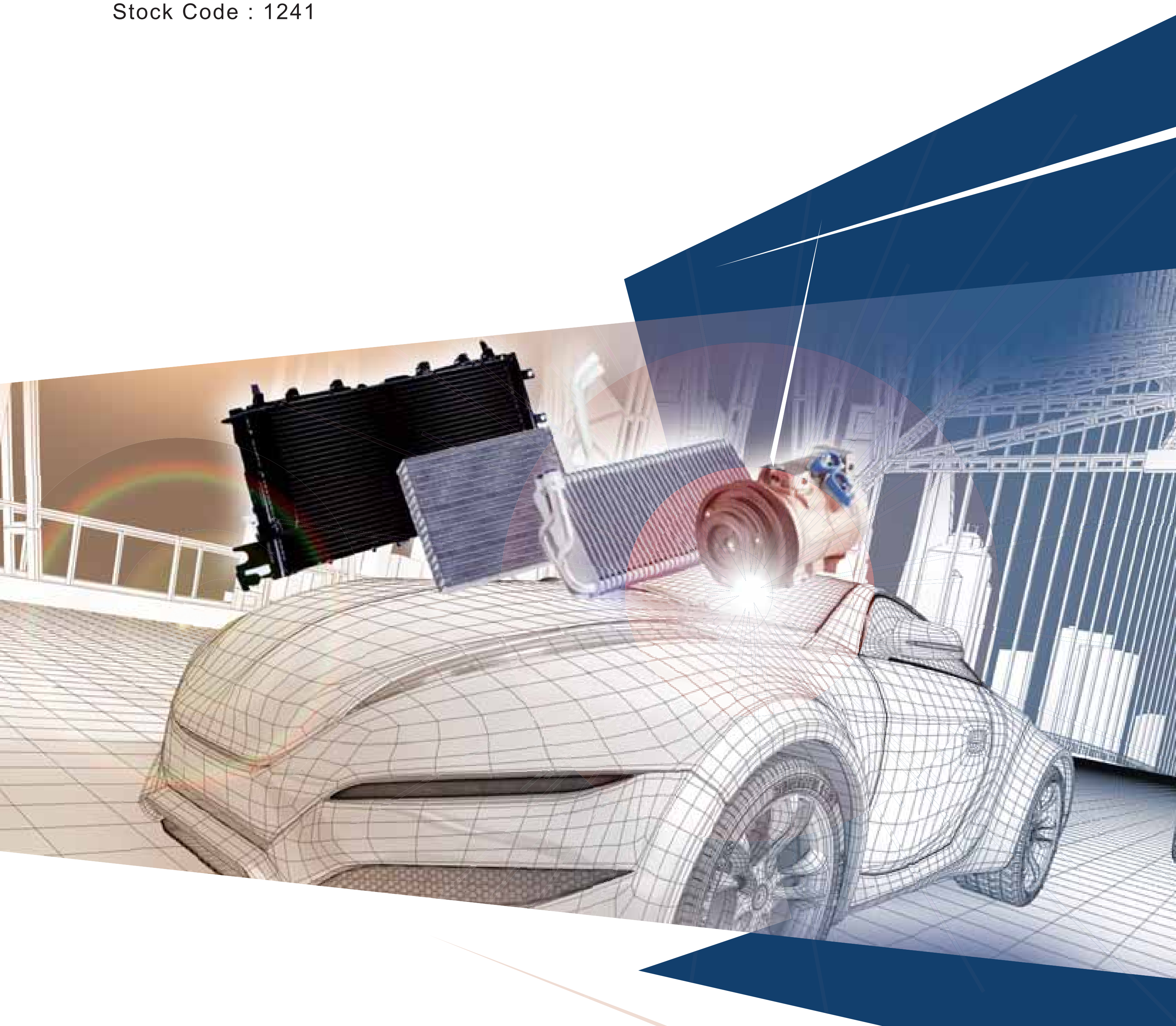
Shuanghua Holdings Limited
雙樺控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1241



ANNUAL REPORT
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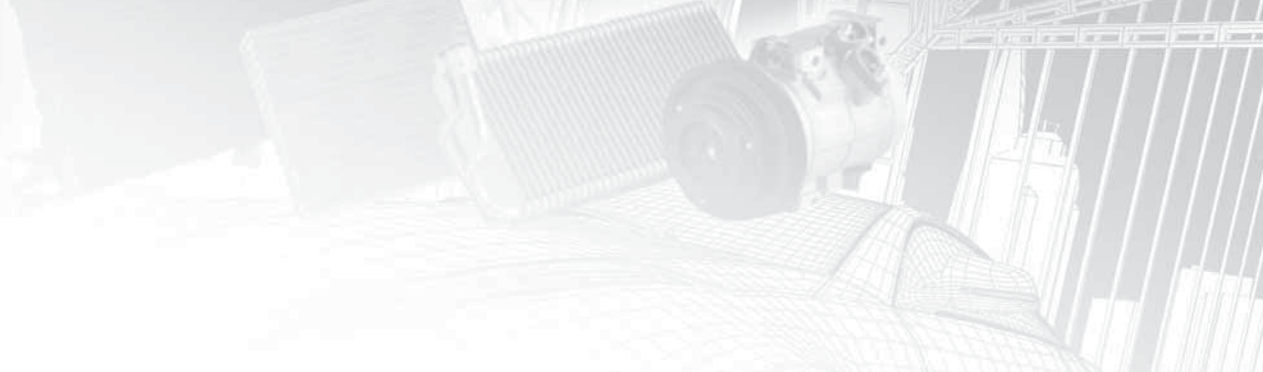

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CORPORATE INFORMATION

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
Telephone:	(86 21) 5058 9027
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 (re-designated as non-executive director on 12 April 2012) Ms. TANG Lo Nar (appointed on 13 April 2012) *Non-executive Directors* Ms. KONG Xiaoling Mr. JIA Weiren (retired on 12 April 2012) Mr. DONG Zongde (re-designated on 12 April 2012 and resigned on 2 May 2012) *Independent non-executive Directors* Mr. ZHAO Fenggao Mr. HE Binhui Mr. CHEN Lifan

CORPORATE INFORMATION

(Joint) Company Secretaries:	Mr. DONG Hanyou (resigned on 31 August 2012) Ms. TANG Lo Nar (re-designated as the sole company secretary on 31 August 2012)
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:	GF Capital (Hong Kong) Limited (appointed on 24 September 2012) 29–30/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong
Principal Banker:	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 of directors ("Board") of Shuanghua Holdings Limited ("Shuanghua" or the "Group" or the "Company"), I am pleased to present to the shareholders of the Company the annual report of the Group for the year ended 31 December 2012 (the "Year").

During the past year, profitability of the automotive components industry was substantially impaired under the impact of slackened domestic macro-economic growth, restrained growth in China's auto production and sales, a dismal auto manufacturing sector and rising raw material costs; while the Group was further subject to the pressure of shrinking markets in Europe and the United States and RMB appreciation. The management of the Company has made diligent efforts to lower production costs and safeguard the Company's profitability by adjusting its management policies and strategies and production mix in response to changing market demands. Nevertheless, the Group's revenue for the reporting period was approximately RMB379.6 million which was RMB149.0 million less compared to last year, while net profit was approximately RMB21.8 million, representing a year-on-year decrease of RMB37.2 million.

In future, we will adjust our product mix with vigorous efforts and expedite the product upgrade process in close tandem with changes in market demands, in an ongoing bid to expand our market and increase profit. Meanwhile, we will continue to improve our management regime to drive staff motivation and innovation, so that our production efficiency and Group profitability will be enhanced to ensure stable and sustainable development for the Group.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express sincere gratitude to our Directors, business partners, management and the rest of our staff team. With their immense dedication and strong support, I am confident that the Group is well-prepared for stable and sustainable development in future. The road ahead could be challenging but we will make every effort to ensure the sustainable development of the Group in future.

Zheng Ping
Chairman and CEO

Hong Kong
28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2012, as the auto manufacturing industry experienced a slowdown in growth in tandem with the decline and slowdown in domestic demand amid generally lacklustre macro-economic conditions, upstream suppliers of auto parts and components were also subject to slower growth and a decline in results. As a result of the aforesaid and coupled with the impact of shrinking domestic and overseas markets as well as the pressure of RMB appreciation, the Company reported a substantial decrease in profit for 2012.

For the year ended 31 December 2012, the Group's operating revenue amounted to approximately RMB379.6 million, representing a decline of approximately RMB149.0 million or approximately 28.2% from that for the same period of last year. Net profit amounted to approximately RMB21.8 million, a decline of approximately RMB37.2 million or approximately 63.0% comparing to the same period of last year. In respective to product segments, the revenues of evaporators amounted to RMB126.7 million, condensers amounted to approximately RMB102.3 million and heaters amounted to approximately RMB24.1 million and compressors amounted to approximately RMB61.5 million. In respective to market segments, the total revenues are approximately RMB210.3 million and approximately RMB169.3 million for domestic and international markets respectively.

SALES TO DOMESTIC MARKET

For the year ended 31 December 2012, our sales volume to domestic market of evaporators, condensers and heaters fell by approximately 17.1%, 38.7% and 31.1%, respectively comparing with that of the corresponding period of 2011, owing to weak sentiments in the domestic automotive market and intense market competition. For the year ended 31 December 2012, average selling prices basically remained stable over the same period of 2011. Decrease in sales volume led to year-on-year decrease in revenue from sales to domestic market of evaporators, condensers and heaters of approximately 19.5%, 36.3% and 33.1% respectively.

