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Shuanghua Holdings Limited

雙樺控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1241)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

The Board of Directors (the “Board”) of Shuanghua Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) announces the unaudited condensed consolidated results of the Company for the six months ended 30 June 2012 together with comparative figures as follows. These interim financial statements have not been audited, but have been reviewed by the Audit Committee of the Company.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		For the six months ended 30 June	
	Notes	2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
REVENUE	4	232,538	310,707
Cost of sales		<u>(189,808)</u>	<u>(240,385)</u>
Gross profit		42,730	70,322
Other income and gains	4	2,368	3,186
Selling and distribution costs		(8,016)	(9,725)
Administrative expenses		(15,754)	(21,151)
Other expenses		(392)	(1,494)
Finance costs		(4,872)	(3,945)
Share of profits of an associate		<u>9,922</u>	<u>11,417</u>
PROFIT BEFORE TAX	5	25,986	48,610
Income tax expense	6	<u>(4,404)</u>	<u>(6,918)</u>
PROFIT FOR THE PERIOD		<u>21,582</u>	<u>41,692</u>
Attributable to:			
Owners of the parent		21,581	41,692
Non-controlling interests		<u>1</u>	<u>–</u>
		<u>21,582</u>	<u>41,692</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic and diluted	7	<u>3.3 cents</u>	<u>8.5 cents</u>

**INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT OF
COMPREHENSIVE INCOME**

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
PROFIT FOR THE PERIOD	21,582	41,692
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	<u>6</u>	<u>(49)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>6</u>	<u>(49)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	21,588	41,643
Attributable to:		
Owners of the parent	21,587	41,643
Non-controlling interests	<u>1</u>	<u>–</u>
	21,588	41,643

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

		30 June 2012	31 December 2011
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		193,629	194,364
Prepaid land lease payments		61,990	62,692
Advance payments for property, plant and equipment		1,862	4,138
Investment in an associate		107,543	97,621
Available-for-sale investments		262	262
Deferred tax assets		12,315	12,755
Total non-current assets		377,601	371,832
CURRENT ASSETS			
Inventories		78,454	84,397
Trade and notes receivables	9	118,813	80,111
Prepayments, deposits and other receivables		7,272	8,690
Due from related parties		120,066	98,732
Cash and cash equivalents		64,289	151,620
Total current assets		388,894	423,550
CURRENT LIABILITIES			
Trade and bills payables	10	66,599	66,887
Other payables and accruals		22,939	26,279
Interest-bearing bank borrowings	11	93,800	120,000
Due to related parties		7,295	8,178
Provision		5,339	5,028
Government grants		1,170	1,170
Tax payable		2,589	3,093
Total current liabilities		199,731	230,635
NET CURRENT ASSETS		189,163	192,915
TOTAL ASSETS LESS CURRENT LIABILITIES		566,764	564,747

	30 June 2012	31 December 2011
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	566,764	564,747
NON-CURRENT LIABILITIES		
Government grants	8,217	8,802
Deferred tax liabilities	2,830	4,136
Total non-current liabilities	11,047	12,938
Net assets	555,717	551,809
EQUITY		
Equity attributable to owners of the parent		
Issued capital	5,406	5,406
Reserves	218,966	218,960
Retained earnings	331,341	309,760
Proposed final dividends	8	17,680
	555,713	551,806
Non-controlling interests	4	3
Total equity	555,717	551,809

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2012

1. CORPORATE INFORMATION

Shuanghua Holdings Limited (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, PO Box 2681, Grand Cayman, KY1-21111, Cayman Islands.

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

The Company is an investment holding company. The Group is principally engaged in design, development, manufacture and sale of parts of auto air-conditioner.

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

2.1 Basis of presentation

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2011.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011, except for the adoption of new and revised standards, interpretations and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA as of 1 January 2012 as disclosed in note 2.3 below.

2.3 Impact of new and revised HKFRSs

The following new and revised HKFRSs, amendments and interpretations (“New HKFRSs”) are adopted for the first time for the current period’s condensed interim financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on these interim condensed financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and services and the Group has only one reportable operating segment which is engaged in design, development, manufacture and sale of parts of auto air-conditioner. Management monitors the operating results of operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
Mainland China	121,467	159,430
United States of America	81,883	110,339
Canada	13,448	23,890
Asia	11,735	11,283
Others	4,005	5,765
	<u>232,538</u>	<u>310,707</u>

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

(b) Non-current assets

All non-current assets of the Group are located in Mainland China during the six months ended 30 June 2011 and 2012.

