Shuanghua Holdings Limited
雙 樺 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

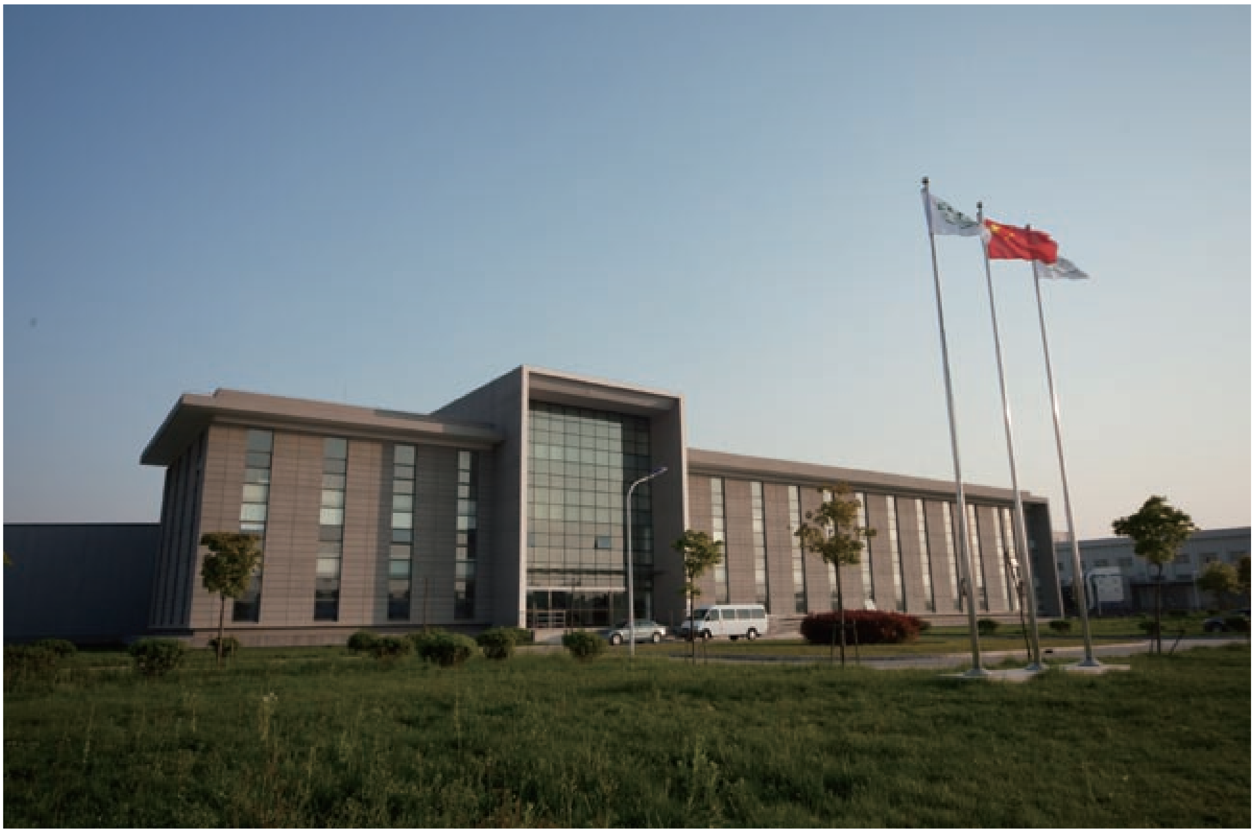
Stock Code : 1241

ANNUAL REPORT **2011**

CONTENTS

Shuanghua Holdings Limited was successfully listed on HKEX on 30 June 2011.

Shuanghua's management team, related listing parties and government officials celebrating the successful listing of Shuanghua at the celebration dinner.



One of the Group's production sites that is located in Fengxian District, Shanghai.

The Group's R&D team is discussing the design of compressors.

The production plant of evaporators, condensers and heater cores.

The advanced production line for compressor commenced production in 2010.

CORPORATE INFORMATION

Company Name:	Shuanghua Holdings Limited
Registered Office:	Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY-1111, Cayman Islands
Headquarters:	9/F, Tongsheng Building, No. 458 Fushan Road, Pudong, Shanghai, P.R.C. Postal Code: 200122
Hong Kong Principal Business Address:	2/F Eton Tower 8 Hysan Avenue Causeway Bay Hong Kong
Company Website:	http://www.shshuanghua.com http://www.shuanghua.sh.cn
Telephone:	(86 21) 5058 8005
Fax:	(86 21) 5081 8591
Enquiry Email:	ir@shshuanghua.com
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

CORPORATE INFORMATION

Joint Company Secretaries:	Mr. DONG Hanyou Ms. TANG Lo Nar
Authorised Representatives:	Mr. ZHENG Ping 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 Fenggao
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

Dear Shareholders,

On behalf of the Board ("Board") of directors ("Directors") of Shuanghua Holdings Limited ("Shuanghua" or the "Group"), I am pleased to present to the shareholders of the company its first annual report of the Group for the year ended 31 December 2011 ("the year").

With the commencement of its production lines for double-sided consistent displacement swash plate compressors for trial production in 2010, Shuanghua has become one of the leading independent one-stop solution providers for automotive HVAC components in China, principally engaged in the design, production and sales of comprehensive range of automotive HVAC components, including evaporators, condensers, heater cores and compressors. On 30 June 2011, Shuanghua was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited and has won wide support from investors ever since. This has marked the Group's entry to the new milestone, improving the Group's financial capability and corporate governance standards, allowing for the expansion of production scale and upgrade of production facilities which once again reinforced its competitive edge to prepare for future development as well as new opportunities ahead.

In the year of 2011, the slowing of domestic macroeconomic growth, the tightening of monetary policy and the withdrawal of automotive spending incentive policies led to a faster decline of the national auto sales. The automotive HVAC components industry was affected, facing unfavorable market circumstances and decline in supply, the Group achieved stable performance during the year. The Group's revenue was RMB528.6 million. For the PRC market, through active searches for new customers, the Group was able to achieve a steady growth in spite of the unfavorable circumstances. The Group's sales volume of evaporators, condensers and heater in the PRC market increased by approximately 6.7%, 6.2% and 11.9% 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 year ended 31 December 2011, compared to that of last year, the Group's revenues of self-manufactured compressors to the international market rose by 54.7%.

To strengthen Shuanghua's core competitiveness in the HVAC market and to expand the production of self-produced compressors, the Group has imported an advanced production line for the production of variable displacement swash plate compressors. The new production line will start its trial production in the second half of 2012 and are expected to be the Group's future growth driver. In addition, the Group has established an extensive customer base in the international aftermarket market through its trading of compressors since 2007, which has allowed the Group to sell its self-manufactured compressor products directly to the international aftermarket with benefit of market synergy. The group has also planned to expand the geographical coverage of its products in order to further expand its market share in the self-manufactured compressors market and to consolidate its leading market position in the PRC.

CHAIRMAN'S STATEMENT

Mr. ZHENG Ping, Chairman and
Chief Executive Officer of Shuanghua Holdings Limited

Looking forward, the Group aims to consolidate its leading position in the HVAC component industry by focusing on the domestic OEM market as well as the international aftermarket, while further developing and strengthening the presence in the international OEM market and domestic aftermarket. Shuanghua is well positioned to continue its strong performance and to capture business opportunities ahead. Apart from expanding its production capacity and efficiency, the Group will also focus on providing a wider product range and developing a wider customer base to assure steady growth of the business by fully developing into a one-stop solution provider for HVAC components. Moreover, the Group will strive to facilitate the pace of vertical and horizontal expansion strategies, by continuously identifying potential companies for acquisitions and investments or joint ventures and strategic alliances. Leveraging the Group's leading position in the industry and existing sales and marketing network, the Group will fully benefit from development opportunity in the domestic OEM market as well as overseas aftermarket, to achieve better results and hence optimize return for shareholders.

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 and CEO

Hong Kong, 2 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FOREWORD

Shuanghua Group was established in 1997, after years of development, it has become a leading independent automotive HVAC components supplier. The Company is principally engaged in the design, production and sales of comprehensive range of automotive HVAC components, including evaporators, condensers, heat cores and compressors. The Group was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited in June 2011 and received tremendous support from investors. The successful listing has not only provided adequate capital protection, but also enhanced the standard of corporate governance and the Group's reputation in the international market. This laid a solid foundation for the Group's determination to become the market leader of automotive HVAC components in China.

MARKET REVIEW

In the year of 2011, the slowing of domestic macroeconomic growth, the loosening of monetary policy and the withdrawal of automotive spending incentive policies led to a faster decline of the national auto sales. In 2011, the total national auto sales amounted to 18.50 million vehicles, representing a significant decrease in the year-on-year growths from 46.2% and 32.4% in 2009 and 2010 respectively to 2.5%, also the lowest year-on-year growth over the past 13 years. The automotive HVAC components industry was affected, facing unfavourable market circumstances and decline in supply, it is common for auto producers to raise their prices and raw material suppliers to decrease their prices in order to shift market risks to the automotive components suppliers. Internationally, the recovery in the American market remains slow and the impact of the financial crisis deepened, resulting in a rather unstable situation in the area, together with the appreciation of RMB and raising of interest rates. These pose an unfavourable impact to the Group's financial performance for the year ended 31 December 2011 as compared to 2010.

Year 2012 is an important interchanging year for the PRC national government's "12th Five Year Plan". In order to maintain a steady growth, raising domestic demand and adjusting structures, the PRC government implemented the domestic demand stimulation policy, restructuring of production and other stimulation policies. These policies facilitate auto sales, optimize and upgrade the organization structure of automotive industry, thus stimulate a fast recovery and development of the domestic auto market. We are optimistic towards the future of our domestic auto industry. On 29 December 2011, the National Development and Reform Commission (the "NDRC") and the Ministry of Commerce announced the "Measures of the Administration of Overseas Investments (2011 revision)" and was effective from 30 January 2012 onwards. This revision of "Measures of the Administration of Overseas Investments" aimed at adjusting the auto industry focus from "auto production" to "automotive HVAC components research and production". Under these circumstances, there will be more support and encouragement from the national policies to the automotive HVAC components industry and it will spring up in the coming prosperous period of development of the auto industry.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's main products are evaporators, condensers, heat cores and compressors. Our products mainly focus on the domestic OEM market as well as the international automobile repairers. The Group is renowned for the wide and full range of products. The Group is currently capable of producing over 1,500 models of evaporators, 2,000 models of condensers, 350 models of heat cores and 260 models of consistent displacement swash plate compressors. The Group has two production plants in Fengxian District, Shanghai Municipality, PRC. In 2011, the Group has produced over 2.8 million units of evaporators, condensers and heat cores, and over 40,000 compressors.

In 2011, the subsidiary of the Group, Shanghai Shuanghua Autoparts Co., Ltd, passed the review for Shanghai High and New Technology Enterprise, and obtained the Hi-tech Enterprise Certificate issued jointly by Shanghai Committee of Science and Technology, Shanghai Finance Bureau, Shanghai National Tax Bureau and Shanghai Local Tax Bureau, which is valid for 3 years, with effective from 20 October 2011.

