



Shuanghua Holdings Limited  
雙樺控股有限公司

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

## Interim Report 2016

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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:	<a href="http://www.shshuanghua.com">http://www.shshuanghua.com</a>
Telephone:	(86 21) 5058 6337
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Enquiry Email:	<a href="mailto:ir@shshuanghua.com">ir@shshuanghua.com</a>
Financial Year End:	31 December
Board of Directors:	<i>Executive Directors</i> Mr. ZHENG Ping Ms. TANG Lo Nar  <i>Non-executive Director</i> Ms. KONG Xiaoling  <i>Independent non-executive Directors</i> Mr. HE Binhui Mr. CHEN Lifan Mr. CHEN Ke

# CORPORATE INFORMATION

Company Secretaries:	Ms. TANG Lo Nar
Authorised Representatives:	Mr. ZHENG Ping Ms. TANG Lo Nar
Audit Committee:	Mr. HE Binhui ( <i>Chairman</i> ) Mr. CHEN Ke Mr. CHEN Lifan
Remuneration Committee:	Mr. CHEN Ke ( <i>Chairman</i> ) Mr. HE Binhui Mr. CHEN Lifan
Nomination Committee:	Mr. CHEN Lifan ( <i>Chairman</i> ) Mr. HE Binhui Mr. CHEN Ke
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
Principal Bankers:	China Construction Bank Corporation Shanghai Branch Fengxian Sub-branch No. 332 Jiefang Zhong Road, Nanqiao Town, Fengxian District, Shanghai, PRC
HKEx Stock Code:	1241.HK
Listing Date:	30 June 2011

# 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”) were 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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:

Revenue	2016		2015	
	RMB'000	% of revenue	RMB'000	% of revenue
<b>Domestic</b>				
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%
<b>International</b>				
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%
<b>Total</b>	<b>69,475</b>	<b>100.0%</b>	<b>84,968</b>	<b>100.0%</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 a 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:

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Gross profit and gross margin (Continued)

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.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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).

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **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.)

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

At 30 June 2016, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which have to be notified to the Company and The Stock Exchange of Hong Kong Limited 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 (b) as recorded in the register required to be kept under Section 352 of SFO or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long positions in shares of the Company

Ordinary shares with nominal value of HK\$0.01 per share of the Company

<b>Name of directors</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Percentage of issued share capital of the Company</b> (Note b)
Zheng Ping	Controlled corporation interest	282,750,000 (Note a)	43.5%
Kong Xiaoling (Note c)	Interest of Spouse	282,750,000	43.5%

Note a: Mr. Zheng Ping is the executive Director and holds 100% interest in Youshen International Group Limited ("Youshen Group") and he is deemed to be interested in 282,750,000 shares of the Company held by Youshen Group.

Note b: Calculated on the basis of the 650,000,000 shares issued by the Company as at 30 June 2016.

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

## CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, as at 30 June 2016, none of the Directors nor the chief executives of the Company had or was deemed to have 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) (a) 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 (b) which were required to be recorded in the register under Section 352 of the SFO, or (c) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in the Listing Rules.

### SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

At 30 June 2016, to the knowledge of any directors of the Company, the interests of the shareholders in the shares or underlying shares of the Company recorded in the register which the Company is required to maintain pursuant to Section 336 of the SFO (except for the above disclosed interests of the Company's directors) were as follows:

#### Long positions in shares of the Company

Ordinary shares with nominal value of HK\$0.01 per share of the Company

Name of shareholders	Capacity	Number of ordinary shares	Percentage of issued share capital of the Company
Zheng Ping (note 1)	Controlled corporation interest	282,750,000	43.5%
Lai Yongzhong (note 2)	Beneficial interest and controlled corporation interest	120,160,000	18.5%
Lin Fu	Beneficial interest	52,744,000	8.1%
Youshen Group	Beneficial interest	282,750,000	43.5%
Kong Xiaoling (Note 3)	Interest of Spouse	282,750,000	43.5%

# CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

1. Mr. Zheng Ping holds 100% interest in Youshen Group and he is deemed to be interested in 282,750,000 shares of the Company held by Youshen Group.
2. Mr. Lai Yongzhong holds 100% interest in Double Joy Enterprise Limited (“Double Joy”) and he is deemed to be interested in 9,790,000 shares of the Company held by Double Joy.
3. Ms. Kong Xiaoling is the spouse of Mr. Zheng and she is deemed to be interested in 282,750,000 shares of the Company held by Youshen Group.

