Shuanghua Holdings Limited
雙樺控股有限公司

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

INTERIM REPORT 2019

CONTENTS

CORPORATE INFORMATION

Company Name:	Shuanghua Holdings Limited
Registered Office:	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY-1111, Cayman Islands
Headquarter:	9/F, Tongsheng Building 458 Fushan Road Pudong District Shanghai PRC
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
Fax:	(86 21) 5058 6337
Enquiry Email:	ir@shshuanghua.com
Financial Year End:	31 December
Board of Directors:	*Executive Directors* Mr. ZHENG Ping *(Chairman & Chief Executive Officer)* Ms. ZHENG Fei Ms. TANG Lo Nar *Non-executive Director* Ms. KONG Xiaoling *Independent non-executive Directors* Mr. HE Binhui Mr. CHEN Lifan Ms. GUO Ying

CORPORATE INFORMATION

Company Secretary:	Ms. TANG Lo Nar
Authorised Representatives:	Mr. ZHENG Ping Ms. TANG Lo Nar
Audit Committee:	Mr. HE Binhui *(Chairman)* Ms. GUO Ying Mr. CHEN Lifan
Remuneration Committee:	Ms. GUO Ying *(Chairman)* Mr. HE Binhui Mr. CHEN Lifan
Nomination Committee:	Mr. CHEN Lifan *(Chairman)* Mr. HE Binhui Ms. GUO Ying
Hong Kong Share Registrar:	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17/F, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal Banker:	China Construction Bank Corporation Shanghai Branch Fengxian Sub-branch 332 Jiefang Zhong Road Nanqiao Town, Fengxian District Shanghai PRC
Stock Code:	1241.HK
Listing Date:	30 June 2011

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2019, Shuanghua Holdings Limited ("Shuanghua" or the "Company"; collectively with its subsidiaries referred to as the "Group") continued to strengthen the internal management of the Group and promote the transformation, upgrading and diversification of the Group's business. In the context of global political uncertainty, the slowdown of China's economic growth and the general decline in the automotive industry, the Group's overall business volume reduced considerably during the first half of 2019. For the six months ended 30 June 2019 (the "period"), the Group achieved revenue of approximately RMB16.3 million, a decrease of approximately 48.9% or RMB15.6 million as compared to the same period of last year. The Group reported a net loss of approximately RMB8.0 million for the first half of 2019, as compared to a net profit of approximately RMB2.2 million for the same period of last year.

The decrease in revenue for the six months ended 30 June 2019, as compared to those for the six months ended 30 June 2018, were mainly due to (i) the Group's initiative to reduce orders with losses or low profits; and (ii) the reduction in cooperation with customers that had delayed or defaulted in payment to the Group. As the construction of the new factory owned by Anhui Shuanghua Heat Exchange System Co., Ltd. ("Anhui Shuanghua", a joint venture which is owned as to 45% by the Company as at the date of this report) is approaching completion, the Group has started to gradually relocate the production base from Shanghai to Anhui Shuanghua (the "Relocation"). The Relocation costs also contributed to the net loss of the Group for the six months ended 30 June 2019.

The Group has been monitoring the market conditions and its order structure and customer composition. The Directors are of the view that the decrease in revenue is of a temporary nature within a manageable time frame (subject to the implementation of the Turnaround Plans, details of which are set out below, in accordance with the actual situation) and are confident that the Group will continue to develop its business and increase its revenue.

SALES OF AUTOMOTIVE HEAT EXCHANGER AND OTHER PRODUCTS

Both sales in the domestic and international markets decreased for the six months ended 30 June 2019. Among which:

Sales to the Domestic Market

Revenue from sales of evaporators amounted to approximately RMB8.0 million. Revenue from sales of condensers amounted to approximately RMB3.8 million. Sales to the domestic market were mainly affected by the slowdown of China's economic growth and the general decline in the upstream and downstream companies of the Group in the automotive industry.

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

Sales to the International Market

Revenue from sales of evaporators amounted to approximately RMB2.4 million. Revenue from sales of condensers amounted to approximately RMB0.2 million. Sales to the international market were mainly affected by the global political uncertainty and weak market conditions.

Other revenue from sales to the international markets comprised primarily of the sales of self-manufactured heaters, intercoolers, liquid-gas separators, evaporators and condenser cores, pipes and thermostats.