During the year ended 31 December 2011, the Group's revenue was RMB528.6 million, representing a decline of RMB62.9 million with that of the corresponding period of last year. Net profit amounted to RMB59.0 million with a RMB21.8 million drop comparing to the corresponding period of last year. In respective to product segments, the revenues of evaporators amounted to RMB153.4 million, condensers amounted to RMB153.8 million and heat cores amounted to RMB34.9 million. In respective to market segments, the total revenues are RMB288.4 million and RMB240.2 million for domestic and international markets respectively.

Sales to domestic market

In 2011, due to the slowdown of the domestic auto industry, auto producers put pressure on component suppliers; they demanded drops in both supply volume and prices as to shift their market risks. Through active searches for new customers, the Company was able to achieve a steady growth in spite of the unflavourable circumstances. For the year ended 31 December 2011, the Group achieved a year-on-year increase in sales volume to domestic market of evaporators, condensers and heaters of approximately 9.2%, 19.2% and 8.6%, respectively comparing with that of the corresponding period of 2010. With the effect of discounts in selling prices to national auto producers for the year ended 31 December 2011, the selling price has decreased over the corresponding period of 2010 which led to year-on-year increase in sales to domestic market of evaporators, condensers and heaters of approximately 6.7%, 6.2% and 11.9%, respectively.

Other products sold to the domestic market comprising primarily of self-manufactured intercoolers, oil coolers and aluminium waste.

Sales to international market

Our sales to international market are primarily sold to the North American market. For the year ended 31 December 2011, the Group's revenue from sales to international market of self-manufactured evaporators, condensers and heaters fell by approximately 33.4%, 13.0% and 16.7%, respectively, over the same period of 2010, which were primarily attributable to decrease in sales volume. For the year ended 31 December 2011, sales volume to international market of self-manufactured evaporators, condensers and heaters fell by approximately 24.0%, 13.5%

MANAGEMENT DISCUSSION AND ANALYSIS

and 13.3%, respectively. During the financial crisis in 2008 and 2009, North American distributors of automotive components depleted their inventory levels 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 2011 and the recovery of the American economy slackened amidst the pessimistic macroeconomic environment. As a result, both international revenue and sales volume declined over the same period of last year.

For the year ended 31 December 2011, the Group's revenue from sales to international markets of self-manufactured compressors went up by approximately 54.7% 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 in 2011. For the year ended 31 December 2011, international sales volume of our self-manufactured compressors recorded a significant increase of approximately 64.8% over the last period of 2010. Due to appreciation of RMB, the selling prices for compressors dropped accordingly.

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

BUSINESS PROSPECTS

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:

1. 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

2. 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

For the year ended 31 December 2011, the Group's revenue was approximately RMB528.6 million, a decline of RMB62.9 million, a year-to-year decline of 10.6% with that of the corresponding period of last year of approximately RMB591.5 million.

The following table set forth the breakdown of our revenue by products during the years ended 31 December 2011 and 2010:

	For the year ended 31 December			
	2011		2010	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Revenue				
Domestic				
Evaporators	**121,049**	**22.9%**	113,442	19.2%
Condensers	**121,107**	**22.9%**	113,986	19.3%
Heaters	**28,041**	**5.3%**	25,070	4.2%
Others	**18,154**	**3.4%**	25,758	4.4%
Sub-total	**288,351**	**54.5%**	278,256	47.1%
International-self-manufactured				
Evaporators	**32,372**	**6.1%**	48,582	8.2%
Condensers	**32,716**	**6.2%**	37,620	6.4%
Heaters	**6,883**	**1.3%**	8,258	1.4%
Compressors	**28,065**	**5.3%**	18,138	3.1%
Others	**2,418**	**0.5%**	8,591	1.4%
Sub-total	**102,454**	**19.4%**	121,189	20.5%
International-trading				
Compressors	**90,230**	**17.1%**	135,665	22.9%
Others	**47,582**	**9.0%**	56,394	9.5%
Sub-total	**137,812**	**26.1%**	192,059	32.4%
Total	**528,617**	**100.0%**	591,504	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross margin

For the year ended 31 December 2011, the overall gross profit was approximately RMB112.9 million (2010: RMB136.8 million), which has slightly declined. Gross profit from sales to domestic market was approximately RMB78.0 million, a decrease of RMB2.5 million over the same period of last year. Gross profit from sales to international market was approximately RMB34.9 million, a decrease of RMB21.4 million over the same period of last year. Decreases in sales to both domestic and international markets led to an overall decrease in the Group's gross profit of RMB23.9 million this year.

The following table sets forth the breakdown of our gross profit by products during the years ended 31 December 2011 and 2010:

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Gross Profit		
Domestic		
Evaporators	**44,919**	47,637
Condensers	**25,310**	26,860
Heaters	**5,534**	5,485
Others	**2,197**	472
Sub-total	**77,960**	80,454
International-self-manufactured		
Evaporators	**8,683**	17,129
Condensers	**5,417**	8,231
Heaters	**1,421**	1,444
Compressors	**(2,318)**	102
Others	**713**	2,027
Sub-total	**13,916**	28,933
International-trading		
Compressors	**8,765**	12,971
Others	**12,234**	14,394
Sub-total	**20,999**	27,365
Total	**112,875**	136,752

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2011, the overall gross margin was approximately 21.4%, which has slightly declined from 23.1% of the corresponding period of 2010. The following table sets forth the breakdown of our gross margin by products during the years ended 31 December 2011 and 2010:

	For the year ended 31 December	
	2011	2010
	%	%
Gross Margin		
Domestic		
Evaporators	**37.1%**	42.0%
Condensers	**20.9%**	23.6%
Heaters	**19.7%**	21.9%
Others	**12.1%**	1.8%
International-self-manufactured		
Evaporators	**26.8%**	35.3%
Condensers	**16.6%**	21.9%
Heaters	**20.6%**	17.5%
Compressors	**(8.3%)**	0.6%
Others	**29.5%**	23.6%
International-trading		
Compressors	**9.7%**	9.6%
Others	**25.7%**	25.5%

Other income and gains

Other income and gains increased by approximately RMB2.9 million from approximately RMB1.9 million for the year ended 31 December 2010 to approximately RMB4.8 million for the year ended 31 December 2011. This was primarily attributable to the two government grants of RMB2.3 million received in 2011 for the Group's successful listing on the Hong Kong Stock Exchange.

Share of profits of an associate

Our share of profits of an associate decreased by RMB3.4 million from RMB27.1 million for the year ended 31 December 2010 to approximately RMB23.7 million for the year ended 31 December 2011. The decrease was primarily attributable to the decrease in profit contributed by Macs Baoding Auto A/C System Co., Ltd. ("Macs Baoding", a 49% associate of the Group) in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative and other expenses

Administrative and other expenses comprised primarily staff-related costs, various local taxes and education surcharges, depreciation, amortization of land use rights, operating lease rental payments, listing expenses, agency service fees, research and development expenses and miscellaneous expenses. Decreases in administrative and other expenses for the year ended 31 December 2011 were mainly attributable to the decrease in professional fees incurred for the listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange on 30 June 2011 and most of the listing expenses were incurred during preparation in 2010. At the meantime the Group also paid bonus to the employees in 2010 for their efforts and contributions to the listing of the Company's shares.

Finance costs

We provide funds required for our working capital by raising loans from bank and financial institutions in Mainland China and Hong Kong. Increase in finance costs for the year ended 31 December 2011 was primarily attributable to the increase in average balance of our short-term loans in 2011 and the increase in interest rate.

Income tax expense

For the year ended 31 December 2011, our overall income tax expense was approximately RMB7.7 million or 11.5% of the profit before tax, and approximately RMB8.8 million or 9.8% of the profit before tax for the year ended 31 December 2010. Increase in income tax expense was primarily attributable to the increase in income tax rate from 12.5% in 2010 to 15% in 2011 of Shanghai Shuanghua Auto Components Co., Ltd.

Profit for the period

Profit attributable to the owners of the parent was approximately RMB59.0 million for the year ended 31 December 2011, and approximately RMB81.5 million for the year ended 31 December 2010.

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 RMB192.9 million as at 31 December 2011 was primarily attributable to the increase of cash and bank balances, which is mainly attributable to the proceeds from the successful listing on the Main Board of the Hong Kong Stock Exchange on 30 June 2011.

Financial position and bank borrowings

As at 31 December 2011, the Group's total cash and bank balances, most of which denominated in HKD and RMB, amounted to approximately RMB151.6 million. As at 31 December 2010, the Group's total cash and bank balances, most of which denominated in RMB, amounted to approximately RMB69.6 million. As at 31 December 2011, the Group's total interest-bearing bank borrowings amounted to approximately RMB120.0 million (2010: approximately RMB127.0 million). Please refer to note 25 to the audited financial statements for details of the relevant borrowings and related asset charges. As at 31 December 2011, our gearing ratio, presented as a percentage of total interest-

MANAGEMENT DISCUSSION AND ANALYSIS

bearing liabilities divided by total assets, was approximately 15.1% (2010: approximately 17.6%). Increase in total interest-bearing bank borrowings and the gearing ratio were primarily attributable to our acquisition of property, plant and equipment for expanding our business operations.

Save for aforesaid or otherwise disclosed in notes to the audited consolidated financial statements, and apart from intra-group liabilities, as at the close of business on 31 December 2011, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or 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 31 December 2010.

Working capital

As at 31 December 2011, our gross inventories, mainly comprising raw materials, work-in-progress and finished products, amounted to approximately RMB84.4 million, and approximately RMB83.8 million as at 31 December 2010. Our marketing team reviews and monitors our inventory level regularly. For the year ended 31 December 2011, the average inventory turnover days were 73.9 days (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. The lengthening of average inventory turnover days was mainly attributable to the decrease in sales.

For the year ended 31 December 2011, the average turnover days of trade and notes receivables were 121.6 days (2010: 107.2 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.

For the year ended 31 December 2011, the average turnover days of trade and bills payables were 67.1 days (2010: 60.9 days). The average turnover days of trade and bills payables are consistent with the 30 to 90 days credit periods provided by our suppliers. The increase in the average turnover days of trade and bills payables was primarily attributable to the increase of purchase from suppliers with 60 to 90 days credit periods.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

For the year ended 31 December 2011, capital expenditures were approximately RMB19.4 million, and approximately RMB33.1 million for the corresponding year ended 31 December 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.

For the year ended 31 December 2011, the Group had approximately 892 employees with total remuneration amounted to approximately RMB41.1 million. Welfare benefits expenses for the year ended 31 December 2011 amounted to approximately RMB10.0 million. 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.

Our Group also provided internal and external trainings and courses to our employees to encourage self-improvement and to enhance their technical skills. The determination of the remuneration to our Directors will be based on their job duties and responsibilities, experiences and current market conditions.

Material acquisitions and disposals

Save as disclosed in our Prospectus dated 17 June 2011, we did not have any material acquisitions or disposals relating to our subsidiaries and associates for the year ended 31 December 2011.

