Shuanghua Holdings Limited

雙樺控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1241

ANNUAL 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:	http://www.shshuanghua.com
Telephone:	(86 21) 5058 6337
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Enquiry Email:	ir@shshuanghua.com
Financial Year End:	31 December
Board of Directors:	*Executive Directors* Mr. ZHENG Ping *(Chairman & Chief Executive Officer)* Ms. TANG Lo Nar *Non-executive Director* Ms. KONG Xiaoling *Independent non-executive Directors* Mr. CHEN Ke Mr. HE Binhui Mr. CHEN Lifan

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

Chairman's Statement

Dear Shareholders,

On behalf of the Board ("Board") of directors ("Directors") of Shuanghua Holdings Limited ("Shuanghua" or the "Company"), I am pleased to present to the shareholders of the Company ("Shareholders") the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2016 (the "Year").

2016 was a difficult year for Shuanghua as the existing automobile air-conditioners and heat exchangers business of the Group shrunk continuously with a dramatic decrease in both sales volume and manpower resources as compared to last year. At the same time, the new after-sales auto service market was still in the stage of investment and preliminary expansion that the economic benefits are low. However, our management continued to seek and explore appropriate direction and opportunities for the Group's transformation during the year.

In future, apart from maximizing the Shareholders' value, the Group will also endeavour to maintain the profitability of its old businesses and at the same time fully utilise its existing resources including assets, technologies and manpower to establish its presence in the capital market. We will also actively explore new development opportunities and profit growth points through acquisition, investment or entering into joint ventures or strategic alliances in order to identify the best development strategy for Shuanghua based on its own conditions.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express sincere gratitude to our Directors, business partners, the entire management and the rest of our staff team. Thanks are also due to our Shareholders for their support and trust to the Group. With their assistance and support, I am confident that the Group will steer through this period of transition, overcoming any difficulties in order to deliver greater and more sustainable value to Shareholders.

Zheng Ping
Chairman and CEO

Hong Kong
31 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

The Group remained in a phase of transition during 2016. The existing automobile air-conditioners and heat exchangers business shrunk continuously with a dramatic decrease in both sales volume and manpower resources as compared to last year. At the same time, the new after-sales auto service market was still in the stage of investment and preliminary expansion and the current economic benefits are low. The Group reported revenue of RMB120.7 million for the year ended 31 December 2016, decreased by RMB22.3 million as compared to the same period last year. Due to the write off of obsolete inventories of RMB7.1 million during the year, together with the investment in new businesses of sale of automobile lubricants and provision of express auto repairs and maintenance services, the Group recorded a loss in 2016 with a net loss amounting to RMB16.3 million. The loss for the year is less than the loss of the year ended 31 December 2015, which was RMB39.0 million.

Analyzed by product segment, revenue from sales of evaporators, condensers, automobile lubricants and others for the year ended 31 December 2016 amounted to RMB56.1 million, RMB43.3 million, RMB1.7 million and RMB19.6 million respectively. Analyzed by domestic and international market segment, our domestic business for the year ended 31 December 2016 reported sales revenue of RMB92.4 million, while our international business for the year ended 31 December 2016 reported sales revenue of RMB28.3 million.

Automobile heat exchanger business

Both sales in the domestic market and international market decreased for the year ended 31 December 2016. Among which:

Sales in the Domestic Market

Revenue from sales of evaporators amounted to RMB49.9 million, decreased by 16.8% as compared to the same period last year. The sales volume amounted to 56.7 million, decreased by 20.8% as compared to the same period last year. The unit price increased by 5.1% as compared to the same period last year.

Revenue from sales of condensers amounted to RMB27.4 million, increased by 35.3%, as compared to the same period last year. The sales volume amounted to 17.4 million, increased by 11.7% as compared to the same period last year. The unit price increased by 21.1% as compared to the same period last year.

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

Sales to the International Market

Revenue from sales of evaporators amounted to RMB6.3 million, decreased by 31.6% as compared to the same period last year. The sales volume decreased by 35.5%, while unit price increased by 12.1% as compared to the same period last year.

Revenue from sales of condensers amounted to RMB15.9 million, increased by 37.9% as compared to the same period last year. The sales volume increased by 44.3%, while unit price decreased by 5.7% as compared to the same period last year.

Other revenue from sales to the international market comprise primary sales of self-manufactured oil coolers, intercoolers, liquid-gas separators, evaporators and condenser cores, pipes and thermostats.

Sale of automobile lubricants and provision of express auto repairs and maintenance services

The new business is still in the stage of investment and preliminary expansion and has achieved a small amount of sales in 2016. The current economic benefit is low.

OUTLOOK AND STRATEGY

In future, apart from maximizing the shareholders' value, the Group will also endeavor to maintain the profitability of its old businesses and at the same time fully utilize its existing resources including assets, technologies and manpower to establish its presence in the capital market. We will also actively explore new development opportunities and profit growth points through acquisition, investment or joint venture, or entering into strategic alliances in order to identify the best development strategy for Shuanghua based on its own conditions.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, revenue was approximately RMB120.7 million, a decline of approximately RMB22.4 million or 15.7% from that of the corresponding period of 2015 which was approximately RMB143.1 million.

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

	For the year end 31 December 2016 RMB'000	**% of revenue**	For the year end 31 December 2015 RMB'000	% of revenue
Domestic				
Evaporators	**49,853**	**41.3%**	59,928	41.9%
Condensers	**27,370**	**22.7%**	20,266	14.2%
Automobile lubricants	**1,702**	**1.4%**	157	0.1%
Others	**13,477**	**11.1%**	32,196	22.6%
Sub-total	**92,402**	**76.5%**	112,547	78.8%
International				
Evaporators	**6,291**	**5.2%**	9,196	6.4%
Condensers	**15,942**	**13.2%**	11,560	8.1%
Others	**6,114**	**5.1%**	9,773	6.7%
Sub-total	**28,347**	**23.5%**	30,529	21.2%
Total	**120,749**	**100.0%**	143,076	100.0%

Gross profit and gross margin

(All amounts in this section were before impairment and write off of on inventories)

For the year ended 31 December 2016, overall gross profit decreased significantly by RMB11.3 million to approximately RMB19.9 million from RMB31.2 million for the year ended 31 December 2015. Gross profit from sales to domestic market was approximately RMB14.3 million for the year ended 31 December 2016 representing a decrease of approximately RMB7.6 million over the same period of last year. Gross profit from sales to international market was approximately RMB5.6 million for the year ended 31 December 2016, representing a decrease of approximately RMB3.7 million over the same period of last year.

For the year ended 31 December 2016, overall gross margin decreased significantly to 16.5% from 21.8% for 2015.

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

Gross Profit	**For the year end 31 December 2016 RMB'000**	For the year end 31 December 2015 RMB'000
Domestic		
Evaporators	**11,765**	11,842
Condensers	**119**	2,450
Automobile lubricants	**436**	77
Others	**1,928**	7,490
Sub-total	**14,248**	21,859
International		
Evaporators	**62**	3,735
Condensers	**6,138**	2,536
Others	**(590)**	3,052
Sub-total	**5,610**	9,323
Total	**19,858**	31,182

Other income and gains

Other income and gains decreased by approximately RMB2.4 million from approximately RMB10.0 million for the year ended 31 December 2015 to approximately RMB7.6 million for the year ended 31 December 2016. This was mainly caused by the decrease in foreign exchange net gain.

Selling and distribution costs

Selling and distribution costs comprised primarily staff-related costs, sales transportation fees, operating lease rental expenses, entertainment and travelling expenses. Selling and distribution costs increased for the year ended 31 December 2016 mainly because of the development of the sale of automobile lubricants and provision of express auto repairs and maintenance services of the Group in 2016.

Administrative and other expenses

Administrative and other expenses comprised primarily staff-related costs, various local taxes and education surcharges, depreciation, amortization of land use rights, operating lease rental payments, research and development expenses, impairment on assets and miscellaneous expenses. Administrative expenses decreased for the year ended 31 December 2016 mainly because of decrease in headcounts leading to decrease in staff-related costs.

Other expenses decreased because the Group had recognised an impairment loss of property, plant and equipment of RMB24.5 million in an effort to reduce or eliminate unprofitable operations or products last year.

Income tax

For the year ended 31 December 2016, the Group's overall income tax credit was approximately RMB0.6 million, while there was an income tax credit of RMB4.4 million in the year ended 31 December 2015. Income tax credit decreased 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 RMB4.2 million and RMB0.9 million in 2015 respectively, while there is no such recognition in current year.

Loss for the year

Loss attributable to the owners of the Company was approximately RMB16.3 million for the year ended 31 December 2016, while loss attributable to the owners of the Company over the same period last year was approximately RMB39.0 million.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

Our net current assets decreased from approximately RMB230.1 million as at 31 December 2015 to approximately RMB224.5 million as at 31 December 2016. The decrease in net current assets was primarily attributed to decrease in trade and notes receivables and inventories compared to last year.

Financial position and bank borrowings

As at 31 December 2016, the Group's cash and cash equivalents amounted to approximately RMB95.8 million. As at 31 December 2015, the Group's cash and cash equivalents amounted to approximately RMB76.2 million. The increase in cash and cash equivalents is primarily attributed to the decrease in purchase of financial assets at fair value through profit or loss. As at 31 December 2016, the Group had no interest – bearing bank borrowings (31 December 2015: nil). As at 31 December 2015 and 2016, our gearing ratio, presented as a percentage of total interest-bearing liabilities divided by capital of the Group, was 0.0%.

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 31 December 2016, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capitals or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 December 2015.

Working capital

As at 31 December 2016, total inventories, mainly comprising raw materials, work-in-progress and finished products (after impairment), amounted to approximately RMB43.2 million, and approximately RMB55.0 million as at 31 December 2015. Our marketing team reviews and monitors our inventory level on a regular basis. For the year ended 31 December 2016, the average inventory turnover days was 165.3 days (for the year ended 31 December 2015: 185.5 days). Inventory turnover days are arrived at by dividing the arithmetic means of the opening and ending balances of inventory for the relevant period by cost of sales of the same period and multiplying the quotient by 365 days. The decrease in inventory turnover was mainly attributable to depression of current market, the Group's management adjusted their production and sales strategy, reduced production capacity, recognised impairment losses where necessary and utilised the inventories on hands.

For the year ended 31 December 2016, average turnover days of trade and notes receivables was 227.5 days (for the year ended 31 December 2015: 255.1 days). Trade and notes receivables turnover days are arrived at by dividing the arithmetic means of the opening and ending balances of trade and notes receivables for the relevant period by revenue of the same period and multiplying the quotient by 365 days. The decrease in turnover days of trade and notes receivables was primarily attributable to management has maintained a better control over its outstanding receivables to further minmise the credit risk.

For the year ended 31 December 2016, average turnover days of trade and bills payables was 133.8 days (for the year ended 31 December 2015: 158.5 days). The decrease in turnover days of trade and bills payables was caused by management speeded up the repayment process to improve liquidity.

CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

For the year ended 31 December 2016, capital expenditures were approximately RMB1.2 million, and approximately RMB0.9 million was paid for capital expenditures incurred for the year ended 31 December 2015. Payment of capital expenditures increased by approximately RMB0.3 million as compared to the same period of 2015.

As at 31 December 2016, the Group had approximately 224 full-time employees including management, sales, logistics supports and other ancillary personnels. The Group's total wages and salaries amounted to approximately RMB21.1 million for the year ended 31 December 2016. Our remuneration policy is primarily based on the job responsibilities, work performance and number of years of service of each employee and the current market conditions.

Pursuant to the relevant PRC labour laws and regulations, the Group has to pay contributions to a number of staff social insurance schemes (including medical, maternity, work injury, unemployment and pension insurances) and staff housing reserve funds. We provide social insurances and pay contributions to housing reserve funds for our employees in accordance with the interpretations to the relevant PRC labour laws and regulations given, and policies and measures executed by local government departments. We have established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. Welfare benefits expenses for the year ended 31 December 2016 amounted to approximately RMB6.6 million. We have complied, in all material respects, with all statutory requirements on retirement contribution in the jurisdictions where our Group operates. The basic salary of each of our executive and non-executive Directors will be reviewed by the Remuneration Committee of the Board at the end of each financial year.

The determination of the remuneration to our Directors is 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.

The Group had capital commitments of RMB120 million on investment in the sale of automobile lubricants and provision of express auto repairs and maintenance services business through subsidiaries as at 31 December 2016.

Material acquisitions and disposals

For the year ended 31 December 2016, the Group had no capital acquisition or disposal.

Significant investments

For the year ended 31 December 2016, the Group had no significant investment.

Foreign exchange risk

The Group's operations are located in the PRC with RMB as the functional and presentation currency. The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the unit's functional currency. The currency exposure of the Group mainly comes from the depreciation of RMB against USD for overseas sales transactions denominated in USD. For the year ended 31 December 2016, approximately 24.1% and 0.0% of the Group's sales and cost of sales respectively were denominated in currencies other than the functional currency of the 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 when necessary.

Contingent liabilities

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

Pledge of assets

As at 31 December 2016 and 31 December 2015, the Group had not pledged any land or buildings to secure our banking facilities granted.

As at 31 December 2016, notes receivable of RMB3,600,000 (2015: RMB5,010,000 and short term deposits of RMB5,350,000) were pledged to secure bills payable of RMB3,488,000 (2015: RMB10,260,000).

SHARE OPTION SCHEME

As at 31 December 2016, no share options were granted or exercised pursuant to the share option scheme adopted.

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

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

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFER

As at 31 December 2016, a balance of approximately RMB10.0 million of the proceeds from the Initial Public Offer of the Company remained unutilised.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (31 December 2015: nil).

Report of the Directors

The directors have pleasure in submitting their report together with the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in Note 14 to the financial statements. There was no significant change in its activities during the year.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 as well as a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" on page 4 and "Management Discussion and Analysis" on pages 5 to 12 of this Annual Report.

SEGMENT INFORMATION

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

PRINCIPAL RISKS AND UNCERTAINTIES

The directors are aware that a number of factors may affect the results and operation of the Group, including those which are specific to the Group or the industries in which the Group operates and those that are common to most of other businesses. The management will continuously identify and monitor if there is any the significant risk which may adversely affect the Group's performance and will immediately take measures if necessary.