OUTLOOK AND STRATEGY

In view of many uncertainties in the domestic and global economic conditions, our management intends to implement the following plans (the "Turnaround Plans") (i) to optimize the Group's business model and structure; (ii) to enhance the Group's core technology and competitiveness; (iii) to expand sales network and efforts; and (iv) to optimize its cost structure and working capital management. At the same time, the Group will continue to increase its efforts in collecting account receivables, revitalize idle stocks and assets, improve cash flow management, and budget in advance for the Group's future development needs. The Group will endeavour to train and recruit various talents with technology, management, investment and financing backgrounds, in order to promote an all-round development and transformation of the Group's business, and turn losses into profits soon.

Optimize the Group's business model and structure

In view of the market conditions and the rising costs, the Group intends to diversify its business portfolio by gradually transforming the primary function of the vacant properties in Shanghai (after completion of the Relocation) to leasing. The Group's headquarter and major departments (such as finance and accounting, human resources (mainly for recruitment of senior management) and sales) will remain based in Shanghai, while the research and development (the "R&D"), human resources (mainly for recruitment and training of R&D professionals) and production and distribution of auto parts and components will be relocated to Anhui.

Since 2018, the Group has started leasing the unused space of its properties in Shanghai with the gross rental income amounted to RMB278,000 for the year ended 31 December 2018 and RMB429,000 for the six months ended 30 June 2019. The Group currently owns four industrial properties and four residential properties in Fengxian District, Shanghai. Apart from leasing, the Group may also explore other options as appropriate by cooperating with third party(ies) to develop the vacant properties or selling the vacant properties to third party(ies) with an aim to maximizing return to its shareholders.

Enhance the Group's core technology and competitiveness

In view of the decrease in revenue of its existing products, the Group has launched the R&D of two new products, including (i) a component of the automotive safety system (the "First New Product"); and (ii) a component of the automotive heat exchange system (the "Second New Product", together with the First New Product, the "New Products"). The New Products are designed for electric or hybrid vehicles with more electronic components.

The Group's strategy is to develop more new and advanced products to secure new customers and orders, so as to develop its business in the long term.

In May 2019, the Group entered into a non-legally binding investment framework agreement (the "Framework Agreement") with a PRC-based auto parts company (the "Potential JV Partner"), an independent third party, pursuant to which the parties thereto will establish a joint venture to cooperate in developing the First New Product. As at the date of this report, no formal agreement in relation to the establishment of the joint venture has been entered into between the parties to the Framework Agreement.

Following the entering into of the Framework Agreement, as part of the initial preparation, the R&D teams from the Group and the Potential JV Partner have started researching the development of the First New Product while the R&D team from the Group has started researching the development of the Second New Product.

It is expected that R&D and testing process for the New Products will complete around late 2020.

Expand sales network and efforts

Coupling with the Group's strategy to enhance the Group's core technology and competitiveness, the Group is contemplating developing more new and advanced products to secure new customers and orders. The Group will also continue to extend business cooperation with other enterprises and institutions to expand its sales network. To this end, the Group intends to recruit more sales engineers at the late stage of the R&D process of the New Products as appropriate to increase its effort to promote sales.

Optimize the Group's cost structure and working capital management

In view of the increasing wages and the rising costs in raw materials, the Group is minded to reduce costs in different ways. As the labor costs account for approximately 9-10% of the production costs (based on the management data for the year ended 31 December 2018) which is a major costs in production, the Group is expected to reduce the production costs after completion of the Relocation, by employing local workers in Anhui with substantively lower minimum wage as compared to that of the workers in Shanghai. It is expected that the Group will increase its capital investment in Anhui Shuanghua around the end of 2019 such that Anhui Shuanghua will become a subsidiary of the Group.

Furthermore, over the past years, the Group has gradually outsourced some of its products or parts of its products from other suppliers. The Group will explore other options from nearby provinces and locate new suppliers as recommended by the new customers. Such process would be subject to the progress of the R&D of the New Products.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, the Group's revenue was approximately RMB16.3 million, a decline of approximately RMB15.6 million or 48.9% from that of the corresponding period of 2018, which was approximately RMB31.9 million.

The following table sets forth the breakdown of the Group's revenue by products during the period:

	For the six months ended 30 June			
	2019		2018	
Revenue	**RMB'000**	**% of revenue**	RMB'000	% of revenue
Domestic				
Evaporators	**7,971**	**48.9%**	17,365	54.5%
Condensers	**3,795**	**23.3%**	6,093	19.1%
Others	**1,934**	**11.8%**	2,200	6.9%
Sub-total	**13,700**	**84.0%**	25,658	80.6%
International				
Evaporators	**2,364**	**14.5%**	5,117	16.1%
Condensers	**232**	**1.4%**	796	2.4%
Others	**11**	**0.1%**	289	0.9%
Sub-total	**2,607**	**16.0%**	6,202	19.4%
Total	**16,307**	**100%**	31,860	100%

Gross (loss)/profit

(All amounts in this section were before write-down or reversal of write-down of inventories)

For the six months ended 30 June 2019, the Group recorded a gross loss of approximately RMB0.6 million (gross profit for the six months ended 30 June 2018: approximately RMB6.8 million), mainly due to the significant decrease in revenue, as the Group reduced orders with losses or low profits and the cooperation with customers that had delayed or defaulted in payment to the Group.