Foreign exchange risk

The Group's operations are located in the PRC with RMB as the functional and presentation currency. The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the unit's functional currency. The main currency exposure of the Group comes from the appreciation of RMB against USD for overseas sales transactions denominated in USD. For the year ended 31 December 2011, approximately 45.5% of the Group's sales and 1.9% of costs were denominated in currencies other than the functional currency of operating units making the sales and purchases. 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.

Contingent liabilities

As at 31 December 2011, the Group did not have any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledged assets

As at 31 December 2011, certain of the Group's buildings, with a net carrying amount of RMB64,484,458 (2010: RMB69,037,918), were pledged to secure our bank loan facilities.

As at 31 December 2011, certain of the Group's leasehold lands, with a net carrying amount of RMB58,622,879 (2010: RMB59,884,553), were pledged to secure our bank loan facilities.

As at 31 December 2011, certain of the Group's notes receivables from related parties of RMB3,000,000 were pledged to secure bills payables of RMB3,000,000. As at 31 December 2010, certain of the Group's notes receivables of RMB8,650,000 were pledged to secure bills payables of RMB8,650,000.

The use of proceeds from the initial public offering

The Company was successfully listed on the Hong Kong Stock Exchange on 30 June 2011. The aggregate net proceeds, after underwriting fees and expenses payable in connection with the share offer, amounted to approximately HK$167.2 million. The details regarding the use of proceeds were listed in our Prospectus. For the year ended 31 December 2011, exchange settlement is still in progress and the Company did not use any of the proceeds from the initial public offering.

Final dividend

The Board has proposed a final dividend of RMB2.72 cents per share in respect of the year ended 31 December 2011 totalling RMB17,680,000. The proposed dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited financial statements of Shuanghua Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in Note 16 to the financial statements. There was no significant change in its activities during the year.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 4 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 37 to 103.

The board has proposed a final dividend of RMB2.72 cents per share in respect of the year ended 31 December 2011 totalling RMB17,680,000. This proposal is subject to approval by the shareholders in the annual general meeting (2010: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in Note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company has no distributable reserve calculated under the Companies Law of the Cayman Islands and the Company's bye-laws.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 30 to the consolidated financial statements and in the consolidated statement of changes in the equity, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Cayman Islands.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2011.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors
Mr. Zheng Ping *(Chairman)*
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

In accordance with the Listing Rules, all the directors will retire and offer themselves for re-elections in the forthcoming AGM.

DIRECTORS' SERVICES CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

The directors' interests in contracts are set out in Note 36 to the consolidated financial statements. Apart from the foregoing, no other contracts of significance in relation to the Group's business to which the Company, its holding companies or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Details of biological details of directors and senior management are set out on pages 25 to 27 of this annual report.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in Note 36 to consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2011, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Listing Rules were as follows:

Long positions in shares

a) The Company:

	Number of ordinary shares				
Name of directors	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**Percentage of issued share capital**
Mr. Zheng Ping *(note 1)*	–	–	282,750,000	282,750,000	43.5%
Mr. Dong Zongde *(note 2)*	–	–	204,750,000	204,750,000	31.5%

Notes:

1. Mr. Zheng Ping holds 100% interest in Youshen Group and he is deemed to be interested in the 282,750,000 shares held by Youshen Group.

2. Mr. Dong Zongde holds 100% interest in Shuanghua International and he is deemed to be interested in the 204,750,000 shares held by Shuanghua International.

Long positions in debentures

No long positions of directors and chief executives in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

Short positions in shares

No short positions of directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

Short positions in underlying shares

No short positions of directors and chief executives in the underlying shares of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

REPORT OF THE DIRECTORS

Short positions in debentures

No short positions of directors and chief executives in the debentures of the Company and its associated corporations were recorded in the register.

Save as disclosed above, as at 31 December 2011, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified 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 they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Listing Rules.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDER

At 30 November 2011, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long positions in shares

Name	Capacity	Nature of interest	Number of ordinary shares	Percentage of issued share capital
Youshen Group *(note 2)*	Beneficial interest	Corporate	282,750,000	43.5%
Shuanghua International *(note 3)*	Beneficial interest	Corporate	204,750,000	31.5%

Notes:

1. Mr. Zheng Ping and Mr. Dong Zongde are executive Directors.

2. Mr. Zheng Ping holds 100% interest in Youshen Group and he is deemed to be interested in the 282,750,000 shares held by Youshen Group.

3. Mr. Dong Zongde holds 100% interest in Shuanghua International and he is deemed to be interested in the 204,750,000 shares held by Shuanghua International.

Long positions in underlying shares

No long positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

REPORT OF THE DIRECTORS

Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register. Apart from the foregoing, no other interests required to be recorded in the register kept under Section 336 of the SFO have been notified to the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales for the year attributable to the Group's major customers are as follows:

Sales	
– the largest customer	32.9%
– five largest customers combined	72.9%

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

Purchases	
– the largest supplier	16.3%
– five largest suppliers combined	51.5%

Except for sales to Macs Baoding and purchase of goods from Shanghai Youchen and lease from Shanghai Automart, a related company of the Company, as disclosed in Note 36 to the consolidated financial statements, none of the Directors, their respective associates and shareholders of the Company (which to the knowledge of the Directors own more than 5% of the issued capital of the Company) had any interest in any of five largest customers and suppliers of the Group for the financial year ended 31 December 2011.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the Listing rules.

INTEREST CAPITALIZED

The Group has not capitalized any interest during the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that annual confirmations of independence were received from each of the Company's Independent Non-executive Directors pursuant to the Codes on Corporate Governance Practices of Rules Governing the Listing of securities on the Main Board of The Stock Exchange of Hong Kong Limited and all Independent Non-executive Directors are considered to be independent.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors or the initial management shareholders is interested in any business that competes with or is likely to compete with the business of the Group.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

Related party transactions regarding purchase of goods from Shanghai Youchen Aluminium Materials Co., Ltd and rent expenses to Shanghai Automart Investment Co., Ltd as disclosed in note 36(a) to the financial statements also constituted continuing connected transactions under the Listing Rules which is required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. Pursuant to Rule 14A.37 of the Listing Rules, the Independent Non-Executive Directors have reviewed the continuing connected transaction and confirmed that the continuing connected transactions have been entered into:

(1) in the ordinary course and usual course of business of the Group;

(2) on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement.

The amount in respect of the continuing connected transactions mentioned above during the year under review had not exceeded the annual cap for the transactions previously approved by the shareholders on 8 June 2011. In respect of the continuing connected transactions mentioned above, the Directors confirm that the Company had complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year under review.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

AUDITORS

Messrs Ernst & Young will retire, and being eligible, offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to re-appoint Messrs Ernst & Young as auditors of the Company.

On behalf of the Board
Zheng Ping
Chairman and Chief Executive Director

Shanghai, 2 March 2012

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zheng Ping (鄭平), aged 54, is our executive Director, the chairman and the chief executive officer of our Company. He is the founder of our Group and joined our Group in 2002. He was appointed to the Board on 19 November 2010. He is primarily responsible for reviewing and implementing our Group's overall development strategy. From 1983 to 1990, he was the teacher of power plant department of the Navy Engineering University of the People's Liberation Army of China (中國人民解放軍海軍工程大學). From 1990 to 1993, he worked in Fuzhou Far East Auto Parts Company Limited (福州遠東汽車配件有限公司), the business scope of which is mainly manufacture of auto parts, as vice general manager. From 1994 to 2001, he was a director and the general manager of Shanghai Youshen International Trade Company Limited (上海友申國際貿易有限公司), the business scope of which is mainly international trade and trade consultancy. From 2002 to 2008, Mr. Zheng served as the director of BVI Automart. In 2005, Mr. Zheng was appointed as the chairman of Shanghai Automart and the chairman and general manger of Shanghai Shuanghua. Since 2007, Mr. Zheng has been serving as the chairman of the board of directors and general manager of Shanghai Shuanghua. From 1979, he studied on a full-time basis in the Navy Engineering University of the People's Liberation Army of China (中國人民解放軍海軍工程大學) and has obtained his bachelor's degree majoring in Electrical Combustion Management in 1983. Mr. Zheng is the spouse of Ms. Kong Xiaoling.

Mr. Dong Zongde (董宗德), aged 58, is our executive Director. He was appointed to the Board on 19 November 2010 and is primarily responsible for our Group's PRC operations and in the development strategy of our Group. From 1972 to 1990, Mr. Dong worked as worker in Shanghai Xinxin Machinery Factory (上海新新機器廠), the business scope of which is mainly manufacture of auto parts, construction materials, etc. From 1990 to 1994, Mr. Dong worked in Shanghai Automobile Air Conditioner Factory (上海汽車空調器廠) as the manager of the sales department responsible for sales and marketing. From 1994 to 1997, Mr. Dong was the legal representative in Shanghai Shuanghua Trade Firm (上海雙樺貿易商行), a collective-owned enterprise, the business scope of which is mainly distribution and trade of auto parts. Since 1997, Mr. Dong had served in Shanghai Shuanghua as the director. Since 2007, Mr. Dong has been serving as the vice chairman of the board of directors of Shanghai Shuanghua.

NON-EXECUTIVE DIRECTORS

Ms. Kong Xiaoling (孔小玲), aged 52, is our non-executive Director. Ms. Kong was appointed to the Board on 8 June 2011. She is primarily responsible for supervising and providing advice to the Board. From 1983 to 1996, she worked in Wuhan City Automation Meter Factory (武漢市自動化儀錶廠) as technician of technology introduction office. From 1997 to 2004, Ms. Kong worked in Shanghai Youshen International Trade Company Limited (上海友申國際貿易有限公司), the business scope of which is mainly international trade and trade consultancy as director. From 2000 to 2007, she worked in Shanghai Zhong Zhi Trade Development Co., Ltd. (上海眾智貿易發展有限公司) as vice general manager. From 2007 to now, she has been appointed as the director of Shanghai Shuanghua. From 1980, Ms. Kong studied on a full-time basis in Huazhong College of Technology (華中工學院) (currently known as Huazhong University of Science and Technology (華中科技大學)) and obtained her diploma majoring in Detection Technology and Automatic Meter in 1983. She is the wife of Mr. Zheng, our executive Director.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Jia Weiren (賈衛人), aged 55, was appointed as our non-executive Director on 8 June 2011. Mr. Jia is primarily responsible for supervising and providing advice to the Board. From 1995 to 1999, he was appointed as the vice general manager of Shanghai Huang Pu Foreign Economic Technology Cooperation Co., Ltd. (上海黃浦對外經濟技術合作公司) and has been serving as the vice general manager responsible for finance and human resources since 2001. Mr. Jia has been serving as the general manager of Shanghai Bright Shine International Trade Company Limited (上海祺晟國際貿易有限公司) from 2000 to 2010 and has been serving as the general manager of that company since 2011. In 2007, he joined Shanghai Shuanghua as independent director. In 1992, he studied on a part-time basis in the Shanghai University of Finance (上海財經大學) and obtained his master's degree majoring in Economics. In 1994, he obtained the qualification as a senior accountant, granted by the Shanghai Senior Professional and Technical Position Review Committee of Accounting Series (上海市會計系列高級專業技術職務任職資格評審委員會).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhao Fenggao (趙鳳高), aged 62, was appointed as our Independent Non-executive Director on 8 June 2011. Mr. Zhao is also a member of the audit committee and the nomination committee, and the chairman of the remuneration committee of the Board. Mr. Zhao worked in the Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd. (上海三電貝洱汽車空調有限公司) as vice general manger during 1990 to 1994 and as general manager during 1994 to 2001, primarily responsible for its overall management. From 2001 to 2007, he served as the director and general manager of SAIC Motor Corporation, Ltd. (上海汽車股份有限公司), mainly responsible for its overall management. In 2007, he joined Shanghai Shuanghua as independent director. From 1978 to 1982, he studied on a part-time basis in the Shanghai South District Workers Sparetime University (上海市南市區職工業餘大學) (currently known as Shanghai Huangpu Sparetime University (上海市黃浦區業餘大學)) and has obtained his diploma majoring in Automation Control in 1982. He was accredited as senior economist by the Shanghai Senior Professional and Technical Position Review Committee of Economics Series (Manufacture Industry) (上海市經濟系列（生產領域）高級專業技術職務任職資格審定委員會) in 2002. In 1989, he was qualified as an engineer by Intermediate Professional and Technical Position Review Committee of Shanghai Automotive Industry Corporation (Group) (上海汽車工業（集團）總公司中級專業技術職務任職資格評審委員會). Mr. Zhao has been awarded the National Major Management Innovation Achievement Award (Class 2) (國家重大管理創新成果二等獎) in 2001, the title of China Machinery Enterprise Management Masters (中國機械工業企業經營管理大師) in 2003, and the title of Leading Talent of the Shanghai State-owned System (上海市國資系統領軍人材) in 2005.