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

MANAGEMENT DISCUSSION AND ANALYSIS

SALES TO INTERNATIONAL MARKET

Our sales to international market are primarily sold to the North American market. For the year ended 31 December 2012, the Group's revenue from sales to international market of self-manufactured evaporators, condensers and heaters fell by approximately 9.7%, 23.0% and 22.3%, respectively, over the same period of 2011. As unfavourable conditions continued to prevail in the international automotive market, the Group sought to increase sales by lowering prices, in a bid to prevent shrinking demand in the international market. For the year ended 31 December 2012, average selling prices of self-manufactured evaporators sold to international market fell by 10.4%, over the same period of 2011 with sales volume basically remained flat as compared to the same period of 2011. There was a decrease by approximately 21.8% and a decrease by approximately 19.7%, respectively, over the same period of 2011, in the international sales volume of the Group's self-manufactured condensers and heaters with their selling prices in international market basically remained unchanged.

For the year ended 31 December 2012, the Group's revenue from sales to international markets of self-manufactured compressors went up by approximately 8.7% over the same period of 2011. We commenced production and sales of compressors in 2010, which were all sold to international markets. Our production and sales of compressors had been gradually increasing as we started large-scale production in 2011 and continued through 2012. For the year ended 31 December 2012, the international sales volume of our self-manufactured compressors recorded an increase of approximately 13.2% over the same period of 2011 and its average selling price in international market fell by 4% over the same period of last year.

For the year ended 31 December 2012, the Group's revenue from sales to international markets of trading compressors fell by approximately 65.6% over the same period of 2011. Our trading compressors were all sold to international markets. For the year ended 31 December 2012, international sales volume of our trading compressors recorded a decrease of approximately 67.6% over the same period of 2011. Sales of trading compressors substantially decreased mainly because the main trading compressors supplier of the Group, has started carrying out its own compressors selling business since 2012, and thereby we substantially reduced our purchase of compressors from this supplier.

Other revenue from sales to international market comprised primarily oil coolers, intercoolers, liquid-gas separators, evaporators and condenser cores, pipes and thermostats.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK AND STRATEGY

While the growth rate of China's auto manufacturing industry has declined substantially in recent years, the industry has remained in a growth cycle with untapped market potentials. China's auto manufacturing market is undergoing transformation and structural adjustment, as competition is increasingly based on services and brand competition. There is a growing trend of consumption for upgrade purposes in the auto industry, where market demands are dominated by high quality, customised and low-energy consumption models. According to the statistics of the National Bureau of Statistics, China's private automobile ownership in 2012 was in excess of 93 million vehicles, while increasing opportunities in the after-sales market are anticipated under the nation's macro-economic control measures, new laws on taxation for vehicles and vessels and the "Three Warranties" policy for automobiles were scheduled to come into effect on 1 October 2013.

To address changes in market demands, the Group will enhance its competitiveness in the three areas of products, R&D and business. The Group will make vigorous efforts to adjust its product mix and step up with product upgrades and the introduction of new-generation models, striving to expand its market and increase its profit. The Group will also secure higher added value for its products by increasing investment and enhancing its R&D capabilities to improve the quality of its products and the efficiency of its services, so as to facilitate sales to major international brands. The Group will focus its efforts on the Original Equipment Manufacturer ("OEM") market and the After-sale Maintenance ("AM") market, with special emphasis on building sales networks in the domestic after-sales market so that it will benefit from market-oriented, large-scale operations. The Group will continue to leverage its access to the capital market, actively identifying opportunities for acquisitions, investments, joint ventures or strategic alliances in a bid to drive its strategy of vertical as well as horizontal expansion.

As the Group's business of self-manufactured compressors with fixed discharge volume has been incurring losses amidst the dwindling markets in Europe and the North America and the overall doldrums for the industry, the Group has plans to modify the mode of operation of Shanghai Shuanghua Machinery Manufacturing Co., Ltd. ("Shuanghua Machinery"), a subsidiary engaged in the production and sales of compressors, with a view to profit turnaround in future. In response to market changes, Shuanghua Machinery will relocate with reduced fixed asset investments and downsize the excess production capacity of compressors with fixed discharge volume to save costs. Investment in compressors with variable discharge volume will also be slowed down and efforts are underway to identify an optimal model for its operations.

The Board announced that Automart Holdings Limited ("Hong Kong Automart"), a wholly-owned subsidiary of the Company, had entered into a memorandum of understanding on 4 December 2012 with Great Wall Motor Co., Ltd. (長城汽車股份有限公司) containing, amongst others, their intention to discuss on certain business opportunities. Such business opportunities include the potential disposal (the "Potential Disposal") by Hong Kong Automart of its equity interest in Macs (Boading) Auto A/C Systems Co., Ltd. ("Macs Baoding") (麥克斯(保定)汽車空調系統有限公司). Both parties agreed to proceed with the discussions and negotiations in respect of the Potential Disposal, and final terms and conditions will be confirmed upon signing of definitive agreement (if entered into). As at the date of this report, no legally binding agreement or whatsoever in relation to the Potential Disposal has been entered into and there is no assurance that any legally binding agreement will be entered into or the Potential Disposal will be proceeded at all.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2012, the Group's revenue was approximately RMB379.6 million, a decline of approximately RMB149.0 million, representing a year-on-year decline of approximately 28.2% with that of the corresponding period of 2011 of approximately RMB528.6 million.

The following table sets forth the breakdown of our revenue by products during the reporting period:

Revenue	For the year ended 31 December 2012 RMB'000	% of revenue	For the year ended 31 December 2011 RMB'000	% of revenue
Domestic				
Evaporators	**97,446**	**25.7%**	121,049	22.9%
Condensers	**77,089**	**20.3%**	121,107	22.9%
Heaters	**18,747**	**4.9%**	28,041	5.3%
Others	**16,979**	**4.5%**	18,154	3.4%
Sub-total	**210,261**	**55.4%**	288,351	54.5%
International-self-manufactured				
Evaporators	**29,247**	**7.7%**	32,372	6.1%
Condensers	**25,194**	**6.6%**	32,716	6.2%
Heaters	**5,351**	**1.4%**	6,883	1.3%
Compressors	**30,511**	**8.0%**	28,065	5.3%
Others	**3,614**	**1.0%**	2,418	0.5%
Sub-total	**93,917**	**24.7%**	102,454	19.4%
International-trading				
Compressors	**31,023**	**8.2%**	90,230	17.1%
Others	**44,395**	**11.7%**	47,582	9.0%
Sub-total	**75,418**	**19.9%**	137,812	26.1%
Total	**379,596**	**100.0%**	528,617	100.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross margin

For the year ended 31 December 2012, overall gross profit decreased to approximately RMB64.9 million from RMB112.9 million for 2011. Gross profit from sales to domestic market was approximately RMB45.2 million, representing a decrease of RMB32.8 million over the same period of last year. Gross profit from sales to international market was approximately RMB19.7 million, representing a decrease of approximately RMB15.2 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 RMB48.0 million this period.

The following table sets forth the breakdown of our gross profit by products during the reporting period:

Gross Profit	For the year ended 31 December 2012 RMB'000	For the year ended 31 December 2011 RMB'000
Domestic		
Evaporators	**30,385**	44,919
Condensers	**10,549**	25,310
Heaters	**2,529**	5,534
Others	**1,780**	2,197
Sub-total	**45,243**	77,960
International-self-manufactured		
Evaporators	**5,837**	8,683
Condensers	**4,452**	5,417
Heaters	**1,305**	1,421
Compressors	**(4,937)**	(2,318)
Others	**189**	713
Sub-total	**6,846**	13,916
International-trading		
Compressors	**3,000**	8,765
Others	**9,831**	12,234
Sub-total	**12,831**	20,999
Total	**64,920**	112,875

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2012, overall gross margin was approximately 17.1%, decreasing from approximately 21.4% of the corresponding period of 2011. Decline in gross margin for the year was primarily attributable to the downturn of the overall market environment and intense market competition. The Group slightly reduced the selling prices of evaporators and heaters for the domestic market by 2.9% and 3.0%, respectively. Meanwhile, selling prices of evaporators and compressors for the international market declined by 10.4% and 4.0%, respectively.

Other income and gains

Other income and gains decreased by approximately RMB1.7 million from approximately RMB4.8 million for the year ended 31 December 2011 to approximately RMB3.1 million for the year ended 31 December 2012. This was primarily attributable to a subsidy of RMB1.0 million from the People's Government of Zhelin Town, Fengxian District, Shanghai Municipality and another subsidy of RMB1.0 million from the Office for the Promotion of Conversion and Listing of Enterprises of Fengxian District, Shanghai Municipality as an award for the Group's successful listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2011, whereas no such award was reported for the year 2012. Meanwhile, the Group recorded exchange gains of approximately RMB400,000, as compared to exchange losses recorded for last year.

Share of profits of an associate

Our share of profits of an associate decreased by approximately RMB7.9 million from approximately RMB23.7 million for the year ended 31 December 2011 to approximately RMB15.8 million for the year ended 31 December 2012. The decrease was primarily attributable to the decrease in profit resulting from a decline in operating results compared with that of the corresponding period of last year of Macs Baoding (a 49% associate of the Group) in 2012.

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 2012 were mainly attributable to the decrease in listing fees of the Group during the year. The Group's shares were successfully listed on the Main Board of the Stock Exchange on 30 June 2011 and most of the listing expenses were incurred during preparation in 2011.