The following table sets forth the breakdown of the Group's gross (loss)/profit by products during the period:

	For the six months ended 30 June	
	2019	2018
Gross (loss)/profit	**RMB'000**	RMB'000
Domestic		
Evaporators	**(1,570)**	4,406
Condensers	**643**	(34)
Others	**(6)**	491
Sub-total	**(933)**	4,863
International		
Evaporators	**305**	1,637
Condensers	**45**	194
Others	**5**	69
Sub-total	**355**	1,900
Total	**(578)**	6,763

Other income and gains

For the six months ended 30 June 2019, the Group's other income and gains amounted to approximately RMB5.2 million, an increase of approximately RMB1.3 million as compared to the same period of last year (for the six months ended 30 June 2018: approximately RMB3.9 million). The increase of other income and gains was mainly attributable to the increase in interest income, gross rental income and the reversal of impairment of trade receivables.

Selling and distribution costs

Selling and distribution costs primarily comprised of staff-related costs, sales transportation fees, operating lease rental expenses, entertainment and travelling expenses. The Group's selling and distribution costs decreased by approximately 26.2% during the six months ended 30 June 2019, as compared to the same period of last year, mainly due to decrease in sales revenue, causing a decrease in sales-related transportation and staff expenses.

Administrative expenses

Administrative expenses primarily comprised of staff-related costs, various local taxes and education surcharges, depreciation, research and development expenses and miscellaneous expenses. The Group's administrative expenses decreased by approximately 7.2% during the six months ended 30 June 2019, as compared to the same period of last year, mainly because the Group strengthened its internal management and streamlined personnel and staff-related costs according to actual needs.

Other expenses

Other expenses primarily comprised of impairment on assets and miscellaneous expenses. The Group's other expenses decreased by approximately 76.0% during the six months ended 30 June 2019, as compared to the same period of last year, mainly affected by foreign exchange differences.

Finance costs

Since the adoption of HKFRS 16 *Leases* on 1 January 2019, the Group's finance costs for the six months ended 30 June 2019 amounted to approximately RMB46,000 (for the six months ended 30 June 2018: nil). The impact of HKFRS 16 *Leases* is contained in note 3(a) to the interim condensed consolidated financial information.

Share of loss of a joint venture

On 28 December 2017, the Group entered into agreements to invest a 45% of interests in Anhui Shuanghua at a consideration of RMB6,750,000 which was fully paid in 2018. Anhui Shuanghua was established in 31 May 2018 and is currently under construction. Due to the start-up expenses of Anhui Shuanghua, the Group shared the loss of Anhui Shuanghua, which amounted to approximately RMB0.4 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

Income tax

For the six months ended 30 June 2019, the Group's overall income tax credit was approximately RMB0.2 million. For the six months ended 30 June 2018, the Group's overall income tax expense was approximately RMB0.5 million.

Loss for the period

For the six months ended 30 June 2019, the loss attributable to the owners of the Company was approximately RMB8.0 million, while the profit attributable to the owners of the Company for the same period of last year was approximately RMB2.2 million.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

The Group's net current assets decreased from approximately RMB216.5 million as at 31 December 2018 to approximately RMB208.9 million as at 30 June 2019.

Financial position and bank borrowings

As at 30 June 2019, the Group's total cash and cash equivalents amounted to approximately RMB111.2 million. As at 31 December 2018, the Group's cash and cash equivalents amounted to approximately RMB109.8 million. As at 30 June 2019 and 2018, the Group did not have any borrowings. The gearing ratio was not applicable to the Group (31 December 2018: nil).

Save as aforesaid or otherwise disclosed in the notes to the financial information, and apart from intra-group liabilities, as at 30 June 2019, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capitals or bank overdrafts or loans or similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group during the period since 31 December 2018.

Working capital

As at 30 June 2019, total inventories, mainly comprised of raw materials, work-in-progress and finished products amounted to approximately RMB39.5 million (31 December 2018: approximately RMB37.5 million). Our marketing team reviews and monitors our inventory level on a regular basis. For the six months ended 30 June 2019, the average inventory turnover days was 623.2 days (for the year ended 31 December 2018: 520.0 days). The average inventory turnover days are arrived at by dividing the arithmetic means of the opening and ending balances of inventory for the relevant period by cost of sales of the same period and multiplying the quotient by 180 days (for the year ended 31 December 2018: 365 days). The increase in the average inventory turnover was mainly attributable to the fact that sales declined amidst weak market conditions.

