Shuanghua Holdings Limited
雙樺控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1241)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of Directors (the "Board") of Shuanghua Holdings Limited (the "Company", together with its subsidiaries, the "Group") announces the unaudited condensed consolidated results of the Company for the six months ended 30 June 2016 together with comparative figures as follows. These interim financial statements have not been audited, but have been reviewed by the Audit Committee of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June **2016** **RMB'000** **(Unaudited)**	 2015 RMB'000 (Unaudited)
REVENUE	4	**69,475**	84,968
Cost of sales		**(54,688)**	(61,960)
Gross profit		**14,787**	23,008
Other income and gains	4	**3,357**	4,810
Selling and distribution costs		**(5,407)**	(5,491)
Administrative expenses		**(12,550)**	(63,698)
Other expenses		**(135)**	(166)
PROFIT/(LOSS) BEFORE TAX	5	**52**	(41,537)
Income tax (expense)/credit	6	**(3,412)**	3,219
LOSS FOR THE PERIOD		**(3,360)**	(38,318)
OTHER COMPREHENSIVE INCOME			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**9**	(3)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(3,351)**	(38,321)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**(3,360)**	(38,617)
Non-controlling interests		**–**	299
		(3,360)	(38,318)

	Notes	For the six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		**(3,351)**	(38,620)
Non-controlling interests		**–**	299
		(3,351)	(38,321)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	7	**(0.52 cents)**	(5.90 cents)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	**30 June 2016 RMB'000 (Unaudited)**	31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**101,771**	106,121
Prepaid land lease payments		**66,145**	67,056
Available-for-sale investment		**262**	262
Deferred tax assets		**5,248**	7,152
Total non-current assets		**173,426**	180,591
CURRENT ASSETS			
Inventories		**44,644**	55,041
Trade and notes receivables	9	**78,304**	84,793
Prepayments, deposits and other receivables		**7,814**	6,529
Financial assets at fair value through profit or loss		**61,000**	70,600
Pledged deposits		**2,800**	5,350
Cash and cash equivalents		**96,733**	76,209
Total current assets		**291,295**	298,522
CURRENT LIABILITIES			
Trade and bills payables	10	**38,233**	52,197
Other payables and accruals		**15,712**	12,462
Due to a related party		**42**	42
Provision		**323**	803
Government grants		**2,021**	2,021
Tax payable		**1,994**	851
Total current liabilities		**58,325**	68,376
NET CURRENT ASSETS		**232,970**	230,146
TOTAL ASSETS LESS CURRENT LIABILITIES		**406,396**	410,737

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Government grants	**4,102**	5,112
Deferred tax liabilities	**581**	561
Total non-current liabilities	**4,683**	5,673
Net assets	**401,713**	405,064
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**5,406**	5,406
Reserves	**225,530**	224,934
Retained earnings	**170,772**	174,719
	401,708	405,059
Non-controlling interests	**5**	5
Total equity	**401,713**	405,064

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 located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

The Company is an investment holding company. The Group is principally engaged in design, development, manufacture and sale of parts of auto air-conditioner and sales of automotive lubricants and express auto repairs and maintenance services.

2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of presentation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new and revised standards, interpretations and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA as of 1 January 2016 as disclosed in note 2.3 below

2.3 Impact of new and revised HKFRSs

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. OPERATING SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has two reportable operating segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Design, development, manufacture and sale of parts of auto air-conditioners

- Sales of automotive lubricants and express auto repairs and maintenance services

Segment assets exclude available-for-sale investment, financial assets at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities.

(a) Business Segments

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-maker for assessment of segment performance.