Finance costs

We provide funds required for our working capital and procurement by raising loans from bank institutions in Mainland China. Finance costs amounted to approximately RMB6.4 million for the year ended 31 December 2012 and RMB8.1 million for the corresponding period in 2011. The decrease was primarily due to the fact that both of our average balances of interest-bearing bank borrowings for 2012 were substantially lower than those in the same period of 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax

For the year ended 31 December 2012, our overall income tax expense was approximately RMB4.3 million or 16.4% of the profit before tax, and approximately RMB7.7 million or 11.5% of the profit before tax for the year ended 31 December 2011. The income tax rate was higher as Shuanghua Machinery, a subsidiary of the Group, continually incurred losses and did not confirm that there would be taxable profit to offset the additonal tax losses incurred in 2012, thus, it did not recognize any additional deferred tax for 2012.

Profit for the period

Profit attributable to the owners of the parent of the Company was approximately RMB21.8 million for the year ended 31 December 2012, and approximately RMB59.0 million for the year ended 31 December 2011.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

Our net current assets decreased from approximately RMB192.9 million as at 31 December 2011 to approximately RMB179.3 million as at 31 December 2012. The decrease in net current assets mainly reflected the decline in current assets as a result of the decrease in revenue for 2012 as compared to the same period of last year.

Financial position and bank borrowings

As at 31 December 2012, the Group's total cash and bank balances, most of which were denominated in RMB, amounted to approximately RMB62.1 million. As at 31 December 2011, the Group's total cash and bank balances, most of which were denominated in HKD and RMB, amounted to approximately RMB151.6 million. As at 31 December 2012, the Group's total interest-bearing bank borrowings amounted to approximately RMB20.0 million (31 December 2011: approximately RMB120.0 million). Please refer to note 26 to the consolidated financial statements for details of the relevant borrowings and related asset charges. As at 31 December 2012, our gearing ratio, presented as a percentage of total interest-bearing liabilities divided by total assets, was 2.9% (31 December 2011: 15.1%). In view of the decrease in the Group's working capital requirements as a result of the downsizing of its trade business, the Group has applied surplus working capital towards loan repayments so as to lower its finance costs. As a result, there was a decrease in interest-bearing bank loans and the gearing ratio.

Save as aforesaid or otherwise disclosed in the notes to the financial statements, and apart from intra-group liabilities, as at the close of business on 31 December 2012, 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 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Working capital

As at 31 December 2012, our gross inventories, mainly comprising raw materials, work-in progress and finished products, amounted to approximately RMB85.1 million, and approximately RMB84.4 million as at 31 December 2011. Our marketing team reviews and monitors our inventory level on a regular basis. For the year ended 31 December 2012, the average inventory turnover days were 98.3 days (for the year ended 31 December 2011: 73.9 days). Inventory turnover days are arrived at by dividing the arithmetic means of the opening and ending balances of inventory for the relevant period by cost of sales of the same period and multiplying the quotient by 365 days. The increase in inventory turnover was mainly attributable to the fact that sales declined amidst weak market sentiments.

For the year ended 31 December 2012, average turnover days of trade and notes receivables were 132.5 days (for the year ended 31 December 2011: 121.6 days). Increase in turnover days of trade and notes receivables was primarily attributable to increase in the percentage of sales to local customers, which generally requested for longer credit periods from us and more customers used notes receivables with 6 month maturity to settle their outstanding amounts.

For the year ended 31 December 2012, average turnover days of trade and bills payables were 72.1 days (for the year ended 31 December 2011: 67.1 days). The actual payment period for our purchases was extended, as the Company slowed down its payment to suppliers in tandem with the slowdown of the Group's collection of payment from customers, in order to maintain a sound level of cash flow.

CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

For the year ended 31 December 2012, capital expenditures were approximately RMB4.6 million, and approximately RMB19.4 million for the year ended 31 December 2011. We have been financing our capital expenditures primarily through 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.

As at 31 December 2012, the Group had approximately 752 full-time employees including the management, sales, logistics supports and other ancillary personnel. The Group's total wages and salaries amounted to approximately RMB39.3 million for the year ended 31 December 2012. Our remuneration policy is primarily based on the job responsibilities, work performance and number of years of services of each employee and the current market conditions.

Pursuant to the relevant PRC labour laws and regulations, the Group has to pay contributions to a number of staff social insurance schemes (including medical, maternity, work injury, unemployment and pension insurances) and staff housing reserve funds. We provide social insurances and pay contributions to housing reserve funds for our employees in accordance with the interpretations to the relevant PRC labour laws and regulations given, and policies and measures executed by local government departments. We have established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. Welfare benefits expenses for the year ended 31 December 2012 amounted to approximately RMB11.0 million. We have complied, in all material respects, with all statutory requirements on retirement contribution in the jurisdictions where our Group operates. The basic salary of each of our executive and non-executive Directors will be reviewed by the Nomination Committee at the end of each financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

The determination of the remuneration to our Directors will be based on remuneration of directors of comparable companies in the industry, time commitment, duties and responsibilities of our Directors in our Group and our operational and financial performance.

Material acquisitions and disposals

We did not have any material acquisitions or disposals relating to our subsidiaries and associates for the year ended 31 December 2012.

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 2012, approximately 44.6% of the Group's sales and 2.5% 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, the 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 2012, the Group and the Company did not have any material contingent liabilities.

Pledge of assets

As at 31 December 2012, the Group did not pledge any buildings to secure our banking facilities granted (31 December 2011: RMB64,484,000).

As at 31 December 2012, the Group did not pledge any land to secure our banking facilities granted (31 December 2011: RMB58,623,000).

As at 31 December 2011, certain of the Group's notes receivables from a related party of RMB3,000,000 were pledged to secure bills payables of RMB3,000,000. As at 31 December 2012, the Group had no outstanding pledge in respect of the said bills payables.

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGE OF DIRECTORSHIP

The followings are changes of directorship in the Company during the year:

– Mr. Dong Zongde, the executive director of the Company, was re-designated as non-executive director of the Company with effect from 12 April 2012, who then resigned with effect from 2 May 2012.

– Mr. Jia Weiren, the non-executive director of the Company, resigned with effect from 12 April 2012.

– Ms. Tang Lo Nar, the chief financial officer and the company secretary of the Company was appointed as executive director with effect from 13 April 2012.

SHARE OPTIONS

No share options were granted or exercised pursuant to the share option scheme during the reporting period and no share options had not been exercised as at 31 December 2012.

USE OF PROCEEDS FROM THE LISTING

The Group was listed on the Stock Exchange on 30 June 2011. Net proceeds from the listing amounted to RMB126.8 million, and the proposed use of proceeds have been set out in the prospectus of the Company dated 17 June 2011.

Such proceeds were utilized in the following manner during the year ended 31 December 2012, and a balance of approximately RMB83.9 million remained unutilised as at 31 December 2012:

– Approximately RMB0.7 million for preliminary development of the swash plate compressor with variable discharge volume;

– Approximately RMB29.4 million as research and development expenditure to fund the research of different types of compressors and other automotive HVAC components and the purchase of state-of-the-art laboratory equipment, moulds and cutting tools; and

– Approximately RMB12.8 million as working capital to fund the increase in the volume and scale of the production of two-way swash plate compressors with fixed discharge volume.

As the market conditions changed and the Group's business of self-manufactured compressors with fixed discharge volume has been incurring losses, investment in compressors with variable discharge volume has been slowed down. Accordingly, most of the proceeds from the listing is not utilised. The unutilised portion of the proceeds was applied to investments in short-term, interest-bearing debt instruments or bank deposits.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2012 (31 December 2011: RMB2.72 cents per share).

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited financial statements of the Group for the year ended 31 December 2012.

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 2012 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 33 to 97.

The directors do not recommend payment of any dividend in respect of the year ended 31 December 2012 (2011: RMB17,680,000).

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 AND SHARE OPTION

Details of the movements in the Company's share capital during the year are set out in Note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company has no distributable reserve calculated under the Companies Law of the Cayman Islands and the Company's articles of association (the "Articles").

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 31 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 Articles 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

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year (2011: Nil).

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 (re-designated as non-executive director on 12 April 2012)
Ms. Tang Lo Nar (appointed on 13 April 2012)

Non-executive Directors
Ms. Kong Xiaoling
Mr. Jia Weiren (retired on 12 April 2012)
Mr. Dong Zongde (re-designated as non-executive director on 12 April 2012 and resigned on 2 May 2012)

Independent Non-executive Directors
Mr. Zhao Fenggao
Mr. He Binhui
Mr. Chen Lifan

In accordance with the article 87 of the Articles of the Company, Ms. Tang Lo Nar, Mr. He Binhui and Mr. Chen Lifan will retire by rotation at the forthcoming annual general meeting and, being eligible, had offered themselves for re-election as Directors of the Company.

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.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Details of biological details of directors and senior management are set out on pages 22 to 23 of this annual report.

CONNECTED TRANSACTIONS

For the year ended 31 December 2012, the following connected transactions were, and will be continued to be, carried out by our Group in the ordinary and usual course of business, on either normal commercial terms or terms no less favorable to our Group than those available from independent third parties, and are expected to continue in the foreseeable future.