For the six months ended 30 June 2019, the average turnover days of trade and bills receivables was 441.5 days (for the year ended 31 December 2018: 338.8 days). The average turnover days of trade and bills receivables are arrived at by dividing the arithmetic means of the opening and ending balances of trade and bills receivables for the relevant period by revenue of the same period and multiplying the quotient by 180 days (for the year ended 31 December 2018: 365 days). The increase in the average turnover days of trade and bills receivables was primarily attributable to increase in the percentage of sales to local customers, which generally requested for longer credit periods and used bills receivable with maturity period of six months to settle their outstanding amounts.

For the six months ended 30 June 2019, the average turnover days of trade and bills payables was 186.2 days (for the year ended 31 December 2018: 195.9 days). The average turnover days of trade and bills payables are arrived at by dividing the arithmetic means of the opening and ending balances of trade and bills payables for the relevant period by revenue of the same period and multiplying the quotient by 180 days (for the year ended 31 December 2018: 365 days). The average turnover days of trade and bills payables decreased mainly because the management accelerated the repayment rate to improve liquidity.

CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

For the six months ended 30 June 2019, the Group's capital expenditures were approximately RMB0.3 million, mainly due to renovations of the property and addition of new equipment.

As at 30 June 2019, the Group had 124 full-time employees including management, sales, manufacture, logistics supports and other ancillary personnel. For the six months ended 30 June 2019, the Group's total wages and salaries amounted to approximately RMB4.2 million (for the six months ended 30 June 2018: approximately RMB6.0 million). 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 People's Republic of China ("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. For the six months ended 30 June 2019, the Group's welfare benefits expenses amounted to approximately RMB2.0 million (for the six months ended 30 June 2018: approximately RMB2.2 million). We have complied, in all material respects, with all statutory requirements on retirement contribution in the jurisdictions where the 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 the Directors is based on remuneration of directors of comparable companies in the industry, time commitment, duties and responsibilities of the Directors in the Group and its operational and financial performance.

Significant investments, material acquisitions and disposals

For the six months ended 30 June 2019, the Group had no significant investments, material acquisitions or disposals.

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 fluctuations in the exchange rates of HKD to RMB and USD to RMB. 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

As at 30 June 2019, the Group had no significant contingent liabilities (31 December 2018: nil).

Pledge of assets

As at 30 June 2019, the Group's bills payable of RMB922,000 (31 December 2018: RMB6,857,000) were secured by certain of the Group's bills receivable of RMB2,300,000 (31 December 2018: RMB3,700,000) and pledged deposits of RMB519,000 (31 December 2018: RMB3,177,000), respectively.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

As at 30 June 2019, a balance of approximately RMB10.0 million of the proceeds from the initial public offering of the Company remained unutilised.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

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

As at 30 June 2019, 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 of Hong Kong Limited (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 SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long positions in shares of the Company

Ordinary shares with nominal value of HK$0.01 per share of the Company. The number of issued shares of the Company is 650,000,000 as at 30 June 2019.

Name of directors	Capacity	Number of ordinary shares	Percentage of issued share capital
Mr. Zheng Ping (Note 1)	Interest in controlled corporation	282,750,000	43.5%
Ms. Kong Xiaoling (Note 2)	Interest of spouse	282,750,000	43.5%

Notes:

1. Mr. Zheng Ping is an executive Director and 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 30 June 2019, none of the Directors nor the chief executives 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, 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 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 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 30 June 2019.

Name of shareholders	Capacity	Number of ordinary shares	Percentage of issued share capital
Youshen Group (Note 1)	Beneficial owner	282,750,000	43.5%
Ms. Zhou Shu Xian	Beneficial owner	120,160,000	18.5%
Mr. Xu Zong Lin	Beneficial owner	59,144,000	9.1%

Note:

1. Mr. Zheng Ping is an executive Director and 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 Ping and she is deemed to be interested in the 282,750,000 shares held by Youshen Group under the SFO.

Save as disclosed above, as at 30 June 2019, the Directors were not aware of any persons (not being a Director or chief executive of the Company) who had any interests or short positions 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.

SHARE OPTION SCHEME

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

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

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

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

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

As at 30 June 2019, no share options were granted or exercised pursuant to the Share Option Scheme.