Major risks are summarized below and are by no means exhaustive or comprehensive, and there may be other risks, in addition to those shown below, which are not known to the Group or which may not be material now but could turn out to be material in the future.

Macroeconomic Environment and Market Risk

The slowdown in global economies or deterioration of global financial markets may result in decline in demand and price for the Group's products. It deteriorates profitability or affects ability to meet business objectives. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Risks of policies and regulations

The anticipation of more stringent regulations or policies on motor vehicle usage and environment protection in view of the negative impact such as increasing traffic congestion, parking place shortage and haze from time to time which will cause further adverse impact on automobile sales.

Intense Competition

The Group operates in markets and industries which are glut of pricing pressure, loss of market share, and increased expenditures of promotion, marketing and customer acquisition. The Group has operated in this extremely competitive landscape for the previous years. If the Group does not respond timely to our competitors, costs may increase and the customer demand for the Group's services may decline and the Group's market share and revenue would decrease continuously.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The Group's management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Financial Risks

The Group is exposed to financial risks, such as, credit risks, foreign currency risks and liquidity risks. The Group reviews regularly and manages its capital structure to maintain a sound capital position. For details of the Group's foreign currency risks management policies, please refer to page 12 of this Annual Report.

ENVIRONMENTAL POLICY

The Group is committed to support the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures in the operation of our Group's businesses to enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees

Employees are regarded as one of the most important and valuable assets of the Group. The Group's strive to reward and recognize performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers and Suppliers

The Group attaches importance to the relationship with its customers and suppliers, and it has cooperated with all of its major customers and suppliers for more than 5 years.

RESULTS AND APPROPRIATION

The financial performance of the Group for the year ended 31 December 2016 and the financial position of the Group as at that date are set out in the financial statements on pages 48 to 49. The directors do not recommend payment of any final dividend in respect of the year ended 31 December 2016 (2015: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 12 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in Note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's distributable reserves calculated under Companies Law of the Cayman Islands comprise the share premium and retained earnings amounting to RMB291,935,000.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 27 to the consolidated financial statements and in the consolidated statement of changes in the equity, respectively.

PRE-EMPTIVE RIGHTS

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

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

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year (2015: Nil).

DIRECTORS

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

Executive Directors
Mr. Zheng Ping *(Chairman & Chief Executive Officer)*
Ms. Tang Lo Nar

Non-executive Director
Ms. Kong Xiaoling

Independent Non-executive Directors
Mr. Chen Ke
Mr. He Binhui
Mr. Chen Lifan

In accordance with the article 84 of the Articles of the Company, Mr. He Binhui, Ms. Tang Lo Nar and Mr. Chen Lifan will retire by rotation at the forthcoming annual general meeting and, being eligible, had offered themselves for re-election as Directors of the Company.

DIRECTORS' SERVICES CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

The directors' interests in contracts are set out in Note 34 to the consolidated financial statements. Apart from the foregoing, no other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of directors and senior management are set out on pages 21 to 22 of this annual report.

CONNECTED TRANSACTIONS

For the year ended 31 December 2016, the following connected transactions were, and will be continued to be, carried out by our Group in the ordinary and normal course of business, on either normal commercial terms or terms no less favorable to our Group than those available from independent third parties, and are expected to continue in the foreseeable future.

Continuing connected transactions

Since 1 January 2011, the Group has leased its three office premises located in Shanghai from Shanghai Automart Investment Co., Ltd. ("Shanghai Automart"), where 58% of its equity interest is held by Ms. Kong Xiaoling ("Ms. Kong"), our non-executive Director, for a term of 3 years from 1 January 2011 to 31 December 2013. Please refer to the section headed "Biography of Directors and Senior Management" of this annual report for the particulars of Ms. Kong. On 12 February 2014, three subsidiaries of the Company, namely Shanghai Shuanghua Autoparts Co., Ltd. ("Shanghai Shuanghua"), Shanghai Youshen Industry Co., Ltd. ("Youshen Industry") and Shanghai Shuanghua Auto Component Co., Ltd. ("Shuanghua Auto Components"), as lessees, entered into the Lease Renewal Agreements with Shanghai Automart, as the lessor in respect of the office premises for a further term of two years from 1 January 2014 to 31 December 2015, the annual caps was set at RMB2,000,000. The above Lease Agreements were further renewed on 11 December 2015 to cover the period from 1 January 2016 to 31 December 2018 with similar terms and less floor areas. The Lease Renewal Agreements and the Lease Agreements were similar in nature, involving the same entities and same office premises previously disclosed in the Company's prospectus dated 17 June 2011 and 2012–2015 Annual Reports respectively. Upon entering into the Lease Renewal Agreements, the monthly rentals were adjusted by reference to the prevailing market price and the annual caps have been refreshed to RMB1,500,000.

The Group is based in Shanghai and needs the Premises for its operations. The Directors are of the view that substantial time and costs can be saved if the Group can remain in its existing office premises instead of moving to another office building. The Directors (including the independent non-executive Directors) consider that the continuing connected transactions under the Lease Renewal Agreements have been entered into: (1) in the ordinary and usual course of the Group's business; (2) on normal commercial terms or better; and (3) on terms that are fair and reasonable and in the interests of the Company and shareholders as a whole. The Directors (including the independent non-executive Directors) also consider that the refreshed annual caps are fair and reasonable and in the interests of the Company and shareholders as a whole. During the year, the Group has paid rental of RMB975,000 (2015: RMB975,000) to Shanghai Automart. According to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), Shanghai Automart is an associate of Ms. Kong and thus a connected person. As Shanghai Automart is a connected person, the above office lease rentals paid constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

In this regard, our Directors confirm that our Company has complied with the applicable requirements under Chapter 14A of the Listing Rules, and the aggregate value of the each of the above continuing connected transactions described above for the year did not exceed the relevant cap and each of the percentage ratios (other than the profit ratio) under Chapter 14 of the Listing Rules. Our Directors (including our independent non-executive Directors) confirm that the above transactions have been agreed in arm's length terms and on the market price and they are of the view that the transactions have been entered into in the usual and ordinary course of business of our Group and are in the interest of our Group and our Shareholders as a whole.

BDO Limited, the Company's auditor, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants.

Details of the related party transactions of the Group are set out in Note 34 to consolidated financial statements. The Directors (including our independent non-executive Directors) believe that the related party transactions set out in Note 34 to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the related party transactions.

During the year under review, save for the leasing of office premises from Shanghai Automart as set out above, no other transactions listed in Note 34 to the consolidated financial statements constituted a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

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

As at 31 December 2016, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register kept by the Company under Section 352 of SFO or as otherwise notified to the Company and Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in shares of the Company

Ordinary shares with nominal value of HK$0.01 per share of the Company. The number of issued shares of the Company is 650,000,000 as at 31 December 2016.

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

Notes:

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

2. Ms. Kong Xiaoling is the non-executive Director and the spouse of Mr. Zheng Ping. Accordingly, Ms. Kong is deemed to be interested in the 282,750,000 shares held by Youshen Group under the SFO.

Save as disclosed above, as at 31 December 2016, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDER

As at 31 December 2016, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in shares of the Company

Ordinary shares with nominal value of HK$0.01 per share of the Company. The number of issued shares of the Company is 650,000,000 as at 31 December 2016.

Name	Capacity	Nature of interest	Number of ordinary shares	Percentage of issued share capital
Youshen Group *(note 1)*	Beneficial interest	Corporate	282,750,000	43.5%
Lai Yongzhong *(note 2)*	Beneficial interest	Individual & Corporate	120,160,000	18.5%
Lin Fu	Beneficial interest	Individual	52,744,000	8.1%

Notes:

1. Mr. Zheng Ping is an executive Director and Mr. Zheng Ping holds 100% interest in Youshen Group and he is deemed to be interested in the 282,750,000 shares held by Youshen Group. Ms. Kong Xiaoling is the spouse of Mr. Zheng and she is deemed to be in interested in the 282,750,000 shares 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.

Save as disclosed, as at 31 December 2016, the Directors were not aware of any persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales		
–	the largest customer	19.4%
–	five largest customers combined	48.3%

All of the five largest customers have been customers of the Group for more than five years. The credit period for trade receivables is generally 30 to 90 days. For the year ended 31 December 2016, there was no recoverability issue with the five largest customers. Also, the Group did not have any major dispute with the five largest customers.

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

Purchases		
–	the largest supplier	21.8%
–	five largest suppliers combined	49.7%

The Group has kept good business relationships with the five largest suppliers for more than five years. The suppliers generally provide a credit period for 30 to 90 days to the Group. For the year ended 31 December 2016, the Group did not have any major dispute with the five largest suppliers.

None of the Directors, their respective associates and shareholders of the Company (which to the knowledge of the Directors own more than 5% of the issued capital of the Company) had any interest in any of the five largest customers and suppliers of the Group for the financial year ended 31 December 2016.

NEW SUBSIDIARIES

In consideration of the development of new business, the Group acquired the entire interest in an inactive company, Eagle Holdings Group Limited, on 18 January 2016. Eagle Holdings Group Limited was incorporated in Hong Kong with an issued ordinary share capital of HKD1.

Further, the Group established a subsidiary, Shanghai Eagle Network Technology Co. Ltd., on 27 January 2016. It was incorporated in the PRC with a registered capital of RMB30 million.

SUFFICIENCY OF PUBLIC FLOAT

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

INTEREST CAPITALISED

The Group has not capitalised any interest during the year.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all Independent Non-executive Directors are considered to be independent.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, at no time during the year ended 31 December 2016 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 107.

AUDITOR

The financial statements of the Group prepared in accordance with the Hong Kong Financial Reporting Standards for the year ended 31 December 2016 have been audited by BDO Limited, who will retire and offer for re-election at the forthcoming annual general meeting.

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

Shanghai, 31 March 2017

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zheng Ping (鄭平), aged 59, is our executive Director, the chairman and the chief executive officer of our Company. He is the founder of our Group and joined our Group in 2002. He was appointed to the Board on 19 November 2010. He is primarily responsible for reviewing and implementing our Group's overall development strategy. From 1983 to 1990, he was the teacher of power plant department of the Navy Engineering University of the People's Liberation Army of China (中國人民解放軍海軍工程大學). From 1990 to 1993, he worked in Fuzhou Far East Auto Parts Company Limited (福州遠東汽車配件有限公司), the business scope of which is mainly manufacture of auto parts, as vice general manager. From 1994 to 2001, he was a director and the general manager of Shanghai Youshen International Trade Company Limited (上海友申國際貿易有限公司), the business scope of which is mainly international trade and trade consultancy. From 2002 to 2008, Mr. Zheng served as the director of BVI Automart. In 2005, Mr. Zheng was appointed as the chairman of Shanghai Automart and the chairman and general manager of Shanghai Shuanghua. Since 2007, Mr. Zheng has been serving as the chairman of the board of directors and general manager of Shanghai Shuanghua. From 1979, he studied on a full-time basis in the Navy Engineering University of the People's Liberation Army of China (中國人民解放軍海軍工程大學) and obtained his bachelor's degree majoring in Electrical Combustion Management in 1983. Mr. Zheng is the spouse of Ms. Kong Xiaoling.

Ms. Tang Lo Nar (鄧露娜), aged 44, is our executive Director, the chief financial officer and the company secretary of the Company. She joined our Group in 2011, and was appointed to the Board in April 2012. Ms. Tang was the company secretary of two Hong Kong main board listed companies, namely Asia Resources Holdings Limited (stock code: 899) and Karce International Holdings Company Limited (stock code: 1159), for the periods from 31 December 2008 to 1 April 2010 and from 12 January 2009 to 1 April 2010, respectively, and the company secretary of a Hong Kong main board listed company, namely Yueshou Environmental Holdings Limited (stock code: 1191) from 2 March 2012 to 10 October 2014. She is a Fellow of the Association of Chartered Certified Accountants and a member of Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Tang obtained a master's degree in Applied Finance from University of Western Sydney in 2004, a master's degree in English for Professions from The Hong Kong Polytechnic University in 2002, and a bachelor's degree in Accountancy from The Hong Kong Polytechnic University in 1995. Ms. Tang has over 20 years of experience in accounting, tax, audit, company secretarial and finance. From 1995 to 2004, Ms. Tang worked in leading accounting firms, handling various matters of accounting, tax and audit matters. Since 2005, Ms. Tang began her own business by establishing a private company in Hong Kong to provide accounting, management consultancy, tax planning and company secretarial services.

NON-EXECUTIVE DIRECTOR

Ms. Kong Xiaoling (孔小玲), aged 57, is our non-executive Director. Ms. Kong joined the Group in 2007 and was appointed to the Board on 8 June 2011. She is primarily responsible for supervising and providing advice to the Board. From 1983 to 1996, she worked in Wuhan City Automation Meter Factory (武漢市自動化儀錶廠) as technician of technology introduction office. From 1997 to 2004, Ms. Kong worked in Shanghai Youshen International Trade Company Limited (上海友申國際貿易有限公司), the business scope of which is mainly international trade and trade consultancy as director. From 2000 to 2007, she worked in Shanghai Zhong Zhi Trade Development Co., Ltd. (上海眾智貿易發展有限公司) as vice general manager. From 2007 to now, she has been appointed as the director of Shanghai Shuanghua. From 1980, Ms. Kong studied on a full-time basis in Huazhong College of Technology (華中工學院) (currently known as Huazhong University of Science and Technology (華中科技大學)) and obtained her diploma majoring in Detection Technology and Automatic Meter in 1983. She is the spouse of Mr. Zheng, our executive Director.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. He Binhui (何斌輝), aged 49, joined the Group in 2007 and was appointed as our Independent Non-executive Director on 8 June 2011. Mr. He is also a member of the remuneration committee and the nomination committee, and the chairman of the audit committee of the Board. During 2000 to 2009, he was serving as the head of capital market department and the general manger of the investment banking department of Shanghai office of China Galaxy Securities Co.,Ltd. (中國銀河證券有限責任公司). In 2007, he joined Shanghai Shuanghua as independent director. Since December 2009, he has been serving as the general manager assistant and the general manager of investment banking department of Cai Tong Securities Co. (財通證券有限公司). From 1987 to 1991, he studied Mathematics on a fulltime basis in the Ningbo University (寧波大學) and obtained his bachelor's degree majoring in Science in 1991. From 1993 to 1996, he studied on a full-time basis in the Hangzhou Electronic Industry University (杭州電子工業學院) (currently known as Hangzhou Dianzi University (杭州電子科技大學)) and obtained his master's degree of Economics majoring in Accounting in 1996. He was qualified as auditor in 1997 by Beijing Institute of Chartered Accountants ("北京註冊會計師協會").

