Shuanghua Holdings Limited
雙 樺 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1241

INTERIM REPORT 2011

CONTENTS

CORPORATE INFORMATION

Company Name:	Shuanghua Holdings Limited
Registered Office:	Codon Trust Company (Cayman) Limited Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY-1111, Cayman Islands
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Financial Year End:	31 December
Board of Directors:	*Executive Directors* Mr. ZHENG Ping Mr. DONG Zongde *Non-executive Directors* Ms. KONG Xiaoling Mr. JIA Weiren *Independent non-executive Directors* Mr. ZHAO Fenggao Mr. HE Binhui Mr. CHEN Lifan
Joint Company Secretaries:	Mr. DONG Hanyou Ms. TANG Lo Nar

Audit Committee:	Mr. HE Binhui *(Chairman)* Mr. ZHAO Fenggao Mr. CHEN Lifan
Remuneration Committee:	Mr. ZHAO Fenggao *(Chairman)* Mr. HE Binhui Mr. CHEN Lifan
Nomination Committee:	Mr. CHEN Lifan *(Chairman)* Mr. HE Binhui Mr. ZHAO Fengga
Hong Kong Share Registrar:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Compliance Advisor:	Piper Jaffray Asia Limited Suite 1308, 13/F, Two Pacific Place, 88 Queensway, Hong Kong
Principal Bankers:	China Construction Bank Corporation Shanghai Branch Fengxian Sub-branch No. 332 Jiefang Zhong Road, Nanqiao Town, Fengxian District, Shanghai, PRC
HKEx Stock Code:	1241.HK
Listing Date:	30 June 2011

CHAIRMAN'S STATEMENT

It is my honour, as the Chairman and CEO of Shuanghua Holdings Limited, to present the very first Chairman's Statement, together with the audited interim report of the Company for the six months ended 30 June 2011 (the "Reporting Period").

Over years of hard work, we have been growing steadily, and successfully listed in the international financial market of Hong Kong, marking our entry to the new milestone. We deeply believe the successful listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 June 2011 heralded strong drivers for its future development as well as new opportunities.

During the period under review, the Group recorded a turnover of approximately RMB310.7 million, comparable to that of last year of approximately RMB312.0 million. Owing to the strong demand in passenger vehicles, our sales of evaporators, condensers and heater in the PRC market increased by approximately 14.4%, 25.6% and 20.2% respectively during the period, compared to that of last year. In 2010, the Group commenced its production of compressors, which were all sold to the overseas international market. In 2011, the compressor production has reached to a sizable scale where its production and sales have increased substantially. Over the past six months ended 30 June 2011, compared to that of last year, the Group's sales of self-manufactured compressors to the international market rose by 313.2%. Profit attributable to shareholders was approximately RMB41.7 million for the period under review (2010: RMB46.7 million).

Shuanghua is a leading independent automotive HVAC components suppliers. We are principally engaged in the design, production and sales of comprehensive range of automotive HVAC components, including evaporators, condensers, heat cores and compressors. We have planned to strengthen our core competitiveness in the HVAC sector by expanding self-produced compressors, through our acquisition of advanced production facilities for variable displacement swash plate compressors, where trial production was run in 2010, mainly focusing on sales to international aftermarket. We believe this will be one of our major business segments and future growth.

Costing structure, strong research and development and quality are our competitive edges. Being a leading automotive HVAC component supplier in the PRC OEM market and international aftermarket, we are well-equipped to adjust and allocate resources and raw materials to meet the imminent market needs in order to control production costs. We carried out production in large scale to achieve economies of scale, lowering the unit production cost and enhancing our bargaining powers with the customers. We also value research and development where our research and development team possesses of experienced members with relevant automotive HVAC component production, as well as independent research skills. We have set up an integrated laboratory to work out innovative products and widen product ranges so as to enhance quality of products and operating efficiency.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere appreciation to the Board members, business partners, the management and the employees.

Zheng Ping
Chairman

Hong Kong, 25 August 2011

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Despite the unstable international economic situation and the unfavourable domestic macroeconomic factors, such as increasing inflationary pressure, surging materials and labour costs, appreciating RMB exchange rates and rising interest rates in China, as well as additional expenses arising from the listing of the Company during the Reporting Period, responsive measures have been proactively taken by the Company with the consistent and unfailing efforts of all staff. In light of the explosive growth of the automobile industry last year, the Company's performance for the current year was in par with that of last year. The successful listing of the Company on the Main Board of the Stock Exchange on 30 June 2011 heralded strong drivers for its future development as well as new opportunities.

During the Reporting Period, the Company focused primarily on enhancing management and increasing production efficiency. We also strengthened our market expansion, marketing team building, accelerated new product development, tightened distribution and delivery, consolidating our collaboration with existing customers and developed new customer groups in order to assure the steady growth of our business. During the first half of 2011, we actively developed new customers and nurtured smaller customers. In spite of slowdown in the overall development of domestic automobile repairers and decline in OEM volumes, domestic sales volume of evaporators, condensers and heaters experienced healthy growth of approximately 24.4%, 31.0% and 20.3%, respectively, over the corresponding period of 2010.

Being the crucial timing of the our listing, we took this opportunity to make a thorough inspection and enhancement of our equity structure, asset restructuring and all detailed regulatory systems during the Reporting Period, in establishing an effective corporate governance regime with endless enhancements to internal control management. Our successful listing has not only expanded our production operation, upgraded our production facilities and provided adequate capital protection, but also laid a solid foundation for our future business outreach.

BUSINESS PROSPECT

Looking ahead, we will be primarily focusing on the domestic OEM market as well as the international aftermarket to consolidate our current leading position. Our key long-term strategy is to further develop and strengthen our presence in the international OEM market and the domestic aftermarket. We will continue to strive to develop our core operations in sustaining our core competitiveness through intensive execution of the following strategies:

- Consolidating our core competitiveness in the HVAC components market by expanding into the market of self-manufactured compressors, which is anticipated to be our future growth driver

The Company has been engaged in the trading of compressors, primarily swash plate compressors, sourced from third party suppliers to the international aftermarket since 2007. Having established an extensive customer base through our compressor trading activities, we are able to sell our compressor products directly to the international aftermarket with the benefit of market synergy effect. In 2010, our advanced production lines for double-sided consistent displacement swash plate compressors, commenced trial production for sales to the international aftermarket. Leveraging on our existing sales and marketing networks, we plan to expand the geographical coverage of our self-manufactured compressors, which is expected to become one of our major business segments and growth drivers in the future, in order to consolidate our core competitiveness in the HVAC components market.

Save for the aftermarket, we also plan to sell our self-manufactured compressor products directly to automotive HVAC system suppliers and automakers in the domestic OEM market. In the meantime, the Company will continue to source different types of compressors from third party suppliers primarily for exports to the international aftermarket.

- Expanding and upgrading our production facilities to improvise our competitiveness and consolidate our market leadership in the PRC market

Over the years, we have been continuously expanding our production capacity by means of upgrading production facilities and acquiring new production lines. We intend to utilise part of the proceeds from the Share Offer to upgrade our facilities for a gradual shift towards the production of variable displacement swash plate compressors in order to consolidate our leading market position in the PRC. In addition, to facilitate our pace of vertical and horizontal expansion strategies, we will continue to identify companies for acquisitions and investments or joint ventures and strategic alliances.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Reporting Period was approximately RMB310.7 million, roughly in par with that of the corresponding period of last year of approximately RMB312.0 million.

Sales to domestic markets

In the wake of two consecutive years of explosive hikes in year-on-year growths of approximately 38.3% in 2009 and 32.44% in 2010, the period-on-period growth of the PRC domestic production of automobiles for the first half of 2011 was approximately 2.48% at 9.156 million units. Despite unfavourable conditions, such as declines in OEM volumes of domestic automobile repairers, our sales to domestic markets recorded significant growth through active searches for new customers. Sales volume to the domestic markets of evaporators, condensers and heaters increased by approximately 24.4%, 31.0% and 20.3%, respectively, for the Reporting Period over the same period of 2010. To facilitate more domestic sales, minor discounts in selling prices for the Reporting Period over the same period of 2010 led to period-on-period increases in sales to domestic markets of evaporators, condensers and heaters of approximately 14.4%, 25.6% and 20.2%, respectively.

Other revenues are sales to domestic market comprising primarily of self-manufactured intercoolers and oil coolers.

Sales to international markets

Our sales to international markets are primarily sold to the North American market. The Group's revenue from sales to international markets of self-manufactured evaporators, condensers and heaters for the Reporting Period fell by approximately 35.4%, 1.2% and 46.9%, respectively, over the same period of 2010, which were primarily attributable to decreases in sales volume. Sales volume to international markets of self-manufactured evaporators and heaters for the Reporting Period fell by approximately 27.8% and 48.4% respectively, over the same period of 2010. During the financial tsunami of 2008 and 2009, North American distributors of automotive components depleted their inventories level in order to mitigate funding pressure. Our international sales in 2010 experienced significant growth over 2009 as the distributors replenished their depleted inventories. Compared with its growth trend in 2010, international sales during the first half of 2011 showed a declining trend as inventory replenishments basically stopped at the end of 2010 but the inventory level remained high by the end of 2010 and the recovery of the American economy slackened amidst the pessimistic macroeconomic environment. As a result, both international revenue and sales declined over the same period of last year.