	Design, development, manufacture and sale of parts of auto air-conditioners		Sales of automotive lubricants and express auto repairs and maintenance services		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Revenue from external customers	**68,670**	84,941	**805**	27	**69,475**	84,968
Inter-segment revenue	**-**	–	**-**	3	**-**	3
Reportable segment revenue	**68,670**	84,941	**805**	30	**69,475**	84,971
Reportable segment profit/(loss)	**1,474**	(42,120)	**(3,491)**	(2,670)	**(2,017)**	(44,790)
Bank interest income	**218**	127	**4**	11	**222**	138
Unallocated bank interest income					**191**	1,231
Total bank interest income					**413**	1,369
Foreign exchange (loss)/gain, net	**(1,958)**	54	**-**	–	**(1,958)**	54
Unallocated foreign exchange gain, net					**2,842**	1,003
Total foreign exchange gain, net					**884**	1,057
Depreciation and amortisation	**(3,568)**	(8,447)	**(80)**	(103)	**(3,648)**	(8,550)
Unallocated depreciation and amortisation					**(1,774)**	–
Total depreciation and amortisation					**(5,422)**	(8,550)
Reversal of impairment/(impairment) on property, plant and equipment	**16**	(24,563)	**-**	–	**16**	(24,563)
Reversal of impairment/(impairment) on inventories	**1,796**	(22,581)	**-**	–	**1,796**	(22,581)
Impairment on trade receivables	**(11)**	(1,434)	**-**	–	**(11)**	(1,434)
Write-off of inventories	**-**	–	**-**	(936)	**-**	(936)
Income tax (expense)/credit	**(3,412)**	3,219	**-**	–	**(3,412)**	3,219

	Design, development, manufacture and sale of parts of auto air-conditioners		Sales of automotive lubricants and express auto repairs and maintenance services		Total	
	30 June 2016 RMB'000	31 December 2015 RMB'000	**30 June 2016 RMB'000**	31 December 2015 RMB'000	**30 June 2016 RMB'000**	31 December 2015 RMB'000
Reportable segment assets	**288,282**	362,350	**14,391**	11,916	**302,673**	374,266
Additions to non-current assets	**138**	880	**27**	41	**165**	921
Reportable segment liabilities	**(55,375)**	(73,851)	**(692)**	(198)	**(56,067)**	(74,049)

(b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**69,475**	84,971
Elimination of inter-segment revenue	**–**	(3)
Consolidated revenue	**69,475**	84,968

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Profit/(loss) before tax		
Reportable segment loss	**(2,017)**	(44,790)
Unallocated other income and gains	**4,550**	3,630
Corporate and other unallocated expenses	**(2,481)**	(377)
Consolidated profit/(loss) before tax	**52**	(41,537)

	30 June 2016 RMB'000	31 December 2015 RMB'000
Assets		
Reportable segment assets	**302,673**	374,266
Available-for-sale investment	**262**	262
Financial assets at fair value through profit or loss	**61,000**	70,600
Unallocated	**100,786**	33,985
Consolidated total assets	**464,721**	479,113

	30 June 2016 RMB'000	31 December 2015 RMB'000
Liabilities		
Reportable segment liabilities	**(56,067)**	(74,049)
Unallocated	**(6,941)**	–
Consolidated total liabilities	**(63,008)**	(74,049)

(c) Geographical information

Revenue from external customers

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC (place of domicile)	**51,670**	67,260
The United States of America	**9,710**	3,788
The Canada	**2,437**	9,578
Asia	**5,191**	3,951
Others	**467**	391
	69,475	84,968

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

Non-current assets

All non-current assets of the Group are located in the PRC (place of domicile). The Company's country of domicile is the PRC where most of the Group's operations are located.

Information about major customers

For the six months ended 30 June 2016, revenue from two customers accounted for more than 10% of the Group's total revenue individually. Revenue from these customers were RMB10,124,364 and RMB8,362,344 respectively.

For the six months ended 30 June 2015, revenue from three customers accounted for more than 10% of the Group's total revenue individually. Revenue from these customers were RMB20,700,673, RMB11,571,031 and RMB9,577,923, respectively.

4. REVENUE, OTHER INCOME AND GAINS

Revenue 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:

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
REVENUE		
Sales of goods	**69,475**	84,968
Other income and gains		
Government grants	**1,011**	1,011
Bank interest income	**413**	1,369
Others	**–**	15
Interest income on investments at fair value through profit or loss	**1,045**	1,396
Gain/(loss) on disposal of property, plant and equipment	**4**	(38)
Foreign exchange gain, net	**884**	1,057
	3,357	4,810