Information about major customers

For the six months ended 30 June 2012, revenue from two customers accounted for more than 10% of the Group's total revenue individually. Revenue from these two customers was RMB77,212,000 and RMB50,371,000, respectively.

For the six months ended 30 June 2011, revenue from two customers accounted for more than 10% of the Group's total revenue individually. Revenue from these two customers was RMB109,708,000 and RMB65,650,000, respectively.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of valued-added tax and government surcharges, and after allowances for returns.

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

		For the six months ended 30 June	
	Notes	2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
Revenue			
Sale of goods		<u>232,538</u>	<u>310,707</u>
Other income			
Bank interest income		633	207
Government grants		664	2,585
Foreign exchange gain		737	–
Others		<u>233</u>	<u>361</u>
		<u>2,267</u>	<u>3,153</u>
Gains			
Gain on disposal of items of property, plant and equipment	9	<u>101</u>	<u>33</u>
		<u>2,368</u>	<u>3,186</u>

5. PROFIT BEFORE TAX

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

	<i>Notes</i>	For the six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
Cost of inventories sold		189,808	240,385
Depreciation		8,868	8,570
Amortisation of prepaid land lease payments		702	692
Research and development costs		873	1,002
Operating lease expenses		1,124	1,326
Gain on disposal of items of property, plant and equipment	9	(101)	(33)
Product warranty provision		946	430
Auditors' remuneration		65	56
Employee benefit expense (including directors' remuneration):			
Wages and salaries		20,501	19,834
Pension scheme contribution		3,825	2,738
Staff welfare expenses		1,918	1,657
		26,244	24,229
Foreign exchange differences, net		(724)	719
(Reversal of impairment)/impairment of inventories		(432)	540
Impairment/(reversal of impairment) of trade receivables		270	(4)
Bank interest income		(633)	(207)

6. INCOME TAX EXPENSE

The major components of income tax expense are:

	For the six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Audited)
Current – charge for the period	3,270	6,291
Deferred	1,134	627
Total tax charge for the period	4,404	6,918

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period. The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2012.

The calculations of basic earnings per share are based on:

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Earnings		
Profit attributable to owners of the parent	21,581	41,692
	Number of shares	
	2012	2011
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period	650,000	489,296

8. DIVIDENDS PAID AND PROPOSED

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Dividends on ordinary shares declared and paid during the six-month period:		
Final dividend for 2011: RMB2.72 cents (2010: Nil)	17,680	–

The board does not recommend the payment of any interim dividend in respect of the six months ended 30 June 2012 (2011: Nil).

9. TRADE AND NOTES RECEIVABLES

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Trade receivables	95,140	65,729
Notes receivable	24,309	14,748
	119,449	80,477
Impairment	(636)	(366)
	118,813	80,111

The Group's trading terms with its customers are mainly on credit. The credit period for trade receivables is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Within 1 month	38,421	39,429
1 to 2 months	45,640	16,901
2 to 3 months	22,957	9,251
3 to 12 months	11,537	14,328
Over 12 months	258	202
	118,813	80,111

10. TRADE AND BILLS PAYABLES

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade payables	66,599	63,887
Bills payables	<u>–</u>	<u>3,000</u>
	<u>66,599</u>	<u>66,887</u>

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within 1 month	28,034	33,343
1 to 2 months	23,474	17,799
2 to 3 months	10,272	10,131
3 to 6 months	4,347	5,234
6 to 12 months	131	134
12 to 24 months	99	80
Over 24 months	<u>242</u>	<u>166</u>
	<u>66,599</u>	<u>66,887</u>

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

As at 30 June 2012, none of the Group's bill payables were secured by the Group's notes receivables (31 December 2011: RMB3,000,000).

11. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Current				
Bank loans – secured *	6.71	Within 1 year	33,800	–
Bank loans – secured *	6.56	Within 1 year	20,000	20,000
Bank loans – secured *	6.40-6.65	Within 1 year	20,000	–
Bank loans – secured *	6.06-6.31	Within 1 year	–	25,000
Bank loans – secured *	5.85-6.65	Within 1 year	–	20,000
			73,800	65,000
Bank loans – unsecured	6.31-6.56	Within 1 year	20,000	–
Bank loans – unsecured	5.85-6.65	Within 1 year	–	20,000
Bank loans – unsecured	6.31	Within 1 year	–	35,000
			20,000	55,000
			93,800	120,000
Analysed into:				
Bank loans:				
Within one year or on demand				
			93,800	120,000

Notes:

- * The Group's bank borrowings are secured by:
- (i) mortgages over the Group's buildings situated in Mainland China, which had a net carrying amount at the end of the reporting period of RMB54,587,000 (31 December 2011: RMB64,484,000).
 - (ii) mortgages over the Group's leasehold lands situated in Mainland China, which had a net carrying amount at the end of the reporting period of RMB35,122,000 (31 December 2011: RMB58,623,000).
 - (iii) pledged by certain of the Group's notes receivable from a related party of RMB35,000,000 (31 December 2011: Nil).

12. 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 24 August 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The downside of the domestic economy was becoming more evident under the continued impact of international unfavourable development, such as the Euro debt crisis. As affected by such development, our profit for the first half of the year has decreased.

For the six months ended 30 June 2012, the Group's operating revenue amounted to RMB232.5 million, representing a decline of RMB78.2 million from that for the same period of last year. Net profit amounted to RMB21.6 million, a decline of RMB20.1 million comparing to the same period of last year.

Sales to Domestic Market

For the six months ended 30 June 2012, our sales volume to domestic market of evaporators, condensers and heaters fell by approximately 15.7%, 35.2% and 21.2%, respectively comparing with that of the corresponding period of 2011, owing to weak sentiments in the domestic automotive market and intense market competition. For the six months ended 30 June 2012, selling prices basically remained stable over the same period of 2011. Decrease in sales volume led to period-to-period decrease in revenue from sales to domestic market of evaporators, condensers and heaters of approximately 17.0%, 34.8% and 23.6% respectively.

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

Sales to International Market

Our sales to international market are primarily sold to the North American market. For the six months ended 30 June 2012, the Group's revenue from sales to international market of self-manufactured evaporators, condensers and heaters fell by approximately 1.1%, 30.9% and 45.4%, respectively, over the same period of 2011. As unfavourable conditions continued to prevail in the international automotive market, the Group sought to increase sales by lowering prices, in a bid to prevent shrinking demand in the international market. For the six months ended 30 June 2012, selling prices to international market of self-manufactured evaporators, condensers and heaters fell by 14.6%, 7.8% and 2.8%, respectively, over the same period of 2011. For the six months ended 30 June 2012, the aggregate sales volume of the three products decreased marginally by 6.5% as compared to the same period of last year. There was an increase by approximately 15.8%, a decrease by approximately 25.0% and a decrease by approximately 43.9%, respectively, over the same period of 2011, in the international sales volume of the Group's self-manufactured evaporators, condensers and heaters, reflecting changes in the mix of products required by customers.

For the six months ended 30 June 2012, the Group's revenue from sales to international markets of self-manufactured compressors went up by approximately 11.5% over the same period of 2011. We commenced production and sales of compressors in 2010, which were all sold to international markets. Our production and sales of compressors had been gradually increasing as we started large-scale production in 2011 and continued through 2012. For the six months ended 30 June 2012, the international sales volume of our self-manufactured compressors recorded a significant increase of approximately 23.8% over the same period of 2011.

For the six months ended 30 June 2012, the Group's revenue from sales to international markets of trading compressors fell by approximately 56.7% over the same period of 2011. Our trading compressors were all sold to international markets. For the six months ended 30 June 2012, international sales volume of our trading compressors recorded a decrease of approximately 58.3% over the same period of 2011.

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

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2012, the Group's revenue was approximately RMB232.5 million, a decline of approximately RMB78.2 million, a period-to-period decline of 25.2% with that of the corresponding period of 2011 of approximately RMB310.7 million.

The following table set forth the breakdown of our revenue by products during the track record period:

Revenue	For the six months ended 30 June			
	2012	% of	2011	% of
	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>
Domestic				
Evaporators	53,463	23.0%	64,422	20.7%
Condensers	45,446	19.5%	69,664	22.4%
Heaters	10,946	4.7%	14,331	4.6%
Others	11,612	5.0%	11,013	3.5%
Sub-total	121,467	52.2%	159,430	51.2%
International-self-manufactured				
Evaporators	15,396	6.6%	15,564	5.0%
Condensers	14,742	6.3%	21,326	6.9%
Heaters	915	0.4%	1,677	0.5%
Compressors	20,626	8.9%	18,497	6.0%
Others	1,622	0.7%	1,108	0.4%
Sub-total	53,301	22.9%	58,172	18.8%
International-trading				
Compressors	27,776	11.9%	64,170	20.7%
Others	29,994	13.0%	28,935	9.3%
Sub-total	57,770	24.9%	93,105	30.0%
Total	232,538	100.0%	310,707	100.0%