Save as disclosed above, as at 30 June 2016, no persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register which the Company is required to maintain pursuant to Section 336 of the SFO.

## SHARE OPTIONS SCHEME

The Company adopted a share option scheme on 8 June 2011 (the “Share Option Scheme”) for the purpose of providing incentives or rewards to eligible participants (including employees, executives or officers, directors including non-executive directors and independent non-executive directors, advisers, consultants, suppliers, customers and agents of the Company or any of its subsidiaries) for their contribution to the long term growth of the Group and to motivate them to optimise their performance efficiency for the benefit of the Group.

The Share Option Scheme became effective on 29 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 65,000,000 shares, representing 10% of the shares of the Company in issue as at the date of adoption of the Share Option Scheme and 10% of the shares of the Company in issue as at the date of this annual report. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised.

The exercise price of the share options shall be not less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options, which must be a date on which the Stock Exchange is open for business of dealing in securities; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer; and (iii) the nominal value of a share of the Company.

As at 30 June 2016, no share options were granted or exercised pursuant to the Share Option Scheme.



## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **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.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## 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 Convenantors") entered into the deed of non-competition with the Company which is still in force during the reporting period. The Convenantors 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.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## 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.

By Order of the Board

**Zheng Ping**

*Chairman and CEO*

Shanghai, 26 August 2016

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

For the six months ended 30 June 2016

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

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

For the six months ended 30 June 2016

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	101,771	106,121
Prepaid land lease payments	10	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
<b>CURRENT ASSETS</b>			
Inventories	11	44,644	55,041
Trade and notes receivables	12	78,304	84,793
Prepayments, deposits and other receivables		7,814	6,529
Financial assets at fair value through profit or loss	13	61,000	70,600
Pledged deposits	14	2,800	5,350
Cash and cash equivalents	14	96,733	76,209
Total current assets		291,295	298,522
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	15	38,233	52,197
Other payables and accruals		15,712	12,462
Due to a related party	18(b)	42	42
Provision		323	803
Government grants		2,021	2,021
Tax payable		1,994	851
Total current liabilities		58,325	68,376
<b>NET CURRENT ASSETS</b>		232,970	230,146
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		406,396	410,737

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

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

Director: **Zheng Ping**

Director: **Tang Lo Nar**

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company									
	Issued capital	Share premium*	Statutory		Exchange		Retained earnings	Non-controlling interests	Total equity	
			Capital reserve*	surplus reserve*	Merger reserve*	fluctuation reserve*				Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016 (audited)	5,406	133,658	168,183	42,755	(119,378)	(284)	174,719	405,059	5	405,064
Loss for the period	-	-	-	-	-	-	(3,360)	(3,360)	-	(3,360)
Other comprehensive income for the period	-	-	-	-	-	9	-	9	-	9
Total comprehensive income for the period	-	-	-	-	-	9	(3,360)	(3,351)	-	(3,351)
Appropriation to statutory surplus reserve	-	-	-	587	-	-	(587)	-	-	-
At 30 June 2016 (unaudited)	5,406	133,658	168,183	43,342	(119,378)	(275)	170,772	401,708	5	401,713

\* These reserves comprise the consolidated reserves of RMB225,530,000 in the consolidated statement of financial position.



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company									
	Issued capital	Share premium*	Capital reserve*	Statutory surplus reserve*	Merger reserve*	Exchange fluctuation reserve*	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015 (audited)	5,406	133,658	168,183	42,755	(119,378)	(300)	311,213	541,537	5	541,542
(Loss)/profit for the period	-	-	-	-	-	-	(38,617)	(38,617)	299	(38,318)
Other comprehensive income for the period	-	-	-	-	-	(3)	-	(3)	-	(3)
Total comprehensive income for the period	-	-	-	-	-	(3)	(38,617)	(38,620)	299	(38,321)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	438	438
At 30 June 2015 (unaudited)	5,406	133,658	168,183	42,755	(119,378)	(303)	272,596	502,917	742	503,659

\* These reserves comprise the consolidated reserves of RMB224,915,000 in the consolidated statement of financial position.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<b>9,554</b>	13,262
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	<b>12,009</b>	(1,273)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<b>–</b>	438
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>21,563</b>	12,427
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>76,209</b>	165,720
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	<b>(1,039)</b>	22
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>96,733</b>	178,169

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 2. BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (Continued)

### 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 3. OPERATING SEGMENT INFORMATION (Continued)

### (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	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)

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 3. OPERATING SEGMENT INFORMATION (Continued)