Mr. He Binhui (何斌輝), aged 44, was appointed as our Independent Non-executive Director on 8 June 2011. Mr. He is also a member of the remuneration committee and the nomination committee, and the chairman of the audit committee of the Board. During 2000 to 2009, he has been serving as the head of capital market department and the general manger of the investment banking department of Shanghai office of China Galaxy Securities Co.,Ltd. (中國銀河證券有限責任公司). In 2007, he joined Shanghai Shuanghua as independent director. Since December 2009, he has been serving as the general manager assistant and the general manager of investment banking department of Cai Tong Securities Co. (財通證券有限公司). From 1987 to 1991, he studied Mathematics on a full-time basis in the Ningbo University (寧波大學) and has obtained his bachelor's degree majoring in Science in 1991. From 1993 to 1996, he studied on a full-time basis in the Hangzhou Electronic Industry University (杭州電子工業學院) (currently known as Hangzhou Dianzi University (杭州電子科技大學)) and has obtained his master's degree of Economics majoring in Accounting in 1996. He was qualified as auditor in 1997 by Beijing Institute of Chartered Accountants ("北京註冊會計師協會").

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Lifan (陳禮璠), aged 73, was appointed as our Independent Non-executive Director on 8 June 2011. Mr. Chen is also a member of the audit committee and remuneration committee, and the chairman of the nomination committee of the Board. From 1957 to 1962, he studied on a full-time basis in the Jilin University of Technology and has obtained his bachelor's degree majoring in automobile application engineering in 1962. In 2008, he attended and completed the training programme for independent executive directors hosted by Shenzhen Securities Company (深圳證券公司). He has over 40 years experience in automobile engineering.

SENIOR MANAGEMENT

Dong Hanyou (董漢有), aged 49, was appointed as the joint company secretary of our Company on 1 May 2011. He obtained his master's degree in Business and Administration from the Shanghai University of Finance (上海財經大學) in 2007 and was accredited as economist and statistician in 2000 and 1995 respectively by Ministry of Personnel of PRC and National Bureau of Statistics of China. Mr. Dong joined our Group in June 2007 as the vice general manager and secretary to board of directors of Shanghai Shuanghua. He was then appointed as the director of Shanghai Shuanghua in November 2007. Prior to joining our Group, he worked for Shanghai Pudong Road and Bridges Construction Co., Ltd (上海浦東路橋建設股份有限公司) as the secretary to the board of directors, manager of investment and finance department, head of office of board of directors and vice-manager of administrative department from 1997 to 2007.

Tang Lo Nar (鄧露娜), aged 39, was appointed as the chief financial officer and a joint company secretary of the Company on 1 May 2011. Ms. Tang was the company secretary of two Hong Kong main board listing companies, namely Asia Resources Holdings Limited (stock code: 899) and Karce International Holdings Company Limited (stock code: 1159), for the periods from 31 December 2008 to 1 April 2010 and from 12 January 2009 to 1 April 2010, respectively. She is a Fellow of the Association of Chartered Certified Accountants and a member of Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Tang obtained a master's degree in Applied Finance from University of Western Sydney in 2004, a master's degree in English for Professions from The Hong Kong Polytechnic University in 2002, and a bachelor's degree in Accountancy from The Hong Kong Polytechnic University in 1995. Ms. Tang has over 15 years of experience in accounting, tax, audit, company secretarial and finance. From 1995 to 2004, Ms. Tang worked in leading accounting firms, handling various matters of accounting, tax and audit matters. Since 2005, Ms. Tang began the own business by establishing a private company in Hong Kong to provide accounting, management consultancy, tax planning and company secretarial services.

Jung Hwan Ki (鄭煥基), aged 54, is the chief engineer of our Company. He obtained his bachelor's degree in Japanese Studies from Seoul Digital University in 2010. Mr. Jung joined our Group in January 2007 as the general manager of Shanghai Shuanghua. He has been serving in Macs Baoding as the general manager from 2007 to now. Prior to joining our group, he worked for a Korean automotive components company as the leader of the general procurement team and later worked as a general manager in this Korean company's subsidiary in China.

JOINT COMPANY SECRETARIES

Mr. Dong Hanyou (董漢有), aged 49, is our joint company secretary – Biographical details of Mr. Dong are set out in the paragraph headed "Senior Management" under this section to this annual report.

Ms. Tang Lo Nar (鄧露娜), aged 39, is our joint company secretary – Biographical details of Ms. Tang are set out in the paragraph headed "Senior Management" under this section to this annual report.

CORPORATE GOVERNANCE REPORT

It is the belief of the Board of Directors that corporate governance plays a vital part in maintaining the success of the Company. Various measures have been adopted to ensure that a high level of corporate governance is maintained throughout the operation of the Group. The Company has complied with all the code provisions set out in Appendix 14 – Code on Corporate Governance Practices ("CG Code") of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the financial year ended 31 December 2011.

THE BOARD

During the year ended 31 December 2011, the Board comprised two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to the CG Code in the Listing Rules and considers that all the independent non-executive directors to be independent.

The Board schedules four meetings a year at approximately quarterly intervals. In addition, special Board meetings are held as necessary. During the financial year ended 31 December 2011, the Board held two meetings. Details of the attendance of individual Directors are as follows:

		Attendance
(a)	**Executive Directors**	
	Mr. Zheng Ping	2/2
	Mr. Dong Zongde	2/2
(b)	**Non-executive Directors**	
	Ms. Kong Xiaoling	2/2
	Mr. Jia Weiren	2/2
(c)	**Independent Non-executive Directors**	
	Mr. Zhao Fenggao	2/2
	Mr. He Binhui	2/2
	Mr. Chen Lifan	2/2

Mr. Zheng and Ms. Kong are husband and wife. Save as disclosed above, there is no family or other material relationship among members of the Board.

Biographies, including relationships among members of the Board are shown on pages 25 to 27 under the section on "Biography of Directors and Senior Management".

CORPORATE GOVERNANCE REPORT

ROLES OF DIRECTORS

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Group. The principle roles of the Board are:

- to lay down the Group's objectives, strategies and policies;
- to monitor operating and financial performance; and
- to set appropriate policies to manage risks in pursuit of the Group's strategic objectives.

The Board has delegated the day-to-day operation responsibility to the management under the supervision of the Chief Executive Officer and various Board committees.

Every newly appointed director, if any, is ensured to have a proper understanding on the operations and business of the Group and fully aware of his responsibilities under the relevant applicable legal and regulatory requirements. The senior management and the Company Secretary will conduct such briefing as is necessary to update the Board with legal and regulatory developments, business and market changes and the strategic development of the Group to facilitate the performance of their duties.

BOARD PROCESS

Proposed regular board meeting dates for a year are informed to each director at the beginning at the year. Formal notice of at least 7 days will be given in respect of a regular meeting. For special board meeting, reasonable notice will be given. Directors participated, either in person or through other electronic means of communication in the Board meetings.

The Board of Directors meets regularly at least 4 times every year. The Directors participated in person or through electronic means of communication. All notices of board meetings were given to all Directors, who were given an opportunity to include matters in the agenda for discussion. The finalised agenda and accompanying board papers were sent to all Directors at least 3 days prior to the meeting.

During regular meetings of the Board, the Directors discuss the overall strategy as well as the operation and financial performance of the Group. The Board has reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, approval of major capital transactions and other significant operational and financial matters. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors can also seek independent professional advice in performing their duties at the Company's expense, if necessary. The Company Secretary records the proceedings of each board meeting in detail by keeping detailed minutes, including all decisions by the Board together with concerns raised and dissenting views expressed (if any). All minutes are open for inspection at any reasonable time on request by any Director.

CORPORATE GOVERNANCE REPORT

SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular board meetings, an agenda of the meeting and the accompanying board papers are sent in full to all Directors at least 3 days before the intended date of a meeting. Board papers are circulated to the Directors to ensure that they have adequate information before the meeting for any ad hoc projects.

The management has obligation to supply the Board and the committees with adequate information in a timely manner to enable it to make informed decisions. Where any director requires more information than is volunteered by management, each director has separate and independent access to the Company's senior management for inquiry or additional information.

All directors are entitled to have access to board papers and related materials. Such materials are prepared to enable the Board to make informed decisions on matters placed before it.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

NOMINATION OF DIRECTORS

The Board is responsible for the formulation of nomination policies, making recommendations to shareholders on directors standing for re-election, providing sufficient bibliographical details of directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominating appropriate persons to fill causal vacancies or as additions to the Board. The Chairman from time to time reviews the composition of the Board with particular regard to ensuring that there is an appropriate number of directors on the Board independent of management. He also identified and nominates qualified individuals for appointment as new directors of the Company.

New directors of the Company will be appointed by the Board. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments.

APPOINTMENTS, RE-ELECTION AND REMOVAL

All Independent Non-executive Directors are appointed for a specific term of not more than 3 years. All Directors, including the Chairman are required to retire from office by rotation and are subject to re-election by shareholders at annual general meeting at least once every 3 years.

Under the Company's Bye-laws, one-third of the Directors, must retire and be eligible for re-election at each annual general meeting. As such, no director has a term of appointment longer than 3 years.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the CG Code in the Listing Rules as its own code of conduct for dealings in securities of the Company by the Directors. The Company, having made specific enquiry of all Directors, confirms that its Directors have complied with the required standard set out in the CG Code during the financial year ended 31 December 2011.