Gross profit and gross margin

For the six months ended 30 June 2012, overall gross profit decreased to approximately RMB42.7 million from RMB70.3 million for the six months ended 30 June 2011. Gross profit from sales to domestic market was approximately RMB26.3 million, a decrease of RMB20.2 million over the same period of last year. Gross profit from sales to international market was approximately RMB16.4 million, a decrease of approximately RMB7.4 million over the same period of last year. Decreases in sales to both domestic and international markets led to an overall decrease in the Group's gross profit of RMB27.6 million this period.

The following table sets forth the breakdown of our gross profit by products during the track record periods:

	For the six months ended	
	30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Gross Profit		
Domestic		
Evaporators	17,635	25,326
Condensers	5,610	16,747
Heaters	1,320	3,193
Others	1,709	1,170
Sub-total	26,274	46,436
International-self-manufactured		
Evaporators	3,667	5,971
Condensers	2,300	4,091
Heaters	225	315
Compressors	174	1,667
Others	389	270
Sub-total	6,755	12,314
International-trading		
Compressors	2,773	6,187
Others	6,928	5,385
Sub-total	9,701	11,572
Total	42,730	70,322

For the six months ended 30 June 2012, overall gross margin was 18.4%, which has declined from 22.6% of the corresponding period of 2011. The following table sets forth the breakdown of our gross margin by products during track record period:

	For the six months ended	
	30 June	
	2012	2011
Gross margin	%	%
Domestic		
Evaporators	33.0 %	39.3%
Condensers	12.3 %	24.0%
Heaters	12.1 %	22.3%
Others	14.7 %	10.6%
International-self-manufactured		
Evaporators	23.8 %	38.4%
Condensers	15.6 %	19.2%
Heaters	24.6 %	18.8%
Compressors	0.8 %	9.0%
Others	23.9 %	24.4%
International-trading		
Compressors	10.0 %	9.6%
Others	23.1 %	18.6%
Other income and gains		

During the period under review, other income and gains decreased by approximately RMB0.8 million from approximately RMB3.2 million for the six months ended 30 June 2011 to approximately RMB2.4 million for the six months ended 30 June 2012. This was primarily attributable to a government subsidy amounting to RMB1.0 million received by the Group from each of the People's Government of Zhelin Town, Fengxian District, Shanghai Municipality and the Office for the Promotion of Conversion and Listing of Enterprises of Fengxian District, Shanghai Municipality as an award for the Group's successful listing on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") in 2011, whereas no such award was reported for the period under review. Meanwhile, the Group recorded exchange gains of approximately RMB700,000, as compared to exchange losses recorded for the same period of last year.

Share of profits of an associate

Our share of profits of an associate decreased by approximately RMB1.5 million from approximately RMB11.4 million for the six months ended 30 June 2011 to approximately RMB9.9 million for the six months ended 30 June 2012. The decrease was primarily attributable to the decrease in profit resulting from a decline in operating results with that of the corresponding period of last year of Macs (Baoding) Auto A/C System Co., Ltd. (a 49% associate of the Group) in 2012.

Administrative and other expenses

Administrative and other expenses comprised primarily staff-related costs, various local taxes and education surcharges, depreciation, amortization of land use rights, operating lease rental payments, listing expenses, agency service fees, research and development expenses and miscellaneous expenses. Decreases in administrative and other expenses for the six months ended 30 June 2012 were mainly attributable to the decrease in listing fees of the Company during the period. The Company's shares were successfully listed on the Main Board of the Hong Kong Stock Exchange on 30 June 2011 and most of the listing expenses were incurred during preparation in 2011.

Finance costs

We provide funds required for our working capital and procurement by raising loans from bank institutions in Mainland China and Hong Kong. Finance costs amounted to approximately RMB4.9 million for the six months ended 30 June 2012 and RMB3.9 million for the corresponding period in 2011. The increase was primarily due to the fact that both of our average balances of interest-bearing bank borrowings and interest rate on bank loans for the first half of 2012 were higher than those in the same period of 2011.