The Group's revenue from sales to international markets of self-manufactured compressors for the Reporting Period went up by approximately 313.2% over the same period of 2010. We commenced production and sales of compressors in 2010, which were all sold to international markets, and our production and sales increased significantly as production scale was attained in 2011. International sales volume of our self-manufactured compressors for the Reporting Period recorded a significant increase of approximately 337.2% over the last period of 2010. Having attained production scale, selling prices of compressors saw minor decreases.

Other revenue from sales to international market comprises primarily of self-manufactured oil coolers, intercoolers, liquid-gas separators, condenser cores and thermostats.

The following table set forth the breakdown of our revenue by products during the Reporting Period:

	For the six months ended 30 June			
	2011		2010	
Revenue	**RMB'000**	**% of revenue**	RMB'000	% of revenue
Domestic				
Evaporators	**64,422**	**20.7%**	56,327	18.1%
Condensers	**69,664**	**22.4%**	55,467	17.8%
Heaters	**14,331**	**4.6%**	11,921	3.8%
Others	**11,013**	**3.5%**	13,763	4.4%
Sub-total	**159,430**	**51.2%**	137,478	44.1%
International – self-manufacture				
Evaporators	**15,564**	**5.0%**	24,076	7.7%
Condensers	**21,326**	**6.9%**	21,579	6.9%
Heaters	**1,677**	**0.5%**	3,160	1.0%
Compressors	**18,497**	**6.0%**	4,477	1.4%
Others	**1,108**	**0.4%**	3,900	1.3%
Sub-total	**58,172**	**18.8%**	57,192	18.3%
International – trading				
Compressors	**64,170**	**20.7%**	86,220	27.6%
Others	**28,935**	**9.3%**	31,068	10.0%
Sub-total	**93,105**	**30.0%**	117,288	37.6%
Total	**310,707**	**100.0%**	311,958	100.0%

Gross profit and gross margin

Overall gross profit for the Reporting Period was approximately RMB70.3 million (for the six months ended 30 June 2010: RMB70.7 million), which were practically flat over the two periods. Gross profit from sales to domestic market was approximately RMB46.4 million, an increase of approximately RMB6.0 million over the same period of last year; from sales to international markets was approximately RMB23.9 million, a decrease of approximately RMB6.4 million over the same period of last year. Increase in sales to domestic market was offset by decrease in sales to international markets.

The following table sets forth the breakdown of our gross profit by products during the Reporting Period:

	For the six months ended 30 June	
Gross Profit	**2011 RMB'000**	2010 RMB'000
Domestic		
Evaporators	**25,326**	21,950
Condensers	**16,747**	14,191
Heaters	**3,193**	2,760
Others	**1,170**	1,540
Sub-total	**46,436**	40,441
International – self-manufacture		
Evaporators	**5,971**	9,013
Condensers	**4,091**	5,223
Heaters	**315**	393
Compressors	**1,667**	228
Others	**270**	815
Sub-total	**12,314**	15,672
International – trading		
Compressors	**6,187**	7,838
Others	**5,385**	6,704
Sub-total	**11,572**	14,542
Total	**70,322**	70,655

Overall gross margin was approximately 22.6% for the Reporting Period, which was in line with the same period of last year. The following table sets forth the breakdown of our gross margin by products during the Reporting Period:

	For the six months ended 30 June	
Gross Margin	**2011** **%**	2010 %
Domestic		
Evaporators	**39.3%**	39.0%
Condensers	**24.0%**	25.6%
Heaters	**22.3%**	23.2%
Others	**10.6%**	11.2%
International – self-manufacture		
Evaporators	**38.4%**	37.4%
Condensers	**19.2%**	24.2%
Heaters	**18.8%**	12.4%
Compressors	**9.0%**	5.1%
Others	**24.4%**	20.9%
International – trading		
Compressors	**9.6%**	9.1%
Others	**18.6%**	21.6%

Other income and gains

Other income and gains increased by approximately RMB2.1 million from approximately RMB1.1 million for the same period of 2010 to approximately RMB3.2 million for the Reporting Period, which was primarily attributable to the two government grants of RMB1.0 million each received in 2011 from the People's Government of Zhelin Town, Fengxian District, Shanghai Municipality and the Office for the Promotion of Conversion and Listing of Enterprises of Fengxian District, Shanghai Municipality, respectively, as awards for the Group's successful listing on the Stock Exchange.

Share of profits of an associate

Our share of profits of Macs (Baoding) Auto A/C System Co., Ltd increased by approximately RMB0.4 million from approximately RMB11.0 million for the six months ended 30 June 2010 to approximately RMB11.4 million for the six months ended 30 June 2011, which was primarily attributable to the improved business performance and profit growth in year 2011. Macs Boading is a 49% associate of the Group.

Administrative and other expenses

Administrative and other expenses comprised primarily staff-related costs, various local taxes and education surcharges, depreciation, amortisation of land use rights, operating lease rental payments, listing expenses, agency service fees, research and development expenses and miscellaneous expenses. Increases in administrative and other expenses for the Reporting Period were primarily attributable to professional fees incurred for the listing of the Company's shares on the Main Board of the Stock Exchange on 30 June 2011 and expenses incurred for the expansion required by the Group's business.

Finance costs

We provide funds required for our working capital and sourcing by raising loans from banking institutions in Mainland China and Hong Kong. Increase in finance costs for the Reporting Period was primarily attributable to the increase in our short-term loans in 2011.

Income tax expense

Our overall income tax expense was approximately RMB6.9 million or 14.2% of the profit before tax for the Reporting Period, and approximately RMB6.3 million or 12.0% of the profit before tax for the same period of 2010. Increase in income tax expense was primarily attributable to the increase in income tax rate from 12.5% to 15% of Shanghai Shuanghua Auto Components Co., Ltd., in 2011.

Profit for the period

Profit attributable to the equity holders of the parent of the Group was approximately RMB41.7 million for the Reporting Period, and approximately 46.7 million for the same period of last year.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

The improvement in our net current assets from approximately RMB75.8 million as at 31 December 2010 to approximately RMB214.2 million as at 30 June 2011 was primarily attributable to the proceeds raised from the listing of the Group on 30 June 2011 of approximately RMB15.7 million received from retail investors and approximately RMB141.1 million due from institutional investors.

Our policy has been to achieve a proper balance between our continuous funding requirements and the flexibility needed to meet working capital needs through interest-bearing bank loans. We will review our liquidity position and assess the maturity dates of financial instruments regularly.

Financial position and bank borrowings

As at 30 June 2011, our total cash and bank balances, most of which were denominated in RMB, amounted to approximately RMB64.0 million (as at 31 December 2010: approximately RMB69.6 million). As at 30 June 2011, our total interest-bearing bank borrowings amounted to approximately RMB174.1 million (as at 31 December 2010: approximately RMB127.0 million). Please refer to note 24 to the financial statements for details of the relevant borrowings and related asset charges. As at 30 June 2011, our gearing ratio, presented as a percentage of total interest-bearing liabilities divided by total assets, was approximately 19.1% (as at 31 December 2010: approximately 17.6%). Increase in gearing ratio was primarily attributable to our acquisitions of property, plant and equipment for expanding our business operations.

We have not encountered any difficulty in securing bank borrowings during the Reporting Period. The guarantees provided by related parties as additional security for our bank borrowings have been released prior to listing. Our bank borrowings are secured by our leasehold lands and buildings situated in the PRC. We have provided sufficient level of security for obtaining and maintaining our bank borrowings. In view of our present level of security, the Directors do not anticipate any difficulty in renewing our existing loan facilities or obtaining new bank loan facilities.

Save for aforesaid or otherwise disclosed on notes to the audited consolidated financial statements, and apart from intra-group liabilities, as at the close of business on 30 June 2011, 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.

Our Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 30 June 2011.

Working capital

Our gross inventories, mainly comprising raw materials, work-in-progress and finished products, amounted to approximately RMB76.6 million as at 30 June 2011 and approximately RMB83.8 million as at 31 December 2010. Our marketing team reviews and monitors our inventory level regularly. Average inventory turnover days for the Reporting Period were 60.1 days (for the year ended 31 December 2010: 57.8 days). Inventory turnover days are arrived at by dividing the arithmetic means of the beginning and ending balances of inventory for the relevant period by cost of sales of the same period and multiplying by 365 days. There is no material fluctuation for inventory turnover days.

Average turnover days of trade and notes receivables for the Reporting Period were 128.9 days (for the year ended 31 December 2010: 107.0 days). Increase in turnover days of trade and notes receivables was primarily attributable to increase in sales to local customers, which generally requested for longer credit periods from us and more major customers used notes receivables with 6 month maturity to settle their outstanding amounts.

Average turnover days of trade and bills payables for the Reporting Period were 82.2 days (for the year ended 31 December 2010: 60.9 days).

USE OF PROCEEDS FROM THE SHARE OFFER

The aggregate net proceeds from our share offer, 162,500,000 new shares at an offer price of HK$1.16 per share, after underwriting fees and expenses payable in connection with the share offer, amounted to approximately HK$167.2 million. We intend to apply the proceeds from the share offer for the construction, expansion and upgrade of our production facilities for variable displacement swash plate compressors, research and development expenditures and increase the production volume and scale of doubled-sided consistent displacement swash plate compressors. We do not expect to make any change to the planned usage of proceeds as presented in the prospectus of the Company dated 17 June 2011 (the "Prospectus").

CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

Capital expenditures and capital commitments

Capital expenditures were approximately RMB5.9 million for the Reporting Period, and approximately RMB23.2 million for the corresponding period of 2010. We have been financing our capital expenditures primarily through cash generated from operations and bank borrowings. Our capital expenditures are primarily related to acquisition of land use rights, construction of production facilities and expenditures for plant, machinery and equipment for business expansion at our Shanghai production base.

Material acquisitions and disposals

Save as disclosed in our Prospectus, we did not have any material acquisitions or disposals relating to our subsidiaries and associates during the Reporting Period.

Foreign exchange risk

Details of the Group's financial change risk are included in note 37 to the financial statements.

Contingent liabilities

As at 30 June 2011, the Group and the Company did not have any material contingent liabilities.

Pledged assets

As at 30 June 2011, certain of the Group's buildings, with a net carrying amount of RMB67,486,067 (as at 31 December 2010: RMB69,037,918), were pledged to secure our bank loan facilities.

As at 30 June 2011, certain of the Group's leasehold lands, with a net carrying amount of RMB59,253,716 (as at 31 December 2010: RMB59,884,553), were pledged to secure our bank loan facilities.

As at 30 June 2011, certain of the Group's notes receivables of RMB9.5 million (as at 31 December 2010: RMB8.7 million) were pledged to secure bills payables of RMB9.5 million (as at 31 December 2010: RMB8.7 million).

Employees

As at 30 June 2011, the Group had approximately 947 full-time employees, including the management, sales, logistics supports and other ancillary personnel. The Group's total remuneration amounted to approximately RMB22.6 million for the Reporting Period. Our remuneration policy is primarily based on the job responsibilities, work performance and number of years of services of each employee and the current market conditions.

Pursuant to the relevant PRC labour laws and regulations, the Group has to pay contributions to a number of staff social insurance schemes (including medical, maternity, work injury, unemployment and pension insurances) and staff housing reserve funds. We provide social insurances and pay contributions to housing reserve funds for our employees in accordance with the interpretations to the relevant PRC labour laws and regulations given, and policies and measures executed by local government departments. We have established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. Welfare benefits expenses for the Reporting Period amounted to approximately RMB2.7 million. We have complied, in all material respects, with all statutory requirements on retirement contribution in the jurisdictions where our Group operates.

The basic salary of each of our executive and non-executive Directors will be reviewed by the Board at the end of each financial year. The determination of the remuneration to our Directors will be based on remuneration of directors of comparable companies in the same industry, time commitment, duties and responsibilities of our Directors in our Company and our operational and financial performance. Under their respective service contracts, each of our executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Board or the remuneration committee. Each of our executive Directors will also be entitled to reimbursements of reasonable travelling, hotel, entertainment and other expenses properly incurred in the performance of his/her duties under the relevant service contract.

In order to attract and retain technically competent and well-experienced staff and encourage them to strive for further development and expansion of the Group's business, the Group has provided a share option scheme (the "Share Option Scheme"). As at 30 June 2011, no share option under the Share Option Scheme has been granted by the Group.

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES OF THE COMPANY OR ITS SUBSIDIARIES

During the Reporting Period, the Company did not purchase, sell or redeem any of the Company's listed securities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2011, the interests or short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director and chief executives is taken or deemed to have under such provisions of the SFO); or which (b) were required pursuant to Section 352 of the SFO to be entered into the register maintained by the Company; or which (c) were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Ordinary shares of HK$0.01 each of the Company

Name	Capacity	Number of shares held	Personal interest percentage of issued shares
Mr. Zheng Ping	Beneficial owner	282,750,000	43.5%
Mr. Dong Zongde	Beneficial owner	204,750,000	31.5%

CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors of the Company are not aware of any information which will reasonably indicate that the Company did not fully comply with the Code on Corporate Governance Practices (the "Code") set out in Chapter 14 of the Listing Rules at any time during the six months ended 30 June 2011.

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") of the Group should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO of the Group should be clearly established and set out in writing. The roles of the chairman and the CEO of the Group was not separated and was performed by the same individual, Mr. Zheng Ping acted as both the chairman and CEO throughout the period under review. The Directors meet regularly to consider major matters affecting the operations of the Group. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Group and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

CORPORATE GOVERNANCE AND OTHER INFORMATION

AUDIT COMMITTEE

A meeting of the audit committee has been held to discuss matters relating to the audit, internal control and financial reporting of the Company, including review of the accounting policies and matters relating to accounting practices adopted by the Company; review of nature and scope of the audit; discussion with the external auditors and the management in respect of possible accounting exposures. In addition, the audit committee also review the audited financial statements for the six months ended 30 June 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules has been adopted by the Company as the code of conduct for securities transactions by its Directors. The Directors have also been reminded of their responsibilities under the Model Code regularly by the Company. Having made specific enquiries to them, all Directors confirmed that they had complied with the required standards of the Model Code during the six months ended 30 June 2011.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 8 June 2011. The remuneration committee, which comprises the three independent non-executive Directors, is responsible for reviewing and determining the appropriate remuneration policies of the Directors and senior management and making recommendations to the Board from time to time.

NOMINATION COMMITTEE

The Company has established a nomination committee on 8 June 2011. The nomination committee, which comprises the three independent non-executive Directors and one Executive Director, is responsible for determining the criteria for identifying candidates suitably qualified, reviewing nominations for the appointment of Directors to the Board and making recommendations to the Board regarding any proposed changes.

INTERIM DIVIDEND

The Board do not recommend the payment of any interim dividend for the six months ended 30 June 2011.

DISCLOSURE OF INFORMATION ON WEBSITES

The interim report for the six months ended 30 June 2011 will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.shshuanghua.com) and despatched to the shareholders of the Company in due course.

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

To the shareholders of Shuanghua Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shuanghua Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 21 to 98, which comprise the consolidated and company statements of financial position as at 30 June 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company (the "Directors") are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2011, and of the Group's profit and cash flows for the six-month period then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
25 August 2011

CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2011

	Notes	Six months ended 30 June 2011 RMB'000	 2010 RMB'000 (Unaudited)
REVENUE	6	**310,707**	311,958
Cost of sales		**(240,385)**	(241,303)
Gross profit		**70,322**	70,655
Other income and gains	6	**3,186**	1,145
Selling and distribution costs		**(9,725)**	(9,368)
Administrative expenses		**(21,151)**	(17,885)
Other expenses		**(1,494)**	(567)
Finance costs	8	**(3,945)**	(2,502)
Share of profits of an associate		**11,417**	10,959
PROFIT BEFORE TAX	7	**48,610**	52,437
Income tax expense	11	**(6,918)**	(6,347)
PROFIT FOR THE PERIOD		**41,692**	46,090
Attributable to:			
Owners of the parent		**41,692**	46,715
Non-controlling interests		**–**	(625)
		41,692	46,090
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic (RMB)	12	**8.5 cents**	9.6 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
PROFIT FOR THE PERIOD	**41,692**	46,090
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	**(49)**	(29)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(49)**	(29)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**41,643**	46,061
Attributable to:		
Owners of the parent	**41,643**	46,686
Non-controlling interests	**–**	(625)
	41,643	46,061

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

	Notes	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**189,929**	191,640
Prepaid land lease payments	14	**63,403**	64,095
Advance payments for property, plant and equipment		**4,006**	3,744
Investment in an associate	16	**85,383**	73,966
Available-for-sale investments	17	**262**	262
Deferred tax assets	27	**9,908**	9,898
Total non-current assets		**352,891**	343,605
CURRENT ASSETS			
Inventories	18	**76,575**	83,845
Trade and notes receivables	19	**142,820**	107,742
Prepayments, deposits and other receivables	20	**144,363**	11,143
Due from related parties	34(c)	**128,694**	104,020
Cash and cash equivalents	21	**63,965**	69,596
Total current assets		**556,417**	376,346
CURRENT LIABILITIES			
Trade and bills payables	22	**133,582**	85,981
Other payables and accruals	23	**36,814**	35,687
Interest-bearing bank borrowings	24	**154,100**	107,000
Due to related parties	34(c)	**6,892**	62,452
Provision	25	**5,792**	5,518
Government grants	26	**1,170**	1,170
Tax payable		**3,850**	2,745
Total current liabilities		**342,200**	300,553
NET CURRENT ASSETS		**214,217**	75,793
TOTAL ASSETS LESS CURRENT LIABILITIES		**567,108**	419,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

30 June 2011

	Notes	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**567,108**	419,398
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**20,000**	20,000
Government grants	26	**9,387**	9,972
Deferred tax liabilities	27	**3,156**	8,559
Total non-current liabilities		**32,543**	38,531
Net assets		**534,565**	380,867
EQUITY			
Equity attributable to owners of the parent			
Issued capital	28	**5,406**	–
Reserves	29	**213,755**	74,800
Retained earnings		**315,401**	306,067
		534,562	380,867
Non-controlling interests		**3**	–
Total equity		**534,565**	380,867

Director: **Zheng Ping** *Director:* **Dong Zongde**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2011