NOMINATION COMMITTEE

The Company established a Nomination Committee which is primarily responsible for making recommendations to the Board regarding the Group's engagement of appropriate directors and managerial personnel (including the skills, knowledge and experience) to complement the Company's corporate strategies.

The Nomination Committee comprises Mr. Zhao Fenggao, Mr. He Binhui and Mr. Chen Lifan, and is chaired by Mr. Chen Lifan.

During the financial year ended 31 December 2011, the Nomination Committee did not have any meetings.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee which is primarily responsible for making recommendations to the Board regarding the Group's policy and structure for remuneration of Directors and senior management and determine the specific remuneration packages of all Executive Directors and senior management of the Company.

The Remuneration Committee comprises Mr. Zhao Fenggao, Mr. He Binhui and Mr. Chen Lifan, and is chaired by Mr. Zhao Fenggao.

During the financial year ended 31 December 2011, one meeting of Remuneration Committee was held with attendance of individual members as set out below to review and consider the specific remuneration packages of the Company's executive directors and senior management.

	Attendance
Mr. Zhao Fenggao	2/2
Mr. He Binhui	2/2
Mr. Chen Lifan	2/2

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee was established on 8 June 2011, comprising three Independent Non-executive Directors, namely Messrs. Mr. Zhao Fenggao, Mr. He Binhui and Mr. Chen Lifan, and is chaired by Mr. He Binhui.

The written terms of reference which describe the authorities and duties of the audit committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The audit committee provides an important link between the board of directors and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the financial reporting process and the adequacy and effectiveness of the Group's internal control system.

During the financial year ended 31 December 2011, the audit committee held two meetings for the purpose of reviewing the Company's reports and accounts, and providing advice and recommendations to the Board of Directors. The minutes of the audit committee meeting are kept by the Company Secretary. The Group's results for the year ended 31 December 2011 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standard.

	Attendance
Mr. Zhao Fenggao	2/2
Mr. He Binhui	2/2
Mr. Chen Lifan	2/2

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE ACCOUNTS

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of accounts which give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis.

The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the auditors for the accounts are set out in the Independent Auditors' Report on Page 35 to 36 of this Annual Report.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Directors are responsible for the internal control of the Group and for reviewing its effectiveness. The internal control system of the Group comprises of a comprehensive organisational structure and delegation of authorities assigned to individuals based on experience and business need.

Control procedures have been designed to safeguard assets against unauthorised use and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; and to provide reasonable assurance against material misstatement, loss or fraud.

The overall risk management functions of the Group are under responsibility of the Internal Control Committee, comprising the Executive Directors, Chief Executive Officer and Chief Financial Officer. There are established control procedures to identify, assess, control and report to each of the four major types of risks consisting of business and market risk, compliance risk, financial and treasury risk and operational risk. The Group does not have internal audit department, but the Internal Control Review Committee, comprising the Executive Directors and Independent Non-executive Directors are responsible to review the effectiveness of the Group's internal control system. In addition, there is regular dialogue with the Group's external auditors so that both are aware of the significant factors which may affect their respective scope of work.

A review of the effectiveness of the Group's system of internal control covering all key controls, including financial, operational and compliance and risk management controls, is conducted annually. For the year ended 31 December 2011, the review based on a framework which assesses the Group's internal control system into intangibles and intellectual property rights cycle against control environment, risk management and control and monitoring activities on all major business and operational processes. The examination consisted of enquiry, discussion and validation through observation and inspection (if necessary). The result of the review has been report to the Board of Director and areas of improvement, if any, have been identified and appropriate measures have been put in place to manage the risks.

AUDITORS' REMUNERATION

The fees in relation to the audit and other services provided to the Company and its subsidiaries by external auditors of the Group, amounted approximately to RMB2,284,000. No non-audit service was provided by external auditors of the Group for the year ended 31 December 2011.

CORPORATE GOVERNANCE REPORT

DELEGATION BY THE BOARD

The Board is primarily responsible for overall strategy and direction for the Group and overseeing the Group's businesses and providing leadership in strategic issues. The management is delegated to manage the day-to-day businesses of the Group.

When the Board delegates aspect of its management and administration functions to management, clear directions would be given as to the power of management, in particular, the circumstances where management should report back to the Board before making decisions or entering into any commitments on behalf of the Group.

Principal functions that are specifically delegated by the Board to the management include (i) implementation of corporation strategy and policy initiatives; (ii) provision of management reports to the Board in respect of Group's performance, financial position and prospects; and (iii) day-to-day management of the Group.

BOARD COMMITTEE

The Board established certain Board committees with specific written terms of reference which deal clearly with the committee's authority and duties and require the committees to report back on their decisions or recommendations.

COMMUNICATION WITH SHAREHOLDERS

In respect of each separate issue at the general meeting held during the year ended 31 December 2011, separate resolution has been proposed by the Chairman of that meeting. The Chairman of the Board and member of Audit Committee attended the annual general meeting held on 12 April 2012 to answer questions, if any, at the meeting.

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 37 to 103, which comprise the consolidated and company statements of financial position as at 31 December 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 year 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 are responsible for the preparation of 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 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
2 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	*5*	**528,617**	591,504
Cost of sales		**(415,742)**	(454,752)
Gross profit		**112,875**	136,752
Other income and gains	*5*	**4,800**	2,066
Selling and distribution costs		**(18,154)**	(21,066)
Administrative expenses		**(42,534)**	(47,350)
Other expenses		**(5,833)**	(1,846)
Finance costs	*7*	**(8,140)**	(6,115)
Share of profits of an associate		**23,655**	27,094
PROFIT BEFORE TAX	*6*	**66,669**	89,535
Income tax expense	*10*	**(7,654)**	(8,755)
PROFIT FOR THE YEAR		**59,015**	80,780
Attributable to:			
Owners of the parent		**59,015**	81,541
Non-controlling interests		**–**	(761)
		59,015	80,780
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic and diluted:			
– For profit for the year	*13*	**10.3 cents**	16.7 cents

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR	**59,015**	80,780
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	**(128)**	(107)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(128)**	(107)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**58,887**	80,673
Attributable to:		
Owners of the parent	**58,887**	81,434
Non-controlling interests	**–**	(761)
	58,887	80,673

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**194,364**	191,640
Prepaid land lease payments	*15*	**62,692**	64,095
Advance payments for property, plant and equipment		**4,138**	3,744
Investment in an associate	*17*	**97,621**	73,966
Available-for-sale investments	*18*	**262**	262
Deferred tax assets	*28*	**12,755**	9,898
Total non-current assets		**371,832**	343,605
CURRENT ASSETS			
Inventories	*19*	**84,397**	83,845
Trade and notes receivables	*20*	**80,111**	107,742
Prepayments, deposits and other receivables	*21*	**8,690**	11,143
Due from related parties	*36(d)*	**98,732**	104,020
Cash and cash equivalents	*22*	**151,620**	69,596
Total current assets		**423,550**	376,346
CURRENT LIABILITIES			
Trade and bills payables	*23*	**66,887**	85,981
Other payables and accruals	*24*	**26,279**	35,687
Interest-bearing bank borrowings	*25*	**120,000**	107,000
Due to related parties	*36(d)*	**8,178**	62,452
Provision	*26*	**5,028**	5,518
Government grants	*27*	**1,170**	1,170
Tax payable		**3,093**	2,745
Total current liabilities		**230,635**	300,553
NET CURRENT ASSETS		**192,915**	75,793
TOTAL ASSETS LESS CURRENT LIABILITIES		**564,747**	419,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**564,747**	419,398
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	**–**	20,000
Government grants	27	**8,802**	9,972
Deferred tax liabilities	28	**4,136**	8,559
Total non-current liabilities		**12,938**	38,531
Net assets		**551,809**	380,867
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**5,406**	–
Reserves	30	**218,960**	74,800
Retained earnings		**309,760**	306,067
Proposed final dividends	12	**17,680**	–
		551,806	380,867
Non-controlling interests		**3**	–
Total equity		**551,809**	380,867

Zheng Ping
Director

Dong Zongde
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to owners of the parent										
	Issued capital RMB'000	Share premium* RMB'000 (note 30)	Capital reserve* RMB'000 (note 30)	Statutory surplus reserve* RMB'000 (note 30)	Merger reserve* RMB'000 (note 30)	Exchange fluctuation reserve* RMB'000 (note 30)	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2010	–	–	5,108	24,328	38,351	(34)	231,680	–	299,433	10,261	309,694
Profit for the year	–	–	–	–	–	–	81,541	–	81,541	(761)	80,780
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	(107)	–	–	(107)	–	(107)
Total comprehensive income for the year	–	–	–	–	–	(107)	81,541	–	81,434	(761)	80,673
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(9,500)	(9,500)
Appropriation to statutory surplus reserve	–	–	–	7,154	–	–	(7,154)	–	–	–	–
At 31 December 2010	–	–	5,108	31,482	38,351	(141)	306,067	–	380,867	–	380,867

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to owners of the parent										
	Issued capital RMB'000	Share premium* RMB'000 (note 30)	Capital reserve* RMB'000 (note 30)	Statutory surplus reserve* RMB'000 (note 30)	Merger reserve* RMB'000 (note 30)	Exchange fluctuation reserve* RMB'000 (note 30)	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interest 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 year	–	–	–	–	–	–	59,015	–	59,015	–	59,015
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	(128)	–	–	(128)	–	(128)
Total comprehensive income for the year	–	–	–	–	–	(128)	59,015	–	58,887	–	58,887
Business combinations under common control (i)	–	–	–	–	(157,729)	–	–	–	(157,729)	3	(157,726)
Dividend to the then shareholder (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
Proposed final 2011 dividend	–	–	–	–	–	–	(17,680)	17,680	–	–	–
Appropriation to statutory surplus reserve	–	–	–	5,284	–	–	(5,284)	–	–	–	–
At 31 December 2011	5,406	133,658	168,183	36,766	(119,378)	(269)	309,760	17,680	551,806	3	551,809

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

(i) Pursuant to the reorganisation, on 21 February 2011, the Group acquired an equity interest of approximately 54.769% 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 shareholders 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 for considerations 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") pursuant to which Youshen International waived the debt of RMB30,700,000 due from the Group.