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

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019 (31 December 2018: nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted all the requirements of the code provisions of the Corporate Governance Code and Corporate Governance Report (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules. None of the Directors is aware of any information which would reasonably indicate that the Company was not in compliance with the Corporate Governance Code during the six months ended 30 June 2019, except the deviation from provision A.2.1 as explained below. Under provision A.2.1 of the Corporate Governance Code, the roles of the chairman and the chief executive officer ("CEO") of the Group should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO of the Group should be clearly established and set out in writing.

The roles of the chairman and the CEO of the Group are not separated and are performed by the same individual. Mr. Zheng Ping acted as both the chairman and CEO throughout the period under review. The Directors met 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 the Group and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

COMPLIANCE WITH THE MODEL CODE

The Model Code set out in Appendix 10 to the Listing Rules has been adopted by the Company as the code of conduct for securities transactions by its Directors. The Directors have also been reminded of their responsibilities under the Model Code regularly by the Company. Having made specific enquiries with them, all Directors confirmed that they have complied with the required standards of the Model Code during the six months ended 30 June 2019.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates (as defined under the Listing Rules) has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at the date of this report.

NOMINATION COMMITTEE

The Company established a Nomination Committee which is primarily responsible for making recommendations to the Board regarding the Group's engagement of appropriate directors and managerial personnel (including the skills, knowledge and experience) to complement the Company's corporate strategies. The Nomination Committee comprises Mr. Chen Lifan, Mr. He Binhui and Ms. Guo Ying, and is chaired by Mr. Chen Lifan.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "Board Diversity Policy") on 5 March 2019, which aims to set out the principles and approach to achieve diversity on the Board.

The Group recognizes that diversification at the Board level is one of the important factors to improve corporate performance, optimize leadership structure, improve talent quality, and promote the long-term development of the Group. The candidates selected will be based on a range of diverse categories, including but not limited to, gender, age, ethnicity, cultural and educational background, professional skills, career experience, management level and length of service. The Nomination Committee will ultimately make appointment decisions based on the overall quality of the candidates and their contributions to the Board. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee which is primarily responsible for making recommendations to the Board regarding the Group's policy and structure for remuneration of Directors and senior management and determining the specific remuneration packages of all executive Directors and senior management of the Company. The Remuneration Committee comprises Ms. Guo Ying, Mr. He Binhui and Mr. Chen Lifan, and is chaired by Ms. Guo Ying.

AUDIT COMMITTEE

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

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited consolidated results of the Company for the six months ended 30 June 2019 and this interim report. In particular, the Audit Committee has reviewed with management of the Company on the accounting principles and practices adopted by the Group and held meetings to discuss the internal controls and financial reporting matters regarding the Group's unaudited consolidated financial information for the six months ended 30 June 2019.

On behalf of the Board
Shuanghua Holdings Limited
Zheng Ping
Chairman

Hong Kong, 30 August 2019

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

For the six months ended 30 June

	Notes	**2019 RMB'000 (Unaudited)**	2018 RMB'000 (Unaudited)
REVENUE	5	**16,307**	31,861
Cost of sales		**(18,517)**	(20,966)
Gross profit		**(2,210)**	10,895
Other income and gains	5	**5,163**	3,852
Selling and distribution costs		**(1,338)**	(1,814)
Administrative expenses		**(9,281)**	(10,002)
Other expenses		**(55)**	(229)
Finance costs		**(46)**	–
Share of loss of a joint venture		**(442)**	–
(LOSS)/PROFIT BEFORE TAX	6	**(8,209)**	2,702
Income tax credit/(expense)	7	**221**	(504)
(LOSS)/PROFIT FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(7,988)**	2,198
Attributable to:			
Owners of the parent		**(7,988)**	2,198
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic and diluted			
– For (loss)/profit for the period	9	**(1.2) cents**	0.3 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**73,040**	75,816
Right-of-use assets	3(a)	**64,222**	–
Prepaid land lease payments		**–**	61,581
Investment in a joint venture		**6,077**	6,519
Financial assets at fair value through profit or loss	11	**8,238**	7,779
Total non-current assets		**151,577**	151,695
CURRENT ASSETS			
Inventories	12	**39,518**	37,491
Trade and bills receivables	13	**30,592**	40,069
Prepayments, other receivables and other assets		**9,210**	6,860
Financial assets at fair value through profit or loss	11	**5,030**	10,058
Pledged deposits	14	**45,519**	53,177
Cash and cash equivalents	14	**111,245**	109,825
Total current assets		**241,114**	257,480
CURRENT LIABILITIES			
Trade and bills payables	15	**11,484**	22,254
Other payables and accruals		**16,199**	14,853
Provision		**2,280**	2,212
Lease liabilities	3(a)	**1,152**	–
Government grants		**472**	1,070
Tax payable		**637**	637
Total current liabilities		**32,224**	41,026
NET CURRENT ASSETS		**208,890**	216,454
TOTAL ASSETS LESS CURRENT LIABILITIES		**360,467**	368,149