Mr. Chen Lifan (陳禮璠), aged 78, joined the Group and was appointed as our Independent Non-executive Director on 8 June 2011. Mr. Chen is also a member of the audit committee and remuneration committee, and the chairman of the nomination committee of the Board. From 1957 to 1962, he studied on a full-time basis in the Jilin University of Technology and obtained his bachelor's degree majoring in automobile application engineering in 1962. In 2008, he attended and completed the training programme for independent executive directors hosted by Shenzhen Stock Exchange (深圳證券交易所). He worked as a professor and doctoral supervisor in the School of Automobile of Jilin University of Technology (吉林工業大學汽車學院), Jiaotong University (交通學院) and School of Automobile Engineering of Tongji University (同濟大學汽車工程學院), CDHK (中德學院) and CDHAW (中德工程學院) and has over 40 years' experience in automobile engineering.

Mr. Chen Ke (陳克), aged 49, joined the Group and was appointed as our Independent Non-executive Director on 13 November 2015. Mr. Chen is also a member of the audit committee and nomination committee, and the chairman of the remuneration committee of the Board. Mr. Chen has been the Chairman of Sun Ocean Marine Co., Limited, a Hong Kong private limited company, since 2007. During 1993 to 2006, he was the project manager and the general manager of the Greater China Region and left as the general manager of Seagos Company Inc, a US company. Both of the above companies are engaged in the business of sale, management and leasing finance of shipping, as well as other related leasing and insurance services in which Mr. Chen has extensive experience in these areas. Mr. Chen obtained a bachelor degree in Micro Biology from Fujian Normal University (福建師範大學) in 1990.

SENIOR MANAGEMENT

Mr. Zheng Ping (鄭平), aged 59, is our executive Director, the chairman and the chief executive officer of our Company. Biographical details of Mr. Zheng are set out in the paragraph headed "Executive Directors" under this section of this annual report.

Ms. Tang Lo Nar (鄧露娜), aged 44, is the executive Director, chief financial officer and our company secretary. Biographical details of Ms. Tang are set out in the paragraph headed "Executive Directors" under this section of this annual report.

COMPANY SECRETARY

Ms. Tang Lo Nar (鄧露娜), aged 44, is the executive Director, chief financial officer and our company secretary. Biographical details of Ms. Tang are set out in the paragraph headed "Executive Directors" under this section of this annual report.

Corporate Governance Report

It is the belief of the Board of Directors that corporate governance plays a vital part in maintaining the success of the Company. Various measures have been adopted to ensure that a high level of corporate governance is maintained throughout the operation of the Group. Save as to code provisions A.2.1, the Directors and/or the Company has complied with all the code provisions set out in Appendix 14 – Corporate Governance Code and Corporate Governance Report ("CG Code") of the Listing Rules for the financial year ended 31 December 2016.

THE BOARD

During the year ended 31 December 2016, the Board comprised two Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive directors to be independent.

The Board schedules four meetings a year at approximately quarterly intervals. In addition, special Board meetings are held as necessary. During the financial year ended 31 December 2016, the Board held four meetings. Details of the attendance of individual Directors are as follows:

		Attendance	
		AGM	Board of directors' meeting
(a)	**Executive Directors**		
	Mr. Zheng Ping	1/1	4/4
	Ms. Tang Lo Nar	1/1	4/4
(b)	**Non-executive Director**		
	Ms. Kong Xiaoling	1/1	4/4
(c)	**Independent Non-executive Directors**		
	Mr. Chen Ke	1/1	4/4
	Mr. He Binhui	0/1	4/4
	Mr. Chen Lifan	1/1	4/4

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

Biographies, including relationships among members of the Board are shown on pages 21 to 22 under the section on "Biography of Directors and Senior Management".

ROLES OF DIRECTORS

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

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

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

BOARD PROCESS

Proposed regular board meeting dates for a year are notified to each director at the beginning at the year. Formal notice of at least 7 days will be given in respect of a regular meeting. For special board meeting, reasonable notice will be given.

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

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

SUPPLY OF AND ACCESS TO INFORMATION

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1, the roles of chairman and chief executive officer ("CEO") of the Group should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO of the Group should be clearly established and set out in writing. The roles of the chairman and CEO of the Group are not separated and is performed by the same individual. Mr. Zheng Ping acts as both the chairman and CEO throughout. 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 management of Group and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

NOMINATION OF DIRECTORS

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

The Board shall then make recommendations to shareholders on directors standing for re-election, providing sufficient biographical details of directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominating appropriate persons to fill causal vacancies or as additions to the Board.

Although no formal board diversity policy has been formulated, the Nomination Committee would review the Board's composition where Board diversity would be considered from a number of aspects, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of services.

APPOINTMENTS, RE-ELECTION AND REMOVAL

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

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

DIRECTORS' TRAINING

All the Directors are required to provide the Company with his or her training records on a yearly basis. During the year, the Company received training records from all Directors.

DIRECTORS' INSURANCE

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in the Listing Rules as its own code of conduct for dealings in securities of the Company by the Directors (the "Code"). The Company, having made specific enquiry of all Directors, confirms that its Directors have complied with the required standard set out in the Code during the financial year ended 31 December 2016.

DELEGATION BY THE BOARD

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

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

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

BOARD COMMITTEES

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

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.

During the financial year ended 31 December 2016, one meeting of Nomination Committee was held with attendance of individual members as set out below to review and consider the composition of the Board and senior management.

	Attendance
Mr. Chen Lifan	1/1
Mr. He Binhui	1/1
Mr. Chen Ke	1/1

Remuneration Committee

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

The Remuneration Committee comprises Mr. Chen Ke, Mr. He Binhui and Mr. Chen Lifan, and was chaired by Mr. Chen Ke.

During the financial year ended 31 December 2016, one meeting of Remuneration Committee was held with attendance of individual members as set out below to review and consider the specific remuneration packages of the Company's executive directors and senior management.

	Attendance
Mr. Chen Ke	1/1
Mr. He Binhui	1/1
Mr. Chen Lifan	1/1

Audit Committee

Pursuant to the Listing Rules, an audit committee was established on 8 June 2011, comprising three Independent Non-executive Directors, namely Mr. 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 auditor in matters coming within the scope of the Group audit. It also reviews the financial reporting process and the adequacy and effectiveness of the Group's internal control system.

To comply with the requirement under the CG Code in respect of the responsibilities for performing the corporate governance duties, the Board has delegated its responsibilities to the Audit Committee to develop and review the policies and practices of the Company on corporate governance and make recommendations to the Board; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct applicable to the directors and employees; to review and monitor the training and continuous professional development of directors and senior management and to review the Company's compliance with the code provisions set out in the CG Code contained in the Listing Rules and disclosures in the corporate governance report.

During the financial year ended 31 December 2016, the audit committee held four meetings for the purpose of reviewing the Company's reports and accounts, and providing advice and recommendations to the Board of Directors. The Audit Committee also reviewed the internal control procedures of the Group. The minutes of the audit committee meeting are kept by the Company Secretary.

The Audit Committee also reviewed the Company's progress in implementing the corporate governance requirements as set out in the CG Code.

	Attendance
Mr. He Binhui	4/4
Mr. Chen Ke	4/4
Mr. Chen Lifan	4/4

The Group's results for the year ended 31 December 2016 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary. During the year ended 31 December 2016, the Company Secretary confirmed she had taken not less than 15 hours professional trainings in accordance with rule 3.29 of the Listing Rules.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

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

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Company's consolidated financial statement are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the auditor for the accounts are set out in the Independent Auditor's Report on Pages 42 and 46 of this Annual Report.

Where appropriate, a statement will be submitted by the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of the external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

A general review of the effectiveness of the Group's system of risk management and internal control covering all key control, including financial, operational and compliance, is conducted annually by the Audit Committee with the assistance of relevant internal staff. The examination consisted of enquiry, discussion and validation through observation and inspection (if necessary). The result of review will be reported to the Board and some measures would be proposed if there is any area for improvement. For the year ended 31 December 2016, the Group's system of risk management and internal control was effective. No material violation of risk management and internal control system or significant risk were detected.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Introduction

This is the first Environmental, Social and Governance Report issued by the Company. The report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide"), Appendix 27 of Main Board Listing Rules (the "Listing Rules"), issued by The Stock Exchange of Hong Kong Limited (the "HKEx"), to present the corporate social responsibilities of the Group over the years and during the year ended 31 December 2016. The annual basis of this report is the same as the annual report period of the Company.

The report mainly covers the plants of the Group in Mainland China, including Shanghai Shuanghua Automobile Parts Co., Ltd. (the "Shanghai Shuanghua") and Shanghai Shuanghua Machinery Manufacturing Co., Ltd. (the "Shuanghua Machinery").

The report has two versions, Chinese and English. If there is any inconsistency or ambiguity between the Chinese version and English version, the Chinese version shall prevail. This report is incorporated in the Group's annual report and available to Shareholders in hard copy and posted on the Internet for public access. The Internet version can be downloaded from the website of The Stock Exchange of Hong Kong Limited (the "HKEx"), http://www.hkexnews.hk, and the website of the Company, http://www.shshuanghua.com. Questions or suggestions regarding the contents of this report can be directed to us by phone or email as follows:

Shuanghua Holdings Limited
Tel: (86 21) 5058 6337
Email: ir@shshuanghua.com
Website: http://www.shshuanghua.com

Chairman's statement

Since its establishment, the Group has been committed to producing quality and green products. While striving for value creation, we always keep corporate social responsibilities in mind and integrate the sustainable development concept with consideration to environmental, social and corporate governance in all procedures of the Company.

Facing the global environmental subjects of green and low carbon, we have shortened the low-efficiency production lines through the transformation of equipment and technology to improve production efficiency and reduce energy consumption.

We attach great importance to employees' benefits as well as physical and mental health, and strive to improve the level of safe production and thus provide our employees with a fair, safe and healthy working environment.

In the pursuit of enterprise competitiveness, we deeply agree with the concept of "from the society, for the society" and actively engage in social welfare activities by investing into education and care for the social coexistence and common prosperity, and contribute to the balanced development of the society.

Attaching importance to product quality and respecting the personal value of employees, we will never stop breakthrough and innovations. The first Environmental, Social and Governance Report is prepared in accordance with the ESG Reporting Guide issued by The Stock Exchange of Hong Kong Limited to disclose the existing projects such as energy conservation and emission reduction, staff and social participation of Shuanghua. We hope that you will have a better understanding of Shuanghua. In the future, we will continue to work on those projects to achieve the goal of sustainable operations.

Zheng Ping
Chairman and CEO

Hong Kong
31 March 2017

About us

Shuanghua Holdings Limited (01241.HK) was incorporated in the Cayman Islands on 19 November 2010 as an exempted company with limited liability, and is an investment holding company, which was listed on The Stock Exchange of Hong Kong Limited on 30 June 2011.

The Group is principally engaged in the design, development, manufacture and sale of parts and components of auto air-conditioners, sale of automotive lubricants and provision of express auto repairs and maintenance services. The plants of the Group are located in Fengxian District, Shanghai. The Group has been working intensively for nearly two decades in the field of auto air-conditioners and accumulated the wealth of industry experiences and resources to form its core competitive advantages in technology, products and customers.

Historical Events of Shuanghua

1997

The establishment of Shanghai Shuanghua

2002

The restructuring of Shanghai Shuanghua to private limited company
The establishment of Automart Holdings Limited in Hong Kong

2006

The establishment of Youshen Industry
Shanghai Shuanghua was evaluated as Foreign Invested Advanced Technology Enterprise.
The heat exchanger of Shanghai Shuanghua was identified as Brand of Shanghai.
Shanghai Shuanghua was evaluated as High-Tech Enterprise of Fengxian District, Shanghai.
The land located in 919#, Kegong Road, Fengxian District, Shanghai with the area of 36,496.6 square meters was obtained by Shanghai Shuanghua.
The land located in 1800#, Kegong Road, Fengxian District, Shanghai with the area of 43,819.0 square meters was obtained by Shanghai Shuanghua.

2007

Shanghai Shuanghua reorganized to Sino-foreign Joint Venture Limited Company after the approval from the Ministry of Commerce.
The establishment of Shuanghua Machinery
Shanghai Shuanghua was awarded the Brand of 2007 issued by Shanghai SME Brand Building Promotion Committee.
Shanghai Shuanghua won the title of Excellent Enterprise in Chinese Famous Brand Database issued by CEC (China Enterprise Confederation).
The auto air-conditioner of Shanghai Shuanghua was recommended as Famous Brand of Shanghai 2007.
Certificate of High-tech Achievement Transformation Project of Shanghai was issued to LP Parallel Flow Cooling System of Shanghai Shuanghua by Shanghai High-tech Achievement Transformation Project Certification Office.
Shanghai Shuanghua won the Membership Certificate of China Refrigeration and Air-Conditioning Industry Association.

2008

The land located in 788#, Kegong Road, Fengxian District, Shanghai with the area of 52,522.2 square meters was obtained by Shanghai Shuanghua.

The automotive evaporator, condenser and water heater of Shanghai Shuanghua were recommended as Famous Brand of Shanghai 2008.

Shanghai Shuanghua obtained the certification of Enterprise Technology Center.

Shanghai Shuanghua was evaluated as High-Tech Enterprise of Shanghai.

The land located in 88#, 3111 Lane, Huancheng West Road, Fengxian District, Shanghai with the area of 26,073.37 square meters was obtained by Shuanghua Machinery.

2009

The trademark "SHUANGHUA" of Shanghai Shuanghua was identified as famous trademark of Shanghai.

The automotive evaporator, condenser and water heater of Shanghai Shuanghua under the brand "SHUANGHUA" were identified as famous brand products of Shanghai, the cascade evaporator obtained the title of Shanghai New Key Product, and the parallel flow evaporator won the title of Independent Innovation Product of Shanghai.

Shanghai Shuanghua was once again evaluated as Foreign Invested Advanced Technology Enterprise.