* These reserve accounts comprise the consolidated reserves of RMB218,960,000 (2010: RMB74,800,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**66,669**	89,535
Adjustments for:			
Finance costs	*7*	**8,140**	6,115
Share of profits of an associate		**(23,655)**	(27,094)
Interest income	*5*	**(1,069)**	(402)
Loss/(gain) on disposal of items of property, plant and equipment	*6*	**98**	(187)
Loss on disposal of a subsidiary	*6*	**–**	808
Depreciation	*6*	**17,207**	16,071
Recognition of prepaid land lease payments	*6*	**1,403**	1,603
Release of government grants	*27*	**(3,500)**	(1,310)
Impairment/(reversal of impairment) of inventories	*6*	**(98)**	368
Impairment/(reversal of impairment) of trade receivables	*6*	**109**	(229)
Foreign exchange differences, net	*6*	**4,724**	218
		70,028	85,496
Increase in inventories		**(454)**	(26,583)
(Increase)/decrease in trade and notes receivables		**27,522**	(16,828)
(Increase)/decrease in prepayments, deposits and other receivables		**2,453**	(4,820)
(Increase)/decrease in amount due from related parties		**5,288**	(16,601)
Increase/(decrease) in trade and bills payables		**(19,094)**	15,567
Increase/(decrease) in other payables and accruals		**(11,801)**	17,792
Increase/(decrease) in amounts due to related parties		**(23,574)**	3,726
Increase in government grants		**2,330**	195
Increase/(decrease) in provision for product warranties		**(490)**	1,387
Cash generated from operations		**52,208**	59,331
Interest received		**1,069**	402
Income tax paid		**(14,586)**	(11,715)
Net cash flows from operating activities		**38,691**	48,018

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Net cash flows from operating activities		**38,691**	48,018
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(19,408)**	(28,494)
Additions to prepaid land lease payments		**–**	(4,620)
Proceeds from disposal of items of property, plant and equipment		**164**	390
Receipt of government grants		**–**	1,378
Acquisition of non-controlling interests		**–**	–
Disposal of a subsidiary	31	**–**	19,059
Net cash flows used in investing activities		**(19,244)**	(12,287)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	**156,760**	–
Capital injection pursuant to the Reorganisation		**116,718**	–
Share issue expenses	30	**(17,696)**	–
New bank loans		**124,100**	109,773
Loans from related parties		**15,657**	–
Repayment of bank loans		**(131,100)**	(100,000)
Acquisition of subsidiaries pursuant to the Reorganisation		**(157,726)**	–
Interest paid		**(8,337)**	(6,043)
Dividend paid to the then shareholder		**(32,358)**	–
Net cash flows from financing activities		**66,018**	3,730
NET INCREASE IN CASH AND CASH EQUIVALENTS		**85,465**	39,461
Cash and cash equivalents at beginning of year		**69,596**	30,460
Effect of foreign exchange rate changes, net		**(3,441)**	(325)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**151,620**	69,596
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**32,710**	64,596
Non-pledged time deposits with original maturity of less than three months when acquired		**118,910**	5,000
Cash and cash equivalents as stated in the statement of financial position	22	**151,620**	69,596
Cash and cash equivalents as stated in the statement of cash flows		**151,620**	69,596

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investment in subsidiaries	16	**117,131**	–
Total non-current assets		**117,131**	–
CURRENT ASSETS			
Due from subsidiaries	16	**134,009**	–
Cash and cash equivalents	22	**50**	–
Total current assets		**134,059**	–
Net assets		**251,190**	–
EQUITY			
Issued capital	29	**5,406**	–
Reserves	30	**250,789**	–
Retained earnings		**(22,685)**	–
Proposed final dividends	12	**17,680**	–
Total equity		**251,190**	–

Zheng Ping
Director

Dong Zongde
Director

NOTES TO THE FINANCIAL STATEMENTS

31 December 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, P.O. 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.

2.1 BASIS OF PRESENTATION

Pursuant to the group reorganisation (the "Reorganisation") as more fully described in the section headed "Reorganisation" 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, namely Zheng Ping and Dong Zongde, are 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.

2.2 BASIS OF PREPARATION

These 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 Hong Kong Companies Ordinance.

They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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 year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.2 BASIS OF PREPARATION (CONT'D)

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year'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*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
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

Other than as further explained below regarding the impact of HKAS 24 (Revised) and the amendment to HKAS 1 included in *Improvements to HKFRSs 2010,* the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONT'D)

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 36 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendment most applicable to the Group are as follows:

HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

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 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
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 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[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
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 that are not classified as held for sale in accordance with HKFRS 5 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. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of non-financial assets (cont'd)

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 other than goodwill 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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) the party, is a person or a close member of that person's family and that person,

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

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost (or valuation) less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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 depreciates them accordingly.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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 loans and receivables and available-for-sale financial investments, 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments and other financial assets (cont'd)

Initial recognition and measurements (cont'd)

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, amounts due from related parties and unquoted financial instruments.

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 finance cost for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. 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 investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impairment of financial assets (cont'd)

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 yet 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.

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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

Provisions

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income tax (cont'd)

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

- when 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, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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:

- when 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 arising on settlement or translation of monetary items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item.

The functional currencies of certain overseas 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

3. 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 described below.

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 28 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 10 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D)

Estimation uncertainty (cont'd)

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.

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, and 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.

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.

4. 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

	2011	2010
	RMB'000	RMB'000
Mainland	**288,351**	278,256
United States of America	**176,693**	240,820
Canada	**34,437**	44,572
Asia	**23,381**	20,193
Others	**5,755**	7,663
	528,617	591,504

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 years ended 31 December 2011 and 2010.

Information about major customers

For the year ended 31 December 2011, revenues from two customers individually accounted for more than 10% of the Group's total revenue. Revenues from these two customers were RMB173,798,046 and RMB126,227,998, respectively.

For the year ended 31 December 2010, revenues from two customers individually accounted for more than 10% of the Group's total revenue. Revenues from these two customers were RMB239,497,632 and RMB119,202,680, respectively.

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

5. 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:

	2011	2010
	RMB'000	RMB'000
Revenue		
Sale of goods	**528,617**	591,504
Other income		
Bank interest income	**1,069**	402
Government grants *(note 27)*	**3,500**	1,310
Others	**231**	167
	4,800	1,879
Gains		
Gain on disposal of items of property, plant and equipment	**–**	187
	4,800	2,066

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

6. PROFIT BEFORE TAX

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

	Notes	2011 RMB'000	2010 RMB'000
Cost of inventories sold		**415,742**	454,752
Depreciation	*14*	**17,207**	16,071
Amortisation of prepaid land lease payments	*15*	**1,403**	1,603
Research and development costs		**3,909**	6,878
Operating lease expenses		**2,746**	2,989
Loss/(gain) on disposal of items of property, plant and equipment		**98**	(187)
Product warranty provision	*26*	**1,696**	2,108
Auditors' remuneration		**2,284**	78
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**41,109**	40,318
Pension scheme contribution		**6,287**	4,939
Staff welfare expenses		**3,752**	2,890
		51,148	48,147
Foreign exchange differences, net		**4,724**	218
Impairment/(reversal of impairment) of inventories	*19*	**(98)**	368
Impairment/(reversal of impairment) of trade receivables	*20*	**109**	(229)
Loss on disposal of a subsidiary	*31*	**–**	808
Bank interest income		**(1,069)**	(402)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2011 RMB'000	2010 RMB'000
Interest on bank loans wholly repayable within five years	**8,140**	6,115

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011	2010
	RMB'000	RMB'000
Fees	**345**	150
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**1,800**	1,693
Pension scheme contributions	**23**	16
	1,823	1,709
	2,168	1,859

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011	2010
	RMB'000	RMB'000
He Binhui	**55**	50
Zhao Fenggao	**55**	50
Chen Lifan	**30**	–
	140	100

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

8. DIRECTORS' REMUNERATION (CONT'D)

(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
2011				
Executive directors:				
Zheng Ping	**60**	**1,000**	**–**	**1,060**
Dong Zongde	**60**	**800**	**23**	**883**
	120	**1,800**	**23**	**1,943**
Non-executive directors:				
Kong Xiaoling	**30**	**–**	**–**	**30**
Jia Weiren	**55**	**–**	**–**	**55**
	85	**–**	**–**	**85**
	205	**1,800**	**23**	**2,208**
2010				
Executive directors:				
Zheng Ping	–	954	–	954
Dong Zongde	–	739	16	755
	–	1,693	16	1,709
Non-executive directors:				
Kong Xiaoling	–	–	–	–
Jia Weiren	50	–	–	50
	50	–	–	50
	50	1,693	16	1,759

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2010: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2010: three) non-director, highest paid employees for the year are as follows:

	2011	2010
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**1,172**	1,808
Pension scheme contributions	**61**	184
	1,233	1,992

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

	Number of employees	
	2011	2010
Nil to RMB1,000,000	**3**	2
RMB1,000,000 to RMB1,500,000	**–**	1
	3	3

10. 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 during the year are analysed as follows:

	2011	2010
	RMB'000	RMB'000
Current – charge for the year	**8,894**	10,856
Deferred *(note 28)*	**(1,240)**	(2,101)
Total tax charge for the year	**7,654**	8,755

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.

NOTES TO THE FINANCIAL STATEMENTS

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10. INCOME TAX (CONT'D)

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% (2010: 16.5%) in Hong Kong. No provision of income tax has been made for Hong Kong Automart and Shuanghua Hong Kong Limited ("Hong Kong Shuanghua") as Hong Kong Automart and Hong Kong Shuanghua had no taxable income derived from Hong Kong during the year.

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 fifth profit-making year for the year ended 31 December 2010 and therefore Shanghai Shuanghua was subject to CIT at the rate of 12.5% for the year ended 31 December 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" for three years starting from December 2008 and such qualification expired on 24 December 2011. In October 2011, Shanghai Shuanghua obtained the renewed "Hi-tech Enterprise" qualification for three years, effective on 2011 to enjoy a preferential CIT rate of 15%.

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.

Shanghai Shuanghua Machinery Manufacturing Co., Ltd., Shanghai Shuanghua Auto Components Co., Ltd., Shanghai Shuanghua Machinery Sales Co., Ltd. and Baoding Shuanghua Autoparts Co., Ltd. are subject to LIT at the rate of 25% during the year (2010: 25%).

NOTES TO THE FINANCIAL STATEMENTS

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10. INCOME TAX (CONT'D)

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

	2011 RMB'000	2010 RMB'000
Profit before tax	**66,669**	89,535
Tax at statutory tax rate of 25% in Mainland China (2010: 25%)	**16,667**	22,384
Lower tax rates for specific provinces or enacted by local authority	**(5,251)**	(9,675)
Profits attributable to an associate	**(5,914)**	(6,778)
Income not subject to tax	**(7)**	–
Expenses not deductible for tax	**243**	884
Effect on deferred tax balances due to change in income tax rate	**–**	(520)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries and an associate	**1,617**	3,126
Tax losses utilised	**(270)**	(767)
Tax losses not recognised	**569**	101
Tax charge at the Group's effective rate	**7,654**	8,755

The share of tax charge attributable to an associate amounting to RMB7,517,275 for the year ended 31 December 2011 (2010: RMB8,936,275) is included in "Share of profits of an associate" in the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of RMB5,005,375 (2010: Nil) which has been dealt within the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

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12. DIVIDEND

	2011 RMB'000	2010 RMB'000
Proposed final – RMB2.72 cents (2010: Nil) per ordinary share	**17,680**	–

On 2 March 2012, the board of directors of the Company proposed a final dividend for the year ended 31 December 2011 of RMB2.72 cents per ordinary share amounting to a total sum of RMB17,680,000. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (note 40).