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**54,688**	61,960
Depreciation	**4,511**	7,639
Amortisation of prepaid land lease payments	**911**	911
Research and development costs	**1,017**	6,061
Operating lease expenses	**721**	729
Product warranty provision written back	**(480)**	(96)
Auditors' remuneration	**45**	24
Employee benefit expenses (including directors' and chief executive's remuneration): Wages and salaries	**9,274**	14,694
Pension scheme contribution	**3,140**	3,619
Staff welfare expenses	**954**	792
	13,368	19,105
(Reversal of impairment)/impairment on property, plant and equipment	**(16)**	24,563
(Reversal of impairment)/impairment on inventories	**(1,796)**	22,581
Impairment on trade receivables	**11**	1,434

6. INCOME TAX (EXPENSE)/CREDIT

The income tax (expense)/credit of the Group during the period are analysed as follows:

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – charge for the period	**(1,508)**	(1,064)
Deferred – tax (charge)/credit	**(1,904)**	4,283
Total tax (charge)/credit for the period	**(3,412)**	3,219

7. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted loss per share is based on the loss for the period attributable to ordinary equity holders of the Company of RMB3,360,000 (30 June 2015: RMB38,318,000), and the weighted average number of ordinary shares of 650,000,000 (30 June 2015: 650,000,000) in issue during the period.

Diluted loss per share for the period ended 30 June 2016 and 2015 are the same as the basic loss per share as there were no dilutive potential ordinary shares in issue in both periods.

8. DIVIDENDS

The Board declared an interim dividend of RMB15 cents (equivalent to Hong Kong 18 cents per share at the exchange rate of HK$1: RMB0.8248 as published by the People's Bank of China) on 21 August 2015, and which was paid on 18 September 2015. The Board did not recommend the payment of a final dividend in respect of the year ended 31 December 2015 and does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2016.

9. TRADE AND NOTES RECEIVABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade receivables	**49,622**	53,375
Notes receivable	**31,456**	34,181
	81,078	87,556
Impairment	**(2,774)**	(2,763)
	78,304	84,793

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. As the Group's trade and notes receivable relate to a large number of diversified customers, it does not have a significant concentration of credit risk. As at 30 June 2016, the Group's notes receivable of RMB7,000,000 (31 December 2015: RMB5,010,000) and pledged deposit of RMB2,800,000 (31 December 2015: RMB5,350,000) are pledged to secure bills payable of RMB8,126,000 (31 December 2015: RMB10,260,000). Trade and notes receivables are non-interest-bearing.

An age analysis of the trade and notes receivable as at the end of the reporting period/year, based on the invoice date and net of provisions, is as follows:

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 1 month	**26,235**	25,572
1 to 3 months	**9,866**	15,590
3 to 12 months	**41,168**	43,141
Over 12 months	**1,035**	490
	78,304	84,793

10. TRADE AND BILLS PAYABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade payables	**30,107**	41,937
Bills payable	**8,126**	10,260
	38,233	52,197

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 1 month	**18,569**	12,738
1 to 3 months	**6,451**	12,601
3 to 12 months	**10,236**	24,331
Over 12 months	**2,977**	2,527
	38,233	52,197

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

As at 30 June 2016, the Group's bills payable of RMB8,126,000 (31 December 2015: RMB10,260,000) were secured by certain of the Group's notes receivable and pledged deposits of RMB7,000,000 (31 December 2015: RMB5,010,000) and RMB2,800,000 (31 December 2015: RMB5,350,000) respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2016, sales of automobile heat exchangers of Shuanghua Holdings Limited ("Shuanghua" or the "Company"; collectively with its subsidiaries referred to as the "Group") was still in a downward trend. During the six months ended 30 June 2016 (the "period"), the Group achieved revenue of RMB69.5 million, representing a decrease of RMB15.5 million from the same period of last year. Due to factors such as volume declining of old business and investment in the new business of automobile lubricants sales and express auto repairs and maintenance service during the period, the Group reported a net loss of RMB3.4 million during the first half of 2016, and recorded a net loss of 38.3 million for the same period of last year.

SALES TO THE DOMESTIC MARKET

During the period, the average unit selling price of evaporators and condensers in the domestic market increased by 8.2% and 6.8% respectively comparing to the corresponding period of 2015, while sales volume of evaporators and condensers decreased by 36.9% and 29.8% respectively as compared to the same period in 2015. Revenue generated by sales of evaporators and condensers decreased by 32.6% and 24.0% respectively, comparing to the same period of last year. The change mentioned above was attributable mainly to the adjustment in the Company's sales policies to decrease orders of low or negative profitability.