	Attributable to owners of the parent								
	Issued share capital RMB'000	Capital reserve* (note 29) RMB'000	Statutory surplus reserve* (note 29) RMB'000	Merger reserve* (note 29) RMB'000	Exchange fluctuation reserve* (note 29) RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	-	5,108	31,482	38,351	(141)	306,067	380,867	-	380,867
Profit for the period	-	-	-	-	-	41,692	41,692	-	41,692
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	(49)	-	(49)	-	(49)
Total comprehensive income for the period	-	-	-	-	(49)	41,692	41,643	-	41,643
Business combinations under common control (i)	-	414	-	(158,143)	-	-	(157,729)	3	(157,726)
Dividends (ii)	-	-	-	-	-	(32,358)	(32,358)	-	(32,358)
Capital increment (iii)	-	116,718	-	-	-	-	116,718	-	116,718
Issue of share capital for initial public offering	1,351	155,409	-	-	-	-	156,760	-	156,760
Share issue expenses	-	(17,696)	-	-	-	-	(17,696)	-	(17,696)
Capitalisation of share premium	4,055	(4,055)	-	-	-	-	-	-	-
Liabilities waived by shareholders (iii)(iv)	-	46,357	-	-	-	-	46,357	-	46,357
At 30 June 2011	5,406	302,255	31,482	(119,792)	(190)	315,401	534,562	3	534,565

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Six months ended 30 June 2011

	Attributable to owners of the parent								
	Issued share capital RMB'000 (Unaudited)	Capital reserve* (note 29) RMB'000 (Unaudited)	Statutory surplus reserve* (note 29) RMB'000 (Unaudited)	Merger reserve* (note 29) RMB'000 (Unaudited)	Exchange fluctuation reserve* (note 29) RMB'000 (Unaudited)	Retained earnings RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
At 1 January 2010	–	5,108	24,328	38,351	(34)	231,680	299,433	10,261	309,694
Profit for the period	–	–	–	–	–	46,715	46,715	(625)	46,090
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	–	–	–	–	(29)	–	(29)	–	(29)
Total comprehensive income for the period	–	–	–	–	(29)	46,715	46,686	(625)	46,061
At 30 June 2010	–	5,108	24,328	38,351	(63)	278,395	346,119	9,636	355,755

(i) Pursuant to the reorganisation, on 21 February 2011, the Group acquired approximately 54.769% equity interest in Shanghai Shuanghua Autoparts Co., Ltd. ("Shanghai Shuanghua") from Shanghai Automart Investment Co., Ltd. ("Shanghai Automart") at a consideration of RMB157,726,155, which was determined with reference to the valuation of Shanghai Shuanghua conducted by an independent valuer. The consideration paid to Shanghai Automart has been reflected as a deemed distribution to the then shareholder in the consolidated statement of changes in equity on the date of completion of the acquisition.

On 8 June 2011, the Company acquired the entire issued share capital of Automart Holdings Limited ("BVI Automart") from Zheng Ping and Shuanghua International Limited ("Shuanghua International") in consideration of the crediting as fully paid the 5,800 and 4,200 in the share capital of the Company held by Zheng Ping and Dong Zongde, namely, Youshen International Group Limited ("Youshen Group") and Shuanghua International, respectively. As a result of the acquisition, the Company became the ultimate holding company of the Group.

(ii) On 8 March 2011, Shanghai Shuanghua declared dividends of RMB32,358,000 and RMB27,642,000 to Shanghai Automart and Automart Holdings Limited ("Hong Kong Automart"), respectively. The dividends were paid in April and May 2011.

(iii) Pursuant to the reorganisation, on 18 March 2011, 8,000 shares and 42,000 shares of BVI Automart were issued and allotted to Zheng Ping and Shuanghua International at consideration of HK$81,200,000 (equivalent to RMB67,696,000) and HK$58,800,000 (equivalent to RMB49,022,000), respectively. The total capital injection by Zheng Ping and Shuanghua International was RMB132,375,000. The additional injection due from the Group of RMB15,657,000 was waived by Zheng Ping and Shuanghua International.

(iv) On 18 June 2011, the Group entered into a deed of release with Youshen International Ltd., ("Youshen International") of which Youshen International waived the debt of RMB30,700,000 due from the Group.

* These reserve accounts comprise the consolidated reserves of RMB213,755,000 (31 December 2010: RMB74,800,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2011

	Notes	Six months ended 30 June 2011 RMB'000	2010 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**48,610**	52,437
Adjustments for:			
Finance costs	8	**3,945**	2,502
Share of profits of an associate		**(11,417)**	(10,959)
Bank interest income	6	**(207)**	(93)
Gain on disposal of items of property, plant and equipment	6/7	**(33)**	(112)
Depreciation	7	**8,570**	7,681
Recognition of prepaid land lease payments	7	**692**	842
Release of government grants	26	**(2,585)**	(670)
Impairment of inventories	7	**540**	762
Reversal of impairment of trade receivables	7	**(4)**	(225)
Foreign exchange differences, net	7	**719**	(99)
		48,830	52,066
Decrease/(increase) in inventories		**6,730**	(19,032)
Increase in trade and notes receivables		**(35,074)**	(61,963)
Increase in prepayments, deposits and other receivables		**(75)**	(1,665)
Decrease/(increase) in amount due from related parties		**(24,674)**	794
Increase in trade and bills payables		**47,601**	55,898
Increase in other payables and accruals		**315**	6,173
Increase/(decrease) in amount due to related parties		**(24,860)**	2,297
Increase in government grants		**–**	120
Increase in provision for product warranties		**274**	760
Cash generated from operations		**19,067**	35,448
Interest received		**207**	93
Income tax paid		**(11,226)**	(5,478)
Net cash flows from operating activities		**8,048**	30,063

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
Six months ended 30 June 2011

	Notes	2011 RMB'000	2010 RMB'000 (Unaudited)
		Six months ended 30 June	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(5,894)**	(23,239)
Proceeds from disposal of items of property, plant and equipment		**43**	263
Receipt of government grants		**–**	1,227
Net cash flows used in investing activities		**(5,851)**	(21,749)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**15,676**	–
Capital injection pursuant to the Reorganisation		**116,718**	–
Share issue expenses		**(7,757)**	–
New bank loans		**124,100**	62,603
Loans from related parties		**15,657**	–
Repayment of bank loans		**(77,000)**	(50,877)
Acquisition of subsidiaries pursuant to the Reorganisation		**(157,726)**	–
Interest paid		**(4,370)**	(2,855)
Dividend paid to the then shareholder		**(32,358)**	–
Net cash flows from financing activities		**(7,060)**	8,871
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		**(4,863)**	17,185
Cash and cash equivalents at beginning of period		**69,596**	30,460
Effect of foreign exchange rate changes, net		**(768)**	70
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**63,965**	47,715
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**44,827**	47,715
Time deposits		**19,138**	–
Cash and cash equivalents	21	**63,965**	47,715

STATEMENT OF FINANCIAL POSITION

30 June 2011

	Notes	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
NON-CURRENT ASSET			
Investment in subsidiaries	15	**117,132**	–
CURRENT ASSET			
Prepayments, deposits and other receivables	19	**135,496**	–
Cash and cash equivalents		**14,897**	–
Net assets		**267,525**	–
EQUITY			
Issued capital	28	**5,406**	–
Reserves	29	**262,119**	–
Total equity		**267,525**	–

Director: **Zheng Ping**

Director: **Dong Zongde**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2011

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 November 2010. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 June 2011.

The Company is an investment holding company. The Group is principally engaged in design, development, manufacture and sale of parts of auto air-conditioner.

2. BASIS OF PRESENTATION

Pursuant to the group reorganisation (the "Reorganisation") as more fully described in the section headed "Reorganization" in the prospectus of the Company dated 17 June 2011, the Company became the holding company of the companies now comprising the Group on 8 June 2011 by acquiring the entire issued share capital of BVI Automart, a company incorporated in the BVI, which was the then holding company of the other subsidiaries comprising the Group. Since the shareholders group, Zheng Ping and Dong Zongde, is acting in concert and ultimately controlled the Group before and after the Reorganisation and that control is not transitory, the business combination in Reorganisation is accounted for as business combination under common control using the principles of merger accounting in accordance with the Accounting Guidance 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

These financial statements include the consolidated statements of income, comprehensive income, changes in equity, cash flows and financial position of the companies now comprising the Group, as if the current group structure resulted from the Reorganisation had been in existence throughout the periods presented, or since their respective dates of incorporation, whichever is a shorter period.

All significant intra-Group transactions and balances have been eliminated on consolidation.

3.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention. The accounting policies set out in note 3.4 is consistently applied throughout the periods. The financial statements have been presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised interpretations and amendments to HKFRSs for the first time for the current period's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
HKFRS 9	*Financial Instruments* [4]
HKFRS 10	*Consolidated Financial Statements* [4]
HKFRS 11	*Joint Arrangements* [4]
HKFRS 12	*Disclosure of Interests in Other Entities* [4]
HKFRS 13	*Fair Value Measurement* [4]
HKAS 1 (Revised)	*Presentation of Financial Statements* [3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits* [4]
HKAS 27 (Revised)	*Separate Financial Statements* [4]
HKAS 28 (Revised)	*Investments in Associates and Joint Ventures* [4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, certain of which may be relevant to the Group’s operation and may result in changes in the Group’s accounting policies, and changes in presentation and measurement of certain items of the Group’s financial statements.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2011.