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

	Notes	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Lease liabilities	3(a)	**527**	–
Deferred tax liabilities		**3,121**	3,342
Total non-current liabilities		**3,648**	3,342
Net assets		**356,819**	364,807
EQUITY			
Equity attributable to owners of the parent			
Share capital		**5,406**	5,406
Reserves		**351,408**	359,396
		356,814	364,802
Non-controlling interests		**5**	5
Total equity		**356,819**	364,807

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the parent										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Merger reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	**5,406**	**133,658**	**168,183**	**42,857**	**-**	**(119,378)**	**(255)**	**134,331**	**364,802**	**5**	**364,807**
Loss and total comprehensive income for the period (Unaudited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,988)**	**(7,988)**	**-**	**(7,988)**
At 30 June 2019 (Unaudited)	**5,406**	**133,658**	**168,183**	**42,857**	**-**	**(119,378)**	**(255)**	**126,343**	**356,814**	**5**	**356,819**

	Attributable to owners of the parent										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Merger reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	5,406	133,658	168,183	42,857	6,779	(119,378)	(267)	141,084	378,322	5	378,327
Impact of adoption of HKFRS 9	–	–	–	–	(6,779)	–	–	6,779	–	–	–
Restated balance at 1 January 2018	5,406	133,658	168,183	42,857	–	(119,378)	(267)	147,863	378,322	5	378,327
Profit and total comprehensive income for the period (Unaudited)	–	–	–	–	–	–	–	2,198	2,198	–	2,198
At 30 June 2018 (Unaudited)	5,406	133,658	168,183	42,857	–	(119,378)	(267)	150,061	380,520	5	380,525

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

	2019 **RMB'000** **(Unaudited)**	2018 RMB'000 (Unaudited)
Net cash flows (used in)/from operating activities	**(8,675)**	1,334
Net cash flows from/(used in) investing activities	**10,763**	(1,206)
Net cash flows used in financing activities	**(668)**	–
Net increase in cash and cash equivalents	**1,420**	128
Cash and cash equivalents at beginning of period	**109,825**	106,280
Effect of foreign exchange rate changes, net	**–**	245
Cash and cash equivalents at end of period	**111,245**	106,653

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 November 2010. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business in China is located at Kegong Road, Fengxian District, Shanghai, People's Republic of China.

The Company and its subsidiaries (the "Group") was principally involved in the manufacture and sale of automobile air-conditioner parts and components.

In the opinion of the directors, the parent company and the ultimate holding company of the Company is Youshen International Group Limited, which was incorporated in British Virgin Islands.

2. BASIS OF PREPARATION

The Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting*.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

The unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Report Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has a lease contract for office rental. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for the lease.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedient when applying HKFRS 16 at 1 January 2019:

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	65,707
Decrease in prepaid land lease payments	(61,581)
Decrease in prepayments, other receivables and other assets	(1,825)
Increase in total assets	2,301
Liabilities	
Increase in lease liabilities	2,301
Increase in total liabilities	2,301

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	4,011
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments at 1 January 2019	3,831
Less: Adjustment of operating lease commitments during the period	(1,530)
Lease liabilities as at 1 January 2019	2,301

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

Summary of new accounting policies (continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option to lease the office properties for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group did not include the renewal period as part of the lease term for leases of office properties since the Group has a policy of continuously evaluating the capacity based on the business strategy as well as the external conditions and all other relevant factors that may have impact on the renewal options.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets			
	Land use rights	**Office rental**	**Total**	**Lease liabilities**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019	63,406	2,301	65,707	2,301
Depreciation charge	(910)	(575)	(1,485)	–
Interest expense	–	–	–	46
Payments	–	–	–	(668)
As at 30 June 2019	62,496	1,726	64,222	1,679

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

Revenue from external customers

	Six months ended 30 June 2019 RMB'000 (Unaudited)	Six months ended 30 June 2018 RMB'000 (Unaudited)
Mainland China	**13,661**	26,242
Asia	**1,320**	2,750
United States of America	**893**	2,259
Canada	**–**	202
Others	**433**	408
	16,307	31,861

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

All of the non-current assets of the Group were located in Mainland China.

Information about major customers

For the six months ended 30 June 2019, revenue from three customers (six months ended 30 June 2018: three) accounted for more than 10% of the Group's total revenue individually.

