at the date of this announcement.

Capital commitments

As at 31 December 2020, the Group's capital commitments to make contracted payments amounted to RMB129.0 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 RMB4.4 million was authorized but not contracted for as at 31 December 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 Year, the Group incurred capital expenditures of RMB118.0 million (2019: RMB254.5 million) primarily representing additions of construction in progress, machineries and equipment and development costs, consisting of the construction costs and equipment procurement costs for the Group's production plant in Wuhan, Morocco and new production plant situated in Nanjing Jiangning High-Tech Industrial Development Zone (南京江寧高新技術產業開發區), the details of which are further particularised in the circular of the Company dated 24 November 2020.

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 2020, the Group had 2,116 full-time employees (2019: 2,233). 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 RMB150.5 million (2019: RMB153.4 million), representing 6.9% (2019: 7.8%) 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.

Events after the Year

(1) The scheme of arrangement

As disclosed in the announcement jointly issued by the Company and the Joint Offerors (as defined below) dated on 28 February 2021 (the “**Announcement**”), Brilliance International Holding Limited (光華國際控股有限公司) (the “**Offeror A**”) and Golden Fair Chemical (Holding) Limited (金輝化工(控股)有限公司) (the “**Offeror B**”), (they together as the “**Joint Offerors**”) requested the Board to put forward a proposal for the privatization of the Company (the “**Proposal**”) by way of a scheme of arrangement under Section 86 of the Companies Act (2020 Revision) of the Cayman Islands (the “**Scheme**”) involving the cancellation of share(s) of the Company (the “**Share(s)**”) held by the shareholders other than the Joint Offerors and the shareholders including but not limited Ms. Chen Jiao, Mr. Chen Hao, Sunrise International Management Limited, the ten members of the management team (the “**Rollover Shareholders**”), China Fund Limited, Mr. Guo Zhenjun and Mr. Chen Cunyou (the “**Joint Offerors Concert Parties**”) (the “**Disinterested Shareholders**”) and any other shareholders who are interested in or involved in the Proposal, the Scheme and/or the special arrangements between the Joint Offerors and the Rollover Shareholders, and among China Fund Limited, Ms. Chen Jiao and the Offeror A (the “**Share Swap Agreement**”), and in consideration thereof, (i) the payment of cancellation price of HK\$0.80 in cash for each scheme share cancelled and (ii) the payment to China Fund Limited by the in-kind consideration to be received by China Fund Limited for the cancellation of its shares under the Scheme, being the crediting of its then unpaid shares of an aggregate of 157,134,000 unpaid shares of Offeror A issued to China Fund Limited (the “**Offeror A Shares**”) as fully paid in the amount of the cancellation price of HK\$0.80 per Offeror A Share pursuant to the terms of the Share Swap Agreement.

On the assumption that there is no change in the shareholdings of the Company, upon completion of the Scheme, the Joint Offerors and the Joint Offeror Concert Parties will, in aggregate, hold the entire issued share capital of the Company (among which the Rollover Shareholders, in aggregate, will hold approximately 5.10% of the issued share capital of the Company) and the listing of the Shares will be withdrawn from The Stock Exchange of Hong Kong Limited. Please refer to the Announcement for the details.

(2) Supplemental agreement in relation to the disposal of land and properties in relation to land resumption

On 8 May 2020 and 10 August 2020, Xiezhong Nanjing, a wholly-owned subsidiary of the Company, entered into the land resumption agreements with Jiangning Management Committee, pursuant to which, Jiangning Management Committee will resume, and Xiezhong Nanjing will surrender, certain land, buildings and fixtures (the “**Properties**”) in consideration of an aggregate compensation of approximately RMB412.6 million payable by Jiangning Management Committee to Xiezhong Nanjing, and that Xiezhong Nanjing will vacate from the Properties before 10 April 2021 (the “**Vacation Deadline**”). For further details, please refer to the circular of the Company dated 24 November 2020. On 24 March 2021, Xiezhong Nanjing and Jiangning Management Committee entered into a supplemental agreement, pursuant to which the parties agreed to extend the Vacation Deadline to 10 June 2021.

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

Dividends

The Board did not propose a distribution of final dividend for the year ended 31 December 2020 (2019: nil).

Prospect and Outlook

Due to a market contraction in China’s economic growth following the outbreak of the COVID-19 pandemic, the automotive parts industry is faced with general pricing pressure across major product offerings as car manufacturers have implemented cost cutting measures. Revenue of 4S dealership business experienced pressure and increased slightly for the Year.

In light of the above difficulties, the Company has undertaken restructuring efforts to strategize its business and to improve its competitive advantages. Although the Company has implemented a number of strategic changes to adapt to shifting market dynamics, the Company’s financial performance has remained under pressure. In addition, China’s economic headwinds, which are expected to continue, are having a significant negative impact on the Company’s business activities.

Despite these ongoing challenges, the Company believes that the transformational efforts it is currently undertaking will require a longer period to carry out deeper restructuring and further investment in technology, infrastructure, and talent. In light of global economic uncertainties, the Company’s pursuit to strategize and reinvigorate its business will involve execution risk and the associated benefits are expected to require a longer time to materialize.