The Evaporator and Condenser Center of Shanghai Shuanghua obtained certification of ISO9001: 2000.

The establishment of Shuanghua Auto Component.

2010

Shanghai Shuanghua once again obtained the certification of Enterprise Technology Center.

Shanghai Shuanghua was rewarded with Staff Technology Innovation Award of Fengxian District.

Shanghai Shuanghua was rated as the AAA level in Contract Credit Rating.

Shanghai Shuanghua won the title of Famous Export Brand of Shanghai issued by Shanghai Import and Export Chamber of Commerce.

2011

Shuanghua Holdings was listed on the main board of the Stock Exchange.

Shanghai Shuanghua took the chairman of Shanghai Fengxian District Entrepreneurs Association of Shanghai Fengxian District Enterprise Association.

The automotive evaporator and condenser of Shanghai Shuanghua were identified as famous brand products of Shanghai.

Shanghai Shuanghua was evaluated as High-Tech Enterprise of Shanghai for the third time.

Shanghai Shuanghua won the title of Civilized Company of Fengxian District and Harmonious Labour Relations Enterprise of Fengxian District.

2012

Shanghai Shuanghua won the title of TOP10 Excellent Enterprises.

Shanghai Shuanghua won the title of Level 3 Enterprise of Occupational Disease Prevention and Control Management Standardization.

2013

The establishment of Shanghai Eagle Investment Co., Ltd.

Shanghai Shuanghua won the title of TOP10 Contributors at the 10th Anniversary of "Three Demolitions & One Construction" in Zhelin Town.

Shanghai Shuanghua won the title of TOP10 Excellent Industrial Enterprises.

Shanghai Shuanghua was rated as the AAA Level in Contract Credit Rating.

2014

The establishment of the subsidiaries: Shanghai Eagle Auto Technology Co., Ltd., Shanghai Eagle Petrochemical Co., Ltd., Shanghai Citgo Petroleum Co., Ltd. and Shanghai Xcel Lubricants Co., Ltd.
Shanghai Shuanghua won the title of TOP50 Enterprises of Fengxian District.
Shanghai Shuanghua won the title of TOP10 Excellent Industrial Enterprises.
Shanghai Shuanghua was evaluated as High-Tech Enterprise of Shanghai for the fourth time.
Shanghai Shuanghua took up its post as Executive Director of the 7th Council of China Refrigeration and Air-Conditioning Industry Association.

2015

Shanghai Shuanghua won the title of Credible Enterprise of Shanghai.
Shanghai Shuanghua was rated as the AAA Level in Contract Credit Rating.
The auto air-conditioner of Shanghai Shuanghua obtained the Famous Trademark of Shanghai.

2016

The establishment of Shanghai Eagle Network Technology Co., Ltd. and Eagle Holdings Group Limited.
Shanghai Shuanghua took up its post as the Member of the Executive Committee of Fengxian District Trade and Industry Federation (Chamber of Commerce).

About the main products and production processes

Evaporator

Evaporator is one of the four important components of air-conditioning system with the main function of cooling down the interior of automobile. Through the evaporator, low-temperature condensate exchanges heat with the external air by gasification endothermic to achieve the cooling effect. Shanghai Shuanghua can produce more than 1,500 varieties of evaporators, including the type of cascade, gilled tube, tube & corrugated fin and parallel flow. The cascade evaporator is now our main evaporator product.

Condenser

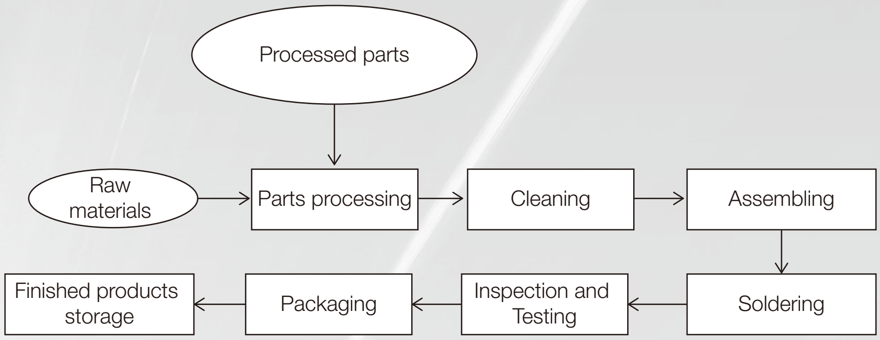
Condenser, a kind of heat exchanger, is one of the four important components of air-conditioning system, which liquefies the high-pressure steam discharged from the compressor and dissipates the heat in the tube to the air near the tube quickly. The condenser has a series of thin wings around the tube to provide a wide range of contact surfaces for heat dissipation. Shanghai Shuanghua can produce more than 2,000 varieties of condensers, including different specifications of parallel flow, gilled tube and tube & corrugated fin. The parallel flow condenser is now our main condenser product.

Other products

Besides the evaporators and condensers, we also produce other automotive heat exchangers, such as heater cores, oil coolers and intercoolers, in a smaller scale. Those heat exchangers are used as an accessory to the vehicle engine to enhance its performance and reliability. Shanghai Shuanghua can produce 350 varieties of heater cores, 30 varieties of oil coolers and more than 50 varieties of intercoolers.

Production processes

The production process chart of evaporator and condenser is as follows:



Our evaporators and condensers have similar production processes, so the production line can be shared among these products with certain adjustments. This further enables us to shift production focus promptly in response to any changes that may occur in production configuration or market demand. The evaporator and condenser production process generally includes the following principal steps:

1. Conduct field test sampling of the aluminum raw materials, and substandard materials will be returned to the suppliers.

2. Stamp and process the aluminum raw materials and aluminum processed parts into different production parts, such as heat sinks, water tanks and pipes. The process of stamping raw materials produces aluminum scrap.

3. Clean the processed parts by water or ultrasonic to remove surface oil before assembling.

4. Solder the assembled parts in the nitrogen protection brazing furnace, while nitrogen provides protective layer to prevent oxidation of the product.

5. Inspect the finished product in accordance with the relevant quality control standard (such as size detection, air tightness and performance testing) before packaging and storage. Substandard products will be removed and sold as aluminum scrap.

The average production period of the evaporator and condenser products (as shown in the process chart above) is about 50 hours.

Environment

The plants of the Group belong to the automobile parts manufacturing industry and mainly comply with the *Environmental Protection Law of the People's Republic of China, Air Pollution Prevention and Control Law of the People's Republic of China*, *Law of the People's Republic of China on Prevention and Control of Environmental Pollution Caused by Solid Waste, Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution,* the *Notice of the State Council on Printing and Distributing the Eleventh Five-Year Plan for the Protection of Ecological Environment*, *Shanghai Environmental Protectional Rules* and the various emissions discharging standards and other relevant laws and regulations issued by the relevant government departments. In 2016, Shanghai Shuanghua was fined RMB0.1 million by the Shanghai Environmental Protection Bureau because of its production activities with waste gas containing volatile organic compounds were not carried out in confined space or equipment according to the requirement of the *Air Pollution Prevention and Control Law of the People's Republic of China* revised on 29 August 2015. Shanghai Shuanghua installed confined equipment which meets the requirements of the law immediately and all environmental protection equipment and facilities are in compliance with the requirements of environmental laws and regulations as of the report date. For the year ended 31 December 2016, the Group had not been punished by the Environmental Protection Bureau because of excessive discharge.

Emissions

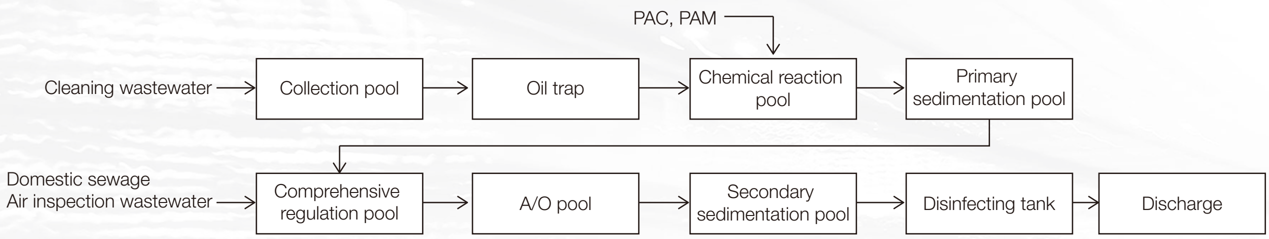
The main emissions generated in the production processes are as follows:

Wastewater

Wastewater generated in the plants mainly includes industrial wastewater and domestic sewage.

Industrial wastewater includes the water for parts surface cleaning and the regularly-replaced testing wastewater in the air inspection flume. Products and parts need to be cleaned before soldering to remove the surface oil, using the JY0105 aluminum alloy cleaning agent. The main pollutants in the wastewater after cleaning are CODcr, SS, PH, petroleum, total phosphorus, anionic surfactants, etc. The cleaning wastewater emission is about 15 tons/day. Air inspection wastewater refers to the wastewater produced by the periodic replacement of the water stored in the air inspection flume for checking the product's air tightness, of which the discharge volume is about 1 ton/day. Domestic sewage discharge volume is about 0.1 ton/day/person.

The sewage treatment facilities are installed in the plant area. After being collected by the collection pool and going through the oil trap, flocculation and precipitation, the cleaning wastewater goes into a comprehensive regulation pool, together with the domestic sewage and air inspection wastewater, and discharges through municipal sewage pipe after biochemical treatment, precipitation and disinfection. The specific sewage treatment process is as follows:



The processing capacity of the sewage treatment facilities in the plant area is over 100 tons/day. Wastewater after treatment reaches the quality standards issued by relevant departments without adverse effects to the surrounding water environment.

Exhaust

A small amount of brazing dust is generated in the brazing furnace during the soldering of the products in production process, and discharged into the air 15 meters high above the plant roof after the treatment by the filter device equipped in the brazing equipment at about 6.05mg/m^3 of concentration and 9.08*10^{-3}kg/h of speed, which meets the emission limits of particulates in the *Comprehensive Emission Standard of Air Pollutants* (GB16297-1996). When the plant was designed, we took into consideration the adverse effects of trace amounts of HF generated in the soldering process by reaction of flux and water, and filled the entire baking and brazing furnace with liquefied nitrogen to prevent HF from being generated.

During the manual soldering process, a small amount of soldering dust is generated in the argon arc welder and discharged out of the workshop through the exhaust fan, and the concentration of the dust in workshop meets the requirements of the *Occupational Exposure Limit for Workplace Hazards* (GZ2.1-2007).

During the condenser surface electrostatic spray process, a certain amount of plastic dust attached to the metal surface is generated and discharged into the air 15 meters high above the plant roof at 2mg/m^3 of concentration (with the air volume at 4000 m^3/h) and 0.008kg/h of speed, after the treatment by the bag filter (using compressed air pulse to clean and recycle the plastic powder) with the efficiency at 99%, which meets the emission limits of particulates in the *Comprehensive Emission Standard of Air Pollutants* (GB16297-1996).

In order to ensure the compliance of national environmental standards, Shanghai Shuanghua has commissioned Shanghai Star Environmental Protection Technology Co., Ltd., a specially qualified company of environmental protection, to design, manufacture, install and debug the exhaust treatment system (15,000 m^3/h), and the processed exhaust has reached the relevant standards in the *Comprehensive Emission Standard of Air Pollutants of Shanghai* (DB31-933-2015), after being inspected by qualified environmental monitoring agencies. This project uses activated carbon adsorption and purification method to treat organic exhaust and collect the exhaust in production site.

Solid waste

The scraps, substandard products and waste packaging materials generated in production processes, including parts pre-cut, stamping and fins, etc., are collected by the industrial waste recycling department; a small amount of waste oil, waste oil tarpaulins and waste saponified solution are regularly disposed of by the commissioned qualified contractor; the sludge from sewage treatment station and the brazing furnace purification dust are also recycled and disposed of by the commissioned qualified contractor; and the household refuse and office waste are regularly cleared and disposed of by public sanitation departments.

Noise

Noise is mainly generated from metal processing equipment, furnace exhaust fan, air compressor and cooling towers, etc. The impact of the plants' production on the external environment has been reduced through reasonable layout, placing the equipment in isolated processing room, as well as installing shock absorbers and sound insulation windows, the noise within plant area was able to meet the standards in *Environmental Noise Emission Standards for Industrial Enterprise Plants*.

Use of resources

Green and environmental protection have always been the Group's philosophy and goal. It has formulated a series of environmental protection system to actively improve the production lines with a view to increase production efficiency and reduce consumption of energy and resources. The consumption of energy and resources by the Group's plants in the past two years was as follows:

Year	Electricity consumption (KWH)	Electricity consumption per unit (KWH/unit)	Water consumption (ton)	Water consumption per unit (ton/unit)	Use of packing materials (ton)	Use of packing materials per unit (ton/unit)
2015	5,919,200	5.78	39,449	0.04	360	0.35
2016	3,780,800	4.85	33,759	0.04	300	0.35

Within the Group's office area, energy consumption has been reduced through measures such as double-sided printing, e-office and timely switching off of electrical appliances.