Other revenue from sales to the domestic market comprised primarily sales of self-manufactured heaters, oil coolers, intercoolers, lubricants and aluminium waste.

SALES TO INTERNATIONAL MARKET

Our sales to international markets comprised primarily sales to the North American market, with condensers and evaporators as our major sales products. For the six months ended 30 June 2016, the average unit selling price of evaporators maintained at the same level of the corresponding period in 2015. While sales volume and revenue from sales of evaporators decreased by approximately 6% and 4.5% respectively as compared to the same period of last year. The average unit selling price of condensers decreased by 4.8% and sales volume increased by 9.1%, revenue increased by 3.8% as compared to the same period in 2015.

Other revenue from sales to international markets comprised primarily self-manufactured heaters, oil coolers, intercoolers, oil-water separators, evaporators and condenser cores, pipes and thermostats.

OUTLOOK AND STRATEGY

With the continued growth of automobile ownership in China and cars in use are getting older, the after-sales auto market, including express auto repairs and maintenance service and auto financial business, has enormous market potential. In future, the Group will continue to invest in the business of after-sales auto market. Also, the Group will leverage its access to the capital market, actively identify opportunities for acquisitions, investment, joint ventures or co-operation to play a greater effect of its assets and get better development.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2016, revenue was approximately RMB69.5 million, representing a decrease of RMB15.5 million, or 18.2%, from RMB85.0 million in the same period of 2015.

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

	For the six months ended 30 June			
	2016		2015	
Revenue	**RMB'000**	**% of revenue**	RMB'000	% of revenue
Domestic				
Evaporators	**26,266**	**37.8%**	38,974	45.9%
Condensers	**15,140**	**21.8%**	19,929	23.5%
Others	**8,633**	**12.4%**	4,624	5.4%
Sub-total	**50,039**	**72.0%**	63,527	74.8%
International				
Evaporators	**6,605**	**9.5%**	6,918	8.1%
Condensers	**8,888**	**12.8%**	8,561	10.1%
Others	**3,138**	**4.5%**	5,932	7.0%
Sub-total	**18,631**	**26.8%**	21,411	25.2%
Lubricants	**805**	**1.2%**	30	0.0%
Sub-total	**805**	**1.2%**	30	0.0%
Total	**69,475**	**100.0%**	84,968	100.0%

Gross profit and gross margin

For the six months ended 30 June 2016, overall gross profit was approximately RMB14.8 million (six months ended 30 June 2015: RMB23.0 million). Gross profit of the period dropped by RMB8.2 million, or 35.7%. Gross profit from sales to domestic market was approximately RMB11.2 million, representing a decrease of RMB7.1 million over the same period of last year. Gross profit from sales to international market was approximately RMB3.4 million representing a decrease of RMB1.3 million over the same period of last year. Decrease in sales in both the domestic and international markets and depreciation of assets remain at the same level as last year which led to significant decrease of the Group's gross profit during the reporting period as compared to the same period of last year.

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

	For the six months ended 30 June	
	2016	2015
Gross Profit	**RMB'000**	RMB'000
Domestic		
Evaporators	**7,558**	16,190
Condensers	**3,013**	1,474
Others	**603**	634
Sub-total	**11,174**	18,298
International		
Evaporators	**2,740**	2,034
Condensers	**230**	1,453
Others	**479**	1,213
Sub-total	**3,449**	4,700
Lubricants	**164**	10
Sub-total	**164**	10
Total	**14,787**	23,008

For the six months ended 30 June 2016, overall gross margin was 21.3%, representing a decrease of 5.8% as compared to the overall gross margin of 27.1% for the same period of last year.

Other income and gains

During the period under review, other income and gains was approximately RMB4.8 million during the six months ended 30 June 2015, while other income and gains during the six months ended 30 June 2016 was approximately RMB3.4 million, representing a decrease of RMB1.4 million (29.2%) from the same period of last year. For the six months ended 30 June 2016, other income and gains mainly represent government grants of approximately RMB1.0 million and interest income on financial assets at fair value through profit or loss of approximately RMB1.0 million.