Acquisitions under common control which is treated as business combination under common control are accounted for using merger accounting principles. The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of the Reorganisation under common control. The consolidated statements of income and comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the Reorganisation under common control.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5% to 20%
Plant and machinery	10% to 20%
Office equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Construction in progress represents building and plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurements

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group’s financial assets include cash and bank balances, trade and notes receivables, deposits and other receivables, amount due from related parties and unquoted financial instruments.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimated within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset, or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, less directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amount due to related parties and interest-bearing bank borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks including term deposits, which are not restricted as to use.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits

The Group's subsidiaries which operate in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The pension scheme is considered as defined contribution plan because the Group has no legal or constructive obligations for retirement benefits beyond the contribution made. Contributions to the defined contribution pension scheme are recognised as expenses in the income statement of the Group as they become payable in accordance with the rules of the scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currencies of certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of certain subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of certain subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details are contained in note 27 to the financial statements.

Income tax

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised. Further details are contained in note 11 to the financial statements.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on ongoing assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade and other receivables and impairment loss in the period in which such estimate has been changed.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for slow-moving inventories and net realisable value of inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. Write-down of inventories to net realisable value is made based on the estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed.

Warranty provision

The Group provides warranties on the products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volume and past experience of the level of repairs and returns, discounted to the present value as appropriate. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way.

Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at the end of each financial year end based on changes in circumstances.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Recognition of deferred tax liabilities for withholding taxes

Deferred tax liabilities are recognised for withholding tax levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and services and the Group has only one reportable operating segment which is engaged in design, development, manufacture and sale of parts of auto air-conditioner. Management monitors the operating results of operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) *Revenue from external customers*

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Mainland	**159,430**	137,478
United States of America	**110,339**	133,917
Canada	**23,890**	26,637
Asia	**11,283**	8,865
Others	**5,765**	5,061
	310,707	311,958

The revenue information above is based on the location of the customers.

(b) *Non-current assets*

All non-current assets of the Group are located in Mainland China during the six months ended 30 June 2010 and 2011.

5. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

For the six months ended 30 June 2011, revenue from two customers accounted for more than 10% of the Group's total revenue individually. Revenue from these two customers was RMB109,708,188 and RMB65,649,916, respectively.

For the six months ended 30 June 2010, revenue from two customers accounted for more than 10% of the Group's total revenue individually. Revenue from these two customers was RMB133,722,813 and RMB57,091,708, respectively.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of valued-added tax and government surcharges, and after allowances for returns.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Revenue		
Sale of goods	**310,707**	311,958
Other income and gains		
Bank interest income	**207**	93
Government grants	**2,585**	670
Gain on disposal of items of property, plant and equipment	**33**	112
Others	**361**	270
	3,186	1,145

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000 (Unaudited)
Cost of inventories sold		**240,385**	241,303
Depreciation	13	**8,570**	7,681
Amortisation of prepaid land lease payments	14	**692**	842
Research and development costs		**1,002**	3,998
Operating lease expenses		**1,326**	988
Gain on disposal of items of property, plant and equipment		**(33)**	(112)
Product warranty provision	25	**430**	1,076
Auditors' remuneration		**56**	78
Employee benefit expense (including directors' remuneration (note 9)):			
Wages and salaries		**19,834**	19,080
Pension scheme contribution		**2,738**	2,330
Staff welfare expenses		**1,657**	1,133
		24,229	22,543
Foreign exchange differences, net		**719**	(99)
Impairment of inventories	18	**540**	762
Reversal of impairment of trade receivables	19	**(4)**	(225)
Bank interest income		**(207)**	(93)

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Interest on bank loans wholly repayable within five years	**3,945**	2,502

9. DIRECTORS' REMUNERATION

Directors' remuneration for the six months ended 30 June 2011, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Fees	**75**	75
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**30**	843
Pension scheme contributions	**12**	6
	117	924

9. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive Directors

The fees paid to independent non-executive Directors during the six months ended 30 June 2011 were as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
He Binhui	**25**	25
Zhao Fenggao	**25**	25
Chen Lifan	**–**	–
	50	50

There were no other emoluments payable to the independent non-executive Directors during the six months ended 30 June 2011 (30 June 2010: Nil).

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive Directors and non-executive Directors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Six months ended 30 June 2011				
Executive Directors:				
Zheng Ping	–	–	–	–
Dong Zongde	–	30	12	42
	–	30	12	42
Non-executive Directors:				
Kong Xiaoling	–	–	–	–
Jia Weiren	25	–	–	25
	25	–	–	25
	25	30	12	67

9. DIRECTORS' REMUNERATION (Continued)

(b) Executive Directors and non-executive Directors (Continued)

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Six months ended 30 June 2010 (Unaudited)				
Executive Directors:				
Zheng Ping	–	477	–	477
Dong Zongde	–	366	6	372
	–	843	6	849
Non-executive Directors:				
Kong Xiaoling	–	–	–	–
Jia Weiren	25	–	–	25
	25	–	–	25
	25	843	6	874

There was no arrangement under which a Director waived or agreed to waive any remuneration during the six months ended 30 June 2011.

10. FIVE HIGHEST PAID EMPLOYEES

All the five highest paid employees of the Group during the six months ended 30 June 2011 were not Directors. During the six months ended 30 June 2010, two of the highest paid individuals were directors. Details of the remuneration of the remaining non-Director, highest paid employees during the six months ended 30 June 2011 are as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Salaries, bonuses, allowances and benefits in kind	**815**	1,193
Pension scheme contributions	**88**	147
	903	1,340

The number of non-Director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	Six months ended 30 June	
	2011	2010
		(Unaudited)
Nil to RMB1,000,000	**5**	3

11. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The income tax expenses of the Group for the six months ended 30 June 2011 are analysed as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Current – charge for the period	**6,291**	6,548
Deferred (note 27)	**627**	(201)
Total tax charge for the period	**6,918**	6,347

The Company incorporated in the Cayman Islands is not subject to corporate income tax ("CIT") as the Company does not have a place of business (other than a registered office only) or carry on any business in the Cayman Islands.

The subsidiary incorporated in the British Virgin Islands ("BVI") is not subject to CIT as such subsidiary does not have a place of business (other than a registered office only) or carry on any business in the BVI.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits was subject to CIT at the rate of 16.5% for the six months ended 30 June 2010 and 2011 in Hong Kong. No provision of income tax has been made for Hong Kong Automart as Hong Kong Automart had no taxable income derived from Hong Kong during the six months ended 30 June 2011. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for Hong Kong Shuanghua during the six months ended 30 June 2011.

11. INCOME TAX (Continued)

During the Fifth Session of the Tenth National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In this connection, Shanghai Shuanghua, Shanghai Shuanghua Machinery Manufacturing Co., Ltd. ("Shuanghua Machinery"), Shanghai Youshen Industry Co., Ltd. ("Youshen Industry"), Shanghai Shuanghua Auto Components Co., Ltd. ("Shuanghua Auto Components") and Baoding Shuanghua Autoparts Co., Ltd. ("Baoding Shuanghua") are subject to CIT at the rate of 25%.

Shanghai Shuanghua was registered as a foreign-invested enterprise and pursuant to the approval from the tax bureau, Shanghai Shuanghua was exempted from CIT for its first-two profit-making years (after deducting losses incurred in previous years) and was entitled to a 50% tax reduction for the succeeding three years. Shanghai Shuanghua was in its third, fourth and fifth profit-making years for the years ended 31 December 2008, 2009 and 2010 and therefore Shanghai Shuanghua was subject to CIT at the rate of 12.5% for the six months ended 30 June 2010.

The preferential tax treatment of "two-year exemption and three-year half rate" enjoyed by Shanghai Shuanghua expired on 31 December 2010. Shanghai Shuanghua was accredited as a "Shanghai High and New Technology Enterprise" in December 2008 and such qualification will expire on 24 December 2011. Shanghai Shuanghua is in the process of applying for re-assessment of this "hi-tech enterprise" qualification in order to enjoy the preferential tax rate of 15.0% applicable to "hi-tech enterprise" for the years ending 31 December 2011, 2012 and 2013. According to the "Announcement of the State Administration of Taxation on Prepayment of Enterprise Income Tax" issued by the State Administration of Taxation in January 2011, any enterprise that is applying for re-assessment of its "hi-tech enterprise" qualification can temporarily prepay enterprise income tax at a rate of 15% during the transition period before passing the re-assessment while its hi-tech enterprise qualification remains valid. As such, Shanghai Shuanghua is temporarily prepaying enterprise income tax in 2011 at a rate of 15%.

11. INCOME TAX (Continued)

Youshen Industry was located in Pudong New Area and was subject to a preferential CIT at the rate of 15% before 2008. With the release of the New Corporate Income Tax Law, Youshen Industry was subject to CIT at the rates of 18%, 20%, 22% and 24% for 2008, 2009, 2010 and 2011, respectively, before Youshen Industry is subject to CIT at the rate of 25% in 2012.