13. 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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 570,308,000 (2010: 487,500,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic earnings per share is based on:

	2011 RMB'000	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**59,015**	81,541

	Number of shares	
	2011 '000	2010 '000
Shares		
Weighted average number of ordinary shares in issue during the year	**570,308**	487,500

NOTES TO THE FINANCIAL STATEMENTS

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14. 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
31 December 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	1,250	7,475	366	437	10,665	20,193
Disposal	–	(173)	(3)	(86)	–	(262)
Depreciation provided during the year *(note 6)*	(5,583)	(10,465)	(421)	(738)	–	(17,207)
Transfers	2,213	855	–	–	(3,068)	–
At 31 December 2011, net of accumulated depreciation	98,368	78,111	1,384	2,087	14,414	194,364
At 31 December 2011:						
Cost	117,319	110,008	3,095	4,372	14,414	249,208
Accumulated depreciation	(18,951)	(31,897)	(1,711)	(2,285)	–	(54,844)
Net carrying amount	98,368	78,111	1,384	2,087	14,414	194,364

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group (cont'd)

	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 *(note 31)*	(7,912)	(8,120)	(981)	(121)	(949)	(18,083)
Depreciation provided during the year *(note 6)*	(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 31 December 2011, certain of the Group's buildings with a net carrying amount of RMB64,484,458 (2010: RMB69,037,918) were pledged to secure bank loan facilities granted to the Group (note 25).

As at 31 December 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 RMB18,565,461 (2010: RMB69,417,857). The directors are of the view that the Group is lawfully and validly entitled to occupy and use the above mentioned buildings. The directors are also of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS

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15. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount at beginning of year	**65,498**	79,904
Recognised during the year *(note 6)*	**(1,403)**	(1,603)
Disposal of a subsidiary *(note 31)*	**–**	(12,803)
Carrying amount at end of year	**64,095**	65,498
Current portion included in prepayments, deposits and other receivables *(note 21)*	**(1,403)**	(1,403)
Non-current portion	**62,692**	64,095

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

As at 31 December 2011, certain of the Group's leasehold lands with a net carrying amount of RMB58,622,879 (2010: RMB59,884,553) were pledged to secure bank loan facilities granted to the Group (note 25).

As at 31 December 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 RMB5,491,150 (2010: RMB5,612,950). The directors are of the view that the Group is lawfully and validly entitled to occupy and use the above mentioned leasehold lands. The directors are also of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2011.

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**117,131**	–

The amounts due from subsidiaries included in the Company's current assets of RMB134,009,000 (2010: Nil) are unsecured, interest-free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

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/Mainland 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/Mainland China	RMB60,000,000	100 (indirect)	Manufacture and sale of auto air-conditioner parts and components
Shanghai Shuanghua Machinery Sales Co., Ltd. ("Shuanghua Machinery Sales")	People's Republic of China/Mainland China	RMB5,000,000	100 (indirect)	Wholesale and retail of mechanical equipments & electrical equipment
Shanghai Youshen Industry Co., Ltd. ("Youshen Industry")	People's Republic of China/Mainland China	RMB10,000,000	100 (indirect)	Import and export of 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 of 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/Mainland 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/Mainland China	US$1,210,000	65 (indirect)	Manufacture of automotive compressors

Note:

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

17. INVESTMENT IN AN ASSOCIATE

	Group 2011 RMB'000	Group 2010 RMB'000
Share of net assets	**97,621**	73,966

The Group's trade receivables balances with the associate are disclosed in note 36 to the financial statements.

Particulars of the associate are as follows:

Name	Place of registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of ownership interest attributable to the Company	Principal activities
Macs (Baoding) Auto A/C Systems Co.,Ltd ("Macs Baoding")	People's Republic of China/Mainland 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:

	2011 RMB'000	2010 RMB'000
Assets	**372,359**	379,709
Liabilities	**(173,132)**	(228,758)
Revenues	**405,043**	396,974
Profit	**48,276**	55,294

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

18. AVAILABLE-FOR-SALE INVESTMENTS

	Group 2011 RMB'000	2010 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.

19. INVENTORIES

	Group 2011 RMB'000	2010 RMB'000
Raw materials	**28,212**	27,809
Work in progress	**17,729**	20,228
Finished goods	**42,438**	39,888
	88,379	87,925
Impairment	**(3,982)**	(4,080)
	84,397	83,845

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

	Group 2011 RMB'000	2010 RMB'000
At beginning of year	**4,080**	4,175
Impairment losses recognized/(reversed) *(note 6)*	**(98)**	368
Impairment written off as disposal of a subsidiary	**–**	(463)
At end of year	**3,982**	4,080

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

20. TRADE AND NOTES RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**65,729**	93,573
Notes receivable	**14,748**	14,426
	80,477	107,999
Impairment	**(366)**	(257)
	80,111	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 and notes receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and notes receivable balances. Trade and notes receivables are non-interest-bearing.

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 and net of provisions, is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within 1 month	**39,429**	50,341
1 to 2 months	**16,901**	23,312
2 to 3 months	**9,251**	23,758
3 to 12 months	**14,328**	8,766
Over 12 months	**202**	1,565
	80,111	107,742

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

20. TRADE AND NOTES RECEIVABLES (CONT'D)

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

	Group	
	2011	2010
	RMB'000	RMB'000
At beginning of year	**257**	486
Impairment losses recognised/(reversed) *(note 6)*	**109**	(229)
At end of year	**366**	257

Included in the above provision for impairment of trade receivables is a provision assessed on individual basis of RMB365,824 (2010: RMB257,218) with a carrying amount before provision of RMB365,824 (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 aged analysis of the trade and notes receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**67,759**	90,673
Less than 1 months past due	**8,091**	11,052
1 to 2 months past due	**2,150**	3,827
2 to 3 months past due	**1,141**	177
3 to 12 months past due	**819**	853
Over 12 months past due	**151**	1,160
	80,111	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 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.

As at 31 December 2011, none of the Group's notes receivable were pledged to secure bills payable (2010: RMB8,650,000) (note 23).

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Other receivables	**3,726**	3,718
Prepayments	**3,061**	5,008
Prepaid land lease payments *(note 15)*	**1,403**	1,403
Prepaid other taxes	**500**	1,014
	8,690	11,143

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.

22. CASH AND CASH EQUIVALENTS

	Group	
	2011	2010
	RMB'000	RMB'000
Cash and bank balances	**32,710**	64,596
Time deposits	**118,910**	5,000
Cash and cash equivalents	**151,620**	69,596

	Company	
	2011	2010
	RMB'000	RMB'000
Cash and cash equivalents	**50**	–

As at 31 December 2011, the Group's cash and cash equivalents denominated in RMB were RMB27,958,265 (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 seven days and earn interest at seven-day short term time deposit rate. The bank balances are deposited with creditworthy banks with no recent history of default.

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23. TRADE AND BILLS PAYABLES

	Group 2011 RMB'000	2010 RMB'000
Trade payables	**63,887**	77,331
Bills payable	**3,000**	8,650
	66,887	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 2011 RMB'000	2010 RMB'000
Within 1 month	**33,343**	45,204
1 to 2 months	**17,799**	18,606
2 to 3 months	**10,131**	13,920
3 to 6 months	**5,234**	5,733
6 to 12 months	**134**	1,001
12 to 24 months	**80**	730
Over 24 months	**166**	787
	66,887	85,981

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

Bills payable were secured by certain of the Group's notes receivable due from related parties of RMB3,000,000 (note 36(d)(i)). Bills payable were secured by certain of the Group's notes receivable of RMB8,650,000 as at 31 December 2010 (note 20).

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24. OTHER PAYABLES AND ACCRUALS

	Group	
	2011	2010
	RMB'000	RMB'000
Other payables	**11,471**	12,701
Advances from customers	**1,992**	2,037
Taxes other than CIT	**4,282**	2,168
Payroll payable	**6,554**	8,815
Accrued liabilities	**1,980**	9,966
	26,279	35,687

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

25. INTEREST-BEARING BANK BORROWINGS

Group

	Effective interest rate (%)	Maturity	2011 RMB'000	2010 RMB'000
Current				
Bank loans – secured *	6.06-6.31	Within 1 year	**25,000**	–
Bank loans – secured *	6.56	Within 1 year	**20,000**	–
Bank loans – secured *	5.85-6.65	Within 1 year	**20,000**	–
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 – unsecured *	5.85-6.65	Within 1 year	**20,000**	–
Bank loans – unsecured *	6.31	Within 1 year	**35,000**	–
Discounted bank acceptances *	5.35-5.46	Within 1 year	**–**	2,000
			120,000	107,000
Non-current				
Bank loans – secured *	5.40	2012	**–**	20,000
			120,000	127,000

NOTES TO THE FINANCIAL STATEMENTS

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25. INTEREST-BEARING BANK BORROWINGS (CONT'D)

	Effective interest rate (%)	Maturity	Group 2011 RMB'000	Group 2010 RMB'000
Analysed into:				
Bank loans and discounted bank acceptances repayable:				
Within one year or on demand			**120,000**	107,000
In the second year			**–**	20,000
			120,000	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 year of RMB64,484,458 (2010: RMB69,037,918) (note 14); and

(ii) mortgages over the Group's leasehold lands situated in Mainland China, which had a net carrying amount at the end of the reporting year of RMB58,622,879 (2010: RMB59,884,553) (note 15).

As at 31 December 2010, the Group's related party, Shanghai Automart, had guaranteed certain of the Group's bank loans up to RMB50,000,000. As at 31 December 2011, there was no guarantee provided by related parties to the Group.

NOTES TO THE FINANCIAL STATEMENTS

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26. PROVISION

	Group	
	2011	2010
	RMB'000	RMB'000
At beginning of year	**5,518**	4,131
Additional provision *(note 6)*	**1,696**	2,108
Amounts utilised during the year	**(1,410)**	(721)
Reversal of unutilised amounts	**(776)**	–
At end of year	**5,028**	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.

27. GOVERNMENT GRANTS

	Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount at beginning of the year	**11,142**	10,879
Received during the year	**2,330**	1,573
Released to income statement *(note 5)*	**(3,500)**	(1,310)
Carrying amount at end of the year	**9,972**	11,142
Current	**1,170**	1,170
Non-current	**8,802**	9,972
	9,972	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.

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28. DEFERRED TAX

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

Deferred tax assets

Group

	Accruals and provision	Impairment of assets	Government grants	Losses available for offsetting future taxable profits	Unrealised profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 *(note 10)*	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 year *(note 10)*	(1,080)	(5)	(210)	4,372	(220)	2,857
Deferred tax assets at 31 December 2011	1,472	703	1,918	8,662	–	12,755

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28. DEFERRED TAX (CONT'D)

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 *(note 10)*	3,126
At 31 December 2010 and 1 January 2011	8,559
Deferred tax charged to the income statement during the year *(note 10)*	1,617
Deferred tax utilised during the year	(6,040)
At 31 December 2011	4,136

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 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 and associate at the reporting dates.

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

28. DEFERRED TAX (CONT'D)

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

	2011 **RMB'000**	2010 RMB'000
Tax losses:		
Youshen Industry	**4,053**	1,682
Hong Kong Automart	**1,366**	3,003
	5,419	4,685

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

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

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

29. SHARE 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 31 December 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 31 December 2011		650,000,000	5,406

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29. SHARE CAPITAL (CONT'D)

(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 the 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 total proceeds of HK$188,500,000 (equivalent to RMB156,760,000) from the initial public offering.