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

	For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000
<b>Revenue</b>		
Reportable segment revenue	69,475	84,971
Elimination of inter-segment revenue	—	(3)
Consolidated revenue	<u>69,475</u>	<u>84,968</u>

	For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000
<b>Profit/(loss) before tax</b>		
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	<u>52</u>	<u>(41,537)</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 3. OPERATING SEGMENT INFORMATION (Continued)

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

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
<b>Assets</b>		
Reportable segment assets	<b>302,673</b>	374,266
Available-for-sale investment	<b>262</b>	262
Financial assets at fair value through profit or loss	<b>61,000</b>	70,600
Unallocated	<b>100,786</b>	33,985
	<hr/>	<hr/>
Consolidated total assets	<b>464,721</b>	479,113
	<hr/>	<hr/>
<b>Liabilities</b>		
Reportable segment liabilities	<b>(56,067)</b>	(74,049)
Unallocated	<b>(6,941)</b>	-
	<hr/>	<hr/>
Consolidated total liabilities	<b>(63,008)</b>	(74,049)
	<hr/>	<hr/>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 3. OPERATING SEGMENT INFORMATION (Continued)

### (c) Geographical information

*Revenue from external customers*

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (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
	<hr/>	<hr/>
	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.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 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	
	Note	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
<b>REVENUE</b>			
Sales of goods		<b>69,475</b>	84,968
<b>Other income and gains</b>			
Government grants		<b>1,011</b>	1,011
Bank interest income		<b>413</b>	1,369
Others		–	15
Interest income on investments at fair value through profit or loss		<b>1,045</b>	1,396
Gain/(loss) on disposal of property, plant and equipment	9	<b>4</b>	(38)
Foreign exchange gain, net		<b>884</b>	1,057
		<b>3,357</b>	4,810

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 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 RMB'000 (Unaudited)	2015 RMB'000 (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
	<b>13,368</b>	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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 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 RMB'000 (Unaudited)	2015 RMB'000 (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	<u>(3,412)</u>	<u>3,219</u>

## 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 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. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired assets with a cost of RMB164,967 (30 June 2015: RMB483,223).

During the six months ended 30 June 2016, assets with a net book value of RMB20,000 (30 June 2015: RMB76,513) were disposed of by the Group, resulting in a net loss on disposal of RMB4,391 (30 June 2015: RMB37,868).

During the six months ended 30 June 2016, reversal of impairment loss on assets amounted to RMB16,154 (30 June 2015: impairment loss of RMB24,562,680).

None of the Group's buildings were pledged as at 30 June 2016 and 31 December 2015.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 10. PREPAID LAND LEASE PAYMENTS

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Carrying amount at beginning of period/year	<b>68,881</b>	70,706
Recognised during the period/year	<b>(911)</b>	(1,825)
Carrying amount at end of period/year	<b>67,970</b>	68,881
Current portion included in prepayments, deposits and other receivables	<b>(1,825)</b>	(1,825)
Non-current portion	<b>66,145</b>	67,056

The Group's leasehold land is situated in the PRC and held under long term leases.

None of the Group's leasehold land was pledged as at 30 June 2016 and 31 December 2015 to secure any of its banking facilities.

## 11. INVENTORIES

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Raw materials	<b>18,048</b>	21,148
Work in progress	<b>11,659</b>	14,017
Finished goods	<b>44,715</b>	51,450
	<b>74,422</b>	86,615
Impairment	<b>(29,778)</b>	(31,574)
	<b>44,644</b>	55,041

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 12. TRADE AND NOTES RECEIVABLES

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Bank financial investment products, at fair value	<b>61,000</b>	70,600

The balance as at 30 June 2016 represented principal protected bank financial investment products (the “investees”) with maturity dates ranged from 3 July 2016 to 2 August 2016. The balance as at 31 December 2015 had maturity dates ranged from 13 January 2016 to 1 February 2016.

The investees are designated by the Group as financial assets at fair value through profit or loss upon initial recognition. The Investees were measured at fair value based on Level 3 fair value measurement hierarchy – inputs for asset or liability that were not based on observable market data (that is unobservable inputs) under HKFRS 13.

The fair value was determined by using the discounted cash flow method to capture the present value of the expected future economic benefits to be derived from the ownership of the Investees.