Continuing connected transactions

The Group has leased its office premises located in Shanghai from Shanghai Automart Investment Co., Ltd ("Shanghai Automart"), where 58% of its equity interest is held by Ms. Kong Xiaoling ("Ms. Kong"), our non-executive Director, the other 42% of its equity interest is held by Mr. Dong Zongde ("Mr. Dong"), our former Director and one of our shareholders. Please refer to the section headed "Biography of Directors and Senior Management" of this annual report for the particulars of Ms. Kong. During the year, the Group has paid rental of RMB1,314,000 (2011: RMB1,635,000) to Shanghai Automart. According to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), Shanghai Automart is an associate of Ms. Kong and Mr. Dong and thus a connected person. As Shanghai Automart is a connected person, the above office lease rentals paid constitute continuing connected transactions of our Company under Rule 14A.14 of the Listing Rules.

In addition, the Group has purchased certain goods of RMB12,129,000 (2011: RMB19,540,000) during the year from Shanghai Youchen Aluminum Materials Co., Ltd ("Shanghai Youchen"), where 50% of its equity interest is held by Mr Dong. According to the Listing Rules, Shanghai Youchen is an associate of Mr. Dong and thus a connected person. As Shanghai Youchen is a connected person, the above purchasing transactions constitute continuing connected transactions of our Company under Rule 14A.14 of the Listing Rules.

In this regard, the Company has obtained a three-year waiver pursuant to Rule 14A.42(3) of the Listing Rules from the Stock Exchange to exempt the above continuing connected transactions from strict compliance with the announcement requirement at the time of its listing in June 2011 on the basis that:

(i) our Directors have undertaken that our Company has complied with the applicable requirements under Chapter 14A of the Listing Rules; and

(ii) the aggregate value of the each of the above continuing connected transactions described above for the year did not exceed the relevant cap and each of the percentage ratios (other than the profit ratio) under Chapter 14 of the Listing Rules.

Our Directors (including our independent non-executive Directors) confirm that the above transactions have been agreed in arm's length terms and on the market price and they are of the view that the transactions have been entered into in the usual and ordinary course of business of our Group and are in the interest of our Group and our Shareholders as a whole.

REPORT OF THE DIRECTORS

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 Listing Rules issued by the Hong Kong Institute of Certified Public Accountants.

In 2012, there were changes in the Company's continuing connected transactions regarding the leasing of premises from Shanghai Automart as compared with 2011. For the purposes of reducing expenses and conducting the Group's internal assessment, on 1 May 2012, Shanghai Shuanghua Autoparts Co., Ltd. ("Shanghai Shuanghua"), Shanghai Youshen Industry Co., Ltd. ("Youshen Industry") and Shanghai Shuanghua Auto Components Co., Ltd. ("Shuanghua Auto Components") entered into a new leasing agreement with Shanghai Automart, pursuant to which adjustments were made to the total area leased, which was reduced by approximately 300 sq.m., and, thus, the total rental, which was decreased by RMB321,000, provided that the unit price of leasing was kept unchanged, as compared with 2011. In view of demand from business expansion, Youshen Industry and Shuanghua Auto Components increased the area leased. Accordingly, the maximum annual caps of the said 3 leasing agreements were not exceeded, whereas the areas leased by each of Youshen Industry and Shuanghua Auto Components increased. In 2012, the rentals paid to Shanghai Automart by Youshen Industry and Shuanghua Auto Components were RMB310,000 and RMB288,000 respectively, which exceeded the maximum annual caps for the connected transaction of RMB243,000 and RMB186,000, respectively, approved by the shareholders of the Company in the Extraordinary General Meeting held on 8 June 2011 by approximately RMB67,000 and RMB102,000, respectively. Save for the foregoing, in the opinions of the Company's auditors, the continuing connected transactions of the Company complied with Rule 14A.38 of the Listing Rules.

Details of the related party transactions of the Group are set out in Note 36 to consolidated financial statements. The Directors (including our independent non-executive Directors) believe that the related party transactions set out in Note 36 to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms.

During the year under review, save for the leasing of office premises from Shanghai Automart and the purchase of goods from Shanghai Youchen as set out above, no other transaction listed in Note 36 to the consolidated financial statements constituted connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

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

As at 31 December 2012, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 interest 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 SFO or as otherwise notified to the Company and Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

REPORT OF THE DIRECTORS

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%
Ms. Kong Xiaolling *(note 2)*	–	282,750,000	–	282,750,000	43.5%

Notes:

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

2. Ms. Kong Xiaoling is the non-executive Director and the spouse of Mr. Zheng Ping.

Save as disclosed above, as at 31 December 2012, 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 corporations (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 Model Code.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDER

As at 31 December 2012, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register required to be kept by the Company pursuant to 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 1)*	Beneficial interest	Corporate	282,750,000	43.5%
Shuanghua International *(note 2)*	Beneficial interest	Corporate	189,876,000	29.21%

Notes:

1. Mr. Zheng Ping is an executive Director and 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 is a former executive Director up till 12 April 2012 where Mr. Dong Zongde was re-designated as non-executive Director on 12 April 2012 and resigned as such on 2 May 2012. Mr. Dong Zongde holds 100% interest in Shuanghua International Limited ("Shuanghua International") and he is deemed to be interested in the 189,876,000 shares held by Shuanghua International.

REPORT OF THE DIRECTORS

Save as disclosed, as at 31 December 2012, the Directors were not aware of any persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

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	29.5%
–	five largest customers combined	64.0%

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

Purchases		
–	the largest supplier	17.4%
–	five largest suppliers combined	50.8%

Except for sales to Macs Baoding and purchase of goods from Shanghai Youchen and the leasing of office premises 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 the five largest customers and suppliers of the Group for the financial year ended 31 December 2012.

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 Rule 3.13 of the Listing Rules and all Independent Non-executive Directors are considered to be independent.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors nor their respective associates is interested in any business that competes with or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2012 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

NON-COMPETITION UNDERTAKING

As disclosed in the prospectus of the Company dated 17 June 2011, each of Youshen Group, Shunghua International, Mr. Zheng Ping and Mr. Dong Zongde has executed a deed of non-competition through which they have irrevocably undertaken to the Company not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of the Group; or take any action which constitutes an interference with or a disruption to the business activities of the Group, including but not limited to, solicitation of customers, suppliers and staff of the Group.

Mr. Zheng Ping and Youshen Group, who are still bound by the deed of non-competition, have confirmed to the Company of their compliance with the deed of non-competition for disclosure in this annual report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 98.

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, 28 March 2013

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zheng Ping (**鄭平**), aged 55, 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.

Ms. Tang Lo Nar (**鄧露娜**), aged 40, is our executive Director, the chief financial officer and the company secretary of the Company. 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, and currently the company secretary of a Hong Kong main board listing company, namely Yueshou Environmental Holdings Limited (stock code: 1191). 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 17 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. Ms. Tang, newly appointed as the executive director in April 2012, entered into service contract with the Company for a fixed term of three years from 13 April 2012, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to the retirement by rotation in accordance with the Articles of Association. She is entitled to a director's remuneration of approximately RMB60,000 per year, which is determined with reference to Ms. Tang's qualification, experience, performance and market rates.

NON-EXECUTIVE DIRECTOR

Ms. Kong Xiaoling (**孔小玲**), aged 53, 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 spouse of Mr. Zheng, our executive Director.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhao Fenggao (**趙鳳高**), aged 63, 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 45, 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 fulltime basis in the Ningbo University (寧波大學) and has obtained his bachelor's degree majoring in Science in1991. 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").

Mr. Chen Lifan (**陳禮璠**), aged 74, 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

Ms. Tang Lo Nar (**鄧露娜**), aged 40, is the executive Director, chief financial officer and our company secretary. Biographical details of Ms. Tang are set out in the paragraph headed "Executive Directors" under this section of this annual report.

COMPANY SECRETARY

Ms. Tang Lo Nar (**鄧露娜**), aged 40, is the executive Director, chief financial officer and our company secretary. Biographical details of Ms. Tang are set out in the paragraph headed "Executive Directors" under this section of 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 – Corporate Governance Code and Corporate Governance Report ("CG Code") of the Listing Rules for the financial year ended 31 December 2012.

THE BOARD

During the year ended 31 December 2012, the Board comprised two Executive Directors, one 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 Rule 3.13 of 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 2012, the Board held five meetings. Details of the attendance of individual Directors are as follows:

		Attendance
(a)	**Executive Directors**	
	Mr. Zheng Ping	5/5
	Mr. Dong Zongde (re-designated as non-executive director on 12 April 2012)	1/1
	Ms. Tang Lo Nar (appointed on 13 April 2012)	4/4
(b)	**Non-executive Directors**	
	Ms. Kong Xiaoling	5/5
	Mr. Jia Weiren (resigned on 12 April 2012)	1/1
(c)	**Independent Non-executive Directors**	
	Mr. Zhao Fenggao	4/5
	Mr. He Binhui	4/5
	Mr. Chen Lifan	5/5

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 22 to 23 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

New directors of the Company recommended by the Nomination Committee will be assessed by taking into criteria such as expertise, experience, integrity and commitment when considering new directors appointments.

The Board shall then make 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.

CORPORATE GOVERNANCE REPORT

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 Articles, 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.

DIRECTORS' TRAINING

With effect from April 2012, all the Directors are required to provide the Company with his or her training records on a yearly basis. During the year, the Company received training records from Ms. Tang Lo Nar relevant to the Company's business or to the Directors' duties and responsibilities, while no training records received from other Directors.