30. RESERVES

	Group	
	2011	2010
	RMB'000	RMB'000
Share premium	**133,658**	–
Capital reserve	**168,183**	5,108
Statutory surplus reserve	**36,766**	31,482
Merger reserve	**(119,378)**	38,351
Exchange fluctuation reserve	**(269)**	(141)
	218,960	74,800

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30. RESERVES (CONT'D)

	Company 2011 RMB'000	2010 RMB'000
Share premium	**133,658**	–
Capital reserve	**117,131**	–
	250,789	–

Share premium

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 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 share premium.

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.

Capital reserve

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 for 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.

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 in the share capital of the Company held by Zheng Ping and Dong Zongde, namely, Youshen Group and Shuanghua International, respectively. The excess of the nominal value of the shares of BVI Automart acquired pursuant to Reorganisation over the nominal value of the Company's shares issued in exchange therefor of RMB117,131,000 was recorded as capital reserve.

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

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.

NOTES TO THE FINANCIAL STATEMENTS

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30. RESERVES (CONT'D)

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.

31. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2011, the Group did not have any disposal of subsidiaries.

During the year ended 31 December 2010, the Group disposed of its indirect interest in Baoding Shuanghua to Great Wall Motor Co., Ltd. The related assets and liabilities of the disposed subsidiary as at the disposal date are as follows:

	Note	2010 RMB'000
Net assets disposed of:		
Property, plant and equipment	*14*	18,083
Prepaid land lease payments	*15*	12,803
Advance payments for property, plant and equipment		217
Cash and bank balances		321
Trade and notes receivables		4,902
Inventories		2,522
Prepayments and other receivables		1,012
Trade and bills payables		(3,918)
Other payables and accruals		(1,276)
Amount due to related parties		(4,978)
Non-controlling interest		(9,500)
		20,188
Loss on disposal of a subsidiary	*6*	(808)
		19,380
Satisfied by:		
Cash		19,380

NOTES TO THE FINANCIAL STATEMENTS

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31. DISPOSAL OF A SUBSIDIARY (CONT'D)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2010 RMB'000
Cash consideration	19,380
Cash and bank balances disposed of	(321)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	19,059

32. CONTINGENT LIABILITIES

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

33. PLEDGE OF ASSETS

Details of the Group's bank borrowings and bills payable, which are secured by the assets of the Group, are included in notes 14, 15, 20, 23, 25 and 36(d)(i) to the financial statements.

34. 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 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011 **RMB'000**	2010 RMB'000
Within one year	**1,874**	1,879
In the second to fifth years, inclusive	**1,649**	3,271
	3,523	5,150

At the end of the reporting period, the Company had no operating lease arrangements.

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35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and machinery	**1,372**	3,098

At the end of the reporting period, the Company had no significant commitments.

36. 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 year:

		Group	
		2011	2010
	Notes	**RMB'000**	RMB'000
Associate			
Sales of products to:			
Macs Baoding	*(i)*	**126,228**	119,203
Dividend from:			
Macs Baoding		**–**	14,700
Companies of which the shareholders are director of the Company			
Purchase of goods from:			
Shanghai Youchen Aluminium Materials Co., Ltd. ("Shanghai Youchen")*	*(ii)*	**19,540**	5,918
Rental expense to:			
Shanghai Automart*	*(iii)*	**1,635**	2,060

NOTES TO THE FINANCIAL STATEMENTS

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36. RELATED PARTY TRANSACTIONS (CONT'D)

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

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.

* These transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of Listing Rules.

(b) Other transactions with related parties:

As at 31 December 2011, there was no guarantee by related parties to the Group. As at 31 December 2010, the Group's related party, Shanghai Automart, had guaranteed certain of the Group's bank loans up to RMB50,000,000.

(c) Commitments with related parties

On 1 January 2011, the subsidiaries of the Group entered into a three-year rental agreement ending 31 December 2013 with Shanghai Automart, a company of which a director of the Company is a controlling shareholder, to lease certain of its office properties from Shanghai Automart. The amount of total rental expense to Shanghai Automart for the year is included in note 36(a)(iii) to the financial statements. The Group expects total rental expenses to Shanghai Automart in 2012 and 2013 to be approximately RMB1,635,492 and RMB1,635,492, respectively.

NOTES TO THE FINANCIAL STATEMENTS

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36. RELATED PARTY TRANSACTIONS (CONT'D)

(d) Outstanding balances with related parties:

		Group	
		2011	2010
	Notes	**RMB'000**	RMB'000
Due from related parties:			
Macs Baoding	*(i)*	**98,732**	95,020
Shanghai Longcang Investment Co., Ltd.	*(ii)*	**–**	3,780
Shanghai Zhongzhi Trading Co., Ltd.	*(ii)*	**–**	5,220
		98.732	104,020
Due to related parties:			
Shanghai Automart	*(ii)*	**4,344**	4,026
Shanghai Youchen	*(ii)*	**3,834**	2,235
Youshen International Ltd.	*(ii)*	**–**	56,191
		8,178	62,452

Notes:

(i) The balances due from Macs Baoding included dividend receivable of RMB14,700,000 (2010: RMB14,700,000). The remaining balances were trade in nature, unsecured, interest-free and have fixed terms of repayment and among which RMB3,000,000 (2010: Nil) was pledged to secure bills payable (note 23).

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

NOTES TO THE FINANCIAL STATEMENTS

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36. RELATED PARTY TRANSACTIONS (CONT'D)

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

	Group	
	2011	2010
	RMB'000	RMB'000
Short term employee benefits	**3,560**	3,317
Pension scheme contributions	**145**	130
Total compensation paid to key management personnel	**3,705**	3,447

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets – loans and receivables

	Group	
	2011	2010
	RMB'000	RMB'000
Trade and notes receivables	**80,111**	107,742
Financial assets included in prepayments, deposits and other receivables	**3,726**	3,718
Due from related parties	**98,732**	104,020
Cash and cash equivalents	**151,620**	69,596
	334,189	285,076

Financial assets – available-for-sale financial assets

	Group	
	2011	2010
	RMB'000	RMB'000
Available-for-sale investments	**262**	262

NOTES TO THE FINANCIAL STATEMENTS

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37. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

Financial liabilities at amortised cost

	Group	
	2011	2010
	RMB'000	RMB'000
Trade and bills payables	**66,887**	85,981
Financial liabilities included in other payables and accruals	**11,471**	12,701
Interest-bearing bank borrowings	**120,000**	127,000
Due to related parties	**8,178**	62,452
	206,536	288,134

Financial assets

	Company	
	2011	2010
	RMB'000	RMB'000
Due from subsidiaries	**134,009**	–
Cash and cash equivalents	**50**	–
	134,059	–

38. 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.

The fair values of cash and cash equivalents, trade and notes receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related parties and interest-bearing bank borrowings 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).

39. 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 25 above.

Management does not anticipate any significant impact resulting from the changes in interest rates because all of the Group's borrowings as at 31 December 2011 were at fixed interest rates.

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 45.5% of the Group's sales for the year ended 31 December 2011 (2010: 53.6%) were denominated in currencies other than the functional currency of operating units making the sale, whilst approximately 98.1% of costs for the year ended 31 December 2011 (2010: 98.7%) 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Foreign currency risk (cont'd)

The following table demonstrates the sensitivity at the end of the reporting year to a reasonably possible change in the United States and Hong Kong 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
2011		
If RMB weakens against United States dollar	**5**	**1,824**
If RMB strengthens against United States dollar	**(5)**	**(1,824)**
If RMB weakens against Hong Kong dollar	**5**	**5,700**
If RMB strengthens against Hong Kong dollar	**(5)**	**(5,700)**
2010		
If RMB weakens against United States dollar	5	2,375
If RMB strengthens against United States dollar	(5)	(2,375)
If RMB weakens against Hong Kong dollar	5	(2,689)
If RMB strengthens against Hong Kong dollar	(5)	2,689

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

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, amounts 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 31 December 2011, the Group had certain concentrations of credit risks as 24% (2010: 39%) and 47% (2010: 75%) of the Group's trade and notes receivables were due respectively from the Group's largest customer and the five largest customers.

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 20 and 21, respectively, to the financial statements.

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..

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Liquidity risk (cont'd)

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

			2011			
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Trade and bills payables	**9,726**	**57,161**	**–**	**–**	**–**	**66,887**
Other payables	**11,471**	**–**	**–**	**–**	**–**	**11,471**
Interest-bearing bank borrowings	**–**	**45,000**	**75,000**	**–**	**–**	**120,000**
Due to related parties	**8,178**	**–**	**–**	**–**	**–**	**8,178**
	29,375	**102,161**	**75,000**	**–**	**–**	**206,536**

			2010			
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Capital management (cont'd)

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 years ended 31 December 2011 and 2010.

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

	Group	
	2011	2010
	RMB'000	RMB'000
Trade and bills payables	**66,887**	85,981
Other payables and accruals	**26,279**	35,687
Interest-bearing bank borrowings	**120,000**	127,000
Due to related parties	**8,178**	62,452
Less: Cash and cash equivalents	**(151,620)**	(69,596)
Net debt	**69,724**	241,524
Equity attributable to owners of the parent	**551,806**	380,867
Capital and net debt	**621,530**	622,391
Gearing ratio	**11%**	39%

40. EVENTS AFTER THE REPORTING PERIOD

On 2 March 2012, the board of directors of the Company proposed a final dividend for the year ended 31 December 2011 of RMB2.72 cents per ordinary share amounting to a total sum of RMB17,680,000 (Note 12).

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 2 March 2012.

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS				
CONTINUING OPERATION				
REVENUE	**528,617**	591,504	371,463	382,846
Cost of sales	**(415,742)**	(454,752)	(264,249)	(285,981)
Gross profit	**112,875**	136,752	107,214	96,865
Other income and gains	**4,800**	2,066	5,809	3,935
Selling and distribution costs	**(18,154)**	(21,066)	(13,588)	(20,989)
Administrative expenses	**(42,534)**	(47,350)	(26,663)	(25,401)
Other expenses	**(5,833)**	(1,846)	(630)	(2,137)
Finance costs	**(8,140)**	(6,115)	(6,175)	(10,177)
Share of profits of an associate	**23,655**	27,094	22,160	9,187
PROFIT BEFORE TAX	**66,669**	89,535	88,127	51,283
Income tax expense	**(7,654)**	(8,755)	(11,385)	(8,353)
PROFIT FOR THE YEAR	**59,015**	80,780	76,742	42,930
Attributable to:				
Owners of the parent	**59,015**	81,541	77,534	43,370
Non-controlling interests	**–**	(761)	(792)	(440)
	59,015	80,780	76,742	42,930

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	Year ended 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**795,382**	719,951	610,654	545,701
TOTAL LIABILITIES	**(243,573)**	(339,084)	(300,960)	(312,747)
NON-CONTROLLING INTERESTS	**(3)**	–	(10,261)	(11,053)
	551,806	380,867	299,433	221,901