Selling and distribution costs

Selling and distribution costs comprised primarily staff-related costs, transportation fees, operating lease rental expenses, travelling expenses and other miscellaneous expenses. Selling and distribution costs decreased during the six months ended 30 June 2016 mainly because of the decrease in sales of the Group, causing a decrease in sales-related transportation expenses.

Administrative and other expenses

Administrative and other expenses comprised primarily of provision for asset impairment, staff-related costs, various local taxes and education surcharges, depreciation, amortisation of land use rights, operating lease rental payments, agency service fees, research and development expenses and miscellaneous expenses. Administrative and other expenses during the six months ended 30 June 2016 significantly decreased by 80.3%. The decrease mainly resulted from the provision of inventories and idled production plants and machineries of RMB48.6 million during the six months ended 30 June 2015.

Income tax expense

For the six months ended 30 June 2016, our overall income tax charge was approximately RMB3.4 million (30 June 2015: income tax credit of RMB3.2 million). Income tax expenses increased because the Group recognised an addition on deferred tax assets by our subsidiaries, namely Shanghai Shuanghua Autoparts Co. Ltd. and Shanghai Shuanghua Auto Components Co., Ltd. of RMB2.9 million and RMB1.4 million for the six months ended 30 June 2015 respectively.

Loss for the period

Loss attributable to the owners of the Company was approximately RMB3.4 million for the six months ended 30 June 2016, while loss attributable to the owners of the Company over the same period of last year was approximately RMB38.3 million.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

Our net current assets increased from approximately RMB230.1 million as at 31 December 2015 to approximately RMB233.0 million as at 30 June 2016. The increase in net current assets was mainly attributed to increase in cash and bank balances.

Financial position and bank borrowings

As at 30 June 2016, the Group's total cash and bank balances including pledged deposits, most of which were denominated in RMB, amounted to approximately RMB99.5 million. As at 31 December 2015, the Group's total cash and bank balances including pledged deposits, most of which were denominated in RMB, amounted to approximately RMB81.6 million. The increase in cash and bank balance is primarily attributed to the decrease in investment in financial assets at fair value through profit or loss. As at 30 June 2016, the Group had no interest-bearing bank borrowings balance (31 December 2015: nil). As at 30 June 2016, our gearing ratio, presented as a percentage of total interest-bearing liabilities divided by total assets, was 0 (31 December 2015: 0).

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 30 June 2016, 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.

The directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group in the reporting period.

Working capital

As at 30 June 2016, our gross inventories, mainly comprising raw materials, work in progress and finished products, amounted to approximately RMB44.6 million, as compared to approximately RMB55.0 million as at 31 December 2015. Our marketing team reviews and monitors our inventory level on a regular basis. For the six months ended 30 June 2016, the average inventory turnover days slightly declined to 164.1 days as compared to 185.5 days for the year ended 31 December 2015. 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 180 days (for the year ended 31 December 2015: 365 days). The decrease in inventory turnover days was mainly attributable to improvement in inventory control.

For the six months ended 30 June 2016, average turnover days of trade and notes receivables slightly declined to 211.3 days as compared to 255.1 days for the year ended 31 December 2015. Trade and notes receivable turnover days are arrived at by dividing the arithmetic means of the opening and ending balances of trade and notes receivable and due from an related party for the relevant period by revenue of the same period and multiplying the quotient by 180 days (for the year ended 31 December 2015: 365 days). The decrease in turnover days of trade and notes receivables was primarily attributable to the improvement of receivables control.

For the six months ended 30 June 2016, average turnover days of trade and bills payables were 148.8 days (for the year ended 31 December 2015: 158.5 days).

CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

For the six months of 2016, capital expenditures were approximately RMB0.2 million, as compared to approximately RMB0.5 million for the same period in 2015. The Group decide to decrease the purchase of fixed assets, as a result, there is a decrease in capital expedition of RMB0.3 million.

As at 30 June 2016, the Group had approximately 275 full-time employees including the management, sales, manufacture, logistics supports and other ancillary personnel. The Group's total wages and salaries of employees amounted to approximately RMB9.2 million for the six months ended 30 June 2016. Our remuneration policy on employees 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 six months ended 30 June 2016 amounted to approximately RMB4.1 million. We have complied, in all material respects, with all statutory requirements on retirement contribution in the jurisdictions where our Group operates.