DIRECTORS' INSURANCE

The Company did not have any management liability insurance cover during the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in the Listing Rules as its own code of conduct for dealings in securities of the Company by the Directors (the "Code"). The Company, having made specific enquiry of all Directors, confirms that its Directors have complied with the required standard set out in the Code during the financial year ended 31 December 2012.

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 COMMITTEES

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.

CORPORATE GOVERNANCE REPORT

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 2012, one meeting of Nomination Committee was held with attendance of individual members as set out below to review and consider the composition of the Board and senior management.

	Attendance
Mr. Zhao Fenggao	1/1
Mr. He Binhui	1/1
Mr. Chen Lifan	1/1

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 2012, 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	1/1
Mr. He Binhui	1/1
Mr. Chen Lifan	1/1

Audit Committee

Pursuant to the Listing Rules, an audit committee was established on 8 June 2011, comprising three Independent Non-executive Directors, namely 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.

CORPORATE GOVERNANCE REPORT

During the financial year ended 31 December 2012, the audit committee held four 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.

	Attendance
Mr. Zhao Fenggao	3/4
Mr. He Binhui	3/4
Mr. Chen Lifan	4/4

The Group's results for the year ended 31 December 2012 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standard.

COMPANY SECRETARY

The Company Secretary, Ms. Tang Lo Nar, appointed on 31 August 2012, is responsible for facilitating the Board meeting process, as well as communications among Board members, with shareholders and management. Ms. Tang's biography is set out in the "Directors' and Senior Management" section. During the year, Ms. Tang undertook not less than 15 hours of professional training to update her skills and knowledge.

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 31 to 32 of this Annual 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 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.

CORPORATE GOVERNANCE REPORT

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 2012, 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 for the year ended 31 December 2012, amounted approximately to RMB1,626,000. No non-audit service was provided by external auditors of the Group for the year ended 31 December 2012.

SHAREHOLDERS' RIGHT

Under the Company's Articles, the Board, on the requisition of shareholders of the Company holding not less than 10% of the paid up capital of the Company, can convene an extraordinary general meeting to address specific issues of the Company within 21 days from the day of deposit of written notice to the Company's principal place of business in Hong Kong. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meeting for adoption.

COMMUNICATION WITH SHAREHOLDERS

Communication with shareholders could enhance the confidence of investors. The primary communication channel between the Company and its shareholders include the publication of interim and annual reports, annual general meetings, and other general meetings; the Company encourages all shareholders to attend annual general meetings. The Company's website also provides regular updated Group information to shareholders; enquiries on matters relating to shareholders and the businesses of the Group are welcome, and are dealt with in an informative and timely manner.

The Chairman of the Board and other Board members would attend the annual general meeting to be held on 3 June 2013 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 33 to 97, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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, in accordance with Section 141 of the Hong Kong Companies Ordinance, 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.

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' judgment, 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.

INDEPENDENT AUDITORS' REPORT

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 2012, 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
28 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**379,596**	528,617
Cost of sales		**(314,676)**	(415,742)
Gross profit		**64,920**	112,875
Other income and gains	5	**3,105**	4,800
Selling and distribution expenses		**(16,210)**	(18,154)
Administrative expenses		**(34,379)**	(42,534)
Other expenses		**(603)**	(5,833)
Finance costs	7	**(6,442)**	(8,140)
Share of profits of an associate		**15,737**	23,655
PROFIT BEFORE TAX	6	**26,128**	66,669
Income tax expense	10	**(4,288)**	(7,654)
PROFIT FOR THE YEAR		**21,840**	59,015
Attributable to:			
Owners of the parent		**21,839**	59,015
Non-controlling interests		**1**	–
		21,840	59,015
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For profit for the year	13	**3.4 cents**	10.3 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 2012

	2012 RMB'000	2011 RMB'000
PROFIT FOR THE YEAR	**21,840**	59,015
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	**(4)**	(128)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(4)**	(128)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**21,836**	58,887
Attributable to:		
Owners of the parent	**21,835**	58,887
Non-controlling interests	**1**	–
	21,836	58,887

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**184,639**	194,364
Prepaid land lease payments	15	**74,872**	62,692
Advance payments for property, plant and equipment		**579**	4,138
Investment in an associate	17	**113,358**	97,621
Available-for-sale investments	18	**262**	262
Deferred tax assets	29	**12,503**	12,755
Total non-current assets		**386,213**	371,832
CURRENT ASSETS			
Inventories	19	**85,132**	84,397
Trade and notes receivables	20	**61,813**	80,111
Prepayments, deposits and other receivables	21	**6,291**	8,690
Due from related parties	36(c)	**49,551**	98,732
Financial assets at fair value through profit or loss	22	**38,000**	–
Cash and cash equivalents	23	**62,081**	151,620
Total current assets		**302,868**	423,550
CURRENT LIABILITIES			
Trade and bills payables	24	**57,625**	66,887
Other payables and accruals	25	**35,505**	26,279
Interest-bearing bank borrowings	26	**20,000**	120,000
Due to related parties	36(c)	**5,000**	8,178
Provision	27	**3,868**	5,028
Government grants	28	**1,170**	1,170
Tax payable		**400**	3,093
Total current liabilities		**123,568**	230,635
NET CURRENT ASSETS		**179,300**	192,915
TOTAL ASSETS LESS CURRENT LIABILITIES		**565,513**	564,747

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**31 December 2012 RMB'000**	31 December 2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**565,513**	564,747
NON-CURRENT LIABILITIES			
Government grants	*28*	**7,632**	8,802
Deferred tax liabilities	*29*	**1,916**	4,136
Total non-current liabilities		**9,548**	12,938
Net assets		**555,965**	551,809
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*30*	**5,406**	5,406
Reserves	*31*	**221,559**	218,960
Retained earnings		**328,996**	309,760
Proposed final dividend	*12*	**–**	17,680
		555,961	551,806
Non-controlling interests		**4**	3
Total equity		**555,965**	551,809

Zheng Ping
Director

Tang Lo Nar
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to owners of the parent										
	Issued capital RMB'000 (note 30)	Share premium* RMB'000 (note 31)	Capital reserve* RMB'000 (note 31)	Statutory surplus reserve* RMB'000 (note 31)	Merger reserve* RMB'000 (note 31)	Exchange fluctuation reserve* RMB'000 (note 31)	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	–	–	5,108	31,482	38,351	(141)	306,067	–	380,867	–	380,867
Profit for the year	–	–	–	–	–	–	59,015	–	59,015	–	59,015
Other comprehensive loss 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 2012

	Attributable to owners of the parent										
	Issued capital RMB'000 (note 30)	Share premium* RMB'000 (note 31)	Capital reserve* RMB'000 (note 31)	Statutory surplus reserve* RMB'000 (note 31)	Merger reserve* RMB'000 (note 31)	Exchange fluctuation reserve* RMB'000 (note 31)	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	5,406	133,658	168,183	36,766	(119,378)	(269)	309,760	17,680	551,806	3	551,809
Profit for the year	-	-	-	-	-	-	21,839	-	21,839	1	21,840
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations	-	-	-	-	-	(4)	-	-	(4)	-	(4)
Total comprehensive income for the year	-	-	-	-	-	(4)	21,839	-	21,835	1	21,836
Final 2011 dividend declared	-	-	-	-	-	-	-	(17,680)	(17,680)	-	(17,680)
Appropriation to statutory surplus reserve	-	-	-	2,603	-	-	(2,603)	-	-	-	-
At 31 December 2012	5,406	133,658	168,183	39,369	(119,378)	(273)	328,996	-	555,961	4	555,965

Notes:

(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 RMB157,726,000, 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 RMB221,559,000 (2011: RMB218,960,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**26,128**	66,669
Adjustments for:			
Finance costs	*7*	**6,442**	8,140
Share of profits of an associate		**(15,737)**	(23,655)
Interest income	*5,6*	**(941)**	(1,069)
Loss/(gain) on disposals of property, plant and equipment	*6*	**(100)**	98
Depreciation	*6*	**18,549**	17,207
Recognition of prepaid land lease payments	*6*	**1,403**	1,403
Release of government grants	*5*	**(1,329)**	(3,500)
Impairment/(reversal of impairment) of inventories	*6*	**3,380**	(98)
Impairment of trade receivables	*6*	**269**	109
Foreign exchange differences, net	*6*	**(407)**	4,724
		37,657	70,028
Increase in inventories		**(4,115)**	(454)
Decrease in trade and notes receivables		**18,029**	27,522
Decrease in prepayments, deposits and other receivables		**986**	2,453
Decrease in amounts due from related parties		**34,481**	5,288
Decrease in trade and bills payables		**(9,262)**	(19,094)
Decrease in other payables and accruals		**(3,776)**	(11,801)
Decrease in amounts due to related parties		**(3,178)**	(23,574)
Increase in government grants		**159**	2,330
Decrease in provision for product warranties		**(1,160)**	(490)
Cash generated from operations		**69,821**	52,208
Interest received		**941**	1,069
Income tax paid		**(8,949)**	(14,586)
Net cash flows from operating activities		**61,813**	38,691