Society

Employment

In the recruitment, the Group has strictly complied with the relevant laws and administrative regulations of China, such as the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China* and the *Special Provisions on the Labour Protection of Women Workers*. In accordance with the needs of each post, the Group recruits all the talents regardless of race, gender, age, religion, region and nationality. As at 31 December 2016, the total number of employees of the Group was 224. All employees came from Mainland China except for 3 of them. All of them are full-time employees which can be categorised as follows:

Gender	Male					Female				
Age	Headcount at beginning of 2016	New recruits	Resignation	Rate of resignation	Headcount at end of 2016	Headcount at beginning of 2016	New recruits	Resignation	Rate of resignation	Headcount at end of 2016
30 or below	48	6	45	9.80%	9	35	6	26	5.66%	15
31-50	149	28	95	20.70%	82	163	4	85	18.52%	82
50 or above	52	0	22	4.79%	30	12	0	6	1.31%	6
Total	249	34	162	35.29%	121	210	10	117	25.49%	103

Educational background	Headcount at beginning of 2016	New recruits	Resignation	Rate of Resignation	Headcount at end of 2016
Bachelor degree or above	37	11	31	6.75%	17
College	61	28	54	11.76%	35
High school or below	361	5	194	42.27%	172
Total	459	44	279	60.78%	224

Region	Headcount at beginning of 2016	New recruits	Resignation	Rate of Resignation	Headcount at end of 2016
Outside Mainland China	3	0	0	0.00%	3
Eastern Region	276	11	143	31.15%	144
Middle Region	87	30	80	17.43%	37
Western Region	93	3	56	12.20%	40
Total	459	44	279	60.78%	224

Health and safety

The Group is committed to providing employees with a safe, harmless and comfortable working environment. Besides the security, cooling, heating and other hardware installed in the plants and offices, Shuanghua has also made significant investment in green projects. Green trees, grass and red flowers can be seen everywhere in the plant area of Shuanghua, so that the employees can work in the garden-style plant joyfully. The hardware facilities in respect of labour safety and hygiene and main constructions work in the plant and office area are designed and carried out simultaneously and put into use at the same time. The Group provides workers with the necessary labour protection products and regular health checks for workers engaging in works with occupational hazards. The Group has formulated the *Safety Production Management System*, the safety production process and operating procedures. The new recruits and trainees must attend the safety production training at three different levels, from the working unit, team and operation position. Workers who change jobs must be re-educated. Those who are engaged in special work of electrical, soldering, vehicle driving, flammable and explosive substance etc. must attend professional safety and technical training, and obtain a qualified operating permit (license) after strict examination by the relevant departments before operating independently. Each workshop organizes a monthly safety training to enhance the safety awareness of employees. The plants set up a special quality and safety department to check, correct and educate the irregularities every day, including not wearing labour insurance products and operations in violations of rules, etc., to prevent accidents in the working process and reduce the occurrence of safety incidents. The plants have also formulated a contingency plan for various emergencies to ensure the safe and orderly operation and the safety of the staff to the greatest extent.

The occupational injuries in the plants of the Group in 2016 are as follows:

Male	Total productive hours (hrs)	Occupational injuries (times)	Working days lost (days)	Accounting for the productive hours (%)
	269,968	7	141	0.41%

Female	Total productive hours (hrs)	Occupational injuries (times)	Working days lost (days)	Accounting for the productive hours (%)
	239,048	7	161	0.53%

Development and training

The Group attaches importance to the improvement of the employees' ability, and various training measures have been implemented to continuously improve their professional knowledge and skills, enhance the management skills and develop their problem-solving ability, in order to ensure the innovation within the Group and maintain the competitive advantage.

The training courses of the Group include: new recruits training, first aid knowledge and non-smoking training, fire drill, labour laws training, accountant's re-education, safety management training, equipment operation training, special vehicle operation training and professional skills training, etc. Shuanghua fully subsidizes the internal and external training courses and partly subsidizes the voluntary study and further education of the employees. The training measures above cover all employees in the Group.

Labour standards

In order to safeguard the health and safety of employees, completely complying with the labour laws and regulations, the Group has never employed child labour under 16 years old since its establishment, and strictly forbids forced labours or untrained employees to be engaged in dangerous work. Under the premise of consensus, the Group signs labour contract with the employees in accordance with the *Labour Law of the People's Republic of China* and *Labour Contract Law of the People's Republic of China*, and offers compensation according to the position. Employees work within the legal working hours and enjoy the rest periods regulated by the state and a free lunch is provided by the Group. The Group provides social insurances such as medical, maternity, work injury, unemployment and pension to its employees and makes contributions to the housing reserve funds for them. The Group offers special protection to female employees through the prohibition on hazardous works to female employees and appropriate rest periods offered during their pregnancy, postpartum period and lactation. Since the establishment of the Group and its predecessor, no female employees have involved in deduction of salary, dismissal or termination of labour contracts because of their pregnancy, fertility or lactation. After maternity leave, female employees are arranged to return to their original department and position and reintegrate into the workplace with the active assistance from the Group. In 2016, 100% of the pregnant female employees return to their position after maternity leave.

The Group strictly observes the requirements of laws. The HR department will regularly inspect whether the labour practice is in compliance with the labour laws and regulations. Any non-compliance, such as employment of child or forced labour, will be met with the following measures:

1) Investigate the incident and report to the local labour department;

2) Negligence in an incident will immediately lead to termination of the labour contract with the litigant and be liable for the loss and injury caused by the incident.

However, in case of fraud, Shuanghua will take the necessary legal measures and actions.

Supply chain management

The Company has formulated a procurement control procedure. Before the procurement, the procurement department of the Group reviews and selects the quality suppliers from a number of supplier candidates in order to establish the suppliers' directory. The Group establishes a long-term strategic cooperative relationship with suppliers of good performances in qualification, reputation, product quality, environmental protection and social responsibility, and the efficient and green supply chain together with the suppliers. The procurement department of the Group will regularly double check the suppliers to enhance the control and effectively guarantee product quality.

Currently, the Group has 56 suppliers in total, the distribution of which were as follows:

Region	Number
Beijing	1
Tianjing	1
Guangdong	1
Shandong	1
Jiangxi	1
Jiangsu	10
Shanghai	34
Zhejiang	7
Total	56

Product responsibility

We have been committed to the production of the best automotive HVAC components, including evaporators and condensers, and we attach great importance to product quality and reputation by enhancing the product quality review and sales management to ensure the delivery of quality products to the customers. The Group strictly implements the job quality standards and quality responsibilities and improves the product quality management and development plan. In the production and sales process, we enhance the product quality management and develop a reasonable and flexible program aimed at meeting market and customer needs. We have obtained the ISO9001 quality management system certification.

The Group has formulated the *Control Procedure for Product Inspection and Measurement* and the *Control Procedure for Unqualified Products*. If a quality issue of the delivered product does exist in spite of our best efforts in guaranteeing product quality, the customer can submit the case to our customer service staff who will then inform the relevant departments and responsible person for verifying the causes and arranging product return or exchange. In 2016, a total of 61 customer complaints were received and 5,300 products were returned or exchanged which accounted for 0.002% of total shipments. The products of the Group are safe and harmless while in 2016 no delivered products have been recalled due to safety and health issues.

The Group respects and protects intellectual rights. The Group currently conducts relevant business under its core brand "SHUANGHUA(雙樺)" trademark. The Group has completed the necessary registration and has taken proactive measures to protect its trademarks and other intellectual properties. A professional institution has been commissioned to protect our products and trademarks and apply for the patents according to the *Patent Law of the People's Republic of China* and the *Trademark Law of the People's Republic of China*. Any fake and inferior products against the Company will be punished by all possible measures.

In order to ensure the safety and rational use of customer information, the Company has taken appropriate measures for privacy protection, such as setting data management permission and distinguishing the management permission of written data and system data, to ensure that unauthorized persons cannot browse or access the information, and the expired documents or information will be destroyed accordingly. Since its establishment, the personal and customer information of the Group has never been stolen, tampered, damaged or leaked out.

Anti-corruption

The Group has formulated a comprehensive internal control structure and prudent policies and signed honesty agreements with relevant staff to prevent and control corruption, fraud, cheat or unethical behaviours. Employees can report any irregularities, such as dereliction of duty, abuse of power, receiving bribes, encroachment on corporate property, etc. to the Company's board of supervisors and internal audit department through letter, email and telephone, etc., and the relevant departments will investigate and collect the evidence to verify the report, followed by punishment after a conclusion is drawn.

Since the establishment of the Group, no cases of corruption, bribery, extortion, fraud or money laundering have occurred. The Group will continue to insist on ethics and uphold good reputation to prevent any corruption incident from occurring in the future.

Social investment

As a corporate citizen, Shuanghua sees shouldering of corporate social responsibility as its mission and actively participates in the community and charity works with a view to bring corporate value into full play, and assumes its corporate responsibility. The Group is not only devoted to its business operation but also strives to contribute, show care and give help to the society. The Group also sets aside reserved funds for social services every year and has taken practical measures to contribute to the society and actively perform its corporate civic responsibility by making donations to help underprivileged families.

In 2005, RMB2,000 was donated to the tsunami disaster area of Southeast Asia.

In 2006, RMB4,000 was donated to “Beloved under the Blue Sky”.

In 2007, RMB10,000 was donated to “Daily Charity”.

In 2008, RMB15,000 was donated to “Daily Charity”, RMB30,000 was donated to Fengxian District Sports Day, RMB300,000 was donated to Wenchuan earthquake disaster area, and RMB20,000 was donated to “New Rural Construction” in CSPGP of Fengxian District.

In 2010, RMB20,000 was donated to “Beloved under the Blue Sky”.

In 2011, RMB20,000 was donated to “Beloved under the Blue Sky”.

In 2012, RMB50,000 was donated to Preference for Military Families Foundation of Shanghai, and RMB20,000 was donated to “Beloved under the Blue Sky”.

In 2014, RMB250,000 was donated to Silk Road Peace Prize Foundation of Shanghai.

In 2015, RMB30,000 was donated to “Beloved under the Blue Sky”.

In 2016, RMB50,000 was donated to “Beloved under the Blue Sky”.

AUDITOR

BDO Limited has been appointed as auditor of the Company.

AUDITOR'S REMUNERATION

The fees in relation to the audit and other services provided to the Company and its subsidiaries by the external auditor of the Group for the year ended 31 December 2016, amounted approximately to RMB720,000. No non-audit service was provided by the external auditor of the Group for the year ended 31 December 2016.

SHAREHOLDERS' RIGHTS

Under the Company's Articles, the Board, on the requisition of shareholders of the Company holding not less than 10% of the paid up capital of the Company, can convene an extraordinary general meeting within 2 months after the deposit of such requisition, to address specific issues of the Company within 21 days from the date of deposit of written notice to the Company's principal place of business in Hong Kong. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meeting for adoption.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

COMMUNICATION WITH SHAREHOLDERS

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

The Chairman of the Board and other Board members would attend the forthcoming annual general meeting in 2017 to answer questions, if any, at the meeting.

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Shuanghua Holdings Limited (the "Company") and its subsidiaries (hereafter referred to as the "Group") set out on pages 47 to 107, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment of property, plant and equipment and prepaid land lease payments

Refer to Notes 12 and 13 to the consolidated financial statements.

The Group had property, plant and equipment with an aggregate carrying amount of RMB93,698,000 and prepaid land lease payments with an aggregate carrying amount of RMB65,233,000 in the segment of design, development, manufacture and sale of automobile air-conditioner parts and components as at 31 December 2016.

During the year ended 31 December 2016, the Group continued to be affected by the adverse economic conditions in the PRC and sustained a loss of RMB16,346,000. The directors continued to review and adjust the Group's business strategy to reduce or eliminate unprofitable operations or products. The Group continued to impair plant and machinery which are idled or outdated. No impairment loss on property, plant and machinery was recognised by the Group during the year ended 31 December 2016 and accumulated impairment losses on these assets amounted to RMB43,858,000 as at 31 December 2016.

Management's conclusions were based on a value in use or fair value less costs of disposal model that required significant management judgement with respect to the discount rates and the other factors affecting the underlying cash flows such as the future revenue growth rates.

Our response:

(i) Assessed the valuation methodologies used by management;

(ii) Checked the arithmetical accuracy of the impairment testing;

(iii) Assessed the reasonableness of discount rates, growth rates and gross margin applied to the impairment testing;

(iv) Assessed the reasonableness of other key assumptions based on our knowledge of the business and industry;

(v) Assessed the reasonableness of input data to supporting evidence such as approved budgets and considering the reasonableness of these budgets; and

(vi) Considered the potential impacts of reasonably changes in management's key assumptions and input data.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Shiu Hong NG
Practising Certificate Number: P03752

Hong Kong, 31 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**120,749**	143,076
Cost of sales		**(108,442)**	(130,497)
Gross profit		**12,307**	12,579
Other income and gains	5	**7,572**	10,026
Selling and distribution expenses		**(10,591)**	(9,846)
Administrative expenses		**(25,645)**	(28,136)
Other expenses	6	**(593)**	(28,001)
LOSS BEFORE TAX	7	**(16,950)**	(43,378)
Income tax credit	10	**604**	4,384
LOSS FOR THE YEAR		**(16,346)**	(38,994)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**27**	16
Net movement in fair value reserve for available-for-sale investment		**8,629**	–
OTHER COMPREHENSIVE INCOME		**8,656**	16
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(7,690)**	(38,978)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(16,346)**	(38,994)
Non-controlling interests		**–**	–
		(16,346)	(38,994)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		**(7,690)**	(38,978)
Non-controlling interests		**–**	–
		(7,690)	(38,978)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Basic and diluted	11	**(2.5) cents**	(6.0) cents

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*12*	**95,382**	106,121
Prepaid land lease payments	*13*	**65,231**	67,056
Available-for-sale investment	*15*	**8,891**	262
Deferred tax assets	*25*	**7,031**	7,152
Total non-current assets		**176,535**	180,591
CURRENT ASSETS			
Inventories	*16*	**43,204**	55,041
Trade and notes receivables	*17*	**65,767**	84,793
Prepayments, deposits and other receivables	*18*	**7,787**	6,529
Financial assets at fair value through profit or loss	*19*	**59,000**	70,600
Pledged deposits	*20*	**–**	5,350
Cash and cash equivalents	*20*	**95,818**	76,209
Total current assets		**271,576**	298,522
CURRENT LIABILITIES			
Trade and bills payables	*21*	**27,297**	52,197
Other payables and accruals	*22*	**15,881**	12,462
Due to a related party		**–**	42
Provisions	*23*	**1,355**	803
Government grants	*24*	**2,021**	2,021
Income tax payable		**515**	851
Total current liabilities		**47,069**	68,376
NET CURRENT ASSETS		**224,507**	230,146
TOTAL ASSETS LESS CURRENT LIABILITIES		**401,042**	410,737

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Government grants	24	**3,091**	5,112
Deferred tax liabilities	25	**577**	561
Total non-current liabilities		**3,668**	5,673
Net assets		**397,374**	405,064
EQUITY			
Equity attributable to owners of the Company			
Issued capital	26	**5,406**	5,406
Reserves	27	**233,686**	224,934
Retained earnings		**158,277**	174,719
		397,369	405,059
Non-controlling interests		**5**	5
Total equity		**397,374**	405,064