	Six months ended 30 June 2019 RMB'000 (Unaudited)	Six months ended 30 June 2018 RMB'000 (Unaudited)
Customer A	**4,042**	5,170
Customer B	**3,479**	4,690
Customer C	**2,292**	3,757
	9,813	13,617

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	**16,307**	31,861

Disaggregated revenue information for revenue from contracts with customers

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Timing of revenue recognition		
Goods transferred at a point in time	**16,307**	31,861

5. REVENUE, OTHER INCOME AND GAINS (continued)

Disaggregated revenue information for revenue from contracts with customers (continued)

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income		
Government grants	**598**	1,025
Interest income	**2,361**	1,860
Investment income from financial assets at fair value through profit or loss	**67**	967
Gross rental income	**429**	–
Reversal of impairment of trade receivables	**957**	–
	4,412	3,852
Gains		
Foreign exchange gains, net	**246**	–
Fair value gain on financial assets at fair value through profit or loss	**490**	–
Others	**15**	–
	751	–
	5,163	3,852

6. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**18,517**	20,966
Depreciation of property, plant and equipment	**3,082**	4,166
Depreciation of right-of-use assets/recognition of prepaid land lease payments	**1,485**	912
Minimum lease payments under operating leases	**–**	487
Product warranty provision, net of reversal	**68**	241
Fair value gain on financial assets at fair value through profit or loss	**(490)**	–
Foreign exchange differences, net	**(246)**	97
Write-down/(reversal of write down) of inventories to net realisable value	**1,632**	(4,131)
(Reversal of impairment)/impairment of trade receivables	**(957)**	113
Impairment of other receivables	**9**	–
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**3,818**	5,059
Pension scheme contributions	**918**	918
Staff welfare expenses	**463**	935
	5,199	6,912

7. INCOME TAX

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

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax (credit)/expense in the interim condensed statement of profit or loss are:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
Charge for the period	**–**	504
Deferred tax	**(221)**	–
Total tax (credit)/charge for the period	**(221)**	504

8. DIVIDENDS

The Board did not recommend the payment of a final dividend in respect of the year ended 31 December 2018 or an interim dividend in respect of the six months ended 30 June 2019.

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent, and the number of ordinary shares of 650,000,000 in issue during the period (six months ended 30 June 2018: 650,000,000).

The Group did not have any dilutive potential ordinary shares in issue during the period (six months ended 30 June 2018: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired assets with a cost of RMB306,000 (six months ended 30 June 2018: RMB3,439,000).

No asset was disposed by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: Nil), and no loss or gain was recognised on disposal (six months ended 30 June 2018: Nil).

During the six months ended 30 June 2019, no impairment loss on assets was recognised (six months ended 30 June 2018: Nil).

None of the Group's buildings were pledged as at 30 June 2019 and 31 December 2018.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Listed equity investments, at fair value	**8,238**	7,779
Investments in bank financial products, at fair value	**5,030**	10,058
	13,268	17,837

The listed equity investments represent an equity investment in Bank of Shanghai which was listed on the Shanghai Stock Exchange on 16 November 2016. The investment is measured at fair value based on the quoted market price of the investee.

The above investments in bank financial products were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

12. INVENTORIES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Raw materials	**11,363**	8,028
Work in progress	**2,192**	3,653
Finished goods	**25,963**	25,810
	39,518	37,491

13. TRADE AND BILLS RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables	**28,745**	35,629
Bills receivable	**5,790**	9,833
	34,535	45,462
Impairment	**(3,943)**	(5,393)
	30,592	40,069

The Group's trading terms with its customers are mainly on credit. The credit period for trade receivables is generally 30 to 90 days, extending up to one year for major customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The Group's bills receivable of RMB2,300,000 (31 December 2018: RMB3,700,000) and pledged deposits of RMB519,000 (31 December 2018: RMB3,177,000) were pledged to secure bills payable of RMB922,000 (31 December 2018: RMB6,857,000) (note 15).

As at 30 June 2019, bills receivable of RMB5,790,000 (31 December 2018: RMB9,833,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under HKFRS 9. The fair value changes of these bills receivable at fair value through other comprehensive income were insignificant during the period.

13. TRADE AND BILLS RECEIVABLES (continued)

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 month	**2,156**	4,803
1 to 3 months	**6,413**	11,763
3 to 12 months	**14,586**	12,049
Over 12 months	**1,647**	1,621
	24,802	30,236

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Cash and bank balances	**111,245**	109,825
Time deposits	**45,519**	53,177
	156,764	163,002
Less: Pledged time deposits:		
Pledged for bills payable	**(519)**	(3,177)
Pledged for time deposits	**(45,000)**	(50,000)
Cash and cash equivalents	**111,245**	109,825

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

As at 30 June 2019, the cash and cash equivalents of the Group denominated in RMB amounted to RMB95,580,000 (31 December 2018: RMB89,492,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

As at 30 June 2019, short term deposits of RMB519,000 (31 December 2018: RMB3,177,000) were pledged to secure bills payable of RMB922,000 (31 December 2018: RMB6,857,000) (note 15). The remaining RMB45,000,000 (31 December 2018: RMB50,000,000) represented bank deposits carrying a fixed interest rate of 3.85% (31 December 2018: 4.0%) per annum, which were also pledged and could not be redeemed until the maturity date.