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows from operating activities		**61,813**	38,691
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from an associate		**14,700**	–
Purchases of property, plant and equipment		**(4,641)**	(19,408)
Proceeds from disposals of property, plant and equipment		**308**	164
Purchases of investments at fair value through profit or loss		**(38,000)**	–
Net cash flows used in investing activities		**(27,633)**	(19,244)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	156,760
Capital injection pursuant to the reorganisation		**–**	116,718
Share issue expenses		**–**	(17,696)
New bank loans		**78,800**	124,100
Loans from related parties		**–**	15,657
Repayment of bank loans		**(178,800)**	(131,100)
Acquisition of subsidiaries pursuant to the reorganisation		**–**	(157,726)
Interest paid		**(6,442)**	(8,337)
Dividend paid to the then shareholders		**(17,680)**	(32,358)
Net cash flows from/(used in) financing activities		**(124,122)**	66,018
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(89,942)**	85,465
Cash and cash equivalents at beginning of year		**151,620**	69,596
Effect of foreign exchange rate changes, net		**403**	(3,441)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**62,081**	151,620
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**62,081**	32,710
Non-pledged time deposits with original maturity of less than three months when acquired		**–**	118,910
Cash and cash equivalents as stated in the statement of financial position	*23*	**62,081**	151,620
Cash and cash equivalents as stated in the statement of cash flows		**62,081**	151,620

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**31 December 2012 RMB'000**	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*16*	**117,131**	117,131
Total non-current assets		**117,131**	117,131
CURRENT ASSETS			
Due from subsidiaries	*16*	**131,023**	134,009
Cash and cash equivalents	*23*	**675**	50
Total current assets		**131,698**	134,059
CURRENT LIABILITIES			
Other payables and accruals	*25*	**126**	–
Total current liabilities		**126**	–
Net assets		**248,703**	251,190
EQUITY			
Issued capital	*30*	**5,406**	5,406
Reserves	*31*	**250,789**	250,789
Accumulated losses		**(7,492)**	(22,685)
Proposed final dividends	*12*	**–**	17,680
Total equity		**248,703**	251,190

Zheng Ping
Director

Tang Lo Nar
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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 address of the Company is 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 the design, development, manufacture and sale of parts of auto air-conditioners.

2.1 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. 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 2012. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's 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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

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

2.3 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 – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27(2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

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.

2.4 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.

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 CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 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 an 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 CONSOLIDATED FINANCIAL STATEMENTS

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2.4 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 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 including 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 a 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 CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 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.

Operating 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 measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, 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 CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments and other financial assets (cont'd)

Initial recognition and measurement (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.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments and other financial assets (cont'd)

Subsequent measurement (cont'd)

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 other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs 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. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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 CONSOLIDATED FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset, or has entered into a pass-through arrangement, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 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 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 CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 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 and, in the case of loans and borrowings, net of 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 rate 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income tax (cont'd)

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.

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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 over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 a 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 prevailing 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. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the 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 prevailing 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 CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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.

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 29 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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

Estimation uncertainty (cont'd)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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

Estimation uncertainty (cont'd)

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.

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 the design, development, manufacture and sale of parts of auto air-conditioners. Management monitors the operating results of the operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

4. OPERATING SEGMENT INFORMATION (CONT'D)

Geographical information

(a) Revenue from external customers

	2012	2011
	RMB'000	RMB'000
Mainland China	**210,261**	288,351
United States of America	**122,176**	176,693
Canada	**21,529**	34,437
Asia	**20,388**	23,381
Others	**5,242**	5,755
	379,596	528,617

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.

Information about major customers

For the year ended 31 December 2012, revenues from two customers individually accounted for more than 10% of the Group's total revenue. Revenues from these two customers were RMB112,032,000 and RMB88,631,000 respectively.

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 RMB173,798,000 and RMB126,228,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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:

	2012	2011
	RMB'000	RMB'000
Revenue		
Sale of goods	**379,596**	528,617
Other income		
Bank interest income	**941**	1,069
Government grants *(note 28)*	**1,329**	3,500
Others	**328**	231
	2,598	4,800
Gains		
Foreign exchange gain, net	**407**	–
Gain on disposals of property, plant and equipment	**100**	–
	507	–
	3,105	4,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

6. PROFIT BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		**314,676**	415,742
Depreciation	*14*	**18,549**	17,207
Amortisation of prepaid land lease payments	*15*	**1,403**	1,403
Research and development costs		**3,525**	3,909
Operating lease expenses		**1,907**	2,746
Loss/(gain) on disposals of property, plant and equipment		**(100)**	98
Product warranty provision	*27*	**2,298**	1,696
Auditors' remuneration		**1,626**	2,284
Employee benefit expense (including directors' and chief executive's remuneration *(note 8)*):			
Wages and salaries		**39,264**	41,109
Pension scheme contribution		**7,711**	6,287
Staff welfare expenses		**3,269**	3,752
		50,244	51,148
Foreign exchange differences, net		**(407)**	4,724
Impairment/(reversal of impairment) of inventories	*19*	**3,380**	(98)
Impairment of trade receivables	*20*	**269**	109
Bank interest income		**(941)**	(1,069)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2012	2011
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	**6,442**	8,140

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration, including one executive director (the chief executive), for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2012	2011
	RMB'000	RMB'000
Fees	**481**	345
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**1,630**	1,800
Pension scheme contributions	**21**	23
	1,651	1,823
	2,132	2,168

(a) Independent non-executive directors

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

	2012	2011
	RMB'000	RMB'000
He Binhui	**60**	55
Zhao Fenggao	**60**	55
Chen Lifan	**60**	30
	180	140

There were no other emoluments payables to the independent non-executive directors during the year (2011: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. DIRECTORS' AND CHIEF EXECUTIVE'S 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
2012				
Executive directors:				
Zheng Ping	**120**	**1,000**	**–**	**1,120**
Dong Zongde (i)	**51**	**338**	**21**	**410**
Tang Lo Nar (ii)	**45**	**292**	**–**	**337**
	216	**1,630**	**21**	**1,867**
Non-executive directors:				
Kong Xiaoling	**60**	**–**	**–**	**60**
Jia Weiren (iii)	**25**	**–**	**–**	**25**
	85	**–**	**–**	**85**
	301	**1,630**	**21**	**1,952**

Notes:

(i) Re-designated as a non-executive director with effect from 12 April 2012 and resigned as a non-executive director with effect from 2 May 2012.

(ii) Appointed as executive director with effect from 13 April 2012.

(iii) Retired by rotation at the Annual General Meeting pursuant to the articles of association of the Company with effect from 12 April 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONT'D)

(b) Executive directors and non-executive directors (cont'd)

	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	2,028

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2011: two), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2011: three) non-director, highest paid employees for the year are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, bonuses, allowances and benefits in kind	**673**	1,172
Pension scheme contributions	**67**	61
	740	1,233

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

	Number of employees 2012	2011
Nil to RMB1,000,000	**2**	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:

	2012 RMB'000	2011 RMB'000
Current – charge for the year	**4,256**	8,894
Deferred *(note 29)*	**32**	(1,240)
Total tax charge for the year	**4,288**	7,654

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

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

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits was subject to CIT at the rate of 16.5% (2011: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. INCOME TAX (CONT'D)

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%.

Shanghai Youshen Industry Co., Ltd. ("Youshen Industry") was located in Pudong New Area and was subject to a CIT at the preferential 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 was subject to CIT at the rate of 25% in 2012.

Shanghai Shuanghua Machinery Manufacturing Co., Ltd. ("Shuanghua Machinery"), Shanghai Shuanghua Auto Components Co., Ltd. ("Shuanghua Auto Components") and Shanghai Shuanghua Machinery Sales Co., Ltd. ("Shuanghua Machinery Sales") were subject to CIT at the rate of 25% during the year (2011: 25%).

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:

	2012 **RMB'000**	2011 RMB'000
Profit before tax	**26,128**	66,669
Tax at statutory tax rate 25% in Mainland China	**6,532**	16,667
Lower tax rates for specific provinces or enacted by local authority	**(2,550)**	(5,251)
Profits attributable to an associate	**(3,934)**	(5,914)
Income not subject to tax	**(28)**	(7)
Expenses not deductible for tax	**371**	243
Effect of withholding tax at 5% (2011: 10%) on the distributable profits of the Group's PRC subsidiaries and an associate	**(220)**	1,617
Tax losses utilised	**(56)**	(270)
Temporary differences not recognised	**714**	–
Tax losses not recognised	**3,459**	569
Tax charge at the Group's effective rate	**4,288**	7,654

The share of tax charge attributable to an associate amounting to RMB5,218,000 for the year ended 31 December 2012 (2011: RMB7,517,000) is included in "Share of profits of an associate" in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a profit of RMB15,194,000 (2011: loss of RMB5,005,000) which has been dealt within the financial statements of the Company.

12. DIVIDENDS

	2012	2011
	RMB'000	RMB'000
Proposed final – Nil (2011: RMB2.72 cents) per ordinary share	**–**	17,680

The board does not recommend the payment of any dividend in respect of the year of 2012 (2011: RMB17,680,000).

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS 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 650,000,000 (2011: 570,308,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the two years ended 31 December 2012 and 2011.