Zheng Ping
Director

Tang Lo Nar
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company										
	Issued capital RMB'000 (Note 26)	Share premium* RMB'000 (Note 27)	Capital reserve* RMB'000 (Note 27)	Statutory surplus reserve* RMB'000 (Note 27)	Available-for-sale investment revaluation reserve* RMB'000 (Note 27)	Merger reserve* RMB'000 (Note 27)	Exchange fluctuation reserve* RMB'000 (Note 27)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	5,406	133,658	168,183	42,755	–	(119,378)	(300)	311,213	541,537	5	541,542
Loss for the year	–	–	–	–	–	–	–	(38,994)	(38,994)	–	(38,994)
Other comprehensive income for the year	–	–	–	–	–	–	16	–	16	–	16
Total comprehensive loss for the year	–	–	–	–	–	–	16	(38,994)	(38,978)	–	(38,978)
Interim dividend approved and paid in 2015	–	–	–	–	–	–	–	(97,500)	(97,500)	–	(97,500)
At 31 December 2015	5,406	133,658	168,183	42,755	–	(119,378)	(284)	174,719	405,059	5	405,064

	Attributable to owners of the Company										
	Issued capital RMB'000 (Note 26)	**Share premium* RMB'000 (Note 27)**	**Capital reserve* RMB'000 (Note 27)**	**Statutory surplus reserve* RMB'000 (Note 27)**	**Available-for-sale investment revaluation reserve* RMB'000 (Note 27)**	**Merger reserve* RMB'000 (Note 27)**	**Exchange fluctuation reserve* RMB'000 (Note 27)**	**Retained earnings RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
At 1 January 2016	**5,406**	**133,658**	**168,183**	**42,755**	**-**	**(119,378)**	**(284)**	**174,719**	**405,059**	**5**	**405,064**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(16,346)**	**(16,346)**	**-**	**(16,346)**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**8,629**	**-**	**27**	**-**	**8,656**	**-**	**8,656**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**8,629**	**-**	**27**	**(16,346)**	**(7,690)**	**-**	**(7,690)**
Appropriation to statutory surplus reserve	**-**	**-**	**-**	**96**	**-**	**-**	**-**	**(96)**	**-**	**-**	**-**
At 31 December 2016	**5,406**	**133,658**	**168,183**	**42,851**	**8,629**	**(119,378)**	**(257)**	**158,277**	**397,369**	**5**	**397,374**

* These reserves comprise the consolidated reserves of RMB233,686,000 (2015: RMB224,934,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(16,950)**	(43,378)
Adjustments for:			
Bank interest income	5	**(2,730)**	(1,807)
(Gain)/loss on disposal of property, plant and equipment	6	**(548)**	75
Gain on disposal of a subsidiary	5	**–**	(368)
Gain on disposal of financial assets at fair value through profit or loss	5	**(1,902)**	(2,344)
Depreciation	12	**10,448**	12,609
Recognition of prepaid land lease payments	13	**1,825**	1,825
Release of government grants	24	**(2,021)**	(2,022)
Impairment of property, plant and equipment	12	**–**	24,563
Impairment of inventories	16	**458**	17,667
Write off of inventories	7	**7,093**	936
Impairment of trade receivables	17	**396**	1,689
Impairment of other receivables	18	**–**	1,304
		(3,931)	10,749
Decrease in inventories		**4,286**	3,877
Decrease in trade and notes receivables		**18,630**	28,690
Increase in prepayments, deposits and other receivables		**(1,258)**	(235)
Decrease in trade and bills payables		**(24,900)**	(8,960)
Increase/(decrease) in other payables and accruals		**3,419**	(7,838)
(Decrease)/increase in amount due to a related party		**(42)**	42
Increase in provision for product warranties		**552**	137
Foreign exchange differences, net		**(1,250)**	(104)
Cash (used in)/generated from operations		**(4,494)**	26,358
Interest received		**2,730**	1,807
Income tax refunded/(paid)		**405**	(1,057)
Net cash flows (used in)/from operating activities		**(1,359)**	27,108

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in pledged deposits		**5,350**	1,890
Purchases of property, plant and equipment	*12*	**(1,233)**	(921)
Proceeds from disposal of property, plant and equipment		**2,072**	53
Disposal of a subsidiary (net of cash and cash equivalents)		**–**	(5)
Proceeds from disposal of investments at fair value through profit or loss	*19*	**376,402**	252,744
Purchases of investments at fair value through profit or loss	*19*	**(362,900)**	(273,000)
Net cash flows from/(used in) investing activities		**19,691**	(19,239)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**–**	(96,456)
Net cash flows used in financing activities		**–**	(96,456)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**18,332**	(88,587)
Cash and cash equivalents at beginning of year		**76,209**	165,720
Effect of foreign exchange rate changes, net		**1,277**	(924)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**95,818**	76,209

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance which concern the preparation of consolidated financial statements. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and available-for-sale investment which have been measured at fair value.

(c) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. All values are rounded to the nearest thousand except when otherwise indicated.

(d) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (hereafter referred to as the "Group") for the year ended 31 December 2016. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION (CONTINUED)

(d) Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 ADOPTION OF NEW/REVISED HKFRSs

The Group has adopted the following new/revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for the current accounting period.

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 adoption of the new HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no restatement has been recognised.

2.2 ADOPTION OF NEW/REVISED HKFRSs (CONTINUED)

The impact of adopting the new or amended HKFRSs is discussed below:

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity's share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on the Group's financial statements as the Group has not previously used revenue-based depreciation methods.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on the financial statements as the Company has not elected to apply the equity method in its separate financial statements.

2.3 NEW/REVISED HKFRSs NOT YET ADOPTED

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Revenue from Contracts with Customer (Clarifications to HKFRS 15)[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

2.3 NEW/REVISED HKFRSs NOT YET ADOPTED (CONTINUED)

HKFRS 9 – Financial Instruments (continued)

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to each performance obligation

Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments HKFRS 15 – Revenue from Contracts with Customers (Classifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

2.3 NEW/REVISED HKFRSs NOT YET ADOPTED (CONTINUED)

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable. Investments in subsidiaries are stated at cost less any impairment losses in the Company's statement of financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Fair value measurement

The Group measures any of its derivative financial instruments and its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets (other than goodwill)

Research and development costs

All research costs are charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

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

(g) Operating leases

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

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

(h) Investments and other financial assets

(a) *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investments and other financial assets (continued)

(b) *Subsequent measurement*

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

(i) Financial assets at fair value through profit or loss

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised as other income in the consolidated statement of profit or loss and other comprehensive income or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the consolidated statement of profit or loss and other comprehensive income as other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the consolidated statement of profit or loss and other comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investments and other financial assets (continued)

(b) *Subsequent measurement (continued)*

(iii) Available-for-sale financial investments (continued)

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of profit or loss and other comprehensive income.

(i) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of financial assets

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

(i) *Financial assets carried at amortised cost*

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

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

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

(ii) *Assets carried at cost*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial liabilities

(i) *Initial recognition and measurement*

The Group's financial liabilities are recognised initially at amortised cost including trade and other payables and amounts due to related parties.

(ii) *Subsequent measurement*

After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

(l) Derecognition of financial liabilities

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

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

(m) Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Inventories

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

(o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits at banks, and short term highly liquid investments that are readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated and company statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(p) Provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

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

(q) Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (continued)

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Government grants

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

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

(s) Revenue recognition

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

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

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

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

(t) Employee benefits

(i) *Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) *Pension obligations*

The Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by the PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. The pension scheme is considered as a defined contribution plan because the Group has no legal or constructive obligations for retirement benefits beyond the contribution made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits (continued)

(ii) *Pension obligations (continued)*

The Group's subsidiaries which operate in Hong Kong are required to provide a defined Contribution Mandatory Provident Fund retirement benefit scheme (the "MPF") under the Mandatory Provident Fund Schemes Ordinance for all their employees. Contribution are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund. The Group's employer contribution vest fully with the employees once contributed into the MPF scheme.

Contributions to the defined contribution pension scheme are recognised as expenses in the consolidated statement of profit or loss and other comprehensive income of the Group as they become payable in accordance with the rules of the scheme. There are no provisions under the scheme whereby forfeited contributions may be used to reduce future contributions.

(iii) *Termination benefits*

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(u) Borrowing costs

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

(v) Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in the same manner as the recognition of the gain or loss on change in fair value of the item.

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) Judgements

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

(i) *Recognition of deferred tax liabilities for withholding taxes*

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

(b) Estimation uncertainty

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

(i) *Impairment of non-financial assets*

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

(ii) *Useful lives and residual values of property, plant and equipment*

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Estimation uncertainty (continued)

(iii) *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details are contained in Note 25 to the consolidated financial statements.

(iv) *Income tax*

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised. Further details are contained in Note 10 to the financial statements.

(v) *Impairment of trade and other receivables*

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

(vi) *Provision for slow-moving inventories and net realisable value of inventories*

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Estimation uncertainty (continued)

(vii) *Warranty provision*

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

4. 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 in 2016. 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 automobile air-conditioner parts and components

- Sale of automotive lubricants and provision of 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.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(a) Business Segments

Inter-segment transactions are priced with reference to prices charged to external parties for similar items. Corporate 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 automobile air-conditioner parts and components		Sale of automotive lubricants and provision of express auto repairs and maintenance services		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**119,047**	142,919	**1,702**	157	**120,749**	143,076
Inter-segment revenue	**–**	–	**6**	4	**6**	4
Reportable segment revenue	**119,047**	142,919	**1,708**	161	**120,755**	143,080
Reportable segment loss	**(21,733)**	(50,422)	**(6,932)**	(4,701)	**(28,665)**	(55,123)
Bank interest income	**2,341**	172	**7**	15	**2,348**	187
Unallocated bank interest income					**382**	1,620
Total bank interest income					**2,730**	1,807
Foreign exchange loss, net	**(9,150)**	(5,312)	**–**	–	**(9,150)**	(5,312)
Unallocated foreign exchange gain, net					**10,062**	8,381
Total foreign exchange gain, net					**912**	3,069
Depreciation and amortisation	**(12,109)**	(14,251)	**(164)**	(183)	**(12,273)**	(14,434)
Impairment of property, plant and equipment	**–**	(24,563)	**–**	–	**–**	(24,563)
Impairment of inventories	**(458)**	(17,667)	**–**	–	**(458)**	(17,667)
Impairment of trade receivables	**(396)**	(1,689)	**–**	–	**(396)**	(1,689)
Write-off of inventories	**(7,093)**	–	**–**	(936)	**(7,093)**	(936)
Impairment of other receivables	**–**	(1,304)	**–**	–	**–**	(1,304)
Income tax credit	**604**	4,384	**–**	–	**604**	4,384
Reportable segment assets	**332,068**	362,595	**13,221**	11,671	**345,289**	374,266
Additions to non-current assets	**1,200**	880	**33**	41	**1,233**	921
Reportable segment liabilities	**(50,506)**	(73,868)	**(196)**	(181)	**(50,702)**	(74,049)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
Revenue		
Reportable segment revenue	**120,755**	143,080
Elimination of inter-segment revenue	**(6)**	(4)
Consolidated revenue	**120,749**	143,076

	2016 RMB'000	2015 RMB'000
Loss before tax		
Reportable segment loss	**(28,665)**	(55,123)
Unallocated other income and gains	**12,346**	12,345
Corporate and other unallocated expenses	**(631)**	(600)
Consolidated loss before tax	**(16,950)**	(43,378)

	2016 RMB'000	2015 RMB'000
Assets		
Reportable segment assets	**345,289**	374,266
Available-for-sale investment	**8,891**	262
Financial assets at fair value through profit or loss	**59,000**	70,600
Unallocated corporate assets	**34,931**	33,985
Consolidated total assets	**448,111**	479,113

	2016 RMB'000	2015 RMB'000
Liabilities		
Reportable segment liabilities	**(50,702)**	(74,049)
Unallocated corporate liabilities	**(35)**	–
Consolidated total liabilities	**(50,737)**	(74,049)

4. OPERATING SEGMENT INFORMATION (CONTINUED)

(c) Geographical information

Revenue from external customers

	2016 RMB'000	2015 RMB'000
The PRC (country of domicile)	**95,787**	111,201
The United States of America	**4,923**	7,031
Canada	**14,040**	16,848
Asia	**5,296**	7,088
Others	**703**	908
	120,749	143,076

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

The Company's country of domicile is the PRC where most of the Group's operations are located.

All non-current assets of the Group are located in the PRC (country of domicile).

Information about major customers

For the year ended 31 December 2016, revenues from two customers in the design, development, manufacture and sale of automobile air-conditioner parts and components segment amounted to RMB23,417,000 (2015: RMB16,848,000) and RMB18,593,000 (2015: RMB28,739,000) respectively and each contributed to more than 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value added tax and government surcharges, and after allowances for returns.