Income tax

For the six months ended 30 June 2012, our overall income tax expense was approximately RMB4.4 million or 16.9% of the profit before tax, and RMB6.9 million or 14.2% of the profit before tax for the six months ended 30 June 2011. The income tax rate was higher as Shanghai Shuanghua Machinery Manufacturing Co., Ltd., a subsidiary of the Group, incurred losses and did not recognize any deferred tax for the first half of 2012.

Profit for the period

Profit attributable to the owners of the parent of the Company was approximately RMB21.6 million for the six months ended 30 June 2012, and approximately RMB41.7 million for the six months ended 30 June 2011.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

Our net current assets decreased from approximately RMB192.9 million as at 31 December 2011 to approximately RMB189.2 million as at 30 June 2012. The decrease in net current assets mainly reflected the decline in current assets as a result of the decrease in revenue for the first half of 2012 as compared to the same period of last year.

Financial position and bank borrowings

As at 30 June 2012, the Group's total cash and bank balances, most of which were denominated in RMB, amounted to approximately RMB64.3 million. As at 31 December 2011, the Group's total cash and bank balances, most of which were denominated in HKD and RMB, amounted to approximately RMB151.6 million. As at 30 June 2012, the Group's total interest-bearing bank borrowings amounted to approximately RMB93.8 million (31 December 2011: approximately RMB120.0 million). Please refer to note 11 to the consolidated financial statements for details of the relevant borrowings and related asset charges. As at 30 June 2012, our gearing ratio, presented as a percentage of total interest-bearing liabilities divided by total assets, was 12.2% (31 December 2011: 15.1%). Upon the successful listing of our Group on the Main Board of the Hong Kong Stock Exchange on 30 June 2011, proceeds raised from the listing were used for repayment of loans of the Group and acquisition of property, plant and equipment for expanding our business operation. As a result, our interest-bearing bank borrowings and gearing ratio decreased.

Save as aforesaid or otherwise disclosed in the notes to the financial statements, and apart from intra-group liabilities, as at the close of business on 30 June 2012, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

Our Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 December 2011.

Working capital

As at 30 June 2012, our gross inventories, mainly comprising raw materials, work-in-progress and finished products, amounted to approximately RMB78.5 million, and approximately RMB84.4 million as at 31 December 2011. Our marketing team reviews and monitors our inventory level on a regular basis. For the six months ended 30 June 2012, the average inventory turnover days were 77.2 days (for the year ended 31 December 2011: 73.9 days). Inventory turnover days are arrived at by dividing the arithmetic means of the opening and ending balances of inventory for the relevant period by cost of sales of the same period and multiplying the quotient by 180 days (for the year ended 31 December 2011: 365 days). The minor increase in inventory turnover was mainly attributable to the fact that sales declined amidst weak market sentiments.

For the six months ended 30 June 2012, average turnover days of trade and notes receivables were 156.0 days (for the year ended 31 December 2011: 121.6 days). Increase in turnover days of trade and notes receivables was primarily attributable to increase in the percentage of sales to local customers, which generally requested for longer credit periods from us and more major customers used notes receivables with 6 month maturity to settle their outstanding amounts.

For the six months ended 30 June 2012, average turnover days of trade and bills payables were 102.1 days (for the year ended 31 December 2011: 67.3 days). The actual payment period for our purchases was extended, as the Company slowed down its payment to suppliers in tandem with the slowdown of the Group's collection of payment from customers, in order to maintain a sound level of cash flow.

CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

For the six months ended 30 June 2012, capital expenditures were approximately RMB3.6 million, and approximately RMB5.9 million for the corresponding period in 2011. We have been financing our capital expenditures primarily through bank borrowings. Our capital expenditures are primarily related to acquisition of land use rights, construction of production facilities and expenditures for plant, machinery and equipment for business expansion at our Shanghai production base.

As at 30 June 2012, the Group had approximately 846 full-time employees including the management, sales, logistics supports and other ancillary personnel. The Group's total remuneration amounted to approximately RMB20.501 million for the six months ended 30 June 2012. Our remuneration policy is primarily based on the job responsibilities, work performance and number of years of services of each employee and the current market conditions.

Pursuant to the relevant PRC labour laws and regulations, the Group has to pay contributions to a number of staff social insurance schemes (including medical, maternity, work injury, unemployment and pension insurances) and staff housing reserve funds. We provide social insurances and pay contributions to housing reserve funds for our employees in accordance with the interpretations to the relevant PRC labour laws and regulations given, and policies and measures executed by local government departments. We have established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. Welfare benefits expenses for the six months ended 30 June 2012 amounted to approximately RMB1.9 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 Board at the end of each financial year.