Shuanghua Machinery, Shuanghua Auto Components and Baoding Shuanghua are subject to CIT at the rate of 25% during the six months ended 30 June 2011.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates in Mainland China to the tax expense at the effective tax rates is as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Profit before tax	**48,610**	52,437
Tax at statutory tax rates 25% in Mainland China	**12,153**	13,109
Lower tax rate for specific province or enacted by local authority	**(4,092)**	(6,264)
Profits attributable to an associate	**(2,854)**	(2,740)
Income not subject to tax	**(45)**	(205)
Expenses not deductible for tax	**951**	98
Effect on deferred tax balances due to change in income tax rate	**–**	(410)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries and an associate	**637**	2,342
Tax losses utilised	**(126)**	(84)
Tax losses not recognised	**294**	501
Tax charge at the Group's effective rate	**6,918**	6,347

The share of tax charge attributable to an associate amounting to RMB3,550,175 for the six months ended 30 June 2011 (30 June 2010: RMB3,458,992) are included in "Share of profits of an associate" in the consolidated income statement.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the six months ended 30 June 2011 attributable to owners of the parent and the weighted average number of ordinary shares of 489,296,001 (2010: 487,500,000) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2011.

The calculations of basic earnings per share are based on:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Earnings		
Profit attributable to owners of the parent	**41,692**	46,715

	Number of shares Six months ended 30 June	
	2011	2010
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period	**489,296**	487,500

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
30 June 2011						
At 1 January 2011:						
Cost	113,856	102,603	2,737	4,193	6,817	230,206
Accumulated depreciation	(13,368)	(22,184)	(1,295)	(1,719)	–	(38,566)
Net carrying amount	100,488	80,419	1,442	2,474	6,817	191,640
At 1 January 2011, net of accumulated depreciation	100,488	80,419	1,442	2,474	6,817	191,640
Additions	927	2,863	119	258	2,702	6,869
Disposal	–	(7)	(3)	–	–	(10)
Depreciation provided during the period (note 7)	(2,785)	(5,235)	(211)	(339)	–	(8,570)
Transfers	2,213	604	–	–	(2,817)	–
At 30 June 2011, net of accumulated depreciation	100,843	78,644	1,347	2,393	6,702	189,929
At 30 June 2011:						
Cost	116,996	106,051	2,848	4,451	6,702	237,048
Accumulated depreciation	(16,153)	(27,407)	(1,501)	(2,058)	–	(47,119)
Net carrying amount	100,843	78,644	1,347	2,393	6,702	189,929

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010						
At 1 January 2010:						
Cost	98,609	82,352	3,585	3,776	28,676	216,998
Accumulated depreciation	(8,466)	(14,035)	(976)	(1,166)	–	(24,643)
Net carrying amount	90,143	68,317	2,609	2,610	28,676	192,355
At 1 January 2010, net of accumulated depreciation	90,143	68,317	2,609	2,610	28,676	192,355
Additions	213	8,845	241	795	23,548	33,642
Disposal	–	(87)	–	(116)	–	(203)
Disposal of a subsidiary	(7,912)	(8,120)	(981)	(121)	(949)	(18,083)
Depreciation provided during the year (note 7)	(5,440)	(9,371)	(566)	(694)	–	(16,071)
Transfers	23,484	20,835	139	–	(44,458)	–
At 31 December 2010, net of accumulated depreciation	100,488	80,419	1,442	2,474	6,817	191,640
At 31 December 2010:						
Cost	113,856	102,603	2,737	4,193	6,817	230,206
Accumulated depreciation	(13,368)	(22,184)	(1,295)	(1,719)	–	(38,566)
Net carrying amount	100,488	80,419	1,442	2,474	6,817	191,640

As at 30 June 2011, certain of the Group's buildings with a net carrying amount of RMB67,486,067 (31 December 2010: RMB69,037,918) were pledged to secure bank loan facilities granted to the Group (note 24).

As at 30 June 2011, the Group has not obtained certificates of ownership in respect of certain buildings of the Group in the PRC with a net carrying amount of RMB18,770,472 (31 December 2010: RMB69,417,857). The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above mentioned buildings. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 30 June 2011.

14. PREPAID LAND LEASE PAYMENTS

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Carrying amount at beginning of year/period	**65,498**	79,904
Recognised during the year/period (note 7)	**(692)**	(1,603)
Disposal of a subsidiary	**–**	(12,803)
Carrying amount at end of year/period	**64,806**	65,498
Current portion included in prepayments, deposits and other receivables (note 20)	**(1,403)**	(1,403)
Non-current portion	**63,403**	64,095

The Group's leasehold lands are situated in Mainland China and held under long term leases.

As at 30 June 2011, certain of the Group's leasehold lands with a net carrying amount of RMB59,253,716 (31 December 2010: RMB59,884,553), were pledged to secure bank loan facilities granted to the Group (note 24).

As at 30 June 2011, the Group has not obtained the land use right certificate in respect of a piece of leasehold land in the PRC with a net carrying amount of RMB5,552,050 (31 December 2010: RMB5,612,950). The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above mentioned leasehold lands. The Directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 30 June 2011.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Unlisted shares, at cost	**117,132**	–

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Automart Holdings Limited ("BVI Automart")	British Virgin Islands	US$100,000	100 (direct)	Investment holding
Automart Holdings Limited ("Hong Kong Automart")	Hong Kong	HK$1,200,000	100 (indirect)	Investment holding
Shanghai Shuanghua Autoparts Co., Ltd. ("Shanghai Shuanghua")	People's Republic of China	RMB263,415,456	99.999 (indirect)	Manufacture and sale of auto air-conditioner parts and components
Shanghai Shuanghua Machinery Manufacturing Co., Ltd. ("Shuanghua Machinery")	People's Republic of China	RMB60,000,000	100 (indirect)	Manufacture and sale of auto air-conditioner parts and components

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Shanghai Youshen Industry Co., Ltd. ("Youshen Industry")	People's Republic of China	RMB10,000,000	100 (indirect)	Import and export goods and technology and sales of auto–conditioner parts and components
Shuanghua Hong Kong Limited ("Hong Kong Shuanghua")	Hong Kong	US$200,000	100 (indirect)	Import and export goods and technology and sales of auto–conditioner parts and components
Shanghai Shuanghua Auto Components Co., Ltd. ("Shuanghua Auto Components")	People's Republic of China	RMB2,000,000	100 (indirect)	Wholesale and retail of mechanical equipment and accessories
Kunshan Xiaocang Compressor Co., Ltd. ("Kunshan Xiaocang")[(i)]	People's Republic of China	US$1,210,000	65 (indirect)	Manufacture of automotive compressor

Notes:

(i) Kunshan Xiaocang is in the process of deregistration.

16. INVESTMENT IN AN ASSOCIATE

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Share of net assets	**85,383**	73,966

The Group's trade receivables balances with the associate are disclosed in note 34 to the financial statements.

Particulars of the principal associate are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of ownership interest attributable to the Company	Principal activities
Macs Baoding	People's Republic of China	RMB20,339,000	49	Manufacture of automotive parts and components

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Assets	**398,551**	379,709
Liabilities	**(224,299)**	(228,758)

16. INVESTMENT IN AN ASSOCIATE (Continued)

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Revenues	**203,817**	185,792
Profit	**23,301**	22,366

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	As at 30 June 2011	As at 31 December 2010
	RMB'000	RMB'000
Unlisted equity investments, at cost	**262**	262

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

Unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

18. INVENTORIES

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Raw materials	**25,511**	27,809
Work in progress	**19,319**	20,228
Finished goods	**36,365**	39,888
	81,195	87,925
Impairment	**(4,620)**	(4,080)
	76,575	83,845

The movements in provision for impairment of inventories are as below:

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
At beginning of year/period	**4,080**	4,175
Impairment losses recognised (note 7)	**540**	368
Impairment written off as disposal of a subsidiary	**–**	(463)
At end of year/period	**4,620**	4,080

19. TRADE AND NOTES RECEIVABLES

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade receivables	**106,786**	93,573
Notes receivables	**36,287**	14,426
	143,073	107,999
Impairment	**(253)**	(257)
	142,820	107,742

The Group's trading terms with its customers are mainly on credit. The credit period for trade receivable is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

19. TRADE AND NOTES RECEIVABLES (Continued)

An aged analysis of the trade and notes receivables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Within 1 month	**41,943**	50,341
1 to 2 months	**42,159**	23,312
2 to 3 months	**32,366**	23,758
3 to 12 months	**25,747**	8,766
Over 12 months	**858**	1,822
	143,073	107,999

The movements in provision for impairment of trade receivables are as below:

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
At beginning of year/period	**257**	486
Impairment losses reversed (note 7)	**(4)**	(229)
At end of year/period	**253**	257

Included in the above provision for impairment of trade receivables is a provision assessed on individual basis of RMB253,439 (31 December 2010: RMB257,218) with carrying amounts before provision of RMB253,439 (31 December 2010: RMB257,218). The individually impaired trade receivables relate to customers that no longer have transaction with the Group, and none of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

19. TRADE AND NOTES RECEIVABLES (Continued)

The aged analysis of the trade and notes receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Neither past due nor impaired	**109,570**	90,673
Less than 1 months past due	**28,217**	11,052
1 to 2 months past due	**3,304**	3,827
2 to 3 months past due	**262**	177
3 to 12 months past due	**771**	853
Over 12 months past due	**696**	1,160
	142,820	107,742

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 30 June 2011, certain of the Group's notes receivables of RMB9,500,000 (31 December 2010: RMB8,650,000) were pledged to secure bills payables of RMB9,500,000 (31 December 2010: RMB8,650,000) (note 22).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Other receivables	**141,339**	3,718
Prepayments	**1,621**	5,008
Prepaid land lease payments (note 14)	**1,403**	1,403
Prepaid other taxes	**–**	1,014
	144,363	11,143

	Company	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Other receivables	**135,496**	–

Other receivables are non-interest-bearing, unsecured and repayable on demand.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. CASH AND CASH EQUIVALENTS

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Cash and bank balances	**44,827**	64,596
Time deposits	**19,138**	5,000
Cash and cash equivalents	**63,965**	69,596

	Company	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Cash and bank balances	**759**	–
Time deposits	**14,138**	–
Cash and cash equivalents	**14,897**	–

As at 30 June 2011, the Group's cash and cash equivalents denominated in RMB were RMB40,320,166 (31 December 2010: RMB61,278,441). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for 7 days and earn interest at 7-day short term time deposit rate. The bank balances are deposited with creditworthy banks with no recent history of default.