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

	Notes	2016 RMB'000	2015 RMB'000
Revenue			
Sale of goods		**120,749**	143,076
Other income and gains			
Bank interest income		**2,730**	1,807
Government grants	*24*	**2,021**	2,022
Interest income from investments at fair value through profit or loss		**1,902**	2,344
Foreign exchange gain, net		**912**	3,069
Gain on disposal of a subsidiary		**–**	368
Others		**7**	416
		7,572	10,026

6. OTHER EXPENSES

	Notes	2016 RMB'000	2015 RMB'000
Impairment of property, plant and equipment	*12*	**–**	24,563
Impairment of trade receivables	*17*	**396**	1,689
Impairment of prepayments, deposits and other receivables	*18*	**–**	1,304
(Gain)/loss on disposal of property, plant and equipment		**(548)**	75
Others		**745**	370
		593	28,001

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold *(Note)*		**108,442**	130,497
Depreciation	*12*	**10,448**	12,609
Amortisation of land lease payments	*13*	**1,825**	1,825
Research and development costs		**3,697**	6,090
Operating lease expenses		**1,157**	1,287
Product warranty provision	*23*	**760**	1,065
Auditor's remuneration		**729**	753
Employee benefit expense (including directors' and chief executive's remuneration):	*8*		
Wages and salaries		**21,085**	28,116
Pension scheme contributions		**5,079**	6,958
Staff welfare expenses		**1,538**	1,981
		27,702	37,055

Note: Cost of inventories sold includes impairment and write-off inventories of RMB458,000 (2015: RMB17,667,000) and RMB7,093,000 (2015: RMB936,000) respectively.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The directors' and chief executive's emoluments are disclosed as follows:

	2016 RMB'000	2015 RMB'000
Fees	**420**	405
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**1,549**	1,529
Pension scheme contributions	**9**	65
	1,558	1,594
	1,978	1,999

(a) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
He Binhui	**60**	60
Zhao Fenggao	**–**	40
Chen Lifan	**60**	60
Chen Ke	**60**	5
	180	165

There were no other emoluments payables to the independent non-executive directors during the year (2015: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016				
Executive directors:				
Zheng Ping (chief executive)	**120**	**1,000**	**–**	**1,120**
Tang Lo Nar	**60**	**309**	**–**	**369**
	180	**1,309**	**–**	**1,489**
Non-executive director:				
Kong Xiaoling	**60**	**240**	**9**	**309**
	240	**1,549**	**9**	**1,798**
2015				
Executive directors:				
Zheng Ping (chief executive)	120	1,000	–	1,120
Tang Lo Nar	60	289	–	349
	180	1,289	–	1,469
Non-executive director:				
Kong Xiaoling	60	240	65	365
	240	1,529	65	1,834

There was no arrangement under which a director waived or agreed to waive any remuneration and no emoluments were paid to any of the directors or highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2016 and 31 December 2015.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2015: three directors), details of whose remuneration are set out in Note 8. Details of the remuneration for the year of the remaining two (2015: two) non-director, highest paid employees for the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, bonuses, allowances and benefits in kind	**622**	645
Pension scheme contributions	**107**	103
	729	748

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

	Number of employees 2016	 2015
Nil to RMB1,000,000	**2**	2

10. INCOME TAX CREDIT

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

The income tax credit of the Group during the year are analysed as follows:

	Note	2016 RMB'000	2015 RMB'000
Current			
– Corporate income tax		**(105)**	(1,021)
– Over-provision in prior year		**846**	290
		741	(731)
Deferred	*25*	**(137)**	5,115
Total tax credit for the year		**604**	4,384

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

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

10. INCOME TAX CREDIT (CONTINUED)

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong sourced profits are subject to Profits Tax at the rate of 16.5% (2015: 16.5%) in Hong Kong. No provision of Profits Tax has been made for Automart Holdings Limited ("Hong Kong Automart") and Shuanghua Hong Kong Limited ("Hong Kong Shuanghua") as they had not derived any taxable income from Hong Kong during the year.

Shanghai Shuanghua Autoparts Co., Ltd. ("Shanghai Shuanghua") was accredited as a "Shanghai High and New Technology Enterprise" for three years starting from December 2008 and such qualification expired on 24 December 2011. In October 2011, Shanghai Shuanghua obtained the renewed "Hi-tech Enterprise" qualification for three years, effective from 2011 to enjoy a preferential CIT rate of 15%. Such qualification expired and was renewed on 23 October 2014 for another three years and Shanghai Shuanghua can continue to enjoy a preferential CIT rate of 15%.

Shanghai Shuanghua Machinery Manufacturing Co., Ltd. ("Shuanghua Machinery"), Shanghai Shuanghua Auto Components Co., Ltd. ("Shuanghua Auto Components"), Shanghai Shuanghua Machinery Sales Co., Ltd. ("Shuanghua Machinery Sales"), Shanghai Eagle Investment Limited ("Eagle Investment"), Shanghai Citgo Petroleum Co., Ltd ("Citgo Petroleum"), Shanghai Eagle Petrochemical Co. Ltd. ("Eagle Petrochemical"), Shanghai Xcel Lubricants Co., Ltd. ("Xcel Lubricants"), Shanghai Eagle Network Technology Co., Ltd. ("Network Technology") and Shanghai Youshen Industry Co., Ltd. ("Youshen Industry") were subject to CIT at the rate of 25% during the year (2015: 25%).

A reconciliation of the income tax credit applicable to loss before tax at the statutory rate in the PRC to the tax expense at the effective tax rate is as follows:

	2016 **RMB'000**	2015 RMB'000
Loss before tax	**(16,950)**	(43,378)
Income tax credit at statutory tax rate 25% in the PRC	**(4,237)**	(10,845)
Lower tax rates for specific provinces or enacted by local authority	**(1,517)**	1,530
Income not subject to tax	**(402)**	(2,640)
Additional deduction on research and effect of tax concession and allowances	**(277)**	(457)
Expenses not deductible for tax	**2,289**	10,638
Effect of withholding tax at 10% (2015: 10%) on the distributable profits of the Group's PRC subsidiaries	**16**	–
Temporary differences not recognised	**2,613**	1,983
Tax losses not recognised	**1,636**	812
Reversal of tax losses and temporary differences from previous years	**121**	(5,115)
Over-provision in prior year	**(846)**	(290)
Income tax credit at the Group's effective rate	**(604)**	(4,384)

11. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic and diluted loss per share is based on the loss for the year attributable to owners of the Company of RMB16,346,000 (2015: loss of RMB38,994,000), and the weighted average number of ordinary shares of 650,000,000 (2015: 650,000,000) in issue during the year.

Diluted loss per share for the years ended 31 December 2016 and 2015 are the same as the basic loss earnings per share as there were no dilutive potential ordinary shares in issue in both years.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2015	122,332	133,751	3,749	5,642	1,277	266,751
Additions	–	649	272	–	–	921
Disposals	(66)	(60)	(117)	(156)	–	(399)
At 31 December 2015	122,266	134,340	3,904	5,486	1,277	267,273
Additions	–	95	79	1,059	–	1,233
Disposals	–	(8,010)	–	(1,200)	–	(9,210)
At 31 December 2016	**122,266**	**126,425**	**3,983**	**5,345**	**1,277**	**259,296**
Accumulated depreciation and impairment						
At 1 January 2015	35,477	82,206	2,968	3,583	–	124,234
Depreciation	5,825	6,083	246	455	–	12,609
Impairment loss	–	24,563	–	–	–	24,563
Disposals	–	(30)	(100)	(124)	–	(254)
At 31 December 2015	41,302	112,822	3,114	3,914	–	161,152
Depreciation	5,382	4,464	195	407	–	10,448
Disposals	–	(6,585)	–	(1,101)	–	(7,686)
At 31 December 2016	**46,684**	**110,701**	**3,309**	**3,220**	**–**	**163,914**
Net book value						
At 31 December 2016	**75,582**	**15,724**	**674**	**2,125**	**1,277**	**95,382**
At 31 December 2015	80,964	21,518	790	1,572	1,277	106,121

13. PREPAID LAND LEASE PAYMENTS

	Notes	2016 RMB'000	2015 RMB'000
Carrying amount at beginning of year		**68,881**	70,706
Recognised during the year	*7*	**(1,825)**	(1,825)
Carrying amount at end of year		**67,056**	68,881
Current portion included in prepayments, deposits and other receivables	*18*	**(1,825)**	(1,825)
Non-current portion		**65,231**	67,056

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

14. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Automart Holdings Limited ("BVI Automart")	The British Virgin Islands	US$100,000	100 (direct)	Investment holding
Hong Kong Automart	Hong Kong	HK$1,200,000	100 (indirect)	Investment holding
Shanghai Shuanghua (ii)	The PRC	RMB389,289,704	99.999 (indirect)	Manufacture and sale of automobile air-conditioner parts and components
Shuanghua Machinery (iii)	The PRC	RMB60,000,000	100 (indirect)	Manufacture of and sale of automobile air-conditioner parts and components
Shuanghua Machinery Sales (iii)	The PRC	RMB5,000,000	100 (indirect)	Wholesale and retail of mechanical equipment and electrical
Youshen Industry (iii)	The PRC	RMB10,000,000	100 (indirect)	Import and export of goods and technology and sale of automobile air-conditioner parts and components

14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Hong Kong Shuanghua	Hong Kong	US$200,000	100 (indirect)	Import and export of goods and technology and sale of automobile air-conditioner parts and components
Shuanghua Auto Components (iii)	The PRC	RMB2,000,000	100 (indirect)	Sale of automobile air-conditioner parts and components
Kunshan Xiaocang Compressor Co., Ltd. ("Kunshan Xiaocang") (i)(ii)	The PRC	US$1,210,000	65 (indirect)	Inactive
Eagle Investment (iii)	The PRC	RMB150,000,000	100 (indirect)	Investment holding and sale of automotive lubricants and provision of express auto repairs and maintenance services
Eagle Petrochemical (iii)	The PRC	RMB20,000,000	100 (indirect)	Sale of automotive lubricants and provision of express auto repairs and maintenance services
Citgo Petroleum (iii)	The PRC	RMB40,000,000	100 (indirect)	Sale of automotive lubricants and provision of express auto repairs and maintenance services
Xcel Lubricants (iii)	The PRC	RMB20,000,000	100 (indirect)	Sale of automotive lubricants and provision of express auto repairs and maintenance services
Network Technology (iii)	The PRC	RMB30,000,000	100 (indirect)	Electronic business, web design and programming
Eagle Holdings Group Limited ("Eagle Holdings")	Hong Kong	HK$1	100 (indirect)	Not yet commenced operation

Notes:

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

(ii) Shanghai Shuanghua and Kunshan Xiaocang are a Sino-foreign equity companies established in the PRC.

(iii) Shuanghua Machinery, Shuanghua Machinery Sales, Youshen Industry, Shuanghua Auto Components, Eagle Investment, Eagle Petrochemical, Citgo Petroleum, Xcel Lubricants and Network Technology are domestic companies established in the PRC.

15. AVAILABLE-FOR-SALE INVESTMENT

	2016 RMB'000	2015 RMB'000
Equity shares listed in Shanghai, at fair value	**8,891**	262

The investment represents investment in the equity interest of a listed entity in the PRC (the "Investee").

Shares of the Investee were listed in Shanghai Stock Exchange on November 2016. The investment was measured at fair value based on the quoted market price of the Investee as at 31 December 2016. The fair value gain of RMB8,629,000 was credited to the available-for sale investment revaluation reserve.

The Investee was unlisted and did not have a quoted market price as at 31 December 2015. The directors considered that the fair value of the Investee could not be reliably measured and the investment was therefore stated at cost less any impairment as at 31 December 2015.

16. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**17,360**	21,148
Work in progress	**11,759**	14,017
Finished goods	**46,117**	51,450
	75,236	86,615
Provision of impairment	**(32,032)**	(31,574)
	43,204	55,041

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

	Note	2016 RMB'000	2015 RMB'000
At beginning of year		**31,574**	13,907
Impairment losses recognised*	*7*	**458**	17,667
At end of year		**32,032**	31,574

* During the year, the directors reviewed the aging and conditions of the closing inventories in light of market conditions and the Group's latest business strategy as at 31 December 2016 and made an additional provision of RMB458,000 (2015: RMB17,667,000) on slow-moving and obsolete inventories. This provision, together with obsolete inventories written off of RMB7,093,000 were recognised as part of cost of inventories sold for the year (Note 7).

17. TRADE AND NOTES RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**41,631**	53,375
Notes receivable	**27,295**	34,181
	68,926	87,556
Provision of impairment	**(3,159)**	(2,763)
	65,767	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. The Group's notes receivable of RMB3,600,000 (2015: notes receivables of RMB5,010,000 and short term deposits of RMB5,350,000) are pledged to secure bills payable which amounted to RMB3,488,000 (2015: RMB10,260,000) as at 31 December 2016 (Note 21). Trade and notes receivables are non-interest-bearing.

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

	2016 RMB'000	2015 RMB'000
Within 1 month	**19,469**	25,572
1 to 3 months	**13,232**	15,590
3 to 12 months	**32,351**	43,141
Over 12 months	**715**	490
	65,767	84,793

17. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	Notes	2016 RMB'000	2015 RMB'000
At beginning of year		**2,763**	1,074
Impairment loss recognised	*6*	**1,060**	1,737
Reversal of impairment loss	*6*	**(664)**	(48)
At end of year		**3,159**	2,763

At 31 December 2016, the Group's trade receivables of RMB3,159,000 (2015: RMB2,763,000) were individually determined to be impaired. These receivables have been long outstanding and management accessed them to be irrecoverable.

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**27,472**	43,797
Less than 1 month past due	**6,723**	6,592
1 to 3 months past due	**19,140**	12,027
3 to 12 months past due	**12,228**	22,279
Over 12 months past due	**204**	98
	65,767	84,793

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

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

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2016 RMB'000	2015 RMB'000
Other receivables		**2,838**	2,803
Prepayments		**4,513**	3,290
Prepaid land lease payments	*13*	**1,825**	1,825
		9,176	7,918
Provision of impairment		**(1,389)**	(1,389)
		7,787	6,529

The movement in the provision for impairment of prepayments, deposits and other receivables are as follows:

	Note	2016 RMB'000	2015 RMB'000
At beginning of year		**1,389**	85
Impairment loss recognised	*6*	**–**	1,304
At end of year		**1,389**	1,389

The individually impaired prepayments, deposits and other receivables relate to amounts that are not expected to be recovered. All other prepayments, deposits and other receivables are neither past due nor impaired.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Bank financial investment products, at fair value	**59,000**	70,600

The balance as at 31 December 2016 represented financial investment products (the "Investees") with maturity dates between 16 January 2017 to 27 February 2017. 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 using the income approach 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:

	2016	2015
One to three months risk free rate	**2.73%**	2.2%
One to three months credit risk premium	**1.36%**	1.0%
Expected future return (one to three month maturity)	**2.94%**	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.

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	**362,900**
Gain recognised in statement of profit or loss and other comprehensive income	**1,902**
Disposals	**(376,402)**
As at 31 December 2016	**59,000**

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	2016 RMB'000	2015 RMB'000
Cash and bank balances		**95,818**	81,559
Less: Pledged deposits for bills payable	21	**–**	(5,350)
Cash and cash equivalents		**95,818**	76,209

As at 31 December 2016, the Group's cash and cash equivalents denominated in RMB and other currencies held in the PRC amounted to RMB54,079,191 (2015: RMB37,985,130). As exchange control applies in the PRC, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, in order to carry on business with overseas parties, the Group needs permission to exchange the aforesaid cash and cash equivalent for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank 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 31 December 2016, no amounts of cash and cash equivalents (2015: short term deposits of RMB5,350,000) were pledged to secure bills payable of RMB3,488,000 (2015: RMB10,260,000) (Note 21).

21. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**23,809**	41,937
Bills payable	**3,488**	10,260
	27,297	52,197

21. TRADE AND BILLS PAYABLES (CONTINUED)

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

	2016 **RMB'000**	2015 RMB'000
Within 1 month	**6,711**	12,738
1 to 3 months	**7,073**	12,601
3 to 6 months	**3,986**	12,679
6 to 12 months	**6,719**	11,652
Over 12 months	**2,808**	2,527
	27,297	52,197

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

As at 31 December 2016, bills payable of RMB3,488,000 (2015: RMB10,260,000) were secured by certain of the Group's notes receivable of RMB3,600,000 (2015: Notes receivables of RMB5,010,000 and short term deposits with a carrying amount of RMB5,350,000) (Note 20).

22. OTHER PAYABLES AND ACCRUALS

	2016 **RMB'000**	2015 RMB'000
Other payables	**2,412**	2,318
Advances from customers	**7,562**	1,947
Taxes other than corporate income tax	**3,516**	4,956
Payroll payables	**1,601**	2,483
Accrued liabilities	**790**	758
	15,881	12,462

23. PROVISIONS

	Note	2016 RMB'000	2015 RMB'000
At beginning of year		**803**	666
Amounts utilised during the year		**(208)**	(928)
Additional provision	*7*	**760**	1,065
At end of year		**1,355**	803

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

24. GOVERNMENT GRANTS

	Note	2016 RMB'000	2015 RMB'000
Carrying amount at beginning of the year		**7,133**	9,155
Released to the consolidated statement of profit or loss and other comprehensive income	*5*	**(2,021)**	(2,022)
Carrying amount at end of the year		**5,112**	7,133
Current		**2,021**	2,021
Non-current		**3,091**	5,112
		5,112	7,133

Government grants were received for the construction of certain of the Group's property, plant and equipment.

25. DEFERRED TAX

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

Deferred tax assets

	Note	Accruals and provision RMB'000	Impairment of assets RMB'000	Government grants RMB'000	Total RMB'000
At 1 January 2015		316	1,055	666	2,037
Deferred tax credited/(charged) to the consolidated statement of profit or loss and other comprehensive income during the year	*10*	(40)	5,317	(162)	5,115
At 31 December 2015		276	6,372	504	7,152
Deferred tax credited/(charged) to the consolidated statement of profit or loss and other comprehensive income during the year	*10*	41	–	(162)	(121)
At 31 December 2016		317	6,372	342	7,031

Deferred tax liabilities

	Note	Withholding tax on the distributable profits RMB'000
At 1 January 2015		561
Deferred tax charged to the consolidated statement of profit or loss and other comprehensive income during the year	*10*	–
At 31 December 2015		561
Deferred tax charged to the consolidated statement of profit or loss and other comprehensive income during the year	*10*	16
At 31 December 2016		577

25. DEFERRED TAX (CONTINUED)

Deferred tax liabilities (continued)

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

Deferred tax assets have not been recognised on tax losses and deductible temporary differences of the following subsidiaries:

	2016 **RMB'000**	2015 RMB'000
Tax losses:		
Shuanghua Machinery	**16,957**	25,396
Eagle Investment	**4,679**	3,994
Hong Kong Automart	**17,334**	9,504
Hong Kong Shuanghua	**626**	627
Youshen Industry	**3,289**	6,729
Citgo Petroleum	**8,519**	2,371
Eagle Petrochemical	**35**	–
	51,439	48,621
Deductible temporary differences:		
Shuanghua Machinery	**19,847**	38,229
	71,286	86,850

The above tax losses of Shuanghua Machinery, Eagle Investment, Youshen Industry, Citgo Petroleum and Eagle Petrochemical rose in the PRC can be utilised to offset against future taxable profits of the respective companies and will expire in one to five years.

The above tax losses of Hong Kong Automart and Hong Kong Shuanghua rose in Hong Kong can be utilised without any time limit to offset against future taxable profits of the respective companies.

Deferred tax assets have not been recognised in respect of the above tax losses and deductible temporary differences as the Group does not consider it is probable that taxable profits will be available to utilise these amounts.

26. SHARE CAPITAL

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

	2016 RMB'000	2015 RMB'000
Authorised:		
10,000,000,000 (2015: 10,000,000,000) ordinary shares of HK$0.01 each	**83,293**	83,293
Issued and fully paid:		
650,000,000 (2015: 650,000,000) ordinary shares of HK$0.01 each	**5,406**	5,406

27. RESERVES OF THE GROUP

	Group	
	2016 RMB'000	2015 RMB'000
Share premium	**133,658**	133,658
Capital reserve	**168,183**	168,183
Statutory surplus reserve	**42,851**	42,755
Merger reserve	**(119,378)**	(119,378)
Available-for-sale investment revaluation reserve	**8,629**	–
Exchange fluctuation reserve	**(257)**	(284)
	233,686	224,934

	Company	
	2016 RMB'000	2015 RMB'000
Share premium	**133,658**	133,658
Capital reserve	**117,131**	117,131
	250,789	250,789

27. RESERVES OF THE GROUP (CONTINUED)

Share premium

The Company was incorporated in the Cayman Islands on 19 November 2010 with an authorised and issued share capital of HK$100 made of 10,000 ordinary share of HK$0.01 each.

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

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

Capital reserve

Pursuant to the reorganisation to prepare the Company for listing on the Hong Kong Stock Exchange, on 18 March 2011, 8,000 shares and 42,000 shares of BVI Automart were issued and allotted to Zheng Ping and Shuanghua International for considerations of HK$81,200,000 (equivalent to RMB67,696,000) and HK$58,800,000 (equivalent to RMB49,022,000), respectively. The total capital injection by Zheng Ping and Shuanghua International was RMB132,375,000. In addition, Zheng Ping and Shuanghua International waived amounts totaling RMB15,657,000 due to them by the BVI Automart, Hong Kong Automart and Shanghai Shuanghua which became subsidiaries of the Group in the reorganisation.

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

Upon organisation, the Company became the holding company of BVI Automart and the Group recorded the above capital injections and waivers of debts as capital reserve, together with capital reserve of RMB5,108,000 already recorded in the accounts of BVI Automart prior to the organisation.

27. RESERVES OF THE GROUP (CONTINUED)

Statutory surplus reserve

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

Merger reserve

Merger reserve of the Group arose pursuant to the reorganisation which was accounted for as a reorganisation under common control.

Available-for-sale revaluation reserve

Available-for-sale reserve represents gain/losses arising on recognising financial assets classified as available-for-sale at fair value.

Exchange fluctuation reserve

Exchange fluctuation reserve represents exchange differences arising from translation of the financial statements of Hong Kong Shuanghua.

28. DIVIDENDS

	2016 **RMB'000**	2015 RMB'000
Interim dividend declared and paid in current year at RMB Nil cents (2015: RMB15 cents) per share	–	97,500

The Company had not declared or paid any interim dividend during the year. The Board also recommends that no final dividend be proposed in respect of the year ended 31 December 2016 (2015: Nil). In 2015, the Board resolved to declare an interim dividend at 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) which was paid on 18 September 2015.

29. CONTINGENT LIABILITIES

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

30. PLEDGE OF ASSETS

Details of the Group's bills payable, which are secured by the assets of the Group, are included in Notes 17 and 20 to the consolidated financial statements.

31. 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 two years.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**1,095**	1,107
In the second to fifth years, inclusive	**975**	1,949
	2,070	3,056

32. COMMITMENTS

In addition to the operating lease commitments detailed in Note 31 above, the Group had the following capital commitments at the end of the reporting period:

	2016 **RMB'000**	2015 RMB'000
Capital contributions payable to subsidiaries before 31 December 2020	**120,000**	120,000

33. COMPANY STATEMENT OF FINANCIAL POSITION

	Note	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		**117,131**	117,131
CURRENT ASSETS			
Due from subsidiaries		**140,415**	131,903
Cash and cash equivalents		**34,931**	33,985
Total current assets		**175,346**	165,888
CURRENT LIABILITIES			
Accruals		**32**	30
Dividend payable		**3**	3
Total current liabilities		**35**	33
Net assets		**292,442**	282,986
EQUITY			
Issued capital	*26*	**5,406**	5,406
Reserves	*27*	**250,789**	250,789
Retained earnings		**36,247**	26,791
Total equity		**292,442**	282,986

Zheng Ping
Director

Tang Lo Nar
Director

34. RELATED PARTY TRANSACTIONS

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

	2016 RMB'000	2015 RMB'000
Office expenses paid to Shanghai Automart* *(Note)*	**975**	975

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 the Listing Rules.

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

	2016 RMB'000	2015 RMB'000
Short term employee benefits	**2,239**	2,175
Pension scheme contributions	**26**	99
Total compensation paid to key management personnel	**2,265**	2,274

Further details of the emoluments of the directors and the chief executive are set out in Note 8 to the consolidated financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets – loans and receivables

	2016 RMB'000	2015 RMB'000
Trade and notes receivables	**65,767**	84,793
Financial assets included in prepayments, deposits and other receivables	**2,699**	2,803
Pledged deposits	**–**	5,350
Cash and cash equivalents	**95,818**	75,209
	164,284	168,155

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial assets – available-for-sale financial assets

	2016 RMB'000	2015 RMB'000
Available-for-sale investment	**8,891**	262

Financial assets – at fair value through profit or loss

	2016 RMB'000	2015 RMB'000
Bank financial investment products	**59,000**	70,600

Financial liabilities – at amortised cost

	2016 RMB'000	2015 RMB'000
Trade and bills payables	**27,297**	52,197
Financial liabilities included in other payables and accruals	**2,409**	2,318
Due to a related party	**–**	42
	29,706	54,557

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL 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 available-for-sale investment is measured at fair value based on Level 1 fair value hierarchy in accordance with the Group's accounting policies on fair value measurement (Note 2.4).

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and notes receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amount due to a related party approximate their carrying amounts largely due to the short term maturities of these instruments.

The Group's financial assets at fair value through profit or loss are measured at fair value based on Level 3 fair value hierarchy in accordance with the Group's accounting policies on fair value measurement (Note 2.4). 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 19.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trade and notes receivables, financial assets at fair value through profit or loss, cash and cash equivalents and trade and bills payables.

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 24.1% of the Group's sales for the year ended 31 December 2016 (2015: 23.8%) were denominated in currencies other than the functional currency of the operating units making the sales, whilst almost 100% of costs for the year ended 31 December 2016 (2015: almost 100%) were denominated in the units' functional currencies. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

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

Changes in exchange rates

	Percentage change %	Decrease/ (increase) in loss before tax RMB'000
2016		
If RMB weakens against United States dollar	**5**	**2,286**
If RMB strengthens against United States dollar	**(5)**	**(2,286)**
If RMB weakens against Hong Kong dollar	**5**	**39**
If RMB strengthens against Hong Kong dollar	**(5)**	**(39)**
If RMB weakens against Japanese Yen	**5**	**22**
If RMB strengthens against Japanese Yen	**(5)**	**(22)**
2015		
If RMB weakens against United States dollar	5	1,233
If RMB strengthens against United States dollar	(5)	(1,233)
If RMB weakens against Hong Kong dollar	5	31
If RMB weakens against Hong Kong dollar	(5)	(31)
If RMB weakens against Japanese Yen	5	20
If RMB strengthens against Japanese Yen	(5)	(20)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

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

The credit risk of the Group's other major financial assets, which comprise available-for-sale investment, cash and cash equivalents, pledged deposits, prepayments, deposits and other receivables and financial assets at fair value through profit or loss, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and geographical region. At 31 December 2016, the Group had certain concentrations of credit risk as 14% (2015: 28%) and 49% (2015: 62%) of the Group's trade and notes receivables were due respectively from the Group's largest customer and the five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables and deposits and other receivables are disclosed in Notes 17 and 18, respectively, to the consolidated financial statements.

Liquidity risk

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

All the Group's financial liabilities at the end of the reporting period are due within one year or on demand.

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirement. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

The Group monitors capital using a gearing ratio. The net debts of the Group include trade and bills payables, other payables and accruals, amounts due to a related party, less cash and cash equivalents and pledged deposits. Capital of the Group represents equity attributable to owners of the Company. The gearing ratio as at end of the reporting period is taken as the ratio of net debts to capital as follows:

	2016 **RMB'000**	2015 RMB'000
Trade and bills payables	**(27,297)**	(52,197)
Other payables and accruals	**(15,881)**	(12,462)
Amount due to a related party	**–**	(42)
Less: Cash and cash equivalents	**95,818**	76,209
Pledged deposits	**–**	5,350
Net cash	**52,640**	16,858
Capital	**397,374**	405,064
Gearing ratio	**N/A**	N/A

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2017.

Five Year Financial Summary

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
REVENUE	379,596	261,130	197,017	143,076	**120,749**
Cost of sales	(314,676)	(217,155)	(145,877)	(130,497)	**(108,442)**
Gross profit	64,920	43,975	51,140	12,579	**12,307**
Other income and gains	3,105	14,394	9,527	10,026	**7,572**
Selling and distribution costs	(16,210)	(11,895)	(10,818)	(9,846)	**(10,591)**
Administrative expenses	(34,379)	(37,204)	(36,530)	(28,136)	**(25,645)**
Other expenses	(603)	(22,214)	(671)	(28,001)	**(593)**
Finance costs	(6,442)	(190)	–	–	**–**
Share of profits of an associate	15,737	6,932	–	–	**–**
PROFIT/(LOSS) BEFORE TAX	26,128	(6,202)	12,648	(43,378)	**(16,950)**
Income tax (expenses)/credit	(4,288)	(17,522)	(3,320)	4,384	**604**
PROFIT/(LOSS) FOR THE YEAR	21,840	(23,724)	9,328	(38,994)	**(16,346)**
Attributable to:					
Owners of the Company	21,839	(23,724)	9,327	(38,994)	**(16,346)**
Non-controlling interests	1	–	1	–	**–**
	21,840	(23,724)	9,328	(38,994)	**(16,346)**

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	689,081	630,514	634,558	479,113	**448,111**
Total liabilities	(133,116)	(98,307)	(93,016)	(74,049)	**(50,737)**
Non-controlling interest	(4)	(4)	(5)	(5)	**(5)**
	555,961	532,203	541,537	405,059	**397,369**