The calculation of basic earnings per share is based on:

	2012	2011
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**21,839**	59,015

	Number of shares	
	2012	2011
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the year	**650,000**	570,308

NOTES TO THE CONSOLIDATED 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 2012						
At 1 January 2012:						
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**
At 1 January 2012, net of accumulated depreciation	**98,368**	**78,111**	**1,384**	**2,087**	**14,414**	**194,364**
Additions	**–**	**4,482**	**225**	**–**	**4,325**	**9,032**
Disposals	**–**	**(197)**	**(11)**	**–**	**–**	**(208)**
Depreciation provided during the year *(note 6)*	**(5,610)**	**(11,778)**	**(431)**	**(730)**	**–**	**(18,549)**
Transfers	**–**	**12,808**	**–**	**–**	**(12,808)**	**–**
At 31 December 2012, net of accumulated depreciation	**92,758**	**83,426**	**1,167**	**1,357**	**5,931**	**184,639**
At 31 December 2012:						
Cost	**117,319**	**126,897**	**3,303**	**4,372**	**5,931**	**257,822**
Accumulated depreciation	**(24,561)**	**(43,471)**	**(2,136)**	**(3,015)**	**–**	**(73,183)**
Net carrying amount	**92,758**	**83,426**	**1,167**	**1,357**	**5,931**	**184,639**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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 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
Disposals	–	(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

As at 31 December 2012, none of the Group's buildings were pledged to secure bank loan facilities granted to the Group (2011: RMB64,484,000) (note 26).

As at 31 December 2012, 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 RMB17,503,000 (2011: RMB18,565,000). 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 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. PREPAID LAND LEASE PAYMENTS

	Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount at beginning of year	**64,095**	65,498
Additions	**13,898**	–
Recognised during the year *(note 6)*	**(1,403)**	(1,403)
Carrying amount at end of year	**76,590**	64,095
Current portion included in prepayments, deposits and other receivables *(note 21)*	**(1,718)**	(1,403)
Non-current portion	**74,872**	62,692

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

As at 31 December 2012, none of the Group's leasehold lands were pledged to secure bank loan facilities granted to the Group (2011: RMB58,623,000) (note 26).

As at 31 December 2012, 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 RMB19,267,000 (2011: RMB5,491,000). 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 2012.

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**117,131**	117,131

Due from subsidiaries included in the Company's currents assets of RMB131,023,000 (2011: RMB134,009,000) are unsecured, interest-free and are repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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
Hong Kong Automart	Hong Kong	HK$1,200,000	100 (indirect)	Investment holding
Shanghai Shuanghua	People's Republic of China/Mainland China	RMB389,289,704	99.999 (indirect)	Manufacture and sale of auto air-conditioner parts and components
Shuanghua Machinery	People's Republic of China/Mainland China	RMB60,000,000	100 (indirect)	Manufacture and sale of auto air-conditioner parts and components
Shuanghua Machinery Sales	People's Republic of China/Mainland China	RMB5,000,000	100 indirect)	Wholesale and retail of mechanical equipment and electrical equipment
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
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
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 CONSOLIDATED FINANCIAL STATEMENTS

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17. INVESTMENT IN AN ASSOCIATE

	Group	
	2012	2011
	RMB'000	RMB'000
Share of net assets	**113,358**	97,621

The Group's trade receivable 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:

	2012	2011
	RMB'000	RMB'000
Assets	**352,092**	372,359
Liabilities	**(120,748)**	(173,132)
Revenues	**291,104**	405,043
Profit	**32,117**	48,276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2012	2011
	RMB'000	RMB'000
Unlisted equity investments, at cost	**262**	262

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

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

19. INVENTORIES

	Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**26,565**	28,212
Work in progress	**19,370**	17,729
Finished goods	**46,559**	42,438
	92,494	88,379
Impairment	**(7,362)**	(3,982)
	85,132	84,397

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

	Group	
	2012	2011
	RMB'000	RMB'000
At beginning of year	**3,982**	4,080
Impairment losses recognised/(reversed) *(note 6)*	**3,380**	(98)
At end of year	**7,362**	3,982

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. TRADE AND NOTES RECEIVABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	**52,288**	65,729
Notes receivable	**10,160**	14,748
	62,448	80,477
Impairment	**(635)**	(366)
	61,813	80,111

The Group's trading terms with its customers are mainly on credit. The credit period for trade receivables 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	
	2012	2011
	RMB'000	RMB'000
Within 1 month	**25,080**	39,429
1 to 2 months	**10,781**	16,901
2 to 3 months	**9,709**	9,251
3 to 12 months	**15,105**	14,328
Over 12 months	**1,138**	202
	61,813	80,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. TRADE AND NOTES RECEIVABLES (CONT'D)

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

	Group	
	2012	2011
	RMB'000	RMB'000
At beginning of year	**366**	257
Impairment losses recognised *(note 6)*	**269**	109
At end of year	**635**	366

Included in the above provision for impairment of trade receivables is a provision assessed on an individual basis of RMB635,000 (2011: RMB366,000) with a carrying amount before provision of RMB635,000 (2011: RMB366,000).

The individually impaired trade receivables relate to customers that no longer have transactions 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	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**52,400**	67,759
Less than 1 month past due	**3,308**	8,091
1 to 2 months past due	**2,198**	2,150
2 to 3 months past due	**1,019**	1,141
3 to 12 months past due	**1,561**	819
Over 12 months past due	**1,327**	151
	61,813	80,111

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Other receivables	**3,222**	3,726
Prepayments	**1,351**	3,061
Prepaid land lease payments *(note 15)*	**1,718**	1,403
Prepaid other taxes	**–**	500
	6,291	8,690

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. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2012	2011
	RMB'000	RMB'000
Investment in foreign currency contract, at fair value	**38,000**	–

The balance represented a principal-protected structured investment whose principal amount is RMB38,000,000 and maturity date is 2 April 2013. The bank structured investment contains embedded derivative, the return on which is determined with reference to a foreign exchange yield differential index published by the issuer of the bank structured investment. The bank structured investment is designated by the Group as financial assets at fair value through profit or loss upon initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. CASH AND CASH EQUIVALENTS

	Group	
	2012	2011
	RMB'000	RMB'000
Cash and bank balances	**62,081**	32,710
Time deposits	**–**	118,910
Cash and cash equivalents	**62,081**	151,620

	Company	
	2012	2011
	RMB'000	RMB'000
Cash and cash equivalents	**675**	50

As at 31 December 2012, the Group's cash and cash equivalents denominated in RMB were RMB47,036,000 (2011: RMB27,958,000). 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 the seven-day short term time deposit rate. The bank balances are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Trade payables	**57,625**	63,887
Bills payable	**–**	3,000
	57,625	66,887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. TRADE AND BILLS PAYABLES (CONT'D)

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	
	2012	2011
	RMB'000	RMB'000
Within 1 month	**23,575**	33,343
1 to 2 months	**15,803**	17,799
2 to 3 months	**9,693**	10,131
3 to 6 months	**7,619**	5,234
6 to 12 months	**284**	134
12 to 24 months	**445**	80
Over 24 months	**206**	166
	57,625	66,887

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

As at 31 December 2012, none of the bills payable were secured by the Group's notes receivable from a related party. As at 31 December 2011, bills payable were secured by certain of the Group's notes receivable from a related party of RMB3,000,000 (note 36(c)(i)).

25. OTHER PAYABLES AND ACCRUALS

	Group	
	2012	2011
	RMB'000	RMB'000
Other payables	**24,295**	11,471
Advances from customers	**856**	1,992
Taxes other than CIT	**4,454**	4,282
Payroll payable	**4,333**	6,554
Accrued liabilities	**1,567**	1,980
	35,505	26,279

	Company	
	2012	2011
	RMB'000	RMB'000
Accrued liabilities	**126**	–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group 2012 RMB'000	Group 2011 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
			–	65,000
Bank loans – unsecured *	6.00-6.56	Within 1 year	**20,000**	–
Bank loans – unsecured *	5.58-6.65	Within 1 year	–	20,000
Bank loans – unsecured *	6.31	Within 1 year	–	35,000
			20,000	55,000
			20,000	120,000
Analysed into:				
Bank loans:				
Within one year or on demand			**20,000**	120,000

Notes:

At the end of the reporting period, there were no bank borrowings secured by mortgages over the Group's buildings and leasehold lands situated in Mainland China.

As at 31 December 2011, the Group's bank borrowings were secured by:

(i) mortgages over the Group's buildings situated in Mainland China, which had a net carrying amount of RMB64,484,000 (note 14); and

(ii) mortgages over the Group's leasehold lands situated in Mainland China, which had a net carrying amount of RMB58,623,000 (note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. PROVISION

	Group	
	2012	2011
	RMB'000	RMB'000
At beginning of year	**5,028**	5,518
Additional provision *(note 6)*	**2,298**	1,696
Amounts utilised during the year	**(1,996)**	(1,410)
Reversal of unutilised amounts	**(1,462)**	(776)
At end of year	**3,868**	5,028

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.

28. GOVERNMENT GRANTS

	Group	
	2012	2011
	RMB'000	RMB'000
Carrying amount at beginning of the year	**9,972**	11,142
Received during the year	**159**	2,330
Released to the income statement *(note 5)*	**(1,329)**	(3,500)
Carrying amount at end of the year	**8,802**	9,972
Current	**1,170**	1,170
Non-current	**7,632**	8,802
	8,802	9,972

Government grants have been received either for the construction of certain items of property, plant and equipment or for the Group subsidiaries' business development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. DEFERRED TAX

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

Deferred tax assets

Group

	Accruals and provision RMB'000	Impairment of assets RMB'000	Government grants RMB'000	Losses available for offsetting future taxable profits RMB'000	Unrealised profits RMB'000	Total RMB'000
Deferred tax assets at 1 January 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 and 1 January 2012	1,472	703	1,918	8,662	–	12,755
Deferred tax credited/(charged) to the income statement during the year *(note 10)*	(130)	(47)	(124)	49	–	(252)
Deferred tax assets at 31 December 2012	1,342	656	1,794	8,711	–	12,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

29. DEFERRED TAX (CONT'D)

Deferred tax liabilities

Group

	Withholding tax on the distributable profits RMB'000
At 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 and 1 January 2012	4,136
Deferred tax credited to the income statement during the year *(note 10)*	(220)
Deferred tax utilised during the year	(2,000)
At 31 December 2012	1,916

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 of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, 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. For the Group, the applicable rate is 10%. 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.