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

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

Material acquisitions and disposals

We did not have any material acquisitions or disposals relating to our subsidiaries and associates for the six months ended 30 June 2012.

Foreign exchange risk

The Group's operations are located in the PRC with RMB as the functional and presentation currency. The Group has transactional currency exposures. Which arise from sales or purchases in currencies other than the functional currency. The main currency exposure of the Group comes from the appreciation of RMB against USD for overseas sales transactions denominated in USD. For the six months ended 30 June 2012, approximately 47.8% of the Group's sales and 0.7% of costs were denominated in currencies other than the functional currency of operating units making the sales and purchases. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, the management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

Contingent liabilities

As at 30 June 2012, the Group and the Company did not have any material contingent liabilities.

Pledge of assets

As at 30 June 2012, certain of the Group's buildings, with a net carrying amount of RMB54,587,000 (31 December 2011: RMB64,484,000), were pledged to secure our bank loan granted.

As at 30 June 2012, certain of the Group's lands, with a net carrying amount of RMB35,122,000 (31 December 2011: RMB58,623,000), were pledged to secure our bank loan granted.

As at 30 June 2012, the Group's receivables from related parties of RMB35,000,000 were pledged to secure our bank loan facilities of RMB33,800,000 granted;

As at 31 December 2011, certain of the Group's notes receivables of RMB3,000,000 were pledged to secure bills payables of RMB3,000,000. As at 30 June 2012, the Group had no outstanding pledge in respect of the said bills payables.

Use of proceeds from the initial public offering

The exchange settlement of the initial public offering net proceeds, amounted to RMB126.8 million as at 30 June 2012, have been partially utilized as stated in the prospectus of the Company.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (for the six months ended 30 June 2011: Nil).

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 period.

CORPORATE GOVERNANCE CODE

None of the directors of the Company knew any information which reasonably showed that the Company had not complied with all the code provisions set out in Appendix 14 – Corporate Governance Code of the Listing Rules for the six months ended 30 June 2012.

Under the code provision A.2.1, the roles of chairman and chief executive officer (“CEO”) of the Group should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO of the Group should be clearly established and set out in writing. The roles of the chairman and the CEO of the Group were not separated and were performed by the same individual. Mr. Zheng Ping acted as both the chairman and CEO throughout the period under review. The Directors meet regularly to consider major matters affecting the operations of the Group. The Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of Group and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

Under the code provision A.4.1, all Independent Non-executive Directors are appointed for a specific term of not more than 3 years. Under the Company's Bye-laws, one-third of the Directors must retire and be eligible for re-election at each annual general meeting. As at 30 June 2012, all Directors of the Company retired from office at the annual general meeting on 12 April 2012 and of which Mr. Zheng Ping was re-elected as the Company's Executive Director and Chairman of the Board, Ms Tang Lo Nar as the Executive Director of the Company, Mr. Dong Zongde and Ms. Kong Xiaoling as the Non-executive Directors and Mr. Zhao Fenggao, Mr. He Binhui and Mr. Chen Lifan as the Independent Non-executive Directors.

Mr. Dong Zongde resigned as a non-executive director of the Company on 2 May 2012 due to personal reasons. The Company issued an announcement in accordance with the resignation procedure of directors in due course.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. The Company, having made specific enquiry of all Directors, confirms that its Directors have all complied with the required standard set out in the Model Code during the six months ended 30 June 2012.

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

The Company established an Audit Committee comprising three Independent Non-executive Directors, namely Mr. Zhao Fenggao, Mr. He Binhui and Mr. Chen Lifan, and is chaired by Mr. He Binhui. The written terms of reference which describe the authorities and duties of the audit committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The Audit Committee provides an important link between the board of directors and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the financial reporting process and the adequacy and effectiveness of the Group's internal control system.

REVIEW OF INTERIM RESULTS

The Audit Committee of the Company has reviewed the interim results of the Company for the six months ended 30 June 2012. In particular, the Audit Committee has reviewed with the management of the Company and the external auditors on the accounting principles and practices adopted by the Group, held meetings to discuss the auditing, internal controls and financial reporting matters regarding the Group's unaudited interim financial statements for the six months ended June 30, 2012.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

By Order of the Board
Zheng Ping
Chairman and CEO

Hong Kong, 24 August 2012

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