15. TRADE AND BILLS PAYABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables	**10,562**	15,397
Bills payable	**922**	6,857
	11,484	22,254

15. TRADE AND BILLS PAYABLES (continued)

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 month	**1,101**	2,769
1 to 3 months	**3,194**	3,840
3 to 6 months	**1,674**	3,419
3 to 12 months	**545**	504
Over 12 months	**4,048**	4,865
	10,562	15,397

As at 30 June 2019, the Group's bills payable of RMB922,000 (31 December 2018: RMB6,857,000) were secured by certain of the Group's bills receivable of RMB2,300,000 (31 December 2018: RMB3,700,000) (note 13) and pledged deposits of RMB519,000 (31 December 2018: RMB3,177,000) (note 14), respectively.

The trade payables are non-interest-bearing and are normally settled in three months.

16. COMMITMENTS

As at 30 June 2019, the Group did not have any significant commitments.

17. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Office rental paid to Shanghai Automart Investment Co., Ltd. ("Shanghai Automart")	**668**	487

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 as defined in Chapter 14A of the Listing Rules.

(b) Outstanding balances with related parties:

Due from a related party

	30 June 2019	31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Due from a joint venture		
Anhui Shuanghua Heat Exchange System Co., Ltd.	**5,521**	122

The balance with the related party is unsecured, interest-free and repayable on demand.

17. RELATED PARTY TRANSACTIONS (continued)

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short term employee benefits	**1,139**	933
Pension scheme contributions	**50**	17
Total compensation paid to key management personnel	**1,189**	950

18. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

30 June 2019 (Unaudited)

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income — Debt instrument RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	13,268	-	-	13,268
Trade and bills receivables	-	5,790	24,802	30,592
Financial assets included in prepayments, other receivables and other assets	-	-	6,726	6,726
Pledged deposits	-	-	45,519	45,519
Cash and cash equivalents	-	-	111,245	111,245
	13,268	5,790	188,292	207,350

18. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Financial assets (continued)

31 December 2018 (Audited)

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income — Debt instrument RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	17,837	–	–	17,837
Trade and bills receivables	–	9,833	30,236	40,069
Financial assets included in prepayments, other receivables and other assets	–	–	2,697	2,697
Pledged deposits	–	–	53,177	53,177
Cash and cash equivalents	–	–	109,825	109,825
	17,837	9,833	195,935	223,605

Financial liabilities – at amortised cost

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade and bills payables	**11,484**	22,254
Financial liabilities included in other payables and accruals	**4,747**	5,916
Lease liabilities	**1,679**	–
	17,910	28,170

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

All the carrying amounts of the Group's financial instruments approximate to their fair values.

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

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the finance manager. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance manager. The valuation process and results are discussed with the directors once a year for annual financial reporting.

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

The fair values of listed equity investments are based on quoted market prices. The Group's own non-performance risk for financial assets at fair value through profit or loss as at the end of the reporting period was assessed to be insignificant.

The fair values of the bills receivable classified as financial assets at fair value through other comprehensive income under HKFRS 9 have been calculated by discounting the expected future cash flows, which are the par values of the bills receivable. In addition, the bills receivable will mature within six months, thus their fair values approximate to their carrying values.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the quoted interest rates of the instruments.

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for lease liabilities as at the end of the reporting period was assessed to be insignificant.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019 (Unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Debt investments at fair value through other comprehensive income:				
Bills receivable	–	5,790	–	5,790
Financial assets at fair value through profit or loss:				
Listed equity investments	8,238	–	–	8,238
Investments in bank financial products	–	5,030	–	5,030
	8,238	10,820	–	19,058

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments: (continued)

Assets measured at fair value: (continued)

As at 31 December 2018 (Audited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Debt investments at fair value through other comprehensive income:				
Bills receivable	–	9,833	–	9,833
Financial assets at fair value through profit or loss:				
Listed equity investments	7,779	–	–	7,779
Investments in bank financial products	–	10,058	–	10,058
	7,779	19,891	–	27,670

The Group did not have any financial liabilities measured at fair value as at 30 June 2019 (31 December 2018: Nil).

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2018: Nil).

20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 30 August 2019.