On 13 April 2012, Hong Kong Automart obtained the Resident Certificate issued by the Hong Kong Special Administrative Region to approve that Hong Kong Automart is a Hong Kong resident under the "Agreement between the Mainland of China the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Tax on Income" for 2008, 2009, 2010 and 2011. The Group is therefore liable for withholding taxes on dividend distributed its subsidiaries at a rate of 5% from 2008 to 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

29. DEFERRED TAX (CONT'D)

Deferred tax liabilities (cont'd)

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

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

	2012 **RMB'000**	2011 RMB'000
Tax losses:		
Youshen Industry	**5,026**	4,053
Hong Kong Automart	**1,026**	1,366
Shuanghua Machinery	**12,862**	–
	18,914	5,419
Deductible temporary differences:		
Youshen Industry	**125**	–
Shuanghua Machinery	**2,731**	–
	2,856	–
	21,770	5,419

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 and Shuanghua Machinery.

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 and deductible temporary differences as they have arisen in Youshen Industry, Hong Kong Automart and Shuanghua Machinery that it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

30. 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 2011 and 31 December 2012	*(i)*	10,000,000,000	83,293
Issued and fully paid ordinary shares of HK$0.01 each:			
At 1 January 2011		1	–
Issue of shares on 28 March 2011	*(ii)*	9,999	–
Capitalisation issue of shares	*(iii)*	487,490,000	4,055
New issue of shares from initial public offering	*(iv)*	162,500,000	1,351
At 31 December 2011 and 31 December 2012		650,000,000	5,406

Notes:

(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.

By an ordinary resolution passed on 8 June 2011, the authorised share capital of the Company was 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.

(ii) 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.

(iii) 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.

(iv) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

31. RESERVES

	Group 2012 RMB'000	Group 2011 RMB'000
Share premium	**133,658**	133,658
Capital reserve	**168,183**	168,183
Statutory surplus reserve	**39,369**	36,766
Merger reserve	**(119,378)**	(119,378)
Exchange fluctuation reserve	**(273)**	(269)
	221,559	218,960

	Company 2012 RMB'000	Company 2011 RMB'000
Share premium	**133,658**	133,658
Capital reserve	**117,131**	117,131
	250,789	250,789

Share premium

On 29 June 2011, a total of 487,490,000 new ordinary shares of HK$0.01 each were 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

31. RESERVES (CONT'D)

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 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.

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 the 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 usage.

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.

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, 24, 26 and 36(c)(i) to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Within one year	**1,660**	1,874
In the second to fifth years, inclusive	**244**	1,649
	1,904	3,523

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

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	
	2012	2011
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and machinery	**138**	1,372

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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	
		2012	2011
	Notes	**RMB'000**	RMB'000
Associate			
Sales of products to:			
Macs Baoding	*(i)*	**88,631**	126,228
Companies of which the shareholder is a shareholder of the Company			
Purchases of goods from:			
Shanghai Youchen Aluminium Materials Co., Ltd. ("Shanghai Youchen")*	*(ii)*	**12,129**	19,540
Rental expenses to:			
Shanghai Automart*	*(iii)*	**1,314**	1,635

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 the Listing Rules.

(b) Commitments with related parties

On 1 May 2012, the subsidiaries of the Group entered into a rental agreement ending 31 December 2013 with Shanghai Automart, a company of which a shareholder of the Company is a shareholder of Shanghai Automart, to lease certain of its office properties from Shanghai Automart. The total rental expense to Shanghai Automart for the year is included in note 36(a) to the financial statements. The Group expects total rental expenses to Shanghai Automart in 2013 to be approximately RMB1,213,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Outstanding balances with related parties:

		Group	
		2012	2011
	Notes	**RMB'000**	RMB'000
Due from related parties:			
Macs Baoding	*(i)*	**49,551**	98,732
Due to related parties:			
Shanghai Automart	*(ii)*	**4,132**	4,344
Shanghai Youchen	*(ii)*	**868**	3,834
		5,000	8,178

Notes:

(i) The balances due from Macs Baoding included dividend receivable of RMB14,700,000 as at 31 December 2011. The remaining balances were trade in nature, unsecured, interest-free and have fixed terms of repayment. None of the balances due from Macs Baoding was pledged to secure bills payables as at 31 December 2012. As at 31 December 2011, the balance due from Macs Baoding of RMB3,000,000 was pledged to secure bills payable (note 24).

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

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

	Group	
	2012	2011
	RMB'000	RMB'000
Short term employee benefits	**3,055**	3,560
Pension scheme contributions	**65**	145
Total compensation paid to key management personnel	**3,120**	3,705

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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	
	2012	2011
	RMB'000	RMB'000
Trade and notes receivables	**61,813**	80,111
Financial assets included in prepayments, deposits and other receivables	**3,222**	3,726
Due from related parties	**49,551**	98,732
Cash and cash equivalents	**62,081**	151,620
	176,667	334,189

Financial assets – available-for-sale financial assets

	Group	
	2012	2011
	RMB'000	RMB'000
Available-for-sale investments	**262**	262

Financial assets – at fair value through profit or loss

	Group	
	2012	2011
	RMB'000	RMB'000
Investments at fair value through profit or loss	**38,000**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

Financial liabilities – at amortised cost

	Group	
	2012	2011
	RMB'000	RMB'000
Trade and bills payables	**57,625**	66,887
Financial liabilities included in other payables and accruals	**24,295**	11,471
Interest-bearing bank borrowings	**20,000**	120,000
Due to related parties	**5,000**	8,178
	106,920	206,536

Financial assets – loans and receivables

	Company	
	2012	2011
	RMB'000	RMB'000
Due from subsidiaries	**131,023**	134,009
Cash and cash equivalents	**675**	50
	131,698	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, financial assets at fair value through profit or loss, 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 26 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 2012 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 currencies. Approximately 44.6% of the Group's sales for the year ended 31 December 2012 (2011: 45.5%) were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 97.5% of costs for the year ended 31 December 2012 (2011: 98.1%) were denominated in the units' functional currencies. 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 CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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 period 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
2012		
If RMB weakens against United States dollar	**5**	**1,279**
If RMB strengthens against United States dollar	**(5)**	**(1,279)**
If RMB weakens against Hong Kong dollar	**5**	**44**
If RMB strengthens against Hong Kong dollar	**(5)**	**(44)**
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)

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 31 December 2012, the Group had certain concentrations of credit risk as 12% (2011: 24%) and 29% (2011: 47%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Liquidity risk

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

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

	2012					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Trade and bills payables	**15,347**	**42,278**	**–**	**–**	**–**	**57,625**
Other payables	**24,295**	**–**	**–**	**–**	**–**	**24,295**
Interest-bearing bank borrowings	**–**	**–**	**20,000**	**–**	**–**	**20,000**
Due to related parties	**4,132**	**868**	**–**	**–**	**–**	**5,000**
	43,774	**43,146**	**20,000**	**–**	**–**	**106,920**

	2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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

Capital management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirement. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

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 period is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Trade and bills payables	**57,625**	66,887
Other payables and accruals	**35,505**	26,279
Interest-bearing bank borrowings	**20,000**	120,000
Due to related parties	**5,000**	8,178
Less: Cash and cash equivalents	**(62,081)**	(151,620)
Net debt	**56,049**	69,724
Equity attributable to owners of the parent	**555,961**	551,806
Capital and net debt	**612,010**	621,530
Gearing ratio	**9%**	11%

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2013.

FIVE YEAR FINANCIAL SUMMARY

	Year Ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
REVENUE	382,846	371,463	591,504	528,617	**379,596**
Cost of sales	(285,981)	(264,249)	(454,752)	(415,742)	**(314,676)**
Gross profit	96,865	107,214	136,752	112,875	**64,920**
Other income and gains	3,935	5,809	2,066	4,800	**3,105**
Selling and distribution costs	(20,989)	(13,588)	(21,066)	(18,154)	**(16,210)**
Administrative expenses	(25,401)	(26,663)	(47,350)	(42,534)	**(34,379)**
Other expenses	(2,137)	(630)	(1,846)	(5,833)	**(603)**
Finance costs	(10,177)	(6,175)	(6,115)	(8,140)	**(6,442)**
Share of profits of an associate	9,187	22,160	27,094	23,655	**15,737**
PROFIT BEFORE TAX	51,283	88,127	89,535	66,669	**26,128**
Income tax expense	(8,353)	(11,385)	(8,755)	(7,654)	**(4,288)**
PROFIT FOR THE YEAR	42,930	76,742	80,780	59,015	**21,840**
Attributable to:					
Owners of the parent	43,370	77,534	81,541	59,015	**21,839**
Non-controlling interests	(440)	(792)	(761)	0	**1**
	42,930	76,742	80,780	59,015	**21,840**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	545,701	610,654	719,951	795,382	**689,081**
Total liabilities	(312,747)	(300,960)	(339,084)	(243,573)	**(133,116)**
Non-controlling interest	(11,053)	(10,261)	0	(3)	**(4)**
	221,901	299,433	380,867	551,806	**555,961**