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.

Under their respective service contracts, each of our executive Directors is entitled to a discretionary year-end bonus of an amount to be determined by the Board or the remuneration committee. Each of our executive Directors will also be entitled to reimbursements of reasonable travelling, hotel, entertainment and other expenses properly incurred in the performance of his/her duties under the relevant service contract.

The basic salary of each of our executive and non-executive Directors will be reviewed by the Remuneration Committee at the end of each financial year.

Significant Investment, Material acquisitions and disposals

For the six months ended 30 June 2016,the Group has no major acquisitions or disposal.

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. For the six months ended 30 June 2016, approximately 29.4% of the Group's sales and none of its 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 30 June 2016, the Group did not have any material contingent liabilities.

Pledge of assets

As at 30 June 2016 and 30 June 2015, the Group had not pledged any of its land and buildings to secure its banking facilities.

As at 30 June 2016, the Group's notes receivable of RMB7,000,000 and pledged deposits of RMB2,800,000 were pledged to secure bills payable of RMB8,126,000. As at 31 December 2015, the Group's notes receivable of RMB5,010,000 and pledged deposits of RMB5,350,000 were pledged to secure bills payable of RMB10,260,000.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFER BY THE GROUP

As at 30 June 2016, a balance of approximately RMB10.0 million of the proceeds from the Initial Public Offer of the Company remained unutilised.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: HKD 18 cents per share.)

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2016.

CORPORATE GOVERNANCE CODE

The Company had complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2016 except for the following:

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 were not separated and were 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 believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

The Directors confirm they have fulfilled the training requirements under code A.6.5 provision.

Under the code provision A.4.1, all independent non-executive Directors are appointed for a specific term of not more than 3 years. Under the Company's Articles of Association, one-third of the Directors must retire and be eligible for re-election at each annual general meeting, and any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting. As at 30 June 2016, Mr. Zheng Ping, executive Director, Ms. Kong Xiaoling, non-executive director, and Mr. Chen Ke, independent non-executive Director, retired from office at the annual general meeting on 27 June 2016, at which Mr. Zheng Ping was re-elected as executive Director, Ms. Kong Xiaoling was re-elected as non-executive Director and Mr. Chen Ke was re-elected as independent non-executive Director.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. The Company, having made specific enquiries with all Directors, confirms that its Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2016 regarding directors' securities transactions.

NON-COMPETITION UNDERTAKING

The Company's executive director and substantial shareholder, Mr. Zheng Ping and his controlled corporation, Youshen International Group Limited, (collectively, "the Covenantors") entered into the deed of non-competition with the Company which is still in force during the reporting period. The Covenantors confirmed that they have complied with the deed of non-competition.

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. Chen Lifan, Mr. He Binhui and Mr. Chen Ke, and is chaired by Mr. Chen Lifan.

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 determining the specific remuneration packages of all executive Directors and senior management of the Company. The Remuneration Committee comprises Mr. Chen Ke, Mr. He Binhui and Mr. Chen Lifan, and is chaired by Mr. Chen Ke.

AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") comprising three independent non-executive Directors, namely Mr. He Binhui, Mr. Chen Ke 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 and risk management system. The Audit Committee is of the view that the risk management and internal control system at present have been valid and adequate.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited consolidated results and this interim report of the Company for the six months ended 30 June 2016. In particular, the Audit Committee has reviewed with the management of the Company on the accounting principles and practices adopted by the Group and held meetings to discuss the internal controls and financial reporting matters regarding the Group's unaudited consolidated financial statements for the six months ended 30 June 2016.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is available for viewing on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at www.hkex.com.hk under the section "Investor Relations". The Interim Report will be despatched to shareholders of the Company and will be available on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
Zheng Ping
Chairman and CEO

Shanghai, 26 August 2016

As at the date of this announcement, the Board consists of two executive Directors, Mr. Zheng Ping and Ms. Tang Lo Nar, Luler, one non-executive Director, Ms. Kong Xiaoling and three independent non-executive Directors, Mr. Chen Ke, Mr. He Binhui, and Mr. Chen Lifan.