The significant unobservable inputs were:

	<b>30 June 2016 (Unaudited)</b>	31 December 2015 (Audited)
One to three months risk free rate	<b>2.1%</b>	2.2%
One to three months credit risk premium	<b>0.7%</b>	1.0%
Expected future return (one to three month maturity)	<b>3.0%</b>	4.3%

The discount rate was taken as the aggregate of the risk free rate and credit risk premium. In view of the shortness of the maturity period, a slight change in the discount rate or the expected future return would have no significant effect on the fair value of the Investees which would also approximate their original cost.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

There was no transfer into or out of Level 3 of the fair value hierarchy and the reconciliation for these financial instruments carried at fair value in Level 3 is as follows:

	RMB'000
As at 1 January 2016	70,600
Additions	184,000
Gain recognised in statement of profit or loss and other comprehensive income	1,045
Disposals	<u>(194,645)</u>
As at 30 June 2016	<u>61,000</u>

## 14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Cash and bank balances		<b>99,533</b>	81,559
Less: Pledged deposits for bills payable	15	<b><u>(2,800)</u></b>	<u>(5,350)</u>
Cash and cash equivalents		<b><u>96,733</u></b>	<u>76,209</u>

As at 30 June 2016, the Group's cash and cash equivalents denominated in RMB were RMB60,967,159 (31 December 2015: RMB60,214,030). RMB is not freely convertible into other currencies, however, under the PRC'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.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 30 June 2016, short term deposits of RMB2,800,000 (31 December 2015: RMB5,350,000) and notes receivable of RMB7,000,000 (31 December 2015: RMB5,010,000) were pledged to secure bills payable of RMB8,126,000 (31 December 2015: RMB10,260,000) (Note 15).

## 15. TRADE AND BILLS PAYABLES

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Trade payables	<b>30,107</b>	41,937
Bills payable	<b>8,126</b>	10,260
	<b>38,233</b>	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:

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 15. TRADE AND BILLS PAYABLES (Continued)

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 (Note: 14).

## 16. 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 five years.

At 30 June 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Within one year	<b>975</b>	1,107
In the second to fifth years, inclusive	<b>1,462</b>	1,949
	<b>2,437</b>	3,056

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 17. COMMITMENTS

In addition to the operating lease commitments detailed in Note 16 above, the Group had the following capital commitments at the end of the reporting period:

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Capital contributions payable to subsidiaries before 31 December 2020	<b>120,000</b>	120,000

## 18. RELATED PARTY TRANSACTIONS

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

	<b>For the six months ended 30 June</b>	
	<b>2016 RMB'000 (Unaudited)</b>	2015 RMB'000 (Unaudited)
Office expenses paid to Shanghai Automart Investment Co., Ltd. ("Shanghai Automart")* (Note)	<b>487</b>	487

Note: Office rental paid to Shanghai Automart was based on prices mutually agreed between the parties. The director, Kong Xiaoling is interested in Shanghai Automart.

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 18. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balance with a related party:

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Due to a related party: Shanghai Automart (Note)	<u>42</u>	<u>42</u>

Note: The balance is unsecured, non-interest-bearing and have no fixed terms of repayment.

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

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Short term employee benefits	<b>1,007</b>	1,178
Pension scheme contributions	<b>56</b>	48
Total compensation paid to key management personnel	<u><b>1,063</b></u>	<u>1,226</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 19. 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

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Trade and notes receivables	<b>78,304</b>	84,793
Financial assets included in prepayments, deposits and other receivables	<b>2,961</b>	2,803
Pledged deposits	<b>2,800</b>	5,350
Cash and cash equivalents	<b>96,733</b>	75,209
	<b>180,798</b>	168,155

### Financial assets – available-for-sale financial assets

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Available-for-sale investment	<b>262</b>	262

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

## 19. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

### Financial assets – at fair value through profit or loss

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Bank financial investment products	<b>61,000</b>	70,600

### Financial liabilities – at amortised cost

	<b>30 June 2016 RMB'000 (Unaudited)</b>	31 December 2015 RMB'000 (Audited)
Trade and bills payables	<b>38,233</b>	52,197
Financial liabilities included in other payables and accruals	<b>2,582</b>	2,318
Due to related parties	<b>42</b>	42
	<b>40,857</b>	54,557

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 19. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

### Fair values

The fair values of financial assets and liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of financial assets and liabilities are included at the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group's financial assets at fair value through profit or loss were measured at fair value based on Level 3 fair value hierarchy in accordance with the Group's accounting policies on fair value measurement. Details of the fair value estimation of the Group's financial assets at fair value through profit or loss in Level 3 are disclosed in Note 13.

## 20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 26 August 2016.