22. TRADE AND BILLS PAYABLES

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade payables	**124,082**	77,331
Bills payables	**9,500**	8,650
	133,582	85,981

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Within 1 month	**48,186**	45,204
1 to 2 months	**42,455**	18,606
2 to 3 months	**24,731**	13,920
3 to 6 months	**17,446**	5,733
6 to 12 months	**242**	1,001
12 to 24 months	**118**	730
Over 24 months	**404**	787
	133,582	85,981

Trade payables are non-interest-bearing and have an average credit term of one to three months.

Bills payables were secured by certain of the Group's notes receivables of RMB9,500,000 (31 December 2010: RMB8,650,000) (note 19).

23. OTHER PAYABLES AND ACCRUALS

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Other payables	**12,394**	12,701
Advances from customers	**2,128**	2,037
Taxes other than CIT	**3,242**	2,168
Payroll payable	**6,694**	8,815
Accrued liabilities	**12,356**	9,966
	36,814	35,687

Other payables and advances from customers are non-interest-bearing and have an average term of three months.

24. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group As at 30 June 2011 RMB'000	Group As at 31 December 2010 RMB'000
Current				
Bank loans – secured *	6.06-6.31	Within 1 year	**25,000**	–
Bank loans – secured *	5.40	Within 1 year	**–**	20,000
Bank loans – secured *	5.31	Within 1 year	**–**	25,000
Bank loans – secured *	5.56	Within 1 year	**–**	60,000
Bank loans – secured *	5.28	Within 1 year	**20,000**	–
Bank loans – secured *	5.81-6.31	Within 1 year	**40,000**	–
Bank loans – secured *			**85,000**	105,000
Bank loans – unsecured *	6.31	Within 1 year	**35,000**	–
Bank loans – unsecured *	3.58	Within 1 year	**14,100**	–
Bank loans – unsecured *			**49,100**	–
Bank loans			**134,100**	105,000
Discounted bank acceptances *	7.02-7.28	Within 1 year	**20,000**	–
	5.35-5.46	Within 1 year	**–**	2,000
			20,000	2,000
			154,100	107,000

24. INTEREST-BEARING BANK BORROWINGS (Continued)

	Effective interest rate (%)	Maturity	Group As at 30 June 2011 RMB'000	Group As at 31 December 2010 RMB'000
Non-current				
Bank loans – secured *	5.40	2012	**–**	20,000
Bank loans – secured *	5.81-6.31	2012	**20,000**	–
Bank loans			**20,000**	20,000
Analysed into:				
Bank loans and discounted bank acceptances repayable:				
Within one year or on demand			**154,100**	107,000
In the second year			**20,000**	20,000
			174,100	127,000

Notes:

The Group's bank borrowings are secured by:

(i) mortgages over the Group's buildings situated in Mainland China, which had a net carrying amount at the end of the reporting period of RMB67,486,067 (31 December 2010: RMB69,037,918) (note 13).

(ii) mortgages over the Group's leasehold lands situated in Mainland China, which had a net carrying amount at the end of the reporting period of RMB59,253,716 (31 December 2010: RMB59,884,553) (note 14).

(iii) At the end of the reporting period, there was no guarantees by related parties. As at 31 December 2010, the Group's related party, Shanghai Automart, has guaranteed certain of the Group's bank loans up to RMB50,000,000.

25. PROVISION

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
At beginning of year/period	**5,518**	4,131
Additional provision	**700**	2,108
Amounts utilised during the year/period	**(156)**	(721)
Reversal of unutilised amounts	**(270)**	–
At end of year/period	**5,792**	5,518

The Group provides warranties to its customers on its products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

26. GOVERNMENT GRANTS

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Carrying amount at beginning of the year/period	**11,142**	10,879
Received during the year/period	**2,000**	1,573
Released to income statement (note 6)	**(2,585)**	(1,310)
Carrying amount at end of the year/period	**10,557**	11,142
Current	**1,170**	1,170
Non-current	**9,387**	9,972
	10,557	11,142

Government grants have been received either for the construction of certain items of property, plant and equipment or for the Group subsidiaries' business development. There are no unfulfilled conditions or contingencies attached to these grants.

27. DEFERRED TAX

The movements in deferred tax assets and liabilities during the periods are as follows:

Deferred tax assets

Group

	Accruals and provision RMB'000	Impairment of assets RMB'000	Government grants RMB'000	Losses available for offsetting future taxable profits RMB'000	Unrealised profits RMB'000	Total RMB'000
Deferred tax assets at 1 January 2010	697	589	1,974	1,210	201	4,671
Deferred tax credited to the income statement during the year	1,855	119	154	3,080	19	5,227
Deferred tax assets at 31 December 2010 and 1 January 2011	2,552	708	2,128	4,290	220	9,898
Deferred tax credited/ (charged) to the income statement during the period	(1,455)	68	(105)	1,722	(220)	10
Deferred tax assets at 30 June 2011	1,097	776	2,023	6,012	–	9,908

27. DEFERRED TAX (Continued)

Deferred tax liabilities

Group

	Withholding tax on the distributable profits RMB'000
At 1 January 2010	5,433
Deferred tax charged to the income statement during the year	3,126
At 31 December 2010 and 1 January 2011	8,559
Deferred tax charged to the income statement during the period	637
Deferred tax utilised during the period	(6,040)
At 30 June 2011	3,156

Pursuant to the New Corporate Income Tax Law and implementation regulations issued by the State Council, and in accordance with the Arrangement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax arrangement between China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividend distributed by Shanghai Shuanghua and Macs (Baoding) Auto A/C Systems Co., Ltd. ("Macs Baoding") in respect of earnings generated from 1 January 2008. The Group recognised deferred tax liabilities in respect of accumulated distributable earnings from its subsidiaries and associate established in Mainland China since 1 January 2008, no matter whether such earnings have been declared or not by the subsidiaries at the reporting dates.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. DEFERRED TAX (Continued)

Deferred tax assets have not been recognised in respect of the following items:

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Tax losses:		
Hong Kong Automart	2,239	3,003
Youshen Industry	1,226	–
	3,465	3,003

The Group has tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of Hong Kong Automart.

The Group also has tax losses arising in Mainland China that will expire in one to five years for offsetting against future taxable profits of Youshen Industry.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in Hong Kong Automart and Youshen Industry that it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

28. ISSUED CAPITAL

The movements in the authorised and issued share capital of the Company are as follows:

	Notes	Number of shares	Amount RMB'000
Authorised ordinary shares of HK$0.01 each:			
At 31 December 2010	(i)	10,000,000	86
Increase on 8 June 2011	(ii)	9,990,000,000	83,207
At 30 June 2011		10,000,000,000	83,293
Issued and fully paid ordinary shares of HK$0.01 each:			
At 19 November 2010, date of incorporation	(i)	1	–
At 31 December 2010 and 1 January 2011		1	–
Issue of shares on 28 March 2011	(iii)	9,999	–
Capitalisation issue of shares	(iv)	487,490,000	4,055
New issue of shares from initial public offering	(v)	162,500,000	1,351
At 30 June 2011		650,000,000	5,406

28. ISSUED CAPITAL (Continued)

(i) As at the date of incorporation, the authorised ordinary share capital of the Company was HK$100,000 divided into 10,000,000 shares of HK$0.01. As at the date of incorporation, one nil paid share of HK$0.01 was allotted and issued to Codan Trust Company (Cayman) Limited ("Codan Trust") as the subscriber share. Codan Trust transferred its share to Zheng Ping on the same day. On 28 March 2011, Zheng Ping transferred the said one share to Youshen Group.

(ii) By an ordinary resolution passed on 8 June 2011, the authorised share capital of the Company increased from HK$100,000 to HK$100,000,000 by the creation of 9,990,000,000 ordinary shares of HK$0.01 each.

(iii) On 28 March 2011, 5,799 shares and 4,200 shares were allotted and issued nil paid to Youshen Group and Shuanghua International, respectively.

On 8 June 2011, the Company acquired the entire issued share capital of BVI Automart from Zheng Ping and Shuanghua International in consideration of the crediting as fully paid the 5,800 and 4,200 nil paid shares in the share capital of the Company held by Youshen Group and Shuanghua International, respectively.