The Company believes that the transformation of the Company will be more effectively implemented away from the public equity markets. Following implementation of the Proposal, the Company will continue carrying on its current business and do not intend to make any major changes to the current operations. Subject to the Group's ability to access necessary funding and prevailing market conditions, the Company will identify and explore business opportunities to develop the existing business of the Group and implement appropriate strategies for the Group and its business in light of the challenging environment for the automotive parts industry and the 4S dealership businesses in the PRC.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 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 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.4.3 of the CG Code, a service term of over nine years is one of the key factors in determining the independence of an independent non-executive director. Mr. Cheung Man Sang and Mr. Zhang Shulin, who were appointed as independent non-executive Directors on 16 May 2012, will be serving as independent non-executive Directors for over nine years this year. During their years of service with the Company, Mr. Cheung and Mr. Zhang have contributed by providing independent viewpoints and advice to the Company in relation to its businesses, operations, future development and strategy. The Board considers that Mr. Cheung and Mr. Zhang have the character, integrity, ability and experience to continue to fulfill his/her role as required effectively. The Company believes that each of Mr. Cheung and Mr. Zhang can independently express opinions on matters of the Company and there is no

evidence that each of their over nine years of service with the Company would have any impact on each of their independence and therefore each of their independence is confirmed. According to the code provision A.4.3 of the CG Code, if an independent non-executive director serves more than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders. Accordingly, separate resolutions will be proposed for their re-election at the upcoming annual general meeting of the Company.

- 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, a former 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 the 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 Year, 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 SHARES, DEBENTURES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2020, save as disclosed below, none of the directors or chief executive of the Company who held office on 31 December 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 for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Main Board Listing Rules.

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. Guo Zhenjun	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' AND OTHER PERSONS' INTERESTS IN SHARES 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 2020, 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	40,710,600 (L)	5.09%

Name of shareholders	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Ms. Chen Jiao (<i>Note 2</i>)	Beneficial owner	12,000,000 (L)	1.50%
	Interest of controlled corporation	40,710,600 (L)	5.09%
China Fund Limited (<i>Note 3</i>)	Investment Manager	157,134,000 (L)	19.64%
Luckever Holding Limited (<i>Note 3</i>)	Interest of controlled corporation	157,134,000 (L)	19.64%
Mr. Liu Xuezhong (<i>Note 3</i>)	Beneficial owner	157,134,000 (L)	19.64%
Ms. Li Yuelan (<i>Note 3</i>)	Beneficial owner	157,134,000 (L)	19.64%
Tianjin Yitongyuan Asset Management Co Ltd*	Investment Manager	46,564,000 (L)	5.82%
ARAM Asset Management Co. Ltd.	Investment Manager	40,719,821 (L)	5.09%

Notes:

1. Pursuant to the Sale and Purchase Agreements, convertible bonds in the maximum amount of HK\$218,685,000 convertible at a conversion price of HK\$1.50 per conversion share, representing a maximum of 145,790,000 conversion shares upon full conversion to be issued to Sunrise International. For details, please refer to the circular of the Company dated 11 December 2018. Sunrise International is 100% owned by Mr. Chen Hao. Therefore, Mr. Chen Hao is deemed to be interested in all the shares held by Sunrise International by Virtue of the SFO.
2. Brilliance is 100% owned by Ms. Chen Jiao. Therefore, Ms. Chen Jiao is deemed to be interested in all the shares by Brilliance by virtue of the SFO.
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 2020, 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.

Purchase, sale or redemption of listed securities

During the Year, 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 of the Company

The Company has adopted the Model Code as its own code of conduct for securities transactions. Having made specific enquiries to all the directors of the Company, 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 AUDIT COMMITTEE AND REVIEW OF PRELIMINARY ANNOUNCEMENT

The Audit Committee of the Company has reviewed the annual results of the Company for the Year. The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the Year as set out in this announcement have been agreed by KPMG, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by KPMG in respect of the announcement will be limited to checking the accuracy of extraction of the financial information in the announcement from the annual consolidated financial statements and will be carried out in accordance with Hong Kong Standard on Related Services ("HKSRS") 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" and with reference to Practice Note 730 (Revised) "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the HKICPA. The procedures that KPMG performed in connection with the announcement did not constitute an assurance engagement in accordance with assurance standards issued by the HKICPA and, consequently, no assurance has been expressed on this announcement.

ANNUAL GENERAL MEETING (THE "AGM")

The forthcoming annual general meeting will be held on Tuesday, 25 May 2021. A notice convening the said meeting will be published and despatched to the shareholders of the Company in the manner required by the Main Board Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining members who are qualified for attending the AGM to be held on 25 May 2021 of the Company, the register of members of the Company will be closed from 20 May 2021 to 25 May 2021 (both days inclusive), during which no transfer of shares can be registered. To qualify for the attendance at the AGM of the Company, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on 18 May 2021.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Company at www.xiezhonginternational.hk and the Stock Exchange at www.hkex.com.hk. The annual report for the Year containing all the information required by Appendix 16 to the Main Board Listing Rules is to be despatched to the shareholders of the Company and made available on the above websites on or before 30 April 2021.

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

Hong Kong, 31 March 2021

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. Kam, Eddie Shing Cheuk, Mr. Cheung Man Sang and Mr. Zhang Shulin.