(iv) On 29 June 2011, a total of 487,490,000 new ordinary shares of HK$0.01 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK$4,875,000 (equivalent to RMB4,055,000) from the share premium account, to the then existing shareholders of the Company in proportion to their respective share holdings.

(v) On 30 June 2011, the shares of the Company were listed on the Stock Exchange and the Company had offered 162,500,000 ordinary shares of HK$0.01 each and received a total proceeds of HK$188,500,000 (equivalent to RMB156,760,000) from the initial public offering.

29. RESERVES

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Capital reserve	**302,255**	5,108
Statutory surplus reserve	**31,482**	31,482
Merger reserve	**(119,792)**	38,351
Exchange fluctuation reserve	**(190)**	(141)
	213,755	74,800

	Company	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Capital reserve	**262,119**	–

Capital reserve

On 29 June 2011, a total of 487,490,000 new ordinary shares of HK$0.01 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK$4,875,000 (equivalent to RMB4,055,000) from the share premium account, to the then existing shareholders of the Company in proportion to their respective shareholdings.

Pursuant to the reorganisation, on 18 March 2011, 8,000 shares and 42,000 shares of BVI Automart were issued and allotted to Zheng Ping and Shuanghua International at consideration of HK$81,200,000 (equivalent to RMB67,696,000) and HK$58,800,000 (equivalent to RMB49,022,000), respectively. The total capital injection by Zheng Ping and Shuanghua International was RMB132,375,000. The additional injection due from the Group of RMB15,657,000 was waived by Zheng Ping and Shuanghua International.

29. RESERVES (Continued)

Capital reserve (Continued)

On 18 June 2011, the Group entered into a deed of release with Youshen International of which Youshen International waived the debt of RMB30,700,000 due from the Group.

On 30 June 2011, the shares of the Company were listed on the Stock Exchange and the Company had offered 162,500,000 ordinary shares of HK$0.01 each and received a total proceeds of HK$188,500,000 (equivalent to RMB156,760,000) from the initial public offering. The difference between the additional issued capital of the Company of RMB1,351,000 and the total proceeds of RMB156,760,000 received from the initial public offering after deducting deferred listing expenses of RMB17,696,000 was recorded as capital reserve.

Statutory surplus reserve

In accordance with the PRC Company Law, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of the reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum of 25% of the registered capital after such usages.

Merger reserve

The merger reserve of the Group represents the reserve arose pursuant to the Reorganisation which is accounted for as reorganisation under common control.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of Hong Kong Shuanghua.

30. CONTINGENT LIABILITIES

There were no significant contingent liabilities at the end of each of the reporting period.

31. PLEDGE OF ASSETS

Details of the Group's bank borrowings and bills payables, which are secured by the assets of the Group, are included in notes 13, 14, 19, 22 and 24 to the financial statements.

32. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to fifteen years.

At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Within one year	**924**	1,879
In the second to fifth years, inclusive	**2,473**	3,271
After fifth years	**–**	–
	3,397	5,150

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Contracted, but not provided for:		
Property, plant and machinery	**3,399**	3,098

34. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the period:

	Notes	Group Six months ended 30 June 2011 RMB'000	2010 RMB'000 (Unaudited)
Associate			
Sales of products to:			
Macs Baoding	(i)	**66,219**	65,478
Companies in which the directors of the Company are the shareholders			
Rental expense to:			
Shanghai Automart*	(iii)	**928**	1,323
Purchase of goods from:			
Shanghai Youchen Aluminum Materials Co., Ltd. ("Shanghai Youchen")*	(ii)	**8,632**	–

Notes:

(i) The sales to the related parties were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from the related parties were made at terms agreed between the parties.

(iii) The rental expenses to the related parties were based on prices mutually agreed between the parties.

* The related party transactions denoted with * also constitute connected transaction or continuing connected transactions as defined in Chapter 14A of Listing Rules.

34. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties:

At the end of the reporting period, there was no guarantees by related parties. As at 31 December 2010, the Group's related party, Shanghai Automart, has guaranteed certain of the Group's bank loans up to RMB50,000,000.

(c) Outstanding balances with related parties:

		Group	
	Notes	**As at 30 June 2011 RMB'000**	As at 31 December 2010 RMB'000
Due from related parties:			
Macs Baoding	(i)	**128,694**	95,020
Shanghai Longcang Investment Co., Ltd.	(ii)	**–**	3,780
Shanghai Zhongzhi Trading Co., Ltd.	(ii)	**–**	5,220
		128,694	104,020
Due to related parties:			
Shanghai Automart	(ii)	**4,452**	4,026
Youshen International Ltd.	(ii)	**–**	56,191
Shanghai Youchen	(ii)	**2,440**	2,235
		6,892	62,452

Notes:

(i) The balances due from Macs Baoding included dividend receivable of RMB14,700,000 (31 December 2010: RMB14,700,000). The remaining balances were trade in nature, unsecured, interest-free and have fixed terms of repayment.

(ii) The balances are unsecured, non-interest-bearing and have no fixed terms of repayment.

34. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group:

	Group	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(Unaudited)
Short term employee benefits	**417**	1,111
Pension scheme contributions	**72**	60
Total compensation paid to key management personnel	**489**	1,171

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting dates are as follows:

Financial assets – loans and receivables

	Group	
	As at 30 June 2011	As at 31 December 2010
	RMB'000	RMB'000
Trade and notes receivables	**142,820**	107,742
Financial assets included in prepayments, deposits and other receivables	**141,339**	3,718
Due from related parties	**128,694**	104,020
Cash and cash equivalents	**63,965**	69,596
	476,818	285,076

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets – available-for-sale financial assets

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Available-for-sale investments	**262**	262

Financial liabilities at amortised cost

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade and bills payables	**133,582**	85,981
Financial liabilities included in other payables and accruals	**12,394**	12,701
Interest-bearing bank borrowings	**174,100**	127,000
Due to related parties	**6,892**	62,452
	326,968	288,134

Financial assets

	Company	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Financial assets included in prepayments, deposits and other receivables	**135,496**	–
Cash and cash equivalents	**14,897**	–
	150,393	–

36. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

Trade and notes receivables, financial assets included in prepayments, deposits and other receivables, due from related parties, cash and cash equivalents, trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group has no material financial instruments to be disclosed according to the fair value hierarchy (Level 1, 2 and 3).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings. All these interest-bearing bank borrowings were obtained at fixed interest rates, which have exposed the Group to fair value interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The interest rates and terms of repayment of borrowings are disclosed in note 24 above.

Management does not anticipate any significant impact resulting from the changes in interest rates because all of the Group's borrowings as at 30 June 2011 were at fixed interest rates.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 48.7% of the Group's sales for the six months ended 30 June 2011 (30 June 2010: 56.3%) were denominated in currencies other than the functional currency of operating units making the sale, whilst approximately 98.2% of costs for the six months ended 30 June 2011 (30 June 2010: 99.5%) were denominated in the units' functional currency. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States, Hong Kong and Euro exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in foreign currency rate	**Increase/ (decrease) in profit before tax**
	%	RMB'000
For the six months ended 30 June 2011		
If RMB weakens against United States dollar	5	2,301
If RMB strengthens against United States dollar	(5)	(2,301)
If RMB weakens against Hong Kong dollar	5	39
If RMB strengthens against Hong Kong dollar	(5)	(39)
For the six months ended 30 June 2010		
If RMB weakens against United States dollar	5	3,258
If RMB strengthens against United States dollar	(5)	(3,258)
If RMB weakens against Hong Kong dollar	5	(2,758)
If RMB strengthens against Hong Kong dollar	(5)	2,758

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the General Manager and Chairman.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amount due from related parties, deposits and other receivables and available-for-sale investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. At the end of 30 June 2011, the Group had certain concentrations of credit risks as 29% (31 December 2010: 39%) and 56% (31 December 2010: 75%), respectively, of the Group's trade and notes receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables and deposits and other receivables are disclosed in notes 19 and 20, respectively, to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	30 June 2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	15,332	118,250	–	–	–	133,582
Other payables	12,394	–	–	–	–	12,394
Interest-bearing bank borrowings	–	7,000	147,100	20,000	–	174,100
Due to related parties	4,452	2,440	–	–	–	6,892
	32,178	127,690	147,100	20,000	–	326,968

	31 December 2010					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	26,525	54,806	4,650	–	–	85,981
Other payables	12,701	–	–	–	–	12,701
Interest-bearing bank borrowings	–	27,000	80,000	20,000	–	127,000
Due to related parties	62,452	–	–	–	–	62,452
	101,678	81,806	84,650	20,000	–	288,134

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirement. No changes were made in the objectives, policies or processes for managing capital during the six months ended 30 June 2011 and 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank borrowings, amount due to related parties, trade and bills payables, other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

	Group	
	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade and bills payables	**133,582**	85,981
Other payables and accruals	**36,814**	35,687
Interest-bearing bank borrowings	**174,100**	127,000
Due to related parties	**6,892**	62,452
Less: Cash and cash equivalents	**(63,965)**	(69,596)
Net debt	**287,423**	241,524
Equity attributable to owners of the parent	**534,562**	380,867
Capital and net debt	**821,985**	622,391
Gearing ratio	**35%**	39%

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